This document is a free translation of the Polish original. Terminology current in America has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

Consolidated financial statements for the year 2016
RAIFFEISEN BANK POLSKA S.A. CAPITAL GROUP

The Management Board presents the consolidated financial statements of Raiffeisen Bank Polska S.A. Capital Group for the year ended 31 December 2016

Piotr Czarnecki	President of the Management Board, CEO	....
name and surname	*position/function*	*signature*
Maciej Bardan	First Vice-President of the Management Board	....
name and surname	*position/function*	*signature*
Jan Czeremcha	Vice-President of the Management Board	....
name and surname	*position/function*	*signature*
Witold Broniszewski	Member of the Management Board	....
name and surname	*position/function*	*signature*
Łukasz Januszewski	Member of the Management Board	....
name and surname	*position/function*	*signature*
Piotr Konieczny	Member of the Management Board, CFO	....
name and surname	*position/function*	*signature*
Patrycja Zenik-Rychlik	Head of Financial Accounting and Tax Department	....
name and surname	*position/function*	*signature*

Warsaw, 6 March 2017

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Consolidated statement of profit or loss

	Note	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015 restated *
Continuing operations			
Interest income		1 590 089	1 635 521
Interest expense		-570 902	-699 179
Net interest income	6	**1 019 187**	**936 342**
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items	7	-176 177	-156 302
including Proceeds from sale of receivables and other		12 754	35 060
Fee and commission income		668 987	668 228
Fee and commission expense		-81 088	-94 265
Net fee and commission income	8	**587 899**	**573 963**
Net income from financial instruments measured at fair value and net foreign exchange result	9	110 210	39 648
General administrative expenses	10	-1 122 912	-1 246 848
Other operating income	11	26 148	36 168
Other operating expenses	11	-203 926	-21 673
Tax on financial institutions		-148 776	0
Dividend income		120	86
Profit before tax		**91 773**	**161 384**
Income tax expense	12	-88 738	-46 513
Net profit from continuing operations		**3 035**	**114 871**
Net profit from discontinued operations		**11 720**	**71 307**
Net profit		**14 755**	**186 178**
Profit attributable to the equity holders of the Parent Entity, including:		**14 755**	**186 178**
Profit from continuing operations		**3 035**	**114 871**
Profit from discontinued operations		**11 720**	**71 307**
Weighted average number of ordinary shares (in units)	14	248 260	248 260
Profit attributable to the Parent Entity equity holders per one ordinary share (in PLN)	14	59	750
Profit from continuing operations per ordinary share (in PLN)	14	12	463
Profit from discontinued operations per ordinary share (in PLN)	14	47	287
Weighted average number of diluted shares (in units)	14	248 260	248 260
Profit attributable to the Parent Entity equity holders per diluted share (in PLN)	14	59	750
Profit from continuing operations per diluted share (in PLN)	14	12	463
Profit from discontinued operations per diluted share (in PLN)	14	47	287

*see note 3

Notes presented on pages 12- 174 are an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

	Note	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015 restated *
Net profit from continuing operations		**3 035**	**114 871**
Net profit from discontinued operations		**11 720**	**71 307**
Other taxable income that may be reclassified to profit or loss, including:		**-41 388**	**51 590**
Valuation of cash-flow hedge derivatives, gross	31	8 860	10 585
Income tax on cash-flow hedge derivatives	31	-1 683	-2 011
Valuation of available for sale financial assets, gross	31	-59 957	53 106
Income tax on available for sale financial assets	31	11 392	-10 090
Total comprehensive income		**-26 633**	**237 768**
Total comprehensive income attributable to the Parent Entity shareholders		**-26 633**	**237 768**

*see note 3

Notes presented on pages 12- 174 are an integral part of the consolidated financial statements.

Consolidated statement of financial position

Assets	Note	As at 31 December 2016	As at 31 December 2015
Cash and balances with Central Bank	15	1 731 869	2 703 510
Amounts due from banks	16	334 563	1 326 350
Financial assets held for trading	19	8 047 342	12 570 410
Derivative financial instruments	17	466 709	562 046
Investment securities	20	7 962 554	3 841 655
Loans and advances to customers	21	33 864 497	39 206 125
Intangible assets	22	383 083	551 659
Property, plant and equipment	23	118 228	276 229
Deferred tax assets	12	127 668	559 285
Current tax receivables		0	2 173
Other assets	24	221 460	305 501
Total assets		**53 257 973**	**61 904 943**

Liabilities and equity	Note	As at 31 December 2016	As at 31 December 2015
Amounts due to banks and other monetary institutions	25	7 433 406	13 088 797
Derivative financial instruments	17	1 546 166	1 478 611
Amounts due to customers	26	36 329 411	37 762 146
Subordinated liabilities	27	332 096	724 789
Liabilities from debt securities issued	28	501 830	1 758 677
Other liabilities	29	541 690	430 018
Current tax liabilities		63 963	110 267
Provisions	30	146 729	162 323
Total liabilities		**46 895 291**	**55 515 628**
Equity attributable to shareholders of the Parent Entity		**6 362 682**	**6 389 315**
Share capital	31	2 256 683	2 256 683
Supplementary capital		2 287 607	2 370 746
Other capital and reserves	31	1 002 489	1 018 927
Retained earnings	31	815 903	742 959
Total equity		**6 362 682**	**6 389 315**
Total liabilities and equity		**53 257 973**	**61 904 943**

Notes presented on pages 12- 174 are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

					Retained earnings				
	Note	**Share capital**	**Supplementary capital**	**Other capital and reserves**	**Accumulated profit**	**Net profit for the year**	**Total equity attributable to owners of the Parent Entity**	**Non-controlling interests**	**Total equity**
As at 1 January 2016		**2 256 683**	**2 370 746**	**1 018 927**	**556 781**	**186 178**	**6 389 315**	**0**	**6 389 315**
Valuation of available for sale financial assets, net		0	0	-48 565	0	0	-48 565	0	-48 565
Valuation of cash-flow hedge derivatives, net		0	0	7 177	0	0	7 177	0	7 177
Net profit for the year		0	0	0	0	14 755	14 755	0	14 755
Total comprehensive income		**0**	**0**	**-41 388**	**0**	**14 755**	**-26 633**	**0**	**-26 633**
Transfer of net result to retained earnings		0	0	0	186 178	-186 178	0	0	0
Other		0	0	632	-632	0	0	0	0
Changes in the Group structure		0	-137 191	-682	137 873	0	0	0	0
Transactions with owners		**0**	**54 052**	**25 000**	**-79 052**	**0**	**0**	**0**	**0**
Transfer of net result to general banking risk reserve		0	0	25 000	-25 000	0	0	0	0
Transfer of net result to supplementary capital		0	54 052	0	-54 052	0	0	0	0
As at 31 December 2016	***31***	**2 256 683**	**2 287 607**	**1 002 489**	**801 148**	**14 755**	**6 362 682**	**0**	**6 362 682**

Notes presented on pages 12- 174 are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity (cont.)

					Retained earnings				
	Note	Share capital	Supplementary capital	Other capital and reserves	Accumulated profit	Net profit for the year	Total equity attributable to owners of the Parent Entity	Non-controlling interests	Total equity
As at 1 January 2015		**2 256 683**	**2 357 406**	**947 287**	**252 459**	**337 680**	**6 151 515**	**59**	**6 151 573**
Valuation of available for sale financial assets, net		0	0	43 016	0	0	43 016	0	43 016
Valuation of cash-flow hedge derivatives, net		0	0	8 574	0	0	8 574	0	8 574
Net profit for the year		0	0	0	0	186 178	186 178	0	186 178
Total comprehensive income		**0**	**0**	**51 590**	**0**	**186 178**	**237 768**	**0**	**237 768**
Transfer of net result to retained earnings		0	0	0	337 680	-337 680	0	0	0
Acquisition of shares fromnon-controlling interests		0	0	50	-18	0	32	-59	-27
Transactions with owners		**0**	**13 340**	**20 000**	**-33 340**	**0**	**0**	**0**	**0**
Transfer of net result to general banking risk reserve		0	0	20 000	-20 000	0	0	0	0
Transfer of net result to statutory supplementary capital		0	13 340	0	-13 340	0	0	0	0
As at 31 December 2015	***31***	**2 256 683**	**2 370 746**	**1 018 927**	**556 781**	**186 178**	**6 389 315**	**0**	**6 389 315**

Notes presented on pages 12- 174 are an integral part of the consolidated financial statements.

Consolidated statement of cash flows

Operating activities	Note	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015
Profit before tax		**146 929**	**253 349**
Adjustments:		**521 724**	**564 944**
Depreciation and amortization	22,23	106 429	161 319
Impairment of tangible and intangible fixed assents and investement securities		152 972	0
Unrealized foreign exchange differences		276 559	210 463
Gains on sale of discontinued operations		-33 751	0
Transfer of interest and dividend from investing and financing activities		15 699	227 496
(Gains)/loss on sale, liquidation of tangible and intangible fixed assets		10 778	-2 791
Other adjustments		-6 963	-31 543
Changes in operating assets and liabilities		**3 663 090**	**-10 271 892**
Interbank placements, loans and advances to other banks	37	914 240	-611 919
Financial assets held for trading	37	4 388 013	-12 387 979
Derivative financial instruments	37	-12 517	502 397
Loans and advances to customers	37	-1 372 273	-775 381
Other assets		20 152	8 656
Amounts due to banks and other monetary institutions	37	-266 944	-2 766 332
Amounts due to customers	37	-896 340	4 999 566
Other liabilities		148 327	53 522
Provisions		-4 504	-57 736
Dividends received		120	86
Income tax paid/received		-138 584	-87 711
Interest received		1 477 545	1 797 488
Interests paid		-594 145	-946 549
Net cash flow from operating activities		**4 331 743**	**-9 453 599**

Consolidated statement of cash flows (cont.)

Investing activities	Note	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015
Proceeds from sale of investment securities		1 452 524	16 258 264
Proceeds from sale of property, plant and equipment and intangible fixed assets		1 228	9 721
Proceeds from sale of shares in subsidiaries		695 000	0
Purchase of investment securities		-5 531 972	-7 447 638
Outflows from purchase of shares in subsidiaries		0	-29
Outflows from purchase of property, plant and equipment and intangible fixed assets		-79 140	-78 626
Decrease in cash and cash equivalents due to changes in Group structure		-419 236	0
Net cash flow from investing activities		**-3 881 596**	**8 741 692**
Financing activities			
Inflows from subordinated liabilities and long-term bank loans		3 368 189	4 982 691
Outflows from repayment of subordinated liabilities and long-term bank loans		-4 831 175	-4 759 481
Inflows from debt securities issued		0	617 700
Outflows from repayment of interest on debt securities issued		-15 390	-29 354
Net cash flow from financing activities		**-1 478 376**	**811 555**
Net decrease in cash and cash equivalents		**-1 028 229**	**99 648**
Cash and cash equivalents at beginning of the year	37	2 913 206	2 813 558
Cash and cash equivalents at the end of the year	**37**	**1 884 977**	**2 913 206**

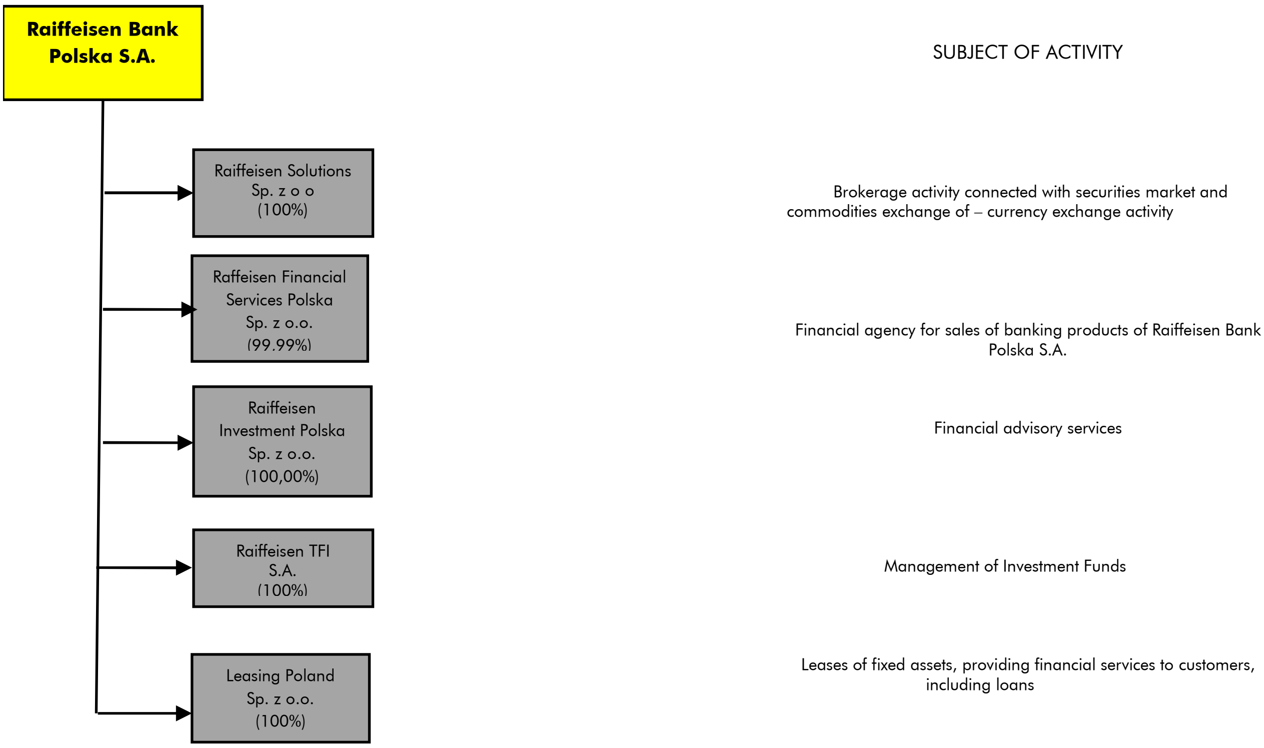
Notes presented on pages 12- 174 are an integral part of the consolidated financial statements

Notes to the consolidated financial statements

1. General information

The consolidated financial statements have been prepared by **Raiffeisen Bank Polska S.A.** with its registered office in Warsaw, 00-844, Grzybowska 78 Street, registered in the National Court Register as a joint-stock company under the reference number KRS 0000014540 by the District Court for the capital city of Warsaw, XII Commercial Department of National Court Register.

The Raiffeisen Bank Polska S.A. Group is composed of the following entities as of 31 December 2016:



Notes to the consolidated financial statements (cont.)

Entities consolidated on a full consolidation basis:

- **Raiffeisen Bank Polska S.A. („Parent Entity")**
- **Raiffeisen-Leasing Polska S.A.** (till 31 March 2016)
- **Raiffeisen Insurance Agency Sp. z o.o.** (till 31 March 2016)
- **Raiffeisen-Leasing Service Sp. z o.o.** (till 31 March 2016)
- **Raiffeisen-Leasing Real Estate Sp. z o.o.** (till 31 March 2016)
- **Raiffeisen Financial Services Polska Sp. z o.o.**
- **Raiffeisen Investment Polska Sp. z o.o.**
- **Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A.**
- **Raiffeisen Solutions Sp. z o.o.**

In addition, the Group consolidated special purpose entities Compass Variety Funding LTD and ROOF Poland Leasing 2014 DAC, both located in Ireland, through which the Group concluded securitization of leasing debts. These entities were consolidated because the Parent Entity controls them, without an equity interest in those entities.

The program of securitization of leasing debts conducted through the special purpose entity Compass Variety Funding LTD was completed on 2 April 2015, the entity was consolidated till the end of the securitization program.

The special purpose entity ROOF Poland Leasing 2014 DAC was consolidated till 31 March 2016, until the loss of control due to the sale of 100% of the shares in Raiffeisen-Leasing Polska S.A. through which the Parent Entity controlled the special purpose entity.

The company Leasing Poland Sp. z o.o. has not been consolidated due to its insignificance.

The Group operates in retail banking, corporate banking and investment banking as well as in factoring in Poland and employed 5 061 employees as at 31 December 2016 (6 051 employees as at 31 December 2015).

The terms used in these consolidated financial statements are defined as follows:

Bank or Parent Entity – Raiffeisen Bank Polska S.A.

Subsidiaries – Raiffeisen-Leasing Polska S.A., Raiffeisen Insurance Agency Sp. z o.o., Raiffeisen Financial Service Polska Sp. z o.o., Raiffeisen-Leasing Service Sp. z o.o., Raiffeisen-Leasing Real Estate Sp. z o.o., Leasing Poland Sp. z o.o., Raiffeisen Investment Polska Sp. z o.o., Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A., Raiffeisen Solutions Sp. z o.o.,

Notes to the consolidated financial statements (cont.)

RZB – Raiffeisen Zentralbank Österreich AG, the ultimate parent of the Group,

RBI – Raiffeisen Bank International AG, the Parent Entity for the Bank,

Group or Capital Group – Raiffeisen Bank Polska S.A. Group,

RZB Group – the Raiffeisen Zentralbank Oesterreich AG (RZB) Group, which includes, among others, banks from Central and Eastern Europe controlled by RBI and RZB, foreign branches of RZB, Austrian financial institutions and other supporting institutions.

Approval of these consolidated financial statements

The Parent Entity's Management Board approved of these consolidated financial statements on 6 March 2017.

Shareholders of the Parent Entity

Majority shareholder of Raiffeisen Bank Polska S.A. is Raiffeisen Bank International AG, which was created from separated areas of Raiffeisen Zentralbank Österreich AG (RZB) and Raiffeisen International Bank-Holding AG (RI). RBI is a fully consolidated subsidiary of RZB. RZB holds a 60,7% stake in RBI as at 31 December 2016. The rest of the equity is in free float on the Vienna Stock Exchange, where RBI is listed since 2005. RBI is the Parent Entity of Raiffeisen Bank Polska SA and holds a 100% share.

Changes within the Group structure in the current reporting period

In the 2016 year the following change has taken place within the Group structure:

On 31 March 2016 the Parent Entity sold 100% of the shares it owned in Raiffeisen-Leasing Polska S.A. to Raiffeisen Bank International AG, from this day the Parent Entity lost control of Raiffeisen-Leasing Polska S.A. and the entities from the Raiffeisen-Leasing Polska S.A. Group, namely Raiffeisen Insurance Agency Sp. z o.o., Raiffeisen-Leasing Real Estate Sp.z o.o. and the special purpose entity ROOF Poland Leasing 2014 DAC.

As at 31 December 2016 the Parent Entity's Management Board consisted of:

Piotr Czarnecki	– President of the Management Board, CEO
Maciej Bardan	– First Vice-President of the Management Board
Jan Czeremcha	– Vice-President of the Management Board
Ryszard Drużyński	– Vice-President of the Management Board, COO
Łukasz Januszewski	– Member of the Management Board
Piotr Konieczny	– Member of the Management Board, CFO

Notes to the consolidated financial statements (cont.)

As at 31 December 2016, the Parent Entity's Supervisory Board consisted of:

Dr Karl Sevelda	– Chairman of the Supervisory Board
Martin Grüll	– Deputy Chairman of the Supervisory Board
Dr Johann Strobl	– Member of the Supervisory Board
Klemens Breuer	– Member of the Supervisory Board
Peter Lennkh	– Member of the Supervisory Board
Andreas Gschwenter	– Member of the Supervisory Board
Dr Herbert Stepic	– Member of the Supervisory Board
Władysław Gołębiewski	– Member of the Supervisory Board
Selcuk Sari	– Member of the Supervisory Board

During the financial year ended 31 December 2016 the following changes in the Management and Supervisory Boards took place.

On 18 October 2016 Marek Patuła resigned from the position of the Management Board Member responsible for risk management. On 7 November 2016 Witold Broniszewski was conditionally appointed by the Bank's Supervisory Board on his place. The appointment will be effective from the date of the Polish Financial Supervision Authority's approval for appointment of Witold Broniszewski as a Member of the Management Board supervising the management of the significant risk relating to the Bank's activities.

As at 31 December 2016 Bank was waiting for the Polish Financial Supervision Authority's decision, and supervision of the management of the significant risk relating to the Bank's activities was assigned temporarily to the President of the Management Board.

On 14 February 2017 Polish Financial Supervision Authority took a decision about the appointment of Witold Broniszewski as a Member of the Management Board supervising the management of the significant risk relating to the Parent Entity's activities.

On 22 December 2016 Ryszard Drużyński resigned from the position of the Vice-President of the Management Board responsible for the operations and IT management as of 31 January 2017.

2. Significant accounting policies

2.1. Basis of preparation of the financial statements

The consolidated financial statements of the Group have been prepared for the period from 1 January 2016 to 31 December 2016. Comparative figures have been presented for the period from 1 January 2015 to 31 December 2015. The consolidated financial statements have been prepared in Polish zloty (PLN), and all amounts are presented in PLN thousand, unless indicated otherwise.

The consolidated financial statements have been prepared on a going concern basis using the assumption that the Group will continue its business operations substantially unchanged in scope for a period of at least one year from the reporting date.

Financial data presented in the consolidated financial statements of the Group were prepared assuring its comparability.

The consolidated financial statements of the Group consider the requirements of all the International Financial Reporting Standards and International Accounting Standards approved by the European Union and related interpretations ("IFRS EU"). Changes in published standards and interpretations, which became effective from 1 January 2016 and their impact on the consolidated financial statements of the Group have been presented in note 2.25.1 to the consolidated financial statements.

The consolidated financial statements do not take into consideration changes in interpretations and amendments to Standards, pending approval by the European Union or approved by the European Union but came into force or shall come into force after the balance sheet date (note 2.25.2 to the consolidated financial statements).

During the period covered by the financial statements the Group did not introduce significant changes in the accounting policy concerning valuation of assets and liabilities and profit measurement in comparison with previous period.

The consolidated financial statements of the Group have been prepared based on the following valuation methods:

- at fair value for: derivatives, financial assets and liabilities held for trading, financial assets designated upon initial recognition as at fair value through profit or loss and available-for-sale financial assets, except for those for which the fair value cannot be reliably measured,
- at amortized cost for other financial assets, including loans and advances and other financial liabilities,

Notes to the consolidated financial statements (cont.)

- at historical cost for non-financial assets and liabilities,
- non-current assets (or disposal groups) classified as held for sale are measured at the lower of the carrying amount or the fair value less costs to sell,
- The carrying values of recognized assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

2.2. Statement of compliance

The annual consolidated financial statements ('consolidated financial statements') of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and respective law regulations.

2.3. Items in foreign currencies

These consolidated financial statements are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The consolidated financial statements are presented in Polish zlotys (PLN) which is the functional currency of the Group.

Foreign currency transactions are translated into the functional currency using the current exchange rates from the date of the transaction. Foreign currency cash items presented in the statement of financial position are translated into the functional currency at the current exchange rate as at the balance sheet date (i.e. the average exchange rate published by the National Bank of Poland valid at the end of the reporting period).

All foreign currency translation differences, including gains and losses on the settlement of transactions are recognized in the profit or loss statement, under "Net income from financial instruments measured at fair value and net foreign exchange result", except for foreign exchange translation differences arising from available-for-sale financial assets which are recognized in other comprehensive income.

2.4. Consolidation

Subsidiaries are entities in case of which the Parent Entity exercises control over them.

The Parent Entity exercises control over investee only when at the same time the Parent Entity:

- has power over the investee,
- from its involvement with the investee it is exposed to variable returns or has rights to these returns,
- has the ability to use its power over investee to affect its returns.

Notes to the consolidated financial statements (cont.)

Subsidiaries are consolidated using the full consolidation method from the moment the Group takes full control over them. Subsidiaries cease to be consolidated when the Group loses control over them. The subsidiaries' accounting policies comply with the Group accounting policies.

In the period covered by these consolidated financial statements no contract provisions requiring from the Group to financially support the consolidated special purpose entities took place, including events or circumstances exposing the Group to potential losses.

In the period from the date of the Parent Entity assumed control over the subsidiaries to the date of its ceasing to have control, the subsidiaries are consolidated under the full consolidation method, which consists of summing up particular items of the statements of financial position and the profit or loss statement of the Parent Entity and the subsidiaries in full, and making appropriate consolidation eliminations and adjustments.

Intercompany transactions and balances (mutual receivables and liabilities, and other similar settlements between the consolidated entities), and unrealized gains and losses or revenues and costs arising as a result of intercompany transactions are eliminated. Dividends accrued or paid by subsidiaries to the Parent Entity and to other consolidated entities are also eliminated as well as the carrying value of shares held by the Parent Entity in subsidiaries, and the equity of those entities as at the date of their acquisition.

The acquisition of subsidiaries (taking control over them) by the Group is accounted for under the acquisition method.

On the acquisition date all the identifiable acquired assets and liabilities are recognized, as well as all non-controlling interests in the acquired entity, and measured at fair value as at the acquisition date.

The sum of:

- the amount paid (measured at fair value as at the acquisition date),
- the total of all non-controlling interests in the acquired entity (measured at fair value or at the proportionate share of the non-controlling interests in identifiable net assets of the acquired entity); and
- the share in equity of the acquired entity, which had previously been owned by the Parent Entity (measured at fair value at the acquisition date) – if the merger is conducted in stages

is compared to the net value of identifiable acquired assets and liabilities. If the difference between the said components is an excess, it is recognized as goodwill, otherwise the difference is recognized directly in the profit or loss statement.

In the process of merging with other entities, goodwill and other intangible assets may arise – the respective accounting policies are discussed in note 2.16. to the consolidated financial statements.

Notes to the consolidated financial statements (cont.)

2.5. Determining the financial result

2.5.1. Interest income and expense

The Group recognizes interest income and expense arising from financial assets if it is probable that future economic benefit will flow to the Group and the amount can be reliably measured.

Interest income and expense arising from financial instruments measured at amortized cost using the effective interest rate method, financial assets measured at fair value through profit or loss and assets available for sale are recognized in profit or loss statement. Interest income and expense do not include interest related to derivatives that are designated as hedging items in hedge accounting applied by the Group.

The effective interest rate method is a method for calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts future cash payments or receipts in the expected period to the expiry of the financial instrument to the net carrying amount of the given financial asset or financial liability. In calculating the effective interest rate cash flows are estimated in consideration of the contractual terms of the given financial instrument; however, without accounting for the potential future losses. The calculation includes all interest, commission and fees paid or received between the parties of the contract and all other premiums or discounts.

Fees and commissions arising from loans and advances without defined future cash flows or without defined interest rate change schedule for which calculation of the effective interest rate is impossible are recognized on straight-line basis.

For impaired financial instruments interests are accrued based on the carrying value (i.e. the value less impairment amount) using the interest rate used to discount cash flows for the impairment valuation.

2.5.2. Fee and commission income and expense

Fees and commissions directly related to the recognition of financial assets of liabilities are disclosed in accordance with note 2.5.1 to the financial statement.

Other fees and commissions are recognized either on straight-line or up-front basis.

Fees and commissions arising from received or granted guarantees and letters of credit are recognized on a straight-line basis over the whole product life.

Commissions related to rendering financial services e.g. commission for money transfers, cash transactions, fees related to handling cash, operations relating to debit cards service, brokerage, factoring activities are recognized in the profit or loss statement as one-off when the service is provided.

Notes to the consolidated financial statements (cont.)

A loan syndication fee for syndicates arranged by Group are recognized when the transaction takes place provided that Group has no further involvement or retains part of the loan at the same effective interest rate for comparable risk as the other participants.

2.5.2.1. Fee and commission income and expense regarding insurance

Income from bancassurance

The Group generates revenues from the „bancassurance", i.e. selling of insurance products through the Group's distribution channels. In order to reflect the economic substance and the proper revenue and expense recognition regarding offered insurance products, the Group has adopted separate rules for the presentation and recognition of bancassurance fees depending on whether there is a link between insurance product and financial instrument offered to the same client or not. If two or more transactions are linked, the criteria for revenue recognition are applied jointly to these transactions.

There is a direct link between insurance product and financial instrument when at least one of two conditions is met:

1) a financial instrument is always offered by the Group with an insurance product,

2) an insurance product is offered by the Group only with a financial instrument, i.e. it is not possible to purchase an insurance product in the Group, which is identical regarding its legal form, economic conditions and substance, without purchase of the product combined with a financial instrument.

If none of above mentioned conditions are met, further analysis is performed regarding connections between selling of financial instrument and insurance based on economic substance analysis, including criteria such as:

a) the level of combined product sales, i.e. percentage of financial instruments with insurance in all agreements concerning financial instruments in the Group's portfolio,

b) average effective annual interest rate for specific financial instruments in the Group's portfolio divided into instruments with insurance (by financial instruments according to the Group's product offer, insurance product and insurance groups) and with no insurance (by financial instruments according to the Group's product offer),

c) the ability to join the insurance cover without financial instrument,

d) if there is no requirement of the Group for a client to conclude an insurance agreement with purchasing a financial instrument – the number of insurance agreements for which the terms and the rules are similar and which were concluded in other insurance companies than the company which products are offered by the Group together with financial instrument,

Notes to the consolidated financial statements (cont.)

e) the number of resignations and returned commissions – divided into financial instruments according to the Group's product offer, insurance product and insurance groups,

f) the scope of activities performed for the insurer during the insurance agreement term.

The analysis of the links between insurance product and financial instrument includes also the financial instruments, which are not offered together with an insurance agreement.

The analysis of the links between the transactions concerning selling of insurance products and financial instruments is performed every time when a new insurance product is included in the Group's offer. It is also verified and updated annually for the entire product portfolio to confirm the economic substance of these products and related transactions.

Insurance products not linked to financial instruments

The revenues from insurance products with no link to credit products offered by the Group are recognized in accordance with the economic substance over the legal form principle and with the income/cost matching principle. Concerning selling of insurance products, when the Group is only an insurance agent and is not obligated to provide further services or to perform activities for the insurer after selling the insurance product, the revenues from the sale of insurance products are recognized on the day of commencement or renewal of the insurance policy.

If the sale of insurance products with no link involves a commitment of the Group to provide additional services, other than concluding an insurance agreement, the Group recognizes revenues based on the stage of completing the services and as a result the part of the remuneration is deferred and settled over the time, when the Group is obligated to provide services arising from the offered insurance product. This period is highly correlated with the period when the Group is exposed to the risk of returning remuneration in case of client's resignation.

In relation to some products clients retain the right to cancel the insurance cover and to reclaim the overpaid premium at any time. For such products the Group verifies, if the amount of recognized remuneration can be estimated reliably and the economic benefits from the transaction are probable, and performs a reliable estimate of the provision for refunds, which means the amount by which the remuneration should be decreased to reflect the reasonably reliably revenue. The Group decreases revenues, which were recognized in profit or loss upfront by the estimated provisions on possible reclaims due to early termination of the lease agreement and sell or liquidation of the property, plant and equipment asset which was a subject of the lease agreement.

Provision estimate for refunds is based on an analysis of historical information about the real returns in the past and predictions as to the trend of returns in the future.

Notes to the consolidated financial statements (cont.)

Insurance products linked to financial instruments

Fees earned from sales of insurance products linked to financial instruments are settled according to so called "relative fair value method". Relative fair value method consists of proportional allocation of income from total loan transaction into the following elements: loan element, element of insurance intermediary service, element of provisions for remuneration returns and element of the margin decreasing in the period of insurance policy.

Once a year, on the balance sheet date, the Parent Entity verifies established input parameters and key assumptions in the bancassurance model (excluding provisions for returns, which are estimated quarterly). Additionally, the Group assesses on each balance sheet date whether the existing policy for recognizing revenues and expenses concerning bancassurance corresponds to the economic substance of these commissions, and whether there is a better method of their recognition.

Commissions from insurance products linked to financial instruments (loan element) are settled using effective interest rate method throughout financial instrument period. Revenues and expenses of this type are presented respectively in interest income or expenses. Intermediary service element is recognized upfront in commission income. The element concerning of the margin decreasing of insurer is settled using straight-line method during the period of insurance protection.

2.5.3. Net income from financial instruments measured at fair value and from foreign exchange result

Net income from financial assets measured at fair value through profit or loss as well as net foreign exchange results includes gains and losses arising from the sale or change in the fair value of financial instruments designated upon initial recognition as at fair value through profit or loss, and gains and losses on the sale and change in the fair value of instruments held for trading.

This result includes realized and unrealized gains/losses on foreign exchange derivatives, interest rate derivatives, debt instruments and equity instruments, as well as the gain/loss on hedging instruments.

The result on hedging instruments includes the offsetting effects of changes in the fair value of the hedging instrument and the hedged item which have an impact on the profit or loss statement, i.e. the ineffective portion of the hedge.

Net foreign exchange results comprise the positive and negative foreign currency translation differences, both realized and unrealized, arising from revaluation of assets and liabilities denominated in foreign currencies and gains / (losses) realized on spot transactions. Revaluation is performed on a daily basis using the average exchange rate announced by the NBP on the balance sheet date (in accordance with the policies described in note 2.3 to the consolidated financial statements).

Notes to the consolidated financial statements (cont.)

Net foreign exchange result also includes the foreign exchange component of the fair value measurement of derivative instruments (FX forward, FX swap, CIRS – currency interest rate swap and currency options).

2.5.4. Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items

Net provisioning for impairment losses on financial instruments and provisions for off-balance sheet exposures is recorded as a result of impairment recognition of financial assets, mainly from loan exposures to banks and clients impairment recognition of amounts due from banks, loans and advances to customers and valuation of off-balance sheet exposures (see note 2.9. to the consolidated financial statements) and proceeds from sale of Group's receivables.

2.5.5. Other operating income and expenses

Other operating income comprises mainly amounts received from sales of services unrelated to the Group's core operations of the Group's as well as result on the sale, disposal or impairment of non-current assets (including assets acquired for debt) and reversal of impairment of such items, release of other provisions and revenue from debt collection.

Other operating expenses comprise mainly collection costs, expenses resulting from incurring a loss on sale or disposal of non-current assets (including assets acquired for debt) and of intangible assets, costs relating to penalties, fines and compensations as well as costs of creating other provisions.

2.5.6. Other profit / (loss) components

2.5.6.1. Employee benefits

Short-term employee benefits include: remuneration, bonuses, paid holiday leave and social insurance contributions, and are recognized as an expense upon being incurred. The Group calculates provision for unused holiday leave. These provisions are presented in Provisions.

2.5.6.2. Dividend income

Dividend income is recognized in the profit or loss statement on the ex-dividend date.

2.6. Recognition, presentation and valuation of financial assets and liabilities

All financial instruments are recognized using settlement date accounting, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Notes to the consolidated financial statements (cont.)

Offsetting of financial assets and liabilities is performed when the Group has a valid and legally enforceable right to set-off that is not contingent on a future event. Additional requirement is that the Group and its counterparties have intention to compensate or to process receivables and payables in a single settlement process or cycle with total elimination or significant decrease of credit or liquidity risk (refer to note 40 to the consolidated financial statements).

Long-term financial assets and liabilities consist of financial assets and liabilities with maturities exceeding 12 months from the balance sheet date.

2.7. Financial assets

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention when acquiring them.

The Group classifies its financial assets into the following categories: financial assets measured at fair value through profit or loss, assets available for sale, held to maturity investments, and loans and other receivables.

2.7.1. Financial assets measured at fair value through profit or loss

This category comprises three sub-categories: financial assets held for trading, financial instruments designated upon initial recognition as at fair value through profit or loss and derivative financial instruments, not designated as hedging items according to IAS 39.

Financial assets held for trading comprise financial assets purchased for the purpose of selling them in a near term, financial assets constituting part of the portfolio of specific financial instruments managed jointly and for which there is evidence of a recent actual pattern of short-term profit-taking and derivative financial instruments which are not financial guarantee contracts or hedging instruments.

Financial instruments are designated upon initial recognition as at fair value through profit or loss only if:

- applying such a qualification eliminates or significantly reduces measurement or recognition inconsistencies of related gain/losses (the accounting mismatch);
- a group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management policies or investment strategy and in accordance with the adopted internal reporting system on the portfolio condition;
- a financial asset which is recognized jointly includes one or more embedded derivatives and the embedded derivative does not significantly change the cash flows resulting from the underlying contract, and its separation is not allowed.

Notes to the consolidated financial statements (cont.)

Financial instruments designated upon initial recognition as at fair value through profit or loss as well as after initial recognition are measured at fair value. The effects of the measurement and exchange rates which are connected with this measurement are recognized in the profit or loss statement in "Net income from financial instruments measured at fair value and net foreign exchange result".

A financial asset is removed from the consolidated statement of financial position when the contractual rights to the cash flows from the financial asset expire or when the Group transfers the contractual rights to receive cash flows from the asset and transfers substantially all the risks and rewards of ownership. Derecognition of securities is based on average price.

2.7.2. Available for sale financial assets

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as:

- loans and receivables,
- financial assets held to maturity,
- financial assets at fair value through profit or loss.

Financial assets available for sale contain debt and equity instruments for which the holding period has not been determined. They serve the liquidity management or are bought and sold in the response to changes in market prices.

Financial assets classified as available for sale are measured at fair value apart from those assets where the fair value cannot be reliably measured, which are presented at purchase price, decreased with impairment allowances. Effects of changes in fair value, excluding impairment allowances, are recognized in other comprehensive income until the assets matures or is otherwise disposed of. Accumulated gain / loss is then transferred to profit or loss statement in line "Net income from financial instruments measured at fair value and net foreign exchange result".

2.7.3. Financial assets held to maturity

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity and which do not meet the definition of loans and receivables.

Due to the Group policy and IFRS EU requirements, which does not allow selling financial instruments classified as held to maturity, there is no possibility to infect the held to maturity financial asset portfolio as a result of selling a significant portion of assets classified to this portfolio. However, should the Group sell such assets, then all assets from the respective category would be reclassified to available for sale financial

Notes to the consolidated financial statements (cont.)

assets and for the following two consecutive financial years the Group is not allowed to classify any financial assets as held to maturity.

Held to maturity financial assets are recognized in the consolidated statement of financial position as at the date of settlement of the purchase transaction of the asset. Financial assets are initially recognized at fair value adjusted for transaction costs directly attributable to the purchase or issuance of the given asset.

Upon initial recognition, the Group measures the financial assets at amortized cost using the effective interest rate, taking into account impairment of the assets. The effects of the measurement are recognized in the consolidated profit or loss statement.

A financial asset is derecognized from the consolidated statement of financial position when the contractual rights to the cash flows from the financial asset expire or when the Group transfers the contractual rights to receive cash flows from the asset and transfers substantially all the risks and rewards of ownership.

2.7.4. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, other than:

- financial assets which the Group intends to sell immediately or in the near term (financing granted by the Group to a customer for the purpose of generating short-term gains; classified as held for trading) and those which the group classified as financial instruments designated upon initial recognition as at fair value through profit or loss;
- financial assets designated by the Group as available for sale upon initial recognition; or
- assets in respect of which the holder may not recover substantially the whole amount of the initial investment for a reason other than credit deterioration (classified as available for sale).

"Loans and advances to other banks and customers", including purchased receivables and investments in debt securities not quoted on an active market are part of the loans and advances category.

Loans and advances are recognized when the cash is disbursed to the debtor.

Upon initial recognition, the Group measures the financial assets at amortized cost using the effective interest rate, taking into account impairment, and the effects of the measurement are recognized in the profit or loss statement.

A financial asset is derecognized from the consolidated statement of financial position when the contractual rights to the cash flows from the financial asset expire or when the Group transfers the contractual rights to receive cash flows from the asset and transfers substantially all the risks and rewards of ownership, and also when the Group does not expect any further cash flows from the financial asset.

2.8. Reclassification of financial assets

The Group may reclassify available for sale financial assets to the loans and advances category if the given asset meets the definition of loans and receivables and the Group has the intention and ability to hold the asset during the foreseeable future or until its maturity. The Group may also reclassify available for sale financial assets to the category of financial assets held to maturity if the change in intention or ability occurred or two consecutive financial years have passed, as discussed in note 2.7.3. to the consolidated financial statements.

In case of reclassifying an available for sale financial asset with a specified maturity date, all gains and losses related to the asset which had been recognized in other comprehensive income are amortized and recognized in the profit or loss statement over the remaining life of the held to maturity investment, using the effective interest method. All differences between the new amortized cost and the maturity amount are amortized over the remaining life of the financial asset using the effective interest method, similarly as when amortizing a premium or discount.

The Group may reclassify financial assets measured at fair value through profit or loss if exceptional events occur.

A financial asset is reclassified in its fair value as at the reclassification date. Gains or losses which had been recognized in the consolidated profit or loss statement until reclassification are not reversed. As at the reclassification date, the fair value of financial assets is deemed to be its new cost or new amortized cost respectively.

2.9. Impairment of financial assets

At each balance sheet date, the Group assesses whether there are objective impairment triggers of a financial asset or group of financial assets.

Impairment of a financial asset or group of financial assets can be recognized only if there is objective evidence of impairment as a result of an event or events that occurred after the initial recognition of the given asset ("loss event") and if the event (or events) affects the future cash flows attributable to the asset or the group of assets that can be reliably estimated.

It may not be possible to identify a single event causing impairment – in such cases impairment is determined by the accumulated effect of several events. Losses expected as a result of future events, no matter how likely, are not recognized.

Based on the requirements of IAS 39 Financial instruments: Recognition and Measurement requirements and recommendations included in Recommendation R of Polish Financial Supervision Authority, the Group defined the following loss events catalogue, which reflects the operating profile of the Group.

Notes to the consolidated financial statements (cont.)

For retail portfolio the Group has defined the following impairment triggers:

- delays in payment over 90 days,
- fraud or attempt of fraud committed by the borrower,
- death of the borrower,
- termination of the loan agreement by the Group,
- questioning of the credit exposure by the counterparty in court,
- debt enforcement proceedings being initiated against the borrower,
- significant deterioration of scoring assessment,
- restructurization of exposure after 90 days past due,
- significant financial difficulties of the borrower,
- limit blockage for renewable products.

For the corporate loans portfolio, the Group identifies impairment triggers based on the following criteria:

- significant financial difficulties of the client based on negative assessment of client's financial situation,
- failing to meet terms of the agreement,
- changes in the agreement with concession towards clients, due to economic or legal reasons resulting from client's financial difficulties, concession which in other case would not be granted. As concession is treated each change in agreement with client facing financial difficulties,
- high probability of bankruptcy or other financial reorganization of the client,
- no active market for particular balance sheet exposure due to client's financial difficulties,
- information about opened bankruptcy or liquidation processes,
- agreement termination,
- significant decrease of rating analysis,
- questioning of the balance sheet exposure by the client in court,
- Group's request to initiate enforcement proceedings towards client,
- unknown client's place of residence or assets
- decrease of the client's rating by known and commonly accepted external agency assessing credibility (rating agency),

Notes to the consolidated financial statements (cont.)

- there are macroeconomic signals negatively impacting operating risk of the client,
- there are other negative news about client, other signals, which could negatively influence operating risk of the client,
- significant change in value or quality of significant collateral,
- decrease in cash turnover of accounts in Group,
- for Financial Institutions – loss of license,
- for governments and Central Banks – payment moratorium.

Details of the impairment triggers are included in Group's internal regulations.

The process of impairment triggers identification for corporate portfolio is supported by the early warning system implemented by the Group.

The impairment assessment for financial assets is performed under the individual and group analysis. The individual analysis is applicable for individually significant assets according to segmentation criteria adopted by the Group and the size of the exposure to the client. The group analysis includes the following types of exposures:

- exposures for which no impairment triggers have been identified – exposures are assessed in group analysis process to estimate provision for incurred but not reported losses (IBNR model),
- individually insignificant exposures for which impairment triggers have been identified,
- the exposures for which impairment has not been identified after individual analysis.

2.9.1. Assets measured at amortized cost

If there is objective evidence of impairment of loans and receivables or financial assets held to maturity measured at amortized cost, the impairment loss is calculated as a difference between the carrying amount of the asset and the present value of the estimated future cash flows (excluding the non-incurred future loan losses). As a rule the initial effective interest rate is used for discounting expected cash flow.

The calculation of current value of estimated future cash flows relating to a secured financial asset includes the cash flows from acquired collateral less the costs of its acquisition and sale, regardless of whether the repossession of the collateral is probable or not.

After calculating and determining the amount of the impairment loss, the carrying amount of the asset is reduced by the impairment allowance, which is recognized in the profit or loss statement.

Notes to the consolidated financial statements (cont.)

Impairment losses are recorded in separate accounts. For balance sheet purposes and in order to determine the current book value of a given financial asset they are presented together with the financial assets which have been impaired.

If in a subsequent period the amount of the impairment loss decreases, due to an event occurring after the impairment was recognized (e.g. improvement of the creditworthiness of the debtor), the previously recognized impairment loss is reversed and the effects of the reversal are recognized in the profit or loss statement. The carrying amount of the asset determined as a result of the reversal of an impairment allowance shall not exceed the carrying amount which would be determined according to amortized cost if the impairment allowance has not been recorded.

Loans and advances which are uncollectable, after limitation period or for which Parent Entity decided to stop further collection, are subject to write off against the impairment allowance. Subsequent recoveries of amounts previously written off are presented in the profit or loss statement, in other operating income.

2.9.1.1. Individual impairment assessment

a) Non-retail exposures

Impairment triggers for individually significant credit exposures are identified in the standard process of loan portfolio monitoring regarding the financial situation of the client and in the process of restructuring credit exposures arising from client's financial difficulties.

In case of identifying impairment triggers, the individual credit allowance calculation includes comparing the carrying amount of the analyzed credit exposure conjunction with the expected cash flows discounted to the present value using the original effective interest rate of the contract.

The method of estimating future cash flows is based on defining the value of expected cash flows resulting from:

- the voluntary repayment made by the borrower,
- realization of collateral.

The recovery is determined judgmentally, including collection scenarios defined by the Parent Entity and the assumptions related to the results of the borrower's financial situation assessment.

If the total discounted value of expected cash flows from the voluntary repayments made by the client and from the realization of collateral is lower than the carrying amount of the credit exposure, the impairment is recognized and the credit allowance is booked.

If during individual analysis the Group does not identify any objective impairment triggers for an individually assessed financial assets' component or impairment triggers were identified, but based on individual assessment impairment loss was not recognized, the component is included in the group of

Notes to the consolidated financial statements (cont.)

financial assets, which are the subjects of collective impairment analysis. If the impairment is recognized for the assets' component analyzed individually, the component is not included in the collective analysis.

b) Retail exposures

Identification of impairment triggers for individually significant exposures is performed on a customer level throughout periodical analysis regarding these engagements.

In case of identification of the triggers, impairment allowance is determined through comparison of book value of the analyzed loan engagement with the expected value of future cash flows discounted to current value by initial effective interest rate of the contract.

Future cash flows from secured exposures are determined based on expected recoveries from the collaterals. In case of not-secured exposures the estimated recoveries from exposures are taken into account.

The impairment is recognized and the allowance is booked when the total discounted value of the expected cash flows is lower than the book value of the loan exposure.

If the impairment trigger for individually significant exposure was not recognized, it is included in the group of financial assets assessed with regard to impairment with group method.

2.9.1.2. Collective impairment assessment

In the collective approach the group of financial assets with similar credit risk characteristics are identified and collectively assessed for impairment.

Allocation of financial assets into groups with similar credit risk characteristics is carried out according to the segmentation rules used by the Group including: type of the product, type of the client, loan delinquency and other significant factors. Those characteristics are relevant to the estimation of future cash flows for defined groups of assets, because they indicate the debtors' ability to repay all of their liabilities according to the contractual terms concerning analyzed assets.

The Group has separate group models for impairment assessment for exposures with no identified impairment triggers and for exposures with identified impairment triggers:

a) exposures for which no impairment triggers have been identified (IBNR)

As far as collective approach regarding exposures for which no impairment triggers have been identified is concerned, the amount of the impairment is calculated using parameters: PD (probability of default) and LGD (loss given default). For non-retail exposures Historical Default Rate (HDR) parameter is used instead of PD (historical indicators reflecting the percentage of events of failure to comply with obligations in a given time period).

Notes to the consolidated financial statements (cont.)

The PD/HDR parameters are estimated using statistical methods based on historically observed (considering the most recent observation) percentage of impaired loans for groups with similar credit risk characteristics. For each group the PD parameter is calculated in the time horizon corresponding to the loss identification period (LIP).

In order to reflect the amount of loss at the moment of impairment identification, the Group determines the LGD parameter for each exposure group.

The most important information on the key assumptions and methods of determining by the Group the PD, LIP and LGD parameters are presented below:

- PD and LIP parameter – retail exposures:

The PD parameter estimation is performed using the latest available history at the time of estimation. The PD parameter is estimated as the average of six indicators reflecting percentage of exposures for which an impairment trigger occurs in the period corresponding to LIP (the average is weighted by the number of exposures from the date of observation). The PD parameters are updated monthly.

The LIP parameter for retail exposures overdue but without impairment identified was established based on average time from the moment of overdue to identification of debtor's impairment. For other detail exposures it was established based on performed analysis aimed at defining moment of the occurrence of an event preceding a debtor's impairment. As at 31 December 2016 the LIP amounted to appropriately 9 months for mortgage loans and 6 months for other retail exposures.

- PD/HDR and LIP parameter – non-retail exposures:

The HDR/PD parameters used in credit allowance calculation are determined based on the client's credit rating given in the credit assessment process. Credit rating results from the rating scale defined in a given rating system and is updated every quarter. The HDR/PD parameters assigned to each rating class are updated on an annual basis.

The LIP parameter for non-retail exposures equals 9 months and considers the period from occurrence of an event causing loss to giving status of impairment. For its definition the functioning processes concerning monitoring of loan exposures of non-retail clients (frequency of verification and reporting) as well as individual analysis performed on a sample of data regarding identification of real moment of an event occurrence were taken into account.

For exposures to corporate and financial institutions, the Parent Entity determines the HDR parameter based on the results of statistical estimation.

For other non-retail exposures, including investment projects, insurance companies, public sector entities, due to the fact that there is no representative sample of clients for which historically an impairment has

Notes to the consolidated financial statements (cont.)

been recognized, the PD parameter is determined based on assumptions of internal rating systems and experts' expectations regarding the level of expected loss ratio.

- the LGD parameter – retail exposures:

The approach to assigning the LGD parameter differs for secured and unsecured exposures. The LGD parameter for secured exposures is designed to reflect loss due to the failure in recovering the full value of the collateral. For exposures secured by mortgage LGD parameter is calculated based on historical recovery rates (RR), based on actual data from sale process (straight from bailiffs or external real estate brokers) referred to the last used by the Parent Entity (before sale date) collateral valuation.

As far as unsecured exposures are concerned, the LGD parameter is calculated based on historically observed recoveries, decreased by the costs incurred by the Parent Entity to recover its receivables, including the percentage of clients who have settled the outstanding balance due to the Parent Entity in a period of 12 months after the impairment identification. The estimation is performed on the portfolio of accounts for which the Parent Entity has recognized the impairment. The criteria for defining homogeneous groups of clients are established at the level of the product portfolio and the number of months from the impairment identification for the specific account. As the result, for a given product segment the LGD parameter is a curve that increases over time from the moment of the impairment identification. As far as the credit portfolio for which no impairment triggers have been identified is concerned, there is a parameter assigned, which aggregates information about recoveries occurring over the entire recovery period. Moreover, the recoveries are adjusted with historically observed results of selling of impaired loans portfolio and the prices obtained by the Parent Entity from these sales.

- LGD parameter – non-retail exposures:

The LGD parameter is assigned at the level of single credit exposure based on the information about client's collateral value and category. Based on the information about collateral category, there is assigned a parameter reflecting expected cash flows from the collateral realization and the average recovery period. The above-mentioned parameters are determined judgmentally. Depending on the collateral level for individual exposure, the Group identifies as a recovery source the cash flows from collateral and the voluntary repayment made by the client. In case of repayments from sources other than realization of the collaterals, the assumptions regarding expected recovery level and recovery period are defined judgmentally. The effective value of the LGD parameter assigned to the contract includes recovery from the collateral and other sources, as well as the time value of money.

b) Exposures for which an impairment triggers have been identified

As far as exposures for which impairment triggers have been identified are concerned, the impairment value is determined with a collective method using discounted expected future cash flows calculated based on historical loss or recoveries.

Notes to the consolidated financial statements (cont.)

The approach to the impairment calculation differs for secured and unsecured exposures. For secured exposures the impairment is calculated as a difference between the carrying amount of the exposure and the discounted value of expected recovery from collateral (including the average recovery period and recovery rate for the specific collateral type, determined judgmentally). Moreover, it includes the probability of return to a regular debt service and the probability of returning to the impaired category after the "curing" was recognized.

As far as unsecured credit exposures are concerned, the assumptions used for calculation of the LGD parameter have been described in the section dedicated to IBNR model. However, for impaired exposures the estimated LGD parameter value is taken from the part of the LGD curve, which corresponds to individual information about the number of months from the impairment identification (months in default) for each account.

c) Exposures with identified triggers, without impairment

Non-retail exposures with identified impairment triggers for which impairment was not recognized at the moment of allowance estimation, are subject to group assessment. The basis of allowance for these exposures is the ratio of individual allowance coverage in the subsequent periods after impairment trigger recognition.

The calculation of the impairment allowance is verified as a part of the models' risk management process, because the models used by the Group to calculate credit allowance and estimate risk parameters are subject to the risk of data quality, assumptions, methodology and administration. As a part of the models' risk management process the Group performs an assessment of the models' administration process and validates historical parameters to minimize the risk of using incorrect parameters. The models' risk management process is supervised by the Models' Validation Committee.

2.9.2. Impairment of assets available for sale

If the decrease in fair value of available for sale assets is recognized in equity and there is objective evidence of its impairment, the accumulated losses which had previously been recognized directly in equity are transferred from equity and recognized in the profit or loss statement, even if the financial asset was not derecognized from the consolidated statement of financial position.

The accumulated losses transferred from equity to profit or loss are determined at the amount of the difference between the acquisition cost (net of all repayments of principal and depreciation) and the present fair value (net of all respective impairment losses which had been previously recognized in consolidated the profit or loss statement).

In respect of impairment of a financial asset classified as available for sale which had been previously remeasured to fair value and the positive revaluation was recognized in equity, the impairment loss first

Notes to the consolidated financial statements (cont.)

decreases equity and then – if the amount of previously recognized positive revaluation is insufficient to cover the impairment loss – the difference is recognized in consolidated the profit or loss statement, in "Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items".

The impairment losses on equity instruments classified as available for sale financial assets are not reversed.

In respect of debt instruments, if in the following period the fair value of an available for sale debt instrument increases and the increase may be objectively attributed to an event which occurs after the impairment loss has been recognized in the consolidated profit or loss statement, the impairment loss has to be reversed and the amount of the reversal is recognized through the consolidated profit or loss.

2.10. Repo and reverse repo transactions

Reverse repo and repo transactions are sale or purchase transactions of securities with a simultaneous promise of resale or repurchase at a given date and contractual price.

As at the moment of commencement, sell buy back or repo transactions are recognized in "Amounts due to banks and other monetary institutions" or "Amounts due to customers", depending on the counterparty of the transaction.

Buy sell back, or reverse repo transactions are presented in assets: as "Amounts due from banks" or "Loans and advances to customers", depending on the counterparty of the transaction.

Repo and reverse repo transactions are measured in the same method as other items presented in the given group of assets or liabilities. The difference between the sale and repurchase price is recognized over the period of the contract using the effective interest rate in interest income/expense respectively.

The Group assesses the degree of risks and rewards related to the asset that remain within the Group. Securities which are a part of repo or reverse repo transactions are not derecognized from the statement of financial position and are measured on the terms and conditions specified for particular securities portfolios.

2.11. Derivative financial instruments

2.11.1. Recognition and measurement

Derivative instruments are classified as held for trading and presented separately in the consolidated statement of financial position on the assets or liabilities side. Derivative instruments are measured at fair value excluding transaction costs which will be incurred on their sale. A derivative instrument is an asset if its fair value is positive, and a liability if its fair value is negative.

Notes to the consolidated financial statements (cont.)

The most appropriate basis for determining the fair value of a financial instrument upon initial recognition is its transaction price (i.e. the fair value of the payment made or received). In other situation, its fair value may be determined on the basis of a valuation model, the data for which was obtained from an active market. The techniques used are based, among other things, on models of discounted cash flows, profitability curves and option modeling.

Changes in the fair value are recognized in the profit or loss statement – this amount is included in the net income from financial instruments measured at fair value (with the exception of a different manner of recognition in case of hedge accounting – see note 2.11.3. to the consolidated financial statements).

Underlying amounts of derivative transactions are shown in off-balance sheet items from the transaction date till maturity.

2.11.2. Embedded derivatives

Embedded derivatives are components of a compound instrument which also includes the underlying contract that is not a derivative which causes part of the cash flows from the compound instrument change in a manner similar to the cash flows from the independent derivative, e.g. based on the interest rate, foreign exchange rate, credit or price index, price of the financial instrument, credit rating or another variable – on condition that the variable is not specific to any of the parties to the contract.

Whether a given contract includes an embedded derivative is determined upon the commencement of the contract. A second assessment is made only if there are changes to the contract which have a significant impact on the cash flows stated in the agreement.

A derivative is shown separately when the following terms and conditions are jointly met:

- the compound instrument is not measured at fair value through profit or loss;
- the economic character and risks of the embedded instrument are not closely related to the economic character and risks of the underlying contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative instrument.

Separated embedded instruments are measured according to the policies for derivative instruments, while the underlying contract – accounting principles applicable to specific agreements.

The measurement is presented in the consolidated statement of financial position in "Derivative financial instruments". Changes in the fair value of separated derivative instruments are recognized in the profit or loss statement in "Net income from financial instruments measured at fair value and net foreign exchange result".

In this category the Group includes instruments embedded in structured instruments.

2.11.3. Hedge accounting

The Group may use derivative financial instruments to hedge against foreign exchange and interest rate risks resulting from its operating, financing and investing activities. For this purpose the Group uses fair value hedges and cash flow hedges.

2.11.3.1. Criteria

The Group may use hedge accounting when all the terms and conditions set out below are met:

- upon setting up a hedge, the hedge relationship was officially established and documented as well as the purpose of the entity's risk management and its hedging strategy were defined. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the hedged risk and the manner in which the entity will assess the effectiveness of the hedging instrument in compensating the threat of changes to the fair value of the hedged item or the cash flows related to the hedged risk,
- a hedge is expected to be highly effective in compensating changes to the fair value or cash flows resulting from the hedged risk in accordance with the initially documented risk management strategy relating to the concrete hedge relationship,
- in case of cash flow hedges, the planned hedge transaction must be highly probable and must be exposed to changes in cash flows which as a result may have an impact on the profit or loss statement,
- the effectiveness of a hedge may be reliably assessed, i.e. the fair value or cash flows related to the hedged item and resulting from the hedged risk, and the fair value of the hedging instrument, may be reliably measured,
- the hedge is assessed on a current basis and its high effectiveness in all reporting periods for which the hedge had been established is determined.

The Group designates certain derivative instruments to the fair value or cash flow hedges. Upon setting up the hedge, a hedge relationship is officially established and the purpose of the Group's risk management and its hedging strategy is determined. The documentation includes the identification of the hedging instrument, the hedged item or transaction and the nature of the hedged risk. Upon establishing the hedge and then on a current basis, the Group also documents and assesses the effectiveness of the hedging instrument in compensating the threat of fair value changes of the hedged item.

Notes to the consolidated financial statements (cont.)

2.11.3.2. Fair value hedge

Fair value hedge constitutes hedges against the risk of changes to the fair values of recognized assets or liabilities, or a probable future commitment, or an isolated part of such an asset, a liability or probable future commitment which may be attributed to a specific risk, and which could have an impact on the profit or loss statement.

Gains or losses resulting from revaluation of the hedging instrument to its fair value (in respect of a hedging derivative instrument) or the foreign exchange component of its carrying amount (in respect of financial instruments other than derivatives) are presented in the consolidated profit or loss statement.

In respect of a hedged item which otherwise would be measured at amortized cost, gains and losses related to the hedged item and resulting from the hedged risk adjust the carrying amount of the item and are recognized in the consolidated profit or loss statement.

In respect of a hedged item constituting an available for sale financial asset, gains and losses resulting from the hedged risk are recognized in the consolidated profit or loss statement.

The difference between a change in the fair value of a hedging instrument and a change in the fair value of a hedged item, which presents the hedge ineffectiveness, is recognized in consolidated profit or loss statement in "Net income from financial instruments measured at fair value and net foreign exchange result".

2.11.3.3. Cash flow hedges

Cash flow hedges constitute hedges against the risk of cash flow fluctuations which may be attributed to a specific risk related to a recognized asset or liability or a highly probable planned transaction, and which could have an impact on the consolidated profit or loss statement.

Changes in the fair value of a derivative financial instrument designated as a cash flow hedge are recognized directly in consolidated other comprehensive income concerning the part including the effective part of the hedge. Amounts recognized directly in consolidated other comprehensive income are transferred to the consolidated profit or loss statement in the same period or periods in which the planned hedged transaction affects the consolidated profit or loss statement. The ineffective part of a hedge is recognized in the consolidated profit or loss statement, in "Net income from financial instruments measured at fair value and net foreign exchange result".

2.11.3.4. Discontinuing hedge accounting

The Group discontinues hedge accounting, when:

- the hedging instrument expires, is sold, released or exercised – in such an instance accumulated gains or losses related to the cash flow hedging instrument which were recognized directly in other

Notes to the consolidated financial statements (cont.)

comprehensive income over the period in which the hedge was effective are recognized in a separate item in other comprehensive income until the planned transaction is executed,

- the hedging instrument ceases to meet the criteria for hedge accounting – in such an instance accumulated gains or losses related to the cash flow hedging instrument, which were recognized directly in other comprehensive income over the period in which the hedge was effective, are recognized in a separate item in other comprehensive income until the planned transaction is executed,
- the planned transaction is no longer considered probable (in respect of cash flow hedges) – in such case all the accumulated gains or losses related to the hedging instrument which were recognized directly in other comprehensive income over the period in which the hedge was effective, are recognized in the profit or loss statement,
- the Group invalidates a hedge relationship – in such case all the accumulated gains or losses related to the hedging instrument, which were recognized directly in other comprehensive income over the period in which the hedge was effective, are recognized in the profit or loss statement (unless the cash flow hedge was related to the realization of the planned transaction – in such case all the accumulated gains or losses related to the hedging instrument, which were recognized directly in other comprehensive income over the period in which the hedge was effective, are recognized in a separate item in other comprehensive income until the planned transaction is executed or until the planned transaction is no longer considered probable – in such case it is reclassified to the profit and loss statement).

If a replacement of one hedging instrument with another or extending the validity of a given instrument is a part of documented hedging strategy adopted by the entity, it is not considered as an expiry or release of a hedging instrument.

2.12. Financial liabilities

Financial liabilities are classified to categories: financial liabilities at fair value through financial result and other financial liabilities.

The Group decides on classifying a financial liability at the moment of its initial recognition.

Derivative instruments are classified as financial liabilities at fair value through financial result. Derivative financial instruments are measured at fair value through financial result (unless they are designated as effective hedging instruments; see note 2.11.3. to the consolidated financial statements).

Liabilities other than those measured at fair value through financial result including mainly amounts due to banks and customers and subordinated liabilities are classified to other financial liabilities. Financial

Notes to the consolidated financial statements (cont.)

liabilities are initially recognized at fair value plus or minus transaction costs related directly to the issuance of a given financial liability.

After initial recognition, other financial liabilities are subsequently measured at amortized cost, using the effective interest rate method.

2.13. Contingent liabilities

In the course of its operating activities, the Group concludes transactions which at the moment of the conclusion are not recognized in the consolidated statement of financial position as assets or liabilities, but are contingent liabilities. A contingent liability is:

- a potential commitment which arises as a result of past events the existence of which will be confirmed only upon the occurrence of one or more uncertain future events which are not fully controlled by the Group entities, or
- a current commitment which arises as a result of past events, but is not recognized in the consolidated statement of financial position because the expensing of cash or other assets to meet this commitment is improbable or the amount of the liability cannot be reliably assessed.

The Group's key off-balance sheet liabilities constitute credit lines granted and granted financial guarantees which require that the provider makes specified payments to cover the loss incurred by the holder as a result of its defaulting on its payments in accordance with the terms and conditions of the debt instrument. Such financial guarantees are given by the Group to other banks, financial institutions and other organizations on behalf of customers with the aim of securing loans, overdrafts and other banking financing products.

Financial guarantees are initially recognized at fair value on the date the guarantee is given. After initial recognition the Group's liabilities resulting from such guarantees are measured at a value greater of: value of expected amount of financial means outflow and initial value adjusted, where applicable, for accumulated impairment.

For off-balance sheet liabilities exposed to the risk of the counterparty default the provisions are recognized. The provision for off-balance sheet liabilities is calculated based on the set limit and recoverable receivables understood as the present value of estimated future cash flows discounted using market interest rates. Future cash flows relating to off-balance sheet liabilities are calculated on the basis of the available limit and the term of maturity of the liability and the likelihood of outflow of funds from the Groups' entities.

Within off-balance sheet exposures the Group also presents non-financial guarantees, e.g. performance guarantees, tender guarantees, warranties and "standby" letter of credits.

Notes to the consolidated financial statements (cont.)

2.14. Method of determining the fair value and amortized cost

The Group decides on the classification of a financial asset at the moment of its initial recognition. Upon initial recognition financial assets are measured at fair value as a general rule. After initial recognition financial assets measured at fair value through profit or loss and financial assets available for sale are, as a rule, measured by the Group at fair value.

Market prices published by reliable sources such as Reuters, Bloomberg services, WSE, etc. are used to measure financial instruments at fair value. Financial instruments are measured with reference to the prices published in the above services on the BID page in respect of assets. The following are used to measure financial instruments:

- closing prices for regulated markets,
- fixing prices for the OTC market,
- prices given by intermediaries (Brokers) for OTC markets if there are no fixing prices.

If a reliable market price is not available for a financial instrument, the instrument is measured based on the theoretical price constructed on the basis of the profitability curve. The profitability curve is based on market quotations from the money market and swap contracts for particular currencies. The model is adjusted by credit risk.

The Group does not measure equity instruments not quoted on an active market at fair value, because they cannot be reliably measured. These instruments are measured at cost net of impairment losses.

After initial recognition the Group measures financial assets held to maturity, loans and receivables at amortized cost.

The amortized cost method is a method for determining the value of a financial instrument by deducting repayment of the principal amount from its value at initial recognition, adding or deducting accumulated amortization of all differences between the initial cost and the value of the instrument at maturity calculated using the effective interest method, and deducting impairment losses.

2.15. Derecognizing financial instruments from the statement of financial position

A financial asset is derecognized from the consolidated statement of financial position when the contractual rights to the cash flows from the financial asset expire, or when the Group transfers the financial asset to another entity. The transfer takes place when the Group transfers the contractual rights to receive cash flows from the asset or when the Group retains the contractual rights to the cash flows from the financial asset, but accepts the contractual obligation to transfer those flows to an entity outside the Group.

Notes to the consolidated financial statements (cont.)

When transferring a financial asset, the Group assesses to what extent it retains the risks and rewards related to ownership. In this case:

- if the Group transfers substantially all the risks and rewards of ownership, it eliminates the respective financial asset from its statement of financial position and at the same time recognizes separately as assets and liabilities all the rights and obligations retained by the Parent Entity or those which arose during the transfer,
- if the Group retains substantially all the risks and rewards of ownership of the financial asset, it continues to recognize the financial asset in its statement of financial position,
- if the Group does not transfer or retain substantially all the risks and rewards of ownership of the financial asset, it determines whether it retained control over the said financial asset. If the Group has retained control, the financial asset is recognized in the statement of financial position up to the amount resulting from continued exposure, and if the control no longer exists the financial asset is derecognized from the consolidated statement of financial position and at the same time all rights and obligations retained by the Group or arising during the transfer are separately recognized as assets or liabilities.

The Group derecognizes a financial liability (or its part) from its statement of financial position when the liability specified in the contract has been settled, annulled, or has expired.

2.16. Intangible assets

Intangible assets are non-cash assets without a physical form, but identifiable and controlled by the Group, leading to future inflows of economic rewards to the Group directly related to the assets.

The Group includes in Intangible assets specifically:

- software licences,
- copyright laws to computer software or other work,
- cost of completed development projects,
- brand,
- customer relationship base,
- goodwill.

A component of intangible assets is initially recorded at historical cost – i.e. purchase price or cost of development. The cost of purchase or production of computer software treated as intangible assets includes:

- the purchase price of license or copyright laws due to the supplier net of rebates and discounts granted plus import customs and excise duty and non-recoverable VAT,

Notes to the consolidated financial statements (cont.)

- all other directly attributable expenses or costs related to adapting acquired software for use or its proprietary development, in accordance with the purpose planned by the Group, accrued as of the date of purchase or commencement of production to the date of commissioning for use.

Direct expenses or costs comprise specifically:

- costs of external consultations,
- costs of launching and testing the software,
- employee benefit expenses relating to the Group's employees, in respect of the software purchased or manufactured under the given IT project, incurred exclusively in connection with its adaptation to the Group's requirements or its proprietary development. These costs include short-term employee benefits (personnel costs) covering: wages and salaries, overtime, bonuses related to specific software, other employee benefits connected with the above.

Costs connected with current maintenance are recognized in profit and loss when incurred.

After initial recognition a component of intangible assets is presented at purchase price or production cost (historical cost) decreased by accumulated amortization and total amount of impairment (model of purchase price or development cost).

Assets are amortized during their useful life. Accumulated impairment losses result from impairment test conducted (in case significant evidence of impairment is discovered during periodic reviews of intangible assets).

Intangible assets with an undefined useful life are not amortized, they are subject to tests of potential impairment on each balance sheet date.

Tests for potential impairment are conducted as at each balance sheet date. If such evidence is identified, the recoverable value of the assets is determined. The recoverable amount is the higher of: the fair value less costs to sell and the value in use.

Impairment allowance is recognized in the profit or loss statement in "Other operating expenses" in the period to which it relates if the book value of an intangible asset exceeds its recoverable amount. Impairment allowance may be reversed, but only up to the level of the book value which the asset would have (net of accumulated amortization), had the impairment allowance not been recorded.

Gains or losses on sales of intangible assets are presented in other operating income or expenses respectively.

The amortization period which are applied for the basis categories of intangible assets are as follows:

Notes to the consolidated financial statements (cont.)

Brand "Polbank"	undefined useful life
The goodwill	undefined useful life
Customer's relationships	value conected with loans - 10 years
	value conected with customers - 5 years
Computer software	5 - 15 years

2.16.1. Costs of completed development projects

In the Group's IT area of activity the costs related to:

- a given stage of research relating to a project or costs related to maintaining intangible assets are recognized in expenses as they are incurred.
- a stage of development works upon their completion, if they meet qualification criteria, are recognized as intangible assets and their amortization period is equal to the economic useful life of the undertaken development work.

In 2016 the Group did not produce computer software for its own needs.

2.16.2. Other intangible assets

Intangible assets include mainly:

- purchased computer software licenses which are capitalized at their purchase price, i.e. the costs incurred on the purchase and adapting the software to be used in accordance with Group requirements
- purchased copyright laws to implemented software
- licenses or copyright laws to other work than software

Amortization of intangible assets is calculated using the straight-line method to allocate the cost over the estimated useful life (usually 5 to 15 years).

2.17. Property, plant and equipment

Property, plant and equipment after initial recognition are presented at historical cost (purchase price or cost of production) net of accumulated depreciation and accumulated impairment allowances (model of purchase price or cost of production).

Assets are depreciated during their estimated useful life.

Accumulated impairment losses result from impairment test conducted (in case significant evidence of impairment is discovered during periodic reviews of property, plant and equipment).

Historical cost includes expenditure that is directly attributable to the acquisition and adapting for use, or production of the assets.

Notes to the consolidated financial statements (cont.)

Leasehold improvements are costs incurred mainly to adapt the leased premises earmarked for servicing customers for Group purposes.

Subsequent expenses are included in the carrying amount of the property, plant and equipment item or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the purchase price or cost of production of the item can be measured reliably.

All other repairs and maintenance expenses are charged to the profit or loss statement during the financial period in which they are incurred.

Property, plant and equipment are depreciated on a straight-line basis to allocate the cost net of the residual value, if material and exists, evenly over the estimated useful life.

Depreciation rates applied as a rule to the basic property, plant and equipment items are as follows:

Leasehold improvements (in buildings or apartments)	12 years or in the term of the lease contract, depending which period is longer of the lease contract
Plant and machinery	3 – 10 years
Vehicles	10 years
Computers	3 – 8 years
Other tangible fixed assets	3 – 12 years

The adopted useful lives are reviewed at least once a year.

Reviews for potential impairment are conducted as at each balance sheet date. If evidence of impairment is present, the recoverable value of the assets is determined. The recoverable amount is the higher of: the fair value less costs to sell and the value in use.

Impairment allowance is recognized in the profit or loss statement in position "Other operating expenses" in the period to which it relates if the book value of a component asset exceeds its recoverable amount. An impairment allowance may be reversed only to the level at which the book value of an asset does not exceed the book value – net of depreciation – which would be determined should the impairment allowance have not been recorded.

Gains or losses on sales of fixed assets are presented in other operating income or expenses respectively.

Notes to the consolidated financial statements (cont.)

2.18. Leases

The Group as the lessee

The Group is a party to lease contracts on the basis of which it accepts third party fixed assets for use over an agreed period. The Group classifies lease contracts on the basis of the scope in which the risks and rewards from holding the leased asset are attributable to the lessor and the lessee.

In respect of lease contracts on the basis of which substantially all the risks and rewards following from the possession of assets subject to the contract are transferred to the lessee, the lease is classified as a finance lease.

The leased asset is recognized in the Group's assets as a fixed asset at the lower of: the fair value of the leased asset or the present value of the minimum lease payments determined as at the date of inception of the lease. At the same time, the Group recognizes a liability in the same amount.

Lease payments are split between the reduction of the lease liability (in a manner enabling obtaining a fixed interest rate on the outstanding liability) and lease fees. Finance lease expenses are shown directly in the profit or loss statement. Fixed assets subject to finance lease contracts are depreciated in the same manner as fixed assets owned by the Group. If there is no justified certainty that after the end of the finance lease contract ownership of the leased assets will be transferred, the assets are depreciated over the shorter of: the term of the lease and the estimated economic useful life of the asset.

In respect of lease contracts on the basis of which substantially all the risks and rewards from the possession of assets subject to the contract are not transferred, the lease is classified as an operating lease.

Lease payments made under operating leases (including lease installments) are recognized in the profit or loss statement on a straight-line basis over the term of the lease.

The Group as the lessor

The lease agreements under which the Group retains the entire risk and benefits resulting from possession of asset are classified as operating lease agreements. Initial direct costs incurred in connection with negotiations of the operating lease contracts increase the balance-sheet value of the leased asset and are recognized on the same basis as revenues from the lease. Conditional lease payments are recognized as income in the period, in which are due.

In respect of lease contracts on the basis of which substantially all the risks and rewards following from the possession of assets subject to the contract are transferred to the lessee, the lease is classified as a finance lease. For finance leases the leased asset is no longer recognized in the consolidated statement of financial position, whereas in finance lease receivables and loans and advances to customers is recognized the amount of receivables equaled net lease investment. Net lease investment is the gross lease investment discounted by the lease interest rate. Lease income is recognized through the lease period using the net investment method (prior taxation). They are recognized as interest income.

2.19. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include short-term liquid assets (up to three months from the reporting date) which are not exposed to the risk of significant value changes, such as:

- cash and balances with the Central Bank,
- cash in nostro accounts and interbank deposits maturing within three months.

Cash equivalents are used to pay short-term cash liabilities and are not held for the purpose of investing or other types of activity.

2.20. Provisions

The Group creates provisions for future liabilities when the amount or date of their arising is not certain, but it is possible to reliably estimate the amount of the liability. These future liabilities are certain or highly probable and they result from past events which the Group has to meet in accordance with a contractual or constructive obligation and which lead to using assets already possessed, or future assets of the Group. If the effect of the time value of money is material, the amount of the provision is determined by discounting the forecast future cash flows to their present value, using the discount rate which reflects the current cost of money for the Group (it may specifically be the risk-free interest rate), taking into consideration the potential risk related to the given obligation.

Provisions are recognized especially against the following:

- future employee commitments from employment contracts and provisions related to long-term employee benefits measured using actuarial methods,
- the effects of pending litigation,
- restructuring costs.

Provisions for future liabilities are charged against the profit or loss statement, against other operating expenses or general administrative expenses. Unused provisions decrease the Group's operating expenses as of the date when the risk which justified their establishment was mitigated or ceased to exist.

Restructuring provisions are created when the following terms and conditions are met:

- the Group has a detailed and formal restructuring plan (which at least specifies the area or part of the area to which the plan relates, base locations covered by the plan, place of employment, functions and estimated number of employees to receive severance payments, the amount of expenditure to be incurred and the period when the plan will be implemented), and

- the Group started implementing the plan or announced the key elements of the plan to the parties involved (thus arousing expectations of the parties to which the plan relates as to the planned restructuring actions).

The Group determines the amount of the restructuring costs on the basis of best available assessments of the direct expenditure resulting from restructuring and not related to the Group's current operations.

2.21. Equity

Equity constitutes capital and reserves created in accordance with the binding legal regulations, i.e. the respective acts and the Memorandum of Association of the Parent Entity.

Share capital comprises currently registered share capital. The amount of share capital presented in the financial statements reflects the share capital of the Parent Entity and is shown in an amount consistent with the Memorandum of Association and entry to the Court Register.

Equity also includes: retained earnings comprising of current year's undistributed profit and retained past results, and the following items:

- supplementary capital from share premium and transfers from profit. At least 8% of the profit for a given financial year is transferred to supplementary capital, until it attains a level of at least one third of the share capital,
- general banking risk reserve,
- other reserves, created with transfers from profit and, in accordance with the Parent Entity Memorandum of Association, earmarked for offsetting balance sheet losses,
- the revaluation reserve from revaluation of financial instruments classified as available for sale,
- the effective portion of cash flow hedges.

2.22. Income tax expense

Corporate income tax covers current and deferred tax. The current income tax is recognized in the consolidated profit or loss statement.

Current tax is calculated based on the accounting profit before tax adjusted by revenues which in accordance with the tax regulations are not included in taxable income, taxable income which is not income for accounting purpose, costs not considered to be tax-deductible costs according to tax regulations and tax-deductible costs which are not considered to be costs for accounting purposes. Moreover, for tax

Notes to the consolidated financial statements (cont.)

purposes, the accounting profit before tax is adjusted by prior years' income and expenses realized for tax purposes in a given reporting period, and by income deductions.

In determining the deferred income tax the value of deferred income assets and provisions as at the balance sheet date of beginning and ending the reporting period is taken into account. The value of deferred income tax as at the balance sheet date is determined using the liability method, as a change in balance sheet items – deferred income tax assets and provisions.

Due to the fact that the moment of recognizing income as earned or cost as incurred differs under the accounting and tax regulations, the Group records a deferred tax provision and asset. Deferred tax is recognized at the amount of the difference between the tax value of assets and liabilities and their carrying value for the purpose of financial reporting, using the appropriate tax rate.

Depending on the source of the temporary differences, deferred tax is recognized in the consolidated profit or loss statement or (in respect of the effects of measurement of financial assets recognized in other comprehensive income) in the consolidated statement of comprehensive income, under other comprehensive income. The Group records a provision for deferred tax in respect of all positive temporary differences.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is measured using the tax rate, which according to expectations shall be applicable in the year in which the asset is realized or the provision released, determined on the basis of tax rates and tax regulations in force as at the end of the reporting period or such in respect of which it is certain at the balance sheet date that they will be binding in the future. Deferred tax assets and provisions are not discounted.

Deferred income tax assets and liabilities are offset when the Group has a legally enforceable right to offset deferred and current tax receivables with respective liabilities and when the deferred income taxes relate to the tax payer and the same fiscal authority.

2.23. Other

The "Other assets" include mainly:

- prepaid costs relating to consecutive reporting periods;
- income receivable;
- repossessed assets;
- unsettled clients' transactions.

Notes to the consolidated financial statements (cont.)

Prepaid costs are recognized at the moment of their payment to the counterparty and gradually transferred to the profit or loss statement on a straight line basis over the period to which the costs relate.

Assets repossessed for debts are measured at fair value.

The „Other liabilities" comprise mainly:

- unsettled clients' transactions;
- accruals;
- deferred income.

Unsettled clients' transactions comprise amounts due to banks which are not settled as at the balance sheet date. These settlements are made through the national clearing house – Krajowa Izba Rozliczeniowa (KIR).

Accruals constitute costs to be paid mainly in respect of internal operations, not documented by a purchase invoice. These costs relate to the current reporting period and are recognized in the books upon delivery of goods or services, i.e. arising of the liability. They are payable later, after the invoices from the suppliers are received.

Deferred income item consists mainly of commissions accounted for linearly and other income received in advance, which will be recognized in the profit and loss statement in future reporting periods.

2.24. Discontinued operations

A discontinued operation is a component of the Group's business which constitutes a separate line of business or a geographical area of operations, which was sold, made available for sale or is to be disposed of, or is a subsidiary acquired exclusively with a view to re-sale. Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as held for sale, the comparative figures in the statement of profit or loss, are restated as if the operation had been discontinued from the beginning of the comparative period.

Notes to the consolidated financial statements (cont.)

2.25. New standards, interpretations and revisions to published standards

2.25.1. Standards and Interpretations which have been published and applied by the Group as of 1 January 2016, to the extend relating to the Group

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Amendments to IAS 19 *Employee Benefits* entitled *Defined Benefit Plans: Employee Contributions*	December 2013	Financial year starting on or after 1 February 2015	Yes	The Amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the Amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Amendments, when initially applied, did not have an impact on the Group's financial statements. The Group does not have any contributions to defined benefit plans.
Improvements to IFRS (2010-2012)	December 2013	Financial year starting on or after 1 February 2015	Yes	Yearly changes to IFRS 2010-2012 contain 8 modifications to 7 standards, including consequential changes to other standards and interpretations These changes did not have a significant impact on the consolidated financial statements of the Group.
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11 *Joint Arrangements*)	May 2014	Financial year starting on or after 1 January 2016	Yes	The Amendments provide guidance on the accounting for the acquisition of an interest in a joint operation that constitutes a business. The acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 *Business Combinations*, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except for those principles that conflict with the guidance in IFRS 11. In addition, the acquirer shall disclose the information required by IFRS 3 and other IFRSs for business combinations. These changes did not have an impact on the consolidated financial statements of the Group.

Notes to the consolidated financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*)	May 2014	Financial year starting on or after 1 January 2016	Yes	The Group does not expect the Amendments to have significant impact on the financial statements. The Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. These changes did not have an impact on the financial statements of the Group.
Agriculture: Bearer Plants (Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture*)	June 2014	Financial year starting on or after 1 January 2016	Yes	The Amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. IAS 41 *Agriculture* currently requires all biological assets related to agricultural activity to be measured at fair value less cost to sell. Under the new requirements, bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16, because their operation is similar to that of manufacturing. Consequently, the Amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. Due to nature of the Group's activity the above mentioned Amendments do not apply.
Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures*)	December 2014	Financial year starting on or after 1 January 2016	Yes	The Amendments, related to financial reporting of investment entities, address the following matters: • Consolidation of intermediate investment entities

Notes to the consolidated financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
				Before the Amendments, it was unclear how to account for an investment entity subsidiary that provides investment-related services. As a result of the changes, intermediate investment entities are not permitted to be consolidated. The Amendments also clarify that entities conducting "investment-related services" are those whose main purpose and activities are to provide services that relate to the investment entity parent's activities. Consolidated financial statements exemption for intermediate parents owned by investment entities. Intermediate holding entities have a long-standing exemption from preparing consolidated financial statements when they are themselves consolidated by a higher-level parent (and when other relevant criteria are met). The Amendments make this exemption available to an intermediate held by an investment entity, even though the investment entity does not consolidate the intermediate. Policy choice to equity account for interests in investment entities The Amendments provide an accounting policy choice to a non-investment entity in relation to its stake in an investment entity that it is required to equity account. The non-investment entity's equity accounting can either pick up the investment entity's fair value accounting for its subsidiaries or, alternatively, it can pick up figures as if the investment entity had consolidated all of its subsidiaries. These changes did not have an impact on the consolidated financial statements of the Group.
Equity Method in Separate Financial Statements (Amendments to IAS 27 *Separate Financial Statements)*	August 2014	Financial year starting on or after 1 January 2016	Yes	The Amendments introduce an option for the entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements, in addition to the existing cost and fair value options. These changes did not have an impact on the consolidated financial statements of the Group.

Notes to the consolidated financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Improvements to IFRS (2012-2014)	September 2014	Financial year starting on or after 1 January 2016	Yes	The *Improvements to IFRSs (2012-2014)* contains 4 Amendments to standards, with consequential Amendments to other standards and interpretations. The main changes were to: · clarify that paragraphs 27-29 of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (dealing with the accounting for assets that are no longer classified as held for sale) will also apply to assets that cease to be classified as held for distribution. This, however, will not apply if an entity reclassifies an asset (or disposal group) without any time lag from held for sale to held for distribution (or vice versa). Such changes in classification are considered a continuation of the original plan of disposal; ·explain how an entity should apply the guidance in paragraph 42C of IFRS 7 *Financial Instruments: Disclosures* to a servicing contract to determine whether the contract represents 'continuing involvement' for the purposes of the disclosure requirements in paragraphs 42E-42H of IFRS 7; · clarify that the additional disclosures required by Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) are not specifically required for inclusion in condensed interim financial statements for all interim periods. However, they are required if the general requirements of IAS 34 *Interim Financial Reporting* require their inclusion; · amend IAS 19 *Employee Benefits* to clarify that the high-quality corporate bonds or government bonds used in determining the discount rate for post-employment benefit obligations should be issued in the same currency in which the benefits are to be paid. Consequently, the assessment of the depth of the market for high quality corporate bonds should be made at the currency level and not at the country level; ·clarify the meaning of the term 'elsewhere in the interim financial report' per IAS 34 and add to IAS 34 a requirement to include a cross-reference from the interim financial statements to the location of this information. These changes did not have an impact on the consolidated financial statements of the Group.

Notes to the consolidated financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Disclosure initiative (Amendments to IAS 1 *Presentation of Financial Statements*)	December 2014	Financial year starting on or after 1 January 2016	Yes	Key clarifications resulting from the Amendments include the following: - An emphasis on materiality. Specific single disclosures that are not material do not have to be presented – even if they are a minimum requirement of a standard. - The order of notes to the consolidated financial statements is not prescribed. Instead, companies can choose their own order, and can also combine, for example, accounting policies with notes on related subjects. - It had been made explicit that companies: • should disaggregate line items in the statement of financial position and in the statement of profit or loss and other comprehensive income (OCI) if this provides helpful information to users; and • can aggregate line items in the statement of financial position if the line items specified by IAS 1 are immaterial. - Specific criteria are provided for presenting subtotals in the statement of financial position and in the statement of profit or loss and OCI, with additional reconciliation requirements for the statement of profit or loss and OCI. The presentation in the statement of OCI of items of OCI arising from joint ventures and associates accounted for using the equity method follows the standard's approach of splitting items that may, or that will never, be reclassified to profit or loss. These changes did not have a significant impact on the consolidated financial statements of the Group.

Notes to the consolidated financial statements (cont.)

2.25.2. Standards and Interpretations which have been published but are not yet binding and have not been adopted early by the Group

The following standards and interpretations have been issued by either the International Accounting Standards Committee or by the International Financial Reporting Interpretations Committee, but are not yet in force:

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
IFRS 9 Financial instruments (2014)	July 2014	Financial year starting on or after 1 January 2018	Yes	The new standard replaces the guidance included in IAS 39 *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets, including a model for calculating impairment and new methodology for hedge accounting. IFRS 9 eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables used to classify financial assets. Classification of financial assets, according to IFRS 9, should be made on their initial recognition in the balance sheet and should be based on: - business model in the financial assets management; - characteristics of the contractual cash flows, i.e. whether contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding (solely payments of principal and interest, "SPPI"). Under the new standard, debt financial assets are to be classified on initial recognition into one of three categories: - financial assets measured at amortized cost (held to collect contractual cash flows); - financial assets measured at fair value through profit or loss (trading assets); or - financial assets measured at fair value through other comprehensive income (OCI; held to collect contractual cash flows or to be sold). Investments in the equity instruments according to IFRS 9 are to be classifies as: - financial assets measured at fair value through profit or loss (trading assets); or - financial assets measured at fair value through other comprehensive income (when Bank irrevocably elects such presentation).

Notes to the consolidated financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
				The election is available on an individual share-by-share basis. No amount recognised in OCI in relation to the above-described remeasurement is ever reclassified to profit or loss at a later date. The new standard retains almost all of the existing requirements in IAS 39 on the classification and measurement of financial liabilities and on derecognition of financial assets and financial liabilities. However, IFRS 9 requires that the portion of the gain or loss on a financial liability designated at initial recognition as fair value through profit or loss that is attributable to changes in its credit risk be presented in OCI, with only the remaining amount of the total gain or loss included in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, or if the financial liability is a loan commitment or a financial guarantee contract, the entire fair value change is presented in profit or loss. In respect of the financial assets measured at amortized cost impairment requirements, IFRS 9 replaces the "incurred loss" impairment model in IAS 39 with an "expected credit loss" model. The new approach aims to address concerns about "too little, too late" provisioning for impairment losses. In short, the expected credit loss model uses a dual measurement approach, under which the loss allowance is measured as either: • 12-month expected credit losses, or • lifetime expected credit losses. The measurement basis generally depends on whether there has been a significant increase in credit risk since initial recognition. If the credit risk of a financial asset has not increased significantly since initial recognition, the financial asset will attract a loss allowance equal to 12-month expected credit loss. If, however, its credit risk has increased significantly, it will attract an allowance equal to lifetime expected credit losses, thereby increasing the amount of impairment recognized. The standard contains a rebuttable presumption that the condition for recognizing lifetime expected credit losses is met when payments are more than 30 days past due.

Notes to the consolidated financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
				Changes introduced by IFRS 9 require implementation of credit risk assessment model more complex and using significantly more extensive amount of data compared to models built according to IAS 39. Implementation of new impairment calculation methodology requires changes in the IT systems and processes currently functioning in the Bank. In connection with these changes, in the year 2016 the Bank started the project, which objective is to: implement models for credit risk parameters according to IFRS 9, introduce changes in the IT systems used in the impairment and provisions calculation and adjust Bank's internal processes, including process for implementation of new products. In the scope of the project there is also gathering of the information required to classify financial assets to the appropriate valuation category. In the year 2017 it is planned to start a parallel run of impairment and provisions calculations according to IFRS 9, taking into account classification to appropriate valuation category and valuation of applicable financial assets to fair value. As far as classification is concerned, for financial instruments held in business model aiming at collecting contractual cash flows, Bank analyzes the characteristics of cash flows, in order to identify instruments, which do not meet SPPI test and according to IFRS 9 have to be valued to fair value through profit or loss. The analyzed clauses or characteristics are among others coefficient for the interest rate, inconsistency between frequency of interest rates reset and market periods in which these rates are valid. Currently, according to IAS 39 such financial assets were valued at amortized cost. At the date of the preparation of these financial statements the Group did not have reliable and precise estimation of impact of changes being result of implementation of IFRS 9.

Notes to the consolidated financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
IFRS 14 Regulatory deferral accounts	January 2014	Financial year starting on or after 1 January 2016	No	This interim standard: - permits first time adopters of IFRS to continue to use its previous GAAP to account for regulatory deferral account balances both on initial adoption of IFRS and in subsequent financial statements - requires entities to present regulatory deferral account balances and movements therein as separate line items on the face of the financial statements - requires specific disclosures to identify clearly the nature of, and risks associated with, the rate regulation that has resulted in the recognition of regulatory deferral account balances in accordance with this interim Standard. Due to nature of Group's activity IFRS 14 does not apply.
IFRS 15 *Revenue from Contracts with Customers and Amendements to IFRS 15: Effective date of IFRS 15*	May 2014/ September 2015	Financial year starting on or after 1 January 2018	No	The Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Specifically, it replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under the new standard, entities will apply a five-step model to determine when to recognize revenue, and at what amount. The model specifies that revenue should be recognized when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognized: - Over time, in a manner that depicts the entity's performance; or - At a point in time, when control of the goods or services is transferred to the customer. Included in the Standard are new qualitative and quantitative disclosure requirements to enable financial statements users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. As at the date of the financial statements reliable estimation of the standard impact was not prepared by the Group.

Notes to the consolidated financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Clarifications to IFRS 15 (Revenue from Contracts with Customers)	April 2016	Financial year starting on or after 1 January 2018	No	The amendments to IFRS 15 clarify some of the Standard's requirements and provide additional transitional relief for companies that are implementing the new Standard. The amendments clarify how to: Identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract. Determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided). Determine whether the revenue from granting a license should be recognized at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. As at the date of the financial statements a reliable estimation of the Amendments impact has not been prepared by the Group.

Notes to the consolidated financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates*)	September 2014	The effective date was deferred indefinitely	No	The Amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. While IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint venture, IFRS 10 requires full profit or loss recognition on the loss of control of subsidiary. The Amendments require a full gain or loss to be recognised when the assets transferred meet the definition of a business under IFRS 3 *Business Combinations* (whether it is housed in a subsidiary or not). A partial gain or loss (only to the extent of unrelated investors' interests) shall be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The Group does not expect the Amendments to have a material impact on its financial statements once applied.
IFRS 16 Leases	January 2016	Financial year starting on or after 1 January 2019	No	IFRS16 replaces IAS17 Leases and connected with this standard interpretations. In relation to lessees new Standard eliminates existing currently division for finance and operating leases. Accounting for operating leases in the statements of financial position would result in recognition of new asset – right to use leased item – and new liability – liability to pay for the leasing. Rights to use assets under leasing would be amortized and from liabilities interest accruals would be calculated. It would result in recognition of higher expenses in the initial phase of the leasing, even when parties agreed on constant yearly payments. Lessors accounting for leasing in majority of cases would not change as division for operating and finance leasing would be valid. At the initial application impact of the Standard would depend on specific facts and circumstances relating to leasing agreements conducted by the Group. At the date of these consolidated financial statements presentation Group is not able to assess impact of the Standard on the consolidated financial statements.

Notes to the consolidated financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Recognition of deferred tax assets connected to unrealized losses (Changes to IAS 12 Income taxes)	January 2016	Financial year starting on or after 1 January 2017	No	Changes explain, among others, that unrealized changes connected with debt instruments recognized as fair value in financial statements, for which tax value is their initial cost, can result in recognition of negative temporary tax differences. The above described changes are not expected to have significant impact on Group's financial statements.
Disclosure initiative (Changes to IAS 7 Statements of Cash flows)	January 2016	Financial year starting on or after 1 January 2017	No	Changes come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes resulting from cash flows and non-cash transactions. One of the ways to meet above requirements is to present opening and closing balances resulting from financing activities. The above described changes are not expected to have significant impact on Group's financial statements.
Amendments to IFRS 2 Share-based Payments	June 2016	Financial year starting on or after 1 January 2018	No	The amendments provide requirements on the accounting for: a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, b) share-based payment transactions with a net settlement feature for withholding tax obligations; and c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The above described changes are not expected to have a significant impact on Group's financial statements.

Notes to the consolidated financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance contracts	September 2016	Financial year starting on or after 1 January 2018	No	The Amendments provide two options for the entities: - deferral approach - an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts, - an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from changes in valuation of designated financial assets applying IFRS 9 before new Insurance contracts standard is effective (the overlay approach) The above described changes are not expected to have a significant impact on Group's consolidated financial statements.
Annual Improvements to IFRS Standards 2014-2016	December 2016	Financial year starting on or after 1 January 2017 (for IFRS 12)/ Financial year starting on or after 1 January 2018 (for IAS 28 and IFRS 1)	No	The Annual Improvements to IFRS 2014-2016 make amendments to Standards with appropriate changes to other Standards and Interpretations. Main changes are: - Changes to IFRS 12 – Disclosures of interests in other entities clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5. - Changes to IFRS 1 First-time adoption of International Financial Reporting Standards, proposed change relates to deletion of the short-term exemptions in paragraphs E3-E7, because they relate to prior periods. - Changes to IAS 28 Investments in associates and joint ventures clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity (mutual funds or custody funds), is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition The above described changes are not expected to have a significant impact on Group's consolidated financial statements.

Notes to the consolidated financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Interpretation IFRIC 22 Foreign Currency Transactions and Advance Consideration	December 2016	Financial year starting on or after 1 January 2018	No	The Interpretation presents instructions how to determine the date of the transaction and thus which exchange rate should be used to translate, on initial recognition, the advance consideration is paid or received. The Interpretation relates both to transactions generating income and initial recognition of transactions made in foreign currencies. The above described changes are not expected to have a significant impact on Group's consolidated financial statements.
Amendments to IAS 40 Transfers of Investment Property	December 2016	Financial year starting on or after 1 January 2018	No	According to the proposed Amendments, the entity transfers asset to or from investment property when, and only when there was a change in use of this asset. It was proposed to remove the exhaustive list of situations when transfer is required currently presented in the Standard and include the non-exhaustive list of examples of evidence of change in use. The above described changes are not expected to have a significant impact on Group's consolidated financial statements.

In conclusion, the Management of the Parent Entity does not expect that the introduction of these standards and interpretations to have any material impact on the Group's use of accounting standards, with the exception of IFRS 9, IFRS 15 and IFRS 16 (impact of IFRS 9, IFRS 15 and IFRS 16 on the applied accounting policies of the Group has not yet been evaluated). The Group intends to use the dates set out in the relevant standards and interpretations (without early application), provided that they will be approved by the EU.

Notes to the consolidated financial statements (cont.)

3. Changes in presentation of financial statement

Due to recognition of discontinued operations, the Group restated consolidated profit or loss statement as at 31 December 2015 to reflect continuing and discontinued operations in presented comparative data. The details relating to recognition of discontinued operations are presented in note 13.

Impact of the recognition of discontinued operations on comparatives for the year ended 31 December 2015 included in these consolidated financial statements is presented in the table below:

	For the financial year ended 31 December 2015	Transactions between RLPL Group and RBPL Group	For the financial year ended 31 December 2015 before change	Change	For the financial year ended 31 December 2015 restated
Interest income	1 917 818	14 462	1 932 281	296 760	1 635 521
Interest expense	-836 571	-14 482	-851 054	-151 875	-699 179
Net interest income	**1 081 247**	**-20**	**1 081 227**	**144 885**	**936 342**
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items	-186 796	0	-186 796	-30 494	-156 302
including Proceeds from sale of receivables and other	35 060	0	35 060	0	35 060
Fee and commission income	707 718	246	707 964	39 736	668 228
Fee and commission expense	-94 199	-231	-94 431	-166	-94 265
Net fee and commission income	**613 519**	**14**	**613 534**	**39 571**	**573 963**
Net income from financial instruments measured at fair value and net foreign exchange result	39 592	-114	39 478	-170	39 648
Dividend income	86	0	86	0	86
General administrative expenses	-1 359 427	-12 695	-1 372 122	-125 274	-1 246 848
Other operating income	90 223	13 569	103 793	67 625	36 168
Other operating expenses	-25 095	-755	-25 850	-4 177	-21 673
Profit before tax	**253 349**	**0**	**253 349**	**91 965**	**161 384**
Income tax expense	-67 171	0	-67 171	-20 658	-46 513
Net profit	**186 178**	**0**	**186 178**	**71 307**	**114 871**

4. Significant estimates

The preparation of financial statements in accordance with the IFRS EU requires the Management Board of the Bank to make judgments, estimates and assumptions which affect the adopted accounting policies and the amounts presented in the financial statements and in the additional notes and explanations, in particular the amounts which cannot be clearly established based on other sources. The estimates and assumptions are made as at the balance sheet date based on the historical data available, information on the situation at the moment of making the estimates and other factors considered appropriate in a given circumstances, including the expectations as to future events, which seem justified in a given situation. In spite of the fact that the estimates are based on the best knowledge concerning the circumstances and

Notes to the consolidated financial statements (cont.)

actions undertaken by the Group, the actual results may differ from the estimates. The estimates and assumptions are subject to a regular review. Adjustments in estimates are recognized in the period in which the change of estimate was made, provided that the adjustment only relates to that period, or in the period in which the change was made and in future periods if the adjustment affects both the current and the future periods.

The main judgements, estimates and assumptions adopted by the Group are described below and were consistent with these adopted in the prior reporting period.

4.1. Impairment of financial assets

The process of monitoring the risk of impairment of financial assets (mainly amounts due from loans and advances and off-balance sheet exposures) is aimed at identifying the impairment events which may occur in relation to the Group's clients and to prevent from the deterioration of the quality of these assets, and also attempting to identify the impairment triggers and to properly reflect them in the Group's books (see the impairment triggers of a financial assets or a group of financial assets listed in note 2.9. to the consolidated financial statements Impairment of financial assets).

Monitoring the risk of impairment of financial assets includes: analyzing the economic and financial situation of the issuer or debtor, verification whether the loan covenants are not breached by the issuer or debtor (including the monitoring of loan repayment delays), analyzing the probability of bankruptcy or restructuring of the issuer or debtor and identifying fraud of assets by the debtor.

The impairment allowances in respect of loans, advances and other receivables takes into account the estimates related to the value of collateral.

Group performs these estimates as at the balance sheet date. The estimates include cash flows which may arise in connection with claiming collaterals, less costs related to claiming and selling such collaterals. As at the balance sheet date, the Management of Parent Entity performed a review of the models in order to assure that they properly reflect the current market situation, including the current conditions of the market's liquidity and credit spreads.

4.2. Impairment of the loan portfolio

The monitoring of customers in the corporate portfolio is performed based on periodic individual analysis of exposures of this portfolio. An individual counterparty/borrower is treated as one exposure. Impairment allowances are estimated on an individual basis. In calculating impairment allowances, the Parent Entity uses the assessments as to which indicators of impairment have been identified, and estimates future cash flows discounted using the effective interest rate, taking into account the estimated value of collateral. When estimating the impairment allowances, the Parent Entity uses internal and external sources of information. The Parent Entity applies the following, depending on the customer segment (corporate customers, SME,

Notes to the consolidated financial statements (cont.)

project financing, financial institutions, local and regional authorities, public sector entities, governments and Central Banks): the internal rating system of the Parent Entity or the subsidiaries, or values estimated based on the Parent Entity or subsidiaries' employees professional judgment.

The information on the sensitivity analysis in respect of impairment allowances for amounts due from customers with recognized impairment losses is presented in the table below. The estimate has been performed for the corporation portfolio of loans and advances for which impairment allowances were recognized based on an individual analysis of future cash flows related to repayment and recovery from collateral. As at 31 December 2016 the base value of the allowances calculated under the individual assessment model for balance and off balance sheet exposures is PLN 552 269 thousand, (PLN 726 885 thousand as at 31 December 2015), and the base value of discounted recoveries from collaterals and cash repayments is PLN 1 186 875 thousand (PLN 1 173 739 thousand as at 31 December 2015).

Estimated change in the allowance for the portfolio of loans and advances analysed case by case based on future cash flows expected from repayment and recovery from collateral	No change in repayment	Repayment by customers increased by 10%	Repayment by customers decreased by 10%
As at 31 December 2016			
No change in inflows from collateral	552 269	545 734	565 506
Inflows from collateral increased by 10%	522 488	517 093	
Inflows from collateral decreased by 10%	601 263		617 239
As at 31 December 2015			
No change in inflows from collateral	726 885	713 877	744 179
Inflows from collateral increased by 10%	700 527	687 565	
Inflows from collateral decreased by 10%	758 509		778 686

Estimation of impairment for retail clients not significant individually is performed by group method. Collectively assessed exposures are classified as impaired assets when the Parent Entity identifies impairment triggers set for specified group of assets (presented in note 2.9.1.2). The impairment allowance is estimated by classifying the individual exposures into homogeneous groups based on the type of customer and type of product (credit card, overdraft, consumer loan, car loan, mortgage loan, micro loan) and the risk scale. The impairment allowance is calculated based on the allocation to the particular groups using the arithmetical model.

The exposures significant individually are subject to individual analysis in regard to identification of triggers and determination of impairment allowance.

If no impairment triggers have been identified on loan exposures, the exposures form the basis for calculating an allowance for losses incurred but not reported (IBNR) based on statistical models.

The methodology, statistical models and their assumptions are based on historical observations and professional judgments of the experts and are applied for the exposures with similar credit risk. The models

Notes to the consolidated financial statements (cont.)

and their assumptions are subject to periodic validation to minimize the differences between the estimated and actual loan losses.

4.3. Financial instruments valuation methods

The valuation of financial instruments at fair value for which there is an active market is performed based on the market value. When the value of the instrument is not directly available, a theoretical valuation based on the existing, approved by the Group model can be made. In respect of instruments where the risk factor is the interest rate, the valuation takes into account the yield curve composed of interbank deposits market quotations, FRA rates, IRS quotes and swap points, as applicable to the instrument.

For instruments where the risk factor is the foreign exchange rate, the spot interbank rate is taken into account, while the options are measured on the basis of volatility. All quotes included in the valuation models are retrieved from a centralized repository of market data loaded by the most liquid available quotes for various instruments.

Additionally, the valuation of derivatives includes counterparty risk factor, which estimation is based on market parameters of this risk, including PD, LGD and exposure’s tenor.

The valuation models are assessed and verified periodically by qualified independent employees, i.e. those who do not participate in front office activities. The Model Validation Committee also participates in the validation process.

4.4. Provisions calculation

Provisions for liabilities to employees related to employment comprise of provisions for actuarial benefits. The calculation of this provision was performed by an external independent actuary, who used the individual method, separately for each employee. The provisions were calculated as a sum of discounted future payments, for each of the currently employed and based on their remuneration, as at the day of calculation taking into consideration additional assumptions regarding staff turnover. A significant factor affecting the amount of the provision is the adopted discount rate which is based on the return on risk-free securities (Treasury bonds) denominated in the currency in which the employee benefits are paid out and the redemption date of which is similar to the estimated date of realization the liabilities in respect of employee benefits – mobility, salary increase rates, mortality. A change in the discount rate by +/- 0.5 p.p. would result in a decrease/increase of the provision of ca. PLN 242 ths and PLN 270 ths respectively (as at 31 December 2015 a decrease/increase in the provision of ca. PLN 278 ths and PLN 295 ths, respectively).

The Group also books other provisions, including, mainly provisions for the litigation and claims, provisions for restructuring costs. The amount of the provision is estimated taking into account the potential risk related to a given liability based on the forecasted future cash flows. If the effect of the change in the time value of money is significant, these cash flows are discounted to present value using the discount rate reflecting the cost of money for the Group. Provisions for restructuring costs are determined based on the best available estimates of direct outlays resulting from the restructuring.

4.5. Intangible assets with an indefinite useful life recognized as a result of an acquisition of Polbank EFG S.A. – impairment test

As at 31 December 2016 Bank performed impairment test of the intangible assets recognized as a result of an acquisition, i.e. the brand "Polbank", goodwill and customer relationships.

For the purpose of the impairment test the cash generating unit has been determined at the level of the retail segment of the Bank.

Key assumptions used in calculation of value in use

Value in use estimation is based mainly on the following variables:

- discount rate estimated on the basis of CAPM model,
- budget forecast accepted by the Management Board of the Parent Entity,
- growth rate used in residual value estimation beyond the period of forecast,
- interest rate level.

The assumptions concerning growth rate depend on the growth of Polish as well as the global economy. The assumption in relation to discount rate depends on growth of financial markets and regulatory environment. Changes of the regulatory environment and higher volatility of financial markets could significantly affect the level of discount rates.

In the last year there was a series of events having negative impact on the calculation of the recoverable amount of both goodwill and "Polbank" brand:

- higher capital requirements resulting from new regulations and regulator's requirements, including restrictions in respect of dividend payout,
- additional tax burdens and payments imposed on banks,
- sustained low level in market interest rates having negative impact on profitability of loans granted.

Taking into account the above factors, the Bank updated parameters used in the models for calculation of recoverable amount to current observable market conditions. As a result of the usage of these updated parameters in the calculation of the recoverable amount impairment of goodwill and "Polbank" brand was identified.

Notes to the consolidated financial statements (cont.)

Impairment test - goodwill

As at 31 December 2016 the value in use of the segment was established as the current value of future cash flows from further use of the asset which were assumed in Management Board's financial forecasts. Value in use estimation was based on the Dividend Discount Model, which is appropriate for banks and financial institutions.

The forecast period is 5 years and is based on assumptions which according to the Management Board reflect the future Bank's activities.

The discount rate was estimated at the level of 9.04% nominal (as at 31 December 2015 the discount rate amounted to 7.02%). The Capital Asset Pricing Model, risk-free interest rate, beta-indicator for the Banking sector and premium for the capital risk were used for the calculation.

The long-term cash flow growth rate after the forecast period was estimated at the level of 4.6% nominal, basing on the long-term forecasts of nominal GDP growth.

As the result of comparison of the recoverable value of goodwill with its carrying value, the impairment of PLN 32 966 thousand was identified. At the same time the Bank written of goodwill, because after impairment was recognized its carrying value amounted to zero zlotys.

Impairment test - brand "Polbank"

The value in use of the brand was established based on the relief from royalty method. This method assumes estimation of the hypothetical payment of royalty the Bank would pay the brand owner for its use. When the Bank is the owner of the brand, there is no necessity to pay royalty, which is a hypothetical saving for the Bank.

Cash flows from royalty payment were estimated based on a royalty payment rate, which according to the Management Board of the Parent Entity is appropriate for the entities in the banking sector, and also based on net income from sales of loans and deposits including credit risk and prepayment risk and residual value. Due to indefinite period of income generated by „Polbank" brand, the forecast period of future financial cash flows and residual value covers 10 years and is based on assumptions which according to the Management Board reflect the future Bank's activity.

For the calculation of the discount rate the Parent Entity used the Capital Asset Pricing Model, risk-free interest rate, beta-coefficient for the banking sector and premium for the capital risk. The required return of equity was assumed at 9.04% nominal rate (as at 31 December 2015 the required return of equity amounted to 7.02%). In order to reflect the cash flows risk generated by the brand 1% margin was added to the nominal rate. The total discount rate was estimated at 10.04% nominal rate (as at 31 December 2015 amounted to 8.02%).

Notes to the consolidated financial statements (cont.)

The nominal long-term cash flow growth rate after the forecast period was estimated at 4.6%, based on the long-term forecasts of nominal GDP growth.

The impairment test of „Polbank" brand as at 31 December 2016 resulted in the identification of impairment of PLN 86 000 thousand.

As at 31 December 2016 the value in use of "Polbank" brand was estimated at PLN 114 000 thousand (as at 31 December 2015 PLN 308 693 thousand). Change in the discount rate by +/- 1 b.p. would result in decrease / increase of the value in use respectively by PLN 19 838 thousand and PLN 28 945 thousand (as at 31 December 2015 respectively PLN 74 287 thousand and PLN 136 096 thousand). Change in the long term rate of cash flows increase in the analyzed period by +/- 1 b.p. would result in increase / decrease of the value in use respectively by PLN 22 599 thousand and PLN 15 585 thousand (as at 31 December 2015 respectively PLN 110 808 thousand and PLN 60 714 thousand).

Impairment test – customer relationships

Starting from 2014 the Bank split the customer relationships into two separate intangible assets: customer relationships from granted loans (amortized using diminishing method over 10 years) and customer relationships from received deposits (amortized using diminishing method over 5 years). The value in use was estimated separately for both assets: client relationships from granted loans and received deposits. The estimation was based on forecast of net interest income or savings which will be generated by the Clients of Polbank EFG S.A. at acquisition date.

4.6. Useful life and impairment of property, plant and equipment and other intangible assets

For the purpose of calculating the amortization cost of property, plant and equipment and intangible assets their anticipated useful lives are estimated, which affect directly the relevant amortization rates. The adopted useful lives are verified at least once a year. The estimates of the useful lives of the individual property, plant and equipment and intangible asset categories and their verification are based on, among other things, the periods arising from contractual titles related to the period of use of an asset, anticipated wear and tear and utilization of an asset, obsolescence or limitations of use of an asset for technological, market, legal or other reasons.

In the year 2015 due to upgrades made in Parent Entity main system economic useful life was extended by an additional year (from 2024 till 2025).

Group expects that brand "Polbank" will generate vast, certain and increasing demand for products and services, which should lead to higher income and operating efficiency in indefinite period of time, that is why this asset has indefinite useful life.

Notes to the consolidated financial statements (cont.)

Property, plant and equipment and intangible assets are subject to regular reviews in order to determine whether there were any indications of impairment of these assets. If the impairment triggers are identified, the Group estimates the amount of the impairment loss as the difference between the carrying amount and the lower recoverable amount. The recoverable amount is the higher of: fair value less costs to sell and value in use. Fair value less costs to sell is estimated on the basis of available market data or valuations performed by independent experts (which are also in principle based on estimates); whereas the value in use is estimated by adopting specific assumptions, among other things, as to amounts and dates of future cash flows, which the Group can obtain from a property, plant and equipment item or an intangible asset, as well as the risk of a given asset having no liquidity. Adopting different assumptions for valuation purposes might affect the carrying amount of certain property, plant and equipment items and intangible assets.

Notes to the consolidated statement of profit or loss

5. Segment information

The Group divided its operations and identified income and expenses, assets and liabilities to the following operating segments: "Retail Banking", "Corporate Banking", "Financial Institutions and Capital Markets", "Assets and Liabilities Management and Other Activities". This division reflects the internal regulations described in the rules for the classification of customers to specific segments in accordance with the Group's existing business model.

Retail Banking - segment includes products and services dedicated to individual clients and micro-companies. The segment comprises of sub-segments: mass and affluent customers, private banking and micro-companies.

Corporate Banking - segment, which includes sub-segments of large, medium and small corporates. It comprises the sale of products and services to businesses and other entities including companies and cooperatives, non-profit institutions, public sector entities and individual entrepreneurs who, due to the criteria for the distribution segments do not belong to the sub-segment of micro-companies.

Financial Institutions and Capital Markets - transactions, products and services dedicated to banking and non-banking financial entities, business services, and currency exchange offices, own activity conducted on own account classified as the Issuer's trading book.

Assets and Liabilities Management and Other Activities, which include assets, liabilities, and the result not attributable to the above segments, in particular:

- the assets, liabilities and result related to Assets and Liabilities Management activities, i.e. the management of liquidity, interest rate risk and currency risk of the Group and its investment portfolio,
- the result on refinancing of assets and liabilities which are not assigned to any of the above mentioned segments,
- intercompany eliminations on the Group's consolidated subsidiaries not assigned to discontinued operations.

The segmentation reflects the principles of classification of customers to specific segments in accordance with the Group's business model, which is based on subjective and financial criteria (such as turnover or net assets). Customer classification used in the segment reporting is different with respect to the classification of customers, which was used in the preparation of the other notes to the financial consolidated statements (in particular, note 21. "Loans and advances to customers" and 26. "Amounts due to customers") and is based on risk classes assigned to the particular clients according to the internal rules of the Group.

Notes to the consolidated statement of profit or loss (cont.)

The activities of the fully consolidated subsidiaries have been assigned to the above-mentioned segments:

- **Raiffeisen-Leasing Polska S.A.** and **Raiffeisen Insurance Agency Sp. z o.o.** – discontinued operations (in previous periods assigned to Retail Banking, Corporate Banking and Asset and Liability Management and Other Activities in accordance with the classification of clients serviced by the subsidiaries),

- **Raiffeisen Financial Services Polska Sp. z o.o.** - Retail Banking,

- **Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A.** - Assets and Liabilities Management and Other Activities,

- **Raiffeisen Investment Poland Sp. z o.o.** and **Raiffeisen Solutions Sp. z o.o.** – Financial Institutions and Capital Markets,

- **Raiffeisen-Leasing Service Sp. z o.o.** and **Raiffeisen-Leasing Real Estate Sp. z o.o.** and special purpose entities **Compass Variety Funding LTD** and **ROOF Poland Leasing 2014 DAC** – discontinued operations (in previous periods assigned to Assets and Liabilities Management and Other Activities).

Principles of management information in the Group assume reporting results of segments to the level of gross profit. The individual segments are assigned both the income earned in the course of their activity and the operational costs associated with these activities as well as other components of the statement of profit or loss.

Allocation of operating expenses to segments of the Group is performed in accordance with a methodology approved by the Board. It is a multi-step process which end result is to assign all general operating expenses to segments.

Transactions between segments are conducted on usual, commercial terms. Transfer pricing of money in settlements between segments are valued based on market rates or the rates approved by the Assets and Liabilities Committee (ALCO) and is based on currency, tenor or due date of the transaction and liquidity margins. The allocation of assets and liabilities and related revenues and expenses to segments is based on segmentation of the Group's customers.

According to the Controlling Data principles within the Group, the result of each segment include an allocation of: interest income from the refinancing of equity and subordinated debt, the cost of depreciation of property, plant and equipment and intangible assets. Balance sheet items, with the exception of equity, based on which the above components of profit or loss were calculated, are recognized in full in the Assets and Liabilities Management and Other Activities segment.

Notes to the consolidated statement of profit or loss (cont.)

Corporate Banking assets consist of loans and advances to customers and corporate securities allocated to this segment. The Corporate Banking liabilities consists of balance of deposits due to customers allocated to this segment.

Assets and liabilities of Retail Banking consist of balances allocated to this segment, respectively loans and advances to customers and deposits to customers.

The assets of the Financial Institutions and Capital Markets segment consist of the balance of loans and advances to customers allocated to this segment, a part of financial assets held for trading which does not belong to the liquidity portfolio, the balance of the reserve requirement, part of the balance of cash held in branches providing foreign exchange services, loans and advances to banks and a positive valuation of derivative financial instruments.

The Financial Institutions and Capital Markets Segment consists of the balance of deposits to customers allocated to this segment, deposits to banks excluding long-term financing allocated to Assets and Liabilities Management and Other Activities segment and negative valuation of derivative financial instruments.

Assets and Liabilities allocated to the Asset and Liabilities Management and Other Activities segment consist of items in the statement of financial position which are not assigned to other segments in particular:

- financial assets held for trading and investment securities portfolios which are classified as investment portfolios and liquidity of the Group,
- classified as related to the activities of ALM: liabilities to banks and other entities in respect of long-term funding, including subordinated debt,
- the remaining balance of cash including cash at the Central Bank.

Assets and liabilities unallocated consist of:

- tangible or intangible assets,
- assets and liabilities from income tax,
- other assets and liabilities.

Notes to the consolidated statement of profit or loss (cont.)

For the financial year ended 31 December 2016	Continuing operations						
	Corporate Banking	Retail Banking	Financial Institutions & Capital Markets	Asasets & Liabilities Manageme nt & Other Activities	Total continuing operations	Discontinued operations	Total
Interest Income	477 541	646 361	38 300	427 887	1 590 089	0	**1 590 089**
Interest Expense	-115 096	-289 734	-76 516	-89 556	-570 902	0	**-570 902**
Net Interest Income (external)	**362 445**	**356 627**	**-38 216**	**338 331**	**1 019 187**	**0**	**1 019 187**
Net Interest Income (internal)	13 612	119 811	59 954	-193 377	0	0	**0**
Net Interest Income	**376 057**	**476 438**	**21 738**	**144 954**	**1 019 187**	**0**	**1 019 187**
Non-interest income (external)	320 831	307 119	127 573	-57 294	698 229	0	**698 229**
Operating Income	**696 888**	**783 557**	**149 311**	**87 660**	**1 717 416**	**0**	**1 717 416**
General administrative expenses, including:	-298 070	-706 671	-57 991	-60 180	-1 122 912	0	**-1 122 912**
Depreciation	-18 932	-75 811	-3 432	-539	-98 714	0	**-98 714**
Tax on financial institutions	-42 039	-66 073	-9 029	-31 636	-148 777	0	**-148 777**
Provisioning for impairment losses	-56 096	-119 515	-106	-460	-176 177	0	**-176 177**
Other operating result	0	15 524	2 929	-196 230	-177 777	0	**-177 777**
Profit before tax	**300 683**	**-93 178**	**85 113**	**-200 844**	**91 774**	**0**	**91 774**
Taxes					-88 738		**-88 738**
Net profit					3 036	**11 720**	**14 756**
Profit/loss attributable to the equity holders of the Parent Entity							**14 756**
Allocated assets	12 042 858	22 117 056	1 930 827	16 316 794	52 407 535	0	**52 407 535**
Unallocated assets	0	0	0	0	850 438	0	**850 438**
Total assets	**12 042 858**	**22 117 056**	**1 930 827**	**16 316 794**	**52 407 535**	**0**	**53 257 973**
Allocated liabilities	13 562 024	20 510 794	2 666 098	9 403 993	46 142 909	0	**46 142 909**
Unallocated liabilities	0	0	0	0	752 381		**752 381**
Total liabilities	**13 562 024**	**20 510 794**	**2 666 098**	**9 403 993**	**46 142 909**	**0**	**46 895 290**

Notes to the consolidated statement of profit or loss (cont.)

For the financial year ended 31 December 2015 restated *	Continuing operations							
	Corporate Banking	Retail Banking	Financial Institutions & Capital Markets	Asasets & Liabilities Management & Other Activities	Total continuing operations	Discontinued operations	Consoli-dation elimina-tions	Total
Interest Income	508 428	644 549	52 983	429 561	1 635 521	0	0	1 635 521
Interest Expense	-156 996	-342 829	-106 669	-92 685	-699 179	0	0	-699 179
Interest Income (external)	**351 432**	**301 720**	**-53 686**	**336 876**	**936 342**	**0**	**0**	**936 342**
Interest Income (internal)	39 837	152 598	88 205	-280 640	0	0	0	0
Net Interest Income	**391 268**	**454 319**	**34 519**	**56 236**	**936 342**	**0**	**0**	**936 342**
Non-interest income	320 928	217 683	110 827	-35 741	613 697	0	0	613 697
Operating Income	**712 196**	**672 002**	**145 345**	**20 496**	**1 550 039**	**0**	**0**	**1 550 039**
General administrative	-298 454	-735 302	-60 884	-152 208	-1 246 848	0	0	-1 246 848
there of: Depreciation	-30 156	-85 160	-6 169	-4 935	-126 420	0	0	-126 420
Provisioning for impairment losses	-87 087	-67 287	463	-2 391	-156 302	0	0	-156 302
Other operating result	0	5 172	2 160	7 163	14 495	0	0	14 495
Profit/(loss) before tax	**326 654**	**-125 415**	**87 084**	**-126 940**	**161 384**	**0**	**0**	**161 384**
Taxes					-46 513	0	0	-46 513
Net profit					**114 871**	**71 307**	**0**	**186 178**
Profit attributable to the equity holders of the Parent Entity								**186 178**
Allocated assets	12 291 473	21 854 254	3 256 651	17 658 559	55 060 937	6 670 405	-1 521 248	60 210 095
Unallocated assets					1 085 208	609 774	-135	1 694 847
Total assets	**12 291 473**	**21 854 254**	**3 256 651**	**17 658 560**	**55 060 938**	**7 280 179**	**-1 521 383**	**61 904 943**
Allocated liabilities	14 844 293	19 385 642	4 994 107	10 156 815	49 380 857	6 460 483	-1 028 322	54 813 018
Unallocated liabilities					528 128	174 856	-374	702 610
Total liabilities	**14 844 293**	**19 385 642**	**4 994 107**	**10 156 815**	**49 908 985**	**6 635 339**	**-1 028 696**	**55 515 628**

*see note 3

"Non-interest income" from the segments report agree to the sum of "Net fee and commission income" and

"Net income from financial instruments measured at fair value and net foreign exchange result" in the consolidated profit and loss account.

The Group operates only on the domestic market.

Revenues from transactions with any single external customer does not represent 10 percent or more of total revenue.

The Group offers a wide range of banking and financial services.

Notes to the consolidated statement of profit or loss (cont.)

6. Net interest income

Interest income	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015 restated *
	Continuing operations	
Loans and advances to banks	19 557	21 019
Loans and advances to customers	1 103 421	1 137 524
Financial assets held for trading	139 976	176 757
Derivative hedging instruments	189 000	212 292
Reverse repo instruments	9 567	17 445
Investment securities	128 568	70 483
Total	**1 590 089**	**1 635 521**
Interest expense		
Deposits from banks	-13 194	-11 564
Deposits from customers	-433 208	-563 999
Derivative hedging instruments	-5 207	-4 916
Repo intruments	-6 585	-10 285
Loans and advances received (including subordinated loans)	-97 313	-92 648
Debt securities issued	-15 395	-15 767
Total	**-570 902**	**-699 179**
Net interest income (including):	**1 019 187**	**936 342**
Total interest income from financial assets other than designated at fair value through profit or loss	1 261 113	1 246 471
Total interest expense related to financial assets other than designated at fair value through profit or loss	-565 695	-694 263

* See note 3

Interest income from financial assets with impairment in 2016 equalled to PLN 43 205 thousand (in 2015 PLN 57 915 thousand, presented in “Income from loans and advances to customers”).

Notes to the consolidated statement of profit or loss (cont.)

7. Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items

For the financial year ended 31 December 2016	Impairment allowances and provisions at the beginning of the year	Increases		Decreases						Impairment allowances and provisions at the end of the year	Proceeds from sale of receivables and other	Impact on the result for the year	
		Impairment allowance recognised	Foreign exchange differences	Changes due to change in Group structure	Impairment allowance reversal	Write-off of assets	Sale of receivable	Reclassification	Foreign exchange differences			Discontinued operations	Continuing operations
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items determined on an individual basis													
Amounts due from banks	0	0	0	0	0	0	0	60	0	60	0	-1 332	**0**
Amounts due from individuals	21 471	15 005	0	-5 357	-14 895	-419	0	-2 214	-335	13 256	0	-29 030	**1 222**
Amounts due from micro customers	123 030	49 720	0	-119 126	-26 941	-9 154	0	-547	-226	16 756	0	-17 505	**6 251**
Amounts due from large enterprises	771 563	303 864	0	-83 339	-228 085	-121 716	-91 866	1 658	-3 679	548 400	5 897	-2 632	**-52 377**
Amounts due from SME	74 056	17 663	0	-32 873	-9 207	-4 856	-3 566	1 463	-19	42 661	247	0	**-5 578**
Off-balance sheet items	41 228	26 084	647	0	-42 406	0	0	0	0	25 553	0	0	**16 322**
Investment securities	0	27 159	0	0	0	0	0	0	0	27 159	0	0	**-27 159**
Total	**1 031 348**	**439 495**	**647**	**-240 695**	**-321 534**	**-136 145**	**-95 432**	**420**	**-4 259**	**673 845**	**6 144**	**-50 499**	**-61 319**
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items determined on a collective basis (including IBNR)													
Amounts due from banks	165	31	0	0	-155	0	0	0	-1	40	0	0	**124**
Amounts due from individuals	597 795	289 982	8 662	-2 494	-202 728	0	-11 085	-2 248	0	677 884	5 701	-1 045	**-80 508**
Amounts due from micro customers	341 662	117 806	1 802	-21 168	-88 432	68	-2 002	2 409	-6	352 139	909	22 753	**-51 218**
Amounts due from large enterprises	102 807	27 706	0	-5 212	-63 279	0	0	-33	-238	61 751	0	22 253	**13 320**
Amounts due from SME	10 670	4 001	0	-5 440	-5 085	-7	0	-128	-7	4 004	0	491	**593**
Amounts due from the public sector	96	388	0	0	-35	0	0	0	0	449	0	0	**-353**
Off-balance sheet items	9 046	2 901	72	0	-6 576	0	0	0	0	5 443	0	71	**3 184**
Total	**1 062 241**	**442 815**	**10 536**	**-34 314**	**-366 290**	**61**	**-13 087**	**0**	**-252**	**1 101 710**	**6 610**	**44 523**	**-114 858**
Total allowances and provisions	**2 093 589**	**882 310**	**11 183**	**-275 009**	**-687 824**	**-136 084**	**-108 519**	**420**	**-4 511**	**1 775 555**	**12 754**	**-5 976**	**-176 177**

Raiffeisen POLBANK

Notes to the consolidated statement of profit or loss (cont.)

For the financial year ended 31 December 2015 restated *	Impairment allowances and provisions at the beginning of the year	Increases		Decreases					Impairment allowances and provisions at the end of the year	Proceeds from sale of receivables	Impact on the result for the year restated*	
		Impairment allowance recognised	Foreign exchange differences	Impairment allowance reversal	Write-off of assets	Sale of receivable	Reclassification	Foreign exchange differences			Discontinued operations	Continuing operations
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items determined on an individual basis												
Amounts due from individuals	17 807	37 291	2 596	-35 007	0	-1 172	-48	0	21 467	0	-254	**-2 030**
Amounts due from micro customers	128 824	86 336	2 849	-60 635	-19 547	0	-14 889	92	123 030	0	-17 860	**-7 841**
Amounts due from large enterprises	844 236	358 488	7 423	-290 456	-32 788	-97 607	-18 036	303	771 563	16 076	14 895	**-66 850**
Amounts due from SME	82 627	31 618	0	-8 099	-6 327	-25 796	0	37	74 060	559	-14 366	**-8 593**
Off-balance sheet items	26 631	37 969	121	-23 493	0	0	0	0	41 228	0	0	**-14 476**
Total	**1 100 125**	**551 702**	**12 989**	**-417 690**	**-58 662**	**-124 574**	**-32 973**	**432**	**1 031 348**	**16 635**	**-17 585**	**-99 790**
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items determined on a collective basis (including IBNR)												
Amounts due from banks	302	121	0	-257	0	0	0	-1	165	0	0	**136**
Amounts due from individuals	608 001	291 338	28 338	-242 074	0	-87 802	-2	0	597 799	15 804	-493	**-32 967**
Amounts due from micro customers	338 800	110 540	3 679	-92 053	0	-34 270	14 939	27	341 662	2 621	-8 907	**-6 959**
Amounts due from large enterprises	66 409	48 930	251	-30 830	0	0	18 036	11	102 807	0	-3 556	**-14 544**
Amounts due from SME	9 183	7 022	6	-5 563	0	0	0	18	10 666	0	-374	**-1 085**
Amounts due from the public sector	135	155	0	-194	0	0	0	0	96	0	0	**39**
Off-balance sheet items	8 319	5 524	17	-4 814	0	0	0	0	9 046	0	421	**-1 131**
Total	**1 031 149**	**463 630**	**32 291**	**-375 785**	**0**	**-122 072**	**32 973**	**55**	**1 062 241**	**18 425**	**-12 909**	**-56 511**
Total allowances and provisions	**2 131 274**	**1 015 332**	**45 280**	**-793 475**	**-58 662**	**-246 646**	**0**	**487**	**2 093 589**	**35 060**	**-30 494**	**-156 302**

*See note 3

Notes to the consolidated statement of profit or loss (cont.)

8. Net fee and commission income

	For the year ended 31 December 2016	For the year ended 31 December 2015 *resteted
Fee and commission income	Continuing operations	
From transaction margin on client's foreign exchange dealings and derivatives	276 353	286 635
From investment and insurance products	98 165	79 655
From debit and credit cards	79 920	84 592
From handling of cash and bank transfers	57 976	58 894
From loans and advances, not being part of the effective interest rate	54 093	52 146
From maintaining of bank accounts	39 132	43 761
From custody and brokerage activities	31 883	32 223
From handling of letters of credit and guarantees	28 222	29 346
Other	3 243	976
Total	**668 987**	**668 228**
Fee and commission expense		
From payment cards and atm transactions	-29 158	-37 481
From handling of cash and bank transfers	-16 610	-16 918
From transaction margin on client's foreign exchange dealings and derivatives	-10 495	-10 502
From investment and insurance products	-7 854	-5 348
From loans and advances, not being part of the effective interest rate	-7 729	-6 184
From custody and brokerage activities	-4 604	-3 922
From maintaining of bank accounts	-3 627	-11 956
Other	-1 011	-1 954
Total	**-81 088**	**-94 265**
Net fee and commission income, including	**587 899**	**573 963**
Total commission income related to financial assets other than designated at fair value through profit or loss	360 751	349 370
Total commission expense related to financial assets other than designated at fair value through profit or loss	-76 484	-90 343

*See note 3

Notes to the consolidated statement of profit or loss (cont.)

9. Net income from instruments measured at fair value and net foreign exchange result

Net income from financial instruments measured at fair value	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015 restated *
	Continuing operations	
Net income realized and unrealized (without the currency component) on currency derivatives	-46 143	-48 165
Net income realized and unrealized (without the currency component) on interest rate based derivatives	23 782	34 028
Net income realized and unrealized on debt instruments	-2 337	454
Net income realized and unrealized on equity instruments	80 615	0
Total net income from financial instruments measured at	**55 917**	**-13 683**

Net income from financial instruments in hedge accounting		
Fair value hedge	**920**	**526**
Changes in fair value of the hedged instrument	-1 636	-3 514
Changes in fair value of the hedging instrument	2 556	4 040
Cash flow hedge	**5 013**	**-1 010**
Ineffective part of changes in fair value of hedging insturments included in profit or loss	5 013	-1 010
Total net income from financial instruments in hedge accounting	**5 933**	**-484**

Net foreign exchange result		
Realized and unrealized foreign exchange differences arising from the currency component of the valuation of derivatives	-164 341	-739 598
Realized and unrealized foreign exchange gains/losses on the valuation of other assets and liabilities	212 701	793 413
Total net foreign exchange result	**48 360**	**53 815**

Total net income from financial instruments measured at fair value and net foreign exchange result	**110 210**	**39 648**

*see note 3

"Net income realized and unrealized (without the currency component) on currency derivatives" contains gains and losses on swaps, forwards and options, except for the separated currency component which constitutes foreign exchange differences. "Net income realized and unrealized (without the currency component) on interest rate based derivatives" contains gains and losses on IRS – interest rate swaps, CIRS, FRA and OIS contracts except for the separated currency component which constitutes foreign exchange differences. More details on derivatives are provided in note 17.

Gains and losses on sale and valuation of financial assets measured at fair value through financial result other than derivatives are presented in "Net income realized and unrealized on debt instruments".

Notes to the consolidated statement of profit or loss (cont.)

In "Net income realized and unrealized on equity instruments" was presented result on the settlement of the acquisition of Visa Europe Limited by Visa Inc., more details on this settlement is presented in note 20.

Additional information on hedged and hedging financial instruments is presented in note 18.

"Realized and unrealized foreign exchange gains/losses on the valuation of other assets and liabilities" contain, profit and loss from revaluation of assets and liabilities denominated in foreign currency.

Customer margin from FX transactions including mainly margin on spot and forward currency buy or sell transactions is separated from net income from financial instruments measured at fair value and net foreign exchange result and presented in net fee and commission income.

10. General administrative expenses

10.1. Salaries, wages and other employee benefits

Salaries, wages and other employee benefits	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015 restated *
	Continuing operations	
Salaries and wages	-466 460	-426 361
Social insurance costs	-68 568	-72 777
Other employee benefits	-13 280	-14 568
Total	**-548 308**	**-513 706**

* See note 3

10.2. Other administrative expenses

Other administrative expenses	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015 restated *
	Continuing operations	
Maintenance and rental of buildings	-132 970	-140 655
including lease installments	-100 660	-109 702
IT and telecommunication costs	-95 976	-102 340
Contribution and payments to Bank Guarantee Fund	-96 775	-164 767
Consulting services	-22 596	-13 868
Marketing costs	-24 384	-32 535
Training costs	-11 396	-15 017
Costs of other lease installments	-4 490	-5 926
Borrowers' Support Funds	0	-39 280
Other sundry costs	-87 303	-92 334
Depreciation cost including:	-98 714	-126 420
depreciation cost on property, plant and equipment	-37 795	-47 600
depreciation cost on intangible assets	-60 919	-78 820
Total	**-574 604**	**-733 142**

* See note 3

Notes to the consolidated statement of profit or loss (cont.)

11. Other operating income and expense

Other operating income	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015 restated *
	Continuing operations	
Revenue from non-banking activities	15 173	5 451
Release of other provisions	4 092	5 637
Income on disposal of property, plant and equipment and intangible assets	1 993	9 699
Reversal of impairment allowance on other assets	390	64
Reversal of other asset write offs	16	93
Other	4 484	15 224
Total	**26 148**	**36 168**

* See note 3

At 2015 year the Parent Entity resigned from pre-emption right to new headquarters in return for the amount of PLN 8 492 thousand, which is presented in "Other operating income - other".

Other operating expense	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015 restated *
	Continuing operations	
Expenses on non-banking activities	0	0
Expenses on allocation to other provisions	-26 786	-2 995
Impairment of property, plant and equipment and intangible assets	-125 811	0
Costs of sale and disposal of property,plant and equipment and intangible assets	-12 758	-6 656
Debt collection costs	-12 866	-6 929
Other	-25 705	-5 093
Total	**-203 926**	**-21 673**

* See note 3

According to the contract relating to the sale of shares in Raiffeisen-Leasing Polska S.A. (RLPL) dated 31 March 2016 between the Bank (seller) and Raiffeisen Bank International (acquirer), the Bank is required to reimburse to RBI potential losses related to ongoing tax proceedings against RLPL started before the sale date, if any, in particular including due to the legal dispute relating to income tax settlements of RLPL for the year 2006 connected with investments in Singapore bonds.

On 19 October 2016 the Supreme Administrative Court overruled RLPL's appeals against the Voivodeship Administrative Court's in Warsaw dated 12 February 2016, keeping to the force decision of the Tax Office Director in Warsaw, relating to tax obligation in the corporate income tax for the year 2006. The decision closes legal dispute. The Bank's liability to RBI due to the above describe issue amounted to PLN 12.9 million, as of 31 December 2016 was presented in "Other liabilities". Till the date of the approval of these consolidated financial statements the liability to RBI was settled. In "Other operating income" there was presented also result on the settlement of the legal dispute relating to Raiffeisen Bank Polska S.A. income tax liabilities, more details are presented in note 24.

Notes to the consolidated statement of profit or loss (cont.)

12. Income tax expense

For the financial year ended 31 December 2016	AS AT THE BEGINNING OF THE YEAR	CHANGES			AS AT THE END OF THE YEAR
		Profit or loss statement	Other comprehensive income	Changes due to change in Group structure	
Deferred income tax asset					
Interest accrued, payable (cost), including:	25 690	-1 962	0	-2 494	**21 234**
Interest on deposits	23 607	-10 341	0	-2 494	**10 772**
Interest on securities and derivatives	2 083	4 466	0	0	**6 549**
Fair value of derivatives (without the currency component) and securities	11 249	28 257	503	-106	**39 903**
Negative foreign exchange differences	8 213	-45	0	-8 168	**0**
Commission settled using effective interest rate	42 015	9 708	0	-5 118	**46 604**
Impairment allowance not recognized as tax-deductible costs	185 388	-10 484	0	-37 567	**137 337**
Lease agreements valuation differences	347 730	10 792	0	-358 522	**0**
Other (including impairment on other assets)	1 008	-621	0	-1 734	**-1 347**
Deferred costs	35 836	-295	0	-2 108	**33 433**
Other	17 677	-328	0	-1 475	**15 874**
Tax loss	83 662	-41 337	0	0	**42 325**
Deferred tax asset, gross	**758 468**	**-6 315**	**503**	**-417 292**	**335 364**
Deferred tax provision					
Interest accrued, receivable (income), including:	43 281	16 042	0	-2 884	**56 439**
Interest on loans	29 777	7 372	0	-2 884	**34 265**
Interest on securities and derivatives	12 446	9 613	0	0	**22 059**
Discount on securities	1 058	-943	0	0	**115**
Bonds valuation	1 762	-772	0	-990	**0**
Fair value of derivatives (without the currency component) and securities	20 078	23 182	-9 206	-26	**34 028**
Commission settled using effective interest rate	53 970	4 210	0	-332	**57 848**
Difference between depreciation for tax and accounting purposes	29 007	5 614	0	-601	**34 020**
Positive foreign exchange differences	-826	-5	0	-587	**-1 418**
Other	51 911	-25 132	0	0	**26 779**
Deferred tax provision, gross	**199 183**	**23 139**	**-9 206**	**-5 420**	**207 696**
Deferred tax charge	**559 285**	**-29 454**	**9 709**	**-411 872**	**127 668**
Deferred tax asset, net	**559 285**	**-29 454**	**9 709**	**-411 872**	**127 668**

Notes to the consolidated statement of profit or loss (cont.)

For the financial year ended 31 December 2015	AS AT THE BEGINNING OF THE YEAR	CHANGES		AS AT THE END OF THE YEAR
		Profit or loss statement	Other comprehen-sive income	
Deferred income tax asset				
Interest accrued, payable (cost), including:	69 809	-44 119	0	**25 690**
Interest on deposits	68 907	-45 300	0	**23 607**
Interest on securities and derivatives	902	1 181	0	**2 083**
Fair value of derivatives (without the currency component) and securities	40 988	-27 727	-2 012	**11 249**
Negative foreign exchange differences	8 008	205	0	**8 213**
Commission settled using effective interest rate	36 228	5 786	0	**42 015**
Impairment allowance not recognized as tax-deductible costs	172 521	12 867	0	**185 388**
Lease agreements valuation differences	333 003	14 727	0	**347 730**
Other (including impairment on other assets)	1 379	-371	0	**1 008**
Deferred costs	43 322	-7 486	0	**35 836**
Other	20 220	-2 543	0	**17 677**
Tax loss	38 060	45 603	0	**83 662**
Deferred tax asset, gross	**763 539**	**-3 059**	**-2 012**	**758 468**
Deferred tax provision				
Interest accrued, receivable (income), including:	104 655	-61 374	0	**43 281**
Interest on loans	91 625	-61 848	0	**29 777**
Interest on securities and derivatives	12 320	126	0	**12 446**
Discount on securities	710	348	0	**1 058**
Bonds valuation	10 162	-8 400	0	**1 762**
Fair value of derivatives (without the currency component) and securities	30 815	-20 827	10 090	**20 078**
Commission settled using effective interest rate	49 650	4 320	0	**53 970**
Difference between depreciation for tax and accounting purposes	25 407	3 600	0	**29 007**
Positive foreign exchange differences	798	-1 624	0	**-826**
Other	54 251	-2 341	0	**51 911**
Deferred tax provision, gross	**275 739**	**-86 646**	**10 090**	**199 183**
Deferred tax charge	**487 800**	**83 586**	**-12 102**	**559 285**
Deferred tax asset, net	**487 800**	**83 586**	**-12 102**	**559 285**

Bank's tax calculations for the year 2014 and 2015 were closed with tax loss, for the year 2014 of PLN 189.2 million, for the year 2015 – PLN 246 million. According to tax regulations in the following consecutive five tax years, income can be lowered by the tax loss incurred in the tax year. The utilization in each of these years cannot be higher that 50% of the loss. In the year 2016 the Bank utilized 50% of the loss from the year 2014 and 50% of the loss from the year 2015. According to the Bank's estimates, the remaining part of the loss would be utilized in the year 2017.

Notes to the consolidated statement of profit or loss (cont.)

Reconciliation of effective tax rate - continuing operations	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015 restated*
Profit before tax	91 773	161 384
Current income tax at the local tax rate on profit before tax (19%)	-17 437	-30 663
Tax effect of non-deductible expenses incurred and estimated	-70 604	-15 433
Tax effect of non-taxable income	-597	-417
Release of deferred tax for receivable income	-100	0
Total income tax charge	**-88 738**	**-46 513**

Analysis of income tax expense recognised in the statement of profit or loss	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015 restated*
Current income tax	-65 601	0
Correction of current income tax regarding previous years	-23 829	-1 369
Deferred tax	**692**	**-45 144**
Total income tax charge	**-88 738**	**-46 513**

* See note 3

Significant change in the income tax charge for the year ended 31 December 2016 compared to the year ended 31 December 2015 is due to actual payments of tax from financial institutions for the year 2016. This tax is due for the first monthly period starting February 2016. Tax from financial institutions is not tax expense and have negative impact on effective tax rate.

The regulations concerning value added tax, corporate income tax and liabilities relating to social security are subject to frequent changes. These frequent changes result in lack of appropriate benchmarks, inconsistent interpretations and sparse established precedents that could be applied. The mandatory regulations contain ambiguities resulting in distinction in opinions, regarding the legal interpretation of tax regulation both between state agencies and state agencies and companies.

The tax settlement and other areas of activities (eg. customs and currency issues) could be a subject of control by bodies that are entitled to impose high penalties and fines, and any additional tax liabilities consequent on control must be paid together with high interest. These conditions cause that tax risk in Poland is higher than in countries with more mature tax system.

Consequently the amounts reported and disclosed in the financial statements may change in the future as a result of final decisions of the tax authority .

On 15 July 2016 changes to the Tax Code have been introduced to take account of the standing orders of the General Anti-Abuse Rule (GAAR). GAAR is to prevent the information and use of artificial legal structure created in order to avoid payment of tax in Poland. GAAR defines tax avoidance operation made primarily in order to achieve a tax advantage contrary to the particular circumstances with the object and purpose of the regulations of the Tax Act. According to the GAAR such activities does not result in the achievement of

Notes to the consolidated statement of profit or loss (cont.)

tax advantage if the action was artificial. Any occurrence (i) of unjustified dividing of operation, (ii) the involvement of intermediaries, despite the lack of economic justification or economic rationale, (iii) elements which cancel each other out or compensate, and (iv) other activities of a similar importance to the previously mentioned, may be treated as a condition for the existence of artificial activities covered by GAAR. New regulations will require much greater judgment when assessing the tax implications of particular transactions.

GAAR rule can be applied to the transactions conducted after its coming into force and the transactions that were conducted before GAAR rule went into force, but for which the advantages were or are being achieved after GAAR rule went into effect.

The above rules allow the Polish tax authorities to challenge on the grounds of the tax law legal arrangements and agreements implemented by the taxpayer, such as restructuring and reorganization of the group.

13. Dicontinued operations

On 31 March 2016 the Parent Entity sold its shares of Raiffeisen-Leasing Polska S.A. („RLPL") to Raiffeisen Bank International AG. The purpose of the transaction was to improve the Group's capital ratios according to the PFSA recommendation. As a result the Group lost control of the RLPL and all other companies comprising the RLPL Group, namely Raiffeisen Insurance Agency Sp. z o.o., Raiffeisen-Leasing Services Sp. z o.o., Raiffeisen-Leasing Real Estate Sp. z o.o. and the special purpose entity, ROOF Poland Leasing 2014 DAC.

The range of the activities to the disposed operations constituted an important and distinct line of the Group's business and therefore have been classified as discontinued operations.

The Income, expense and net result on these operations, namely RLPL and companies comprising the RLPL Group excluding transactions within the RLPL Group, including transactions concluded between the RLPL Group with the Parent Entity and its subsidiaries for the period ended 31 March 2016 (i.e. till the date the Parent Entity lost control over RLPL Group) and 31 December 2016, are presented in the table below:

Notes to the consolidated statement of profit or loss (cont.)

	For the financial period from 1 January 2016 to 31 March 2016 *	For the financial year ended 31 December 2015
	Discontinued operations	
Interest income	77 294	296 760
Interest expense	-42 271	-151 875
Net interest income	**35 023**	**144 885**
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items	-5 976	-30 494
Fee and commission income	10 426	39 737
Fee and commission expense	-49	-166
Net fee and commission income	**10 377**	**39 571**
Net income from financial instruments measured at fair value and net foreign exchange result	-117	-170
General administrative expenses	-31 801	-125 274
Other operating income	15 525	67 625
Other operating expenses	-1 626	-4 178
Profit before tax	**21 405**	**91 965**
Income tax expense	-4 997	-20 658
Net profit	**16 408**	**71 307**
Result before tax on sale of discontinued operations	**33 751**	**0**
Income tax on sale of discontinued operations	**-38 439**	**0**
Net profit of discontinued operations	**11 720**	**71 307**
Net cash flow from operating activities	**-119 693**	**-676 029**
Net cash flow from investing activities	**-1 211**	**-6 920**
Net cash flow from financing activities	**-590 940**	**986 174**

* till the date control over RLPL Group was lost by Parent Entity

The assets and liabilities of RLPL GROUP as of the sale date, ie. 31 March 2016 and result on the sale is presented in the table below:

Notes to the consolidated statement of profit or loss (cont.)

Assets	As at 31 March 2016
Amounts due from banks	420 429
Derivative financial instruments	135
Loans and advances to customers	5 582 236
Intangible assets	15 582
Property, plant and equipment	151 873
Deferred tax assets	411 873
Current tax receivables	936
Other assets	80 276
Total assets	**6 663 340**
Liabilities	
Amounts due to banks and other monetary institutions	4 639 515
Derivative financial instruments	558
Amounts due to customers	28 989
Liabilities from debt securities issued	1 262 020
Other liabilities	58 770
Current tax liabilities	1 142
Provisions	11 097
Total liabilities	**6 002 091**
Net assets of discontinued operations	**661 249**
Consideration for sale	**695 000**
Result before tax on sale of discontinued operations	**33 751**
Income tax on sale of discontinued operations	**-38 439**
Result on sale of discontinued operations	**-4 688**

14. Earnings per share

14.1. Profit per share

The profit per share was calculated by dividing net profit attributable to the ordinary holders of Parent Entity by weighted average number of ordinary shares in the reporting period.

	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015 restated *
	Continuing operations	
Net profit attributable to the equity holders of the Parent Entity (in PLN thous.)	14 755	186 178
Weighted average number of ordinary shares in the year (in units)	248 260	248 260
Profit per one share	**59**	**750**

*see note 3

Notes to the consolidated statement of profit or loss (cont.)

14.2. Diluted profit per share

In 2016 and in 2015 there were no diluting events relating to profit per share. The Parent Entity did not issue bonds convertible to shares or options for shares. Consequently, the diluted profit per share is equal profit per share.

Diluted earnings per share	**For the financial year ended 31 December 2016**	**For the financial year ended 31 December 2015 restated ***
	Continuing operations	
Net profit attributable to the equity holders of the Parent Entity (in PLN thous.)	14 755	186 178
Weighted average number of ordinary shares in the year (in units)	248 260	248 260
Diluted profit per one share	**59**	**750**

*see note 3

Notes to the consolidated statement of financial position

15. Cash and balances with the Central Bank

	31 December 2016	31 December 2015
Cash at hand	667 808	1 067 024
Balances with the Central Bank	1 064 061	1 636 486
Total	**1 731 869**	**2 703 510**

Intraday, the Group is allowed to use cash deposited on the mandatory reserve accounts for current settlements based on orders sent to the National Bank of Poland. However, the Group must ensure maintaining an average monthly balance on this account in an appropriate amount as stated in the mandatory reserve declaration. The declared mandatory reserve to be held in December 2016 amounted to PLN 1 315 356 thousand and PLN 1 418 802 thousand in December 2015. These funds bear interest of 0.9 of referencing rate of NBP. As at 31 December 2016 the interest rate amounted to 1.35 % no change compared to the previous year.

16. Amounts due from bank

	31 December 2016	31 December 2015
Collateral deposits	139 126	1 051 393
Cash on current accounts	153 108	169 296
Loans and advances to banks	42 429	57 389
Deposits with other banks	0	48 437
Gross amounts due from banks	**334 663**	**1 326 515**
Impairment allowance	-100	-165
Net amounts due from banks	**334 563**	**1 326 350**

The average interest rate of deposits with other banks and loans and advances to banks in 2016 amounted to 2.34 % (2.02 % as at 31 December 2015).

Long term amounts due from banks as at 31 December 2016 amounted to PLN 36 256 thousand (PLN 42 656 thousand as at 31 December 2015).

The principles for recording of repo transactions are presented in note 2.10. There were no „buy sell back" transactions with other banks as at the end of both 2016 and 2015.

Collateral deposits are collaterals for open derivatives with negative valuation, presented in liabilities in "Derivative financial instruments". Starting from the year 2016 derivatives with negative valuation are being collateralized mainly by securities (see note 34).

Notes to the consolidated statement of financial position (cont.)

17. Derivative financial instruments and embedded instruments

17.1. Derivative financial instruments

The Group enters into following derivative instruments, including those used as hedging instruments:

- currency forwards,
- currency options,
- interest rate instruments.

Currency forwards represent commitments to purchase foreign and domestic currencies, including unrealized spot transactions.

Currency and interest rate swaps are commitments to exchange one stream of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross-currency interest rate swaps).

No exchange of principal takes place, except for certain currency swaps. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligations. This risk is monitored on an on-going basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group uses the same rating methods to measure counterparty risk as for its lending activities.

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a specified date or during a specified period, a specific amount of a foreign currency or a financial instrument at a predetermined price. In exchange for the exposure to currency risk and interest rate risk, the seller receives a premium from the buyer. Options may be either exchange-traded or negotiated between the Group and a customer (OTC). The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

The nominal amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet, but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments. Therefore, they do not indicate the Group's exposure to credit or price risks. The fair value of derivative financial instruments can be either positive (assets) or negative (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates related to their terms. The aggregate fair value of derivative financial instruments may fluctuate significantly.

Notes to the consolidated statement of financial position (cont.)

17.2. Forward sale agreement of loan portfolio

The Parent Entity signed a contract for servicing and subsequently selling overdue retail loans (after those loans become 90 days overdue).

As per servicing agreement, servicer carries out debt collection, and, after The Parent Entity terminates its agreement with debtors, enforcement actions towards debtors. During the course of servicing agreement, the loan contracts are terminated and servicer runs enforcement actions for over 6 months. After that, fund purchases out the remaining part of uncollected liabilities.

At a point when credit exposure tranche is transferred to be serviced and sold, economically The Parent Entity enters into a forward sale contract, which is classified as asset/liability measured at fair value through income statement according to IAS 39. At inception, forward transaction is measured at fair value and subsequently measured at fair value due to material factors changes determining its fair value, with change in selling price being the most important. All changes in fair value are recognized in The Parent Entity statement of profit or loss.

In the event when The Parent Entity reassesses the value of notional amount of forward transaction, The Parent Entity adjusts the notional amount, taking into account all changes to valuation of forward contract from statement of profit or loss from previous periods.

Notes to the consolidated statement of financial position (cont.)

Fair values of derivative financial instruments are presented below:

	31 December 2016			31 December 2015		
	Nominal value of instruments	Fair values		Nominal value of instruments	Fair values	
		Assets	Liabilities		Assets	Liabilities
Derivative financial instruments in the trading portfolio						
Currency swaps and forwards (fx swap and fx forward)	26 089 130	316 843	243 589	50 048 441	390 363	390 121
Options acquired or sold OTC	2 415 094	20 016	20 506	2 295 927	14 831	14 843
Total foreign exchange derivatives	**28 504 224**	**336 859**	**264 095**	**52 344 368**	**405 194**	**404 963**
Interest rate swaps (IRS)	13 715 389	129 828	83 258	12 822 009	145 236	92 798
Forward Rate Agreement (FRA)	500 000	22	0	3 550 000	3 059	6 103
Total interest rate derivatives	**14 215 389**	**129 850**	**83 258**	**16 372 009**	**148 295**	**98 901**
Loan forward	**79 984**	**0**	**0**	**0**	**0**	**0**
Total	**42 799 597**	**466 709**	**347 353**	**68 716 377**	**553 489**	**503 864**
Derivative financial instruments in cash flow hedges						
FX swaps	1 100 828	0	28 918	1 859 368	4 207	43 265
Currency interest rate swaps (CIRS)	6 256 327	0	1 151 903	6 983 603	4 350	910 946
Total	**7 357 155**	**0**	**1 180 821**	**8 842 970**	**8 557**	**954 211**
Derivative financial instruments in fair value hedges						
Interest rate swaps (IRS)	121 549	0	17 992	123 822	0	20 536
Total	**121 549**	**0**	**17 992**	**123 822**	**0**	**20 536**
Total derivatives financial instruments	**50 278 301**	**466 709**	**1 546 166**	**77 683 169**	**562 046**	**1 478 611**

Notes to the consolidated statement of financial position (cont.)

18. Hedge accounting

The Group applies hedge accounting in fair value hedges of granted fixed rate loans. The Group uses interest rate swaps as hedging instruments to pay a fixed interest rate coupon in exchange for floating interest rate coupon.

At the end of December 2005, the Parent Entity granted a fixed interest rate loan for a period of 15 years with a nominal value of EUR 45 million and hedged it with an interest rate swap with a nominal value of EUR 44.9 million. The change in the valuation of the loan and of the hedging transaction for the year ended 31 December 2016 and ended 31 December 2015 is presented in the tables below. The information on the ineffective portion of the hedge recognized to the statement of profit or loss is presented in note 9.

	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015
Result on change in fair value of hedging instrument	2 556	4 040
Result on change in fair value of hedged instrument	-1 636	-3 514
Result on fair value hedge accounting	**920**	**526**
Interest result on derivative hedge instrument	-5 207	-4 916
	For the financial year ended 31 December 2016	**For the financial year ended 31 December 2015**
Nominal value of hedging instrument	121 549	123 822
Nominal value of hedged instrument	121 549	123 822

The Group applies hedge accounting in cash flow hedges to hedge both interest rate risk and currency risk arising from floating rate loans granted in CHF, EUR and USD and floating interest rate deposits based on WIBOR. The Group uses:

- cross-currency interest rate swaps to pay CHF LIBOR 3M coupon and receive WIBOR 3M coupon, based on the nominal amount defined respectively in CHF and in PLN,

-forward transaction to sell CHF, EUR, USD.

- cross-currency interest rate swaps to pay EUR LIBOR 3M coupon and receive WIBOR 3M coupon, based on the nominal amount defined respectively in EUR and in PLN.

Nominal and fair values of hedging derivatives are presented in note 17.

Amounts recognized in the consolidated statement of profit or loss and in revaluation reserve for cash flow hedges are presented in the table below:

Notes to the consolidated statement of financial position (cont.)

	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015
Revaluation reserves (deferred changes in fair value of hedging instruments recognized as an effective hedge - gross)	8 860	10 585
Net interest income on hedging derivatives recognized in the profit or loss	189 000	212 292
Ineffective change in fair value of hedging transactions recognized in the statement of profit or loss	5 013	-1 010

Changes in revaluation reserve for cash flow hedge are presented in the table below:

	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015
Revaluation reserves (deferred changes in fair value of hedging instruments recognized as an effective hedge - gross) at the beginning of the year	**-46 858**	**-57 443**
Revaluation reserves (revaluation with interest realized within the year)	-150 892	-600 204
Interest result on derivative financial instruments in cash flow hedges	-189 000	-212 292
Result on revaluation of derivative financial instruments in cash flow hedges	353 765	822 071
Ineffective change in fair value of hedging transactions presented in the statement of profit or loss	-5 013	1 010
Revaluation reserves (deferred changes in fair value of hedging instruments recognized as an effective hedge - gross) at the end of the year	**-37 998**	**-46 858**

In the amount of PLN 37 998 thousand presented in the revaluation reserves, PLN 38 187 thousand relates to the effective part of cash flow hedge hedged with CIRS transactions. In this amount the part hedging cash flows from loans amounted to PLN 67 629 thousand and part hedging to cash flows from deposits amounted to PLN -105 816 thousand.

It is expected that the hedging relation (concerning cash flow hedge) will generate cash flows until May 2022.

Notes to the consolidated statement of financial position (cont.)

The below tables present nominal values of hedging derivatives in division to contractual periods of maturity:

31 December 2016	Maturity					Total
	within 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	
Derivative financial instruments in cash flow hedges						
FX swaps	279 103	821 725	0	0	0	1 100 828
Currency interest rate swaps (CIRS)	0	343 849	851 200	4 867 353	193 925	6 256 327
Total	**279 103**	**1 165 574**	**851 200**	**4 867 353**	**193 925**	**7 357 155**
Derivative financial instruments in fair value hedges						
Interest rate swaps (IRS)	0	0	0	121 549	0	121 549
Total	**0**	**0**	**0**	**121 549**	**0**	**121 549**

31 December 2015	Maturity					Total
	within 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	
Derivative financial instruments in cash flow hedges						
FX swaps	1 062 221	690 204	106 943	0	0	1 859 368
Currency interest rate swaps (CIRS)	0	389 000	338 275	4 936 990	1 319 338	6 983 603
Total	**1 062 221**	**1 079 204**	**445 218**	**4 936 990**	**1 319 338**	**8 842 970**
Derivative financial instruments in fair value hedges						
Interest rate swaps (IRS)	0	0	0	123 822	0	123 822
Total	**0**	**0**	**0**	**123 822**	**0**	**123 822**

Notes to the consolidated statement of financial position (cont.)

19. Financial assets held for trading

Financial assets held for trading	31 December 2016	31 December 2015
Bonds and bills issued by the State Treasury	371 779	332 392
NBP bills	7 393 915	12 146 112
Corporate bonds	278 225	74 316
Mortgage bonds	3 423	17 590
Total	**8 047 342**	**12 570 410**

Financial assets held for trading bear interest based on floating market interest rates.

Non-current receivables arising from financial instruments measured at fair value at the end of 2016 amounted to PLN 620 560 thousand (PLN 384 798 thousand at the end of 2015).

20. Investment securities

For the financial year ended 31 December 2016	At the beginning of the year	Increases	Decreases (sale, redemption and other)	Change of accrued interests, discount and valuation	Foreign exchange differences	Impair-ment	At the end of the year
Investment securities held to maturity							
Treasury bonds	1 964 957	1 487 809	0	22 316	0	0	**3 475 082**
Total held to maturity	**1 964 957**	**1 487 809**	**0**	**22 316**	**0**	**0**	**3 475 082**
Investment securities available for sale							
Equity investments	95 495	524	-40 837	0	2 611	2 348	**60 140**
Financial instruments blocked for BFG*	228 816	0	0	593	0	0	**229 409**
Corporate bonds	319 970	126 798	-112 557	-13 157	0	-27 159	**293 895**
Treasury bonds	1 232 417	3 916 841	-1 248 697	3 467	0	0	**3 904 028**
Total available for sale	**1 876 698**	**4 044 163**	**-1 402 091**	**-9 097**	**2 611**	**-24 811**	**4 487 472**
Total	**3 841 655**	**5 531 972**	**-1 402 091**	**13 219**	**2 611**	**-24 811**	**7 962 554**

For the financial year ended 31 December 2015	At the beginning of the year	Increases	Decreases (sale, redemption and other)	Change of accrued interests, discount and valuation	Foreign exchange differences	Impair-ment	At the end of the year
Investment securities held to maturity							
Treasury bonds	1 751 553	730 000	-500 000	-16 596	0	0	**1 964 957**
NBP bills	9 699 462	0	-9 700 000	538	0	0	**0**
Total held to maturity	**11 451 014**	**730 000**	**-10 200 000**	**-16 057**	**0**	**0**	**1 964 957**
Investment securities available for sale							
Equity investments	42 104	29	-452	53 816	-2	0	**95 495**
Financial instruments blocked for BFG*	180 766	5 374 000	-5 326 000	50	0	0	**228 816**
Corporate bonds	351 353	138 578	-168 044	-1 917	0	0	**319 970**
Treasury bonds	503 872	1 205 061	-480 000	3 485	0	0	**1 232 417**
Total available for sale	**1 078 095**	**6 717 667**	**-5 974 496**	**55 434**	**-2**	**0**	**1 876 698**
Total	**12 529 109**	**7 447 667**	**-16 174 496**	**39 376**	**-2**	**0**	**3 841 655**

*treasury bonds

Notes to the consolidated statement of financial position (cont.)

As a result of realization of takeover of Visa Europe Limited by Visa Inc. and connected with this transaction sale of the Bank's shares in Visa Europe to Visa Inc., the Bank received from Visa Inc. payment for the sale of the shares of EUR 13.44 million. Cash was recorded on the Bank's account on 21 June 2016.

The Bank also received 4 878 Series C Visa Inc. preferred shares. Series C Visa Inc. preferred shares will be converted into Series A ordinary Visa Inc. shares. Transaction conditions assume gradual conversion of preferred shares. The conversion of all preferred shares should be finalized in the year 2028. Currently preferred shares conversion factor to ordinary shares amounts to 13.952. According to Transaction conditions it can be lowered in the period till 2028.

The Transaction assumes also additional cash payout to the Bank, within "deferred payment", which should be made after three years from transaction finalization, i.e. II quarter of 2019. The total amount of "deferred payment" for all banks selling of shares in Visa Europe Limited to Visa Inc. amounts to EUR 1.12 billion. The Bank share in this amount equals to 0.1035487037%.

Total result on the sale of the above described elements was included in Net income from financial instruments measured at fair value and net foreign exchange result and amounted to PLN 80 615 thousand, and related to:

- payment for the sale of shares received in cash of PLN 59 039 thousand,
- received preferred shares of PLN 16 523 thousand,
- additional cash payout within "deferred payment" of PLN 5 053 thousand.

Valuation of received preferred shares was discounted due to lack of liquidity of these shares, future deferred payment was discounted to current value.

Information on fair value of financial investment is presented in note 39.

As at 31 December 2016 impairment allowance on equity investment amounted to PLN 12 200 thousand (PLN 14 548 thousand at the end of 2015).

Non-current receivables from investment securities as at the end of 2016 amounted to PLN 6 228 391 thousand (PLN 3 622 192 thousand as at the end of 2015).

21. Loans and advances to customers

Client segmentation used in the notes below is based on risk classes attributed to the particular clients according to the Group's internal principles and is different from the classification of clients presented in note 5 "Segment information", which is based on the business model of the Group.

Notes to the consolidated statement of financial position (cont.)

Loans and advances to customers by borrower segment	31 December 2016			31 December 2015		
	Gross amount	**Impairment allowance**	**Net amount**	**Gross amount**	**Impairment allowance**	**Net amount**
Individual customers	20 322 980	691 140	19 631 840	19 923 568	619 266	19 304 302
Micro customers	2 860 503	368 895	2 491 608	5 871 098	464 692	5 406 406
Large enterprises	10 952 367	610 151	10 342 216	13 322 786	874 370	12 448 416
including buy sell back	0	0	0	40 429	0	40 429
SME	1 358 375	46 665	1 311 710	2 110 144	84 726	2 025 418
Public sector	87 572	449	87 123	21 679	96	21 583
Total	**35 581 797**	**1 717 300**	**33 864 497**	**41 249 275**	**2 043 150**	**39 206 125**

The total balance of "Loans and advances to customers" as at 31 December 2015 includes finance leases receivables.

Non-current receivables from loans and advances to customers as at the end of 2016 amounted to PLN 26 972 105 thousand (PLN 29 602 843 thousand as at the end of 2015).

Information on the net provisioning for impairment losses on financial assets and provisions for off-balance sheet items is presented in note 7.

As at 31 December 2016 there were not repurchase transaction (buy sell back) with clients (the value of these transactions amounted PLN 40 429 thousand as at 31 December 2015, fair value of securities bought in these transactions amounted to PLN 40 209 thousand as at 31 December 2015).

Notes to the consolidated statement of financial position (cont.)

Loans and advances to customers by quality

31 December 2016

	Loans and advances to customers -without impairment trigger and not impaired	Group impairment allowance IBNR	Loans and advances to customers -with impairment trigger but not impaired	Group impairment allowance IBNR	Impaired loans and advances valued on individual basis	Individual allowance	Impaired loans and advances to customers valued on collective basis	Group impairment allowance	Net amount
Individual customers	19 276 672	52 665	10 518	0	28 940	13 228	1 006 850	625 247	**19 631 840**
Micro customers	2 113 321	14 331	0	0	31 030	16 742	716 152	337 822	**2 491 608**
Large enterprises	9 453 399	46 018	527 026	15 695	971 942	548 438	0	0	**10 342 216**
SME	1 284 748	2 730	18 373	1 270	55 254	42 665	0	0	**1 311 710**
Public sector	87 572	449	0	0	0	0	0	0	**87 123**
Total	**32 215 712**	**116 193**	**555 917**	**16 965**	**1 087 166**	**621 073**	**1 723 002**	**963 069**	**33 864 497**

Loans and advances to customers by quality

31 December 2015

	Loans and advances to customers -without impairment trigger and not impaired	Group impairment allowance IBNR	Loans and advances to customers -with impairment trigger but not impaired	Group impairment allowance IBNR	Impaired loans and advances valued on individual basis	Individual allowance	Impaired loans and advances to customers valued on collective basis	Group impairment allowance	Net amount
Individual customers	18 983 226	64 273	2 122	0	45 534	21 468	892 686	533 525	**19 304 302**
Micro customers	5 021 442	32 625	4 397	0	162 636	123 033	682 623	309 034	**5 406 406**
Large enterprises	11 379 179	56 777	560 895	23 698	1 234 867	771 561	147 845	22 334	**12 448 416**
including buy sell back transaction	40 429	0	0	0	0	0	0	0	**40 429**
SME	1 990 194	8 924	25 430	1 744	94 520	74 058	0	0	**2 025 418**
Public sector	21 679	96	0	0	0	0	0	0	**21 583**
Total	**37 395 720**	**162 695**	**592 844**	**25 442**	**1 537 557**	**990 120**	**1 723 154**	**864 893**	**39 206 125**

Notes to the consolidated statement of financial position (cont.)

22. Intangible assets

For the financial year ended 31 December 2016	Goodwill	"Polbank" brand	Customer relation-ships	Computer software	Computer software under development	Advances for intangible assets	Total
GROSS AMOUNT							
At the beginning of the year	**32 966**	**200 000**	**70 400**	**712 191**	**34 389**	**8 828**	**1 058 774**
Direct additions during the year	0	0	0	1 518	44 988	176	**46 682**
Internal development or reclasification	0	0	0	27 387	-27 387	0	**0**
Disposals during the year	-32 966	0	0	-29 359	-3 078	-6 836	**-72 239**
Changes in the Group structure	0	0	0	-42 702	-430	-184	**-43 316**
At the end of the year	**0**	**200 000**	**70 400**	**669 035**	**48 482**	**1 984**	**989 901**
ACCUMULATED DEPRECIATION							
At the beginning of the year	**0**	**0**	**43 835**	**462 622**	**0**	**0**	**506 457**
Depreciation charge	0	0	9 758	51 446	784	0	**61 988**
Disposals	0	0	0	-21 352	0	0	**-21 352**
Changes in the Group structure	0	0	0	-26 950	-784	0	**-27 734**
At the end of the year	**0**	**0**	**53 593**	**465 766**	**0**	**0**	**519 359**
IMPAIRMENT							
At the beginning of the year	**0**	**0**	**0**	**9**	**649**	**0**	**658**
Additions	0	86 000	0	0	811	0	**86 811**
Decreases	0	0	0	-10	0	0	**-10**
At the end of the year	**0**	**86 000**	**0**	**-1**	**1 460**	**0**	**87 459**
NET AMOUNT							
At the beginning of the year	**32 966**	**200 000**	**26 565**	**249 560**	**33 740**	**8 828**	**551 659**
At the end of the year	**0**	**114 000**	**16 807**	**203 270**	**47 022**	**1 984**	**383 083**

In 2016 and 2015, there were no restrictions as to the legal title to intangible assets related to collateral of liabilities.

The amount of contractual commitments for the acquisition of intangible assets as of 31 December 2016 equaled to zero (as of 31 December 2015 equaled to PLN 1 431 thousand).

The Group's intangible assets include goodwill, the "Polbank" brand and customer relationships which were recognized as a result of acquisition of Polbank - EFG S.A. (see note 4.5 to the consolidated financial statements).

Goodwill and "Polbank" brand have indefinite useful lives, therefore they are not amortized but are subject to annual impairment tests. As at 31 December 2016, the impairment test of "Polbank" brand resulted in the identification of impairment of PLN 86 000 thousand. As the result of the impairment test of goodwill the Bank recognized impairment of PLN 32 966 thousand and at the same time goodwill was written of, because its carrying value amounted to zero zlotys.

Customer relationships are amortized using diminishing method for 5 years (deposits) and 10 years (loans). If impairment triggers are identified the assets are subject to periodic impairment tests (see note 2.16.2. to the consolidated financial statements).

Notes to the consolidated statement of financial position (cont.)

The impairment test of the above presented intangible assets has been described in note 4.5 to the consolidated financial statements.

As of 31 December 2016 the Group recognized impairment on computer software under development due to decisions not to continue selected projects.

For the financial year ended 31 December 2015	Goodwill	"Polbank" brand	Customer relation-ships	Computer software	Computer software under development	Advances for intangible assets	Total
GROSS AMOUNT							
At the beginning of the year	**32 966**	**200 000**	**70 400**	**677 336**	**35 885**	**10 977**	**1 027 564**
Direct additions during the year	0	0	0	8 763	45 796	0	**54 559**
Internal development or reclassification	0	0	0	44 517	-45 007	0	**-491**
Disposals during the year	0	0	0	-18 424	-2 284	-2 149	**-22 858**
At the end of the year	**32 966**	**200 000**	**70 400**	**712 191**	**34 389**	**8 828**	**1 058 774**
ACCUMULATED DEPRECIATION							
At the beginning of the year	**0**	**0**	**29 884**	**407 623**	**0**	**0**	**437 507**
Depreciation charge	0	0	13 951	70 773	0	0	**84 724**
Disposals	0	0	0	-15 773	0	0	**-15 773**
At the end of the year	**0**	**0**	**43 835**	**462 623**	**0**	**0**	**506 457**
IMPAIRMENT							
At the beginning of the year	**0**	**0**	**0**	**9**	**649**	**0**	**658**
At the end of the year	**0**	**0**	**0**	**9**	**649**	**0**	**658**
NET AMOUNT							
At the beginning of the year	**32 966**	**200 000**	**40 516**	**269 704**	**35 236**	**10 977**	**589 399**
At the end of the year	**32 966**	**200 000**	**26 565**	**249 559**	**33 740**	**8 828**	**551 659**

Notes to the consolidated statement of financial position (cont.)

23. Property, plant and equipment

For the financial year ended 31 December 2016	Buildings, apartments and leasehold improvements	Technical equipment and machinery	Vehicles	Other tangible assets	Assets under construction	Advances for property, plant and equipment	Total
GROSS AMOUNT							
At the beginning of the year	**232 953**	**339 589**	**190 114**	**41 616**	**8 846**	**2 884**	**816 002**
Direct additions during the year	177	9 788	6 110	4 924	33 765	0	**54 764**
Internal development	20 482	7 680	80	-4 374	-37 794	0	**-13 926**
Disposals during the year	-62 780	-71 995	-10 492	-7 320	-1 613	-2 884	**-157 084**
Changes in the Group structure	-12 329	-20 129	-185 768	-2 968	0	0	**-221 194**
At the end of the year	**178 503**	**264 933**	**44**	**31 878**	**3 204**	**0**	**478 562**
ACCUMULATED DEPRECIATION							
At the beginning of the year	**181 593**	**263 664**	**49 094**	**33 814**	**0**	**0**	**528 166**
Depreciation charge	10 557	25 979	6 063	1 840	0	0	**44 439**
Disposals	-56 647	-67 390	-4 549	-7 177	0	0	**-135 763**
Changes in the Group structure	-1 606	-10 047	-50 666	-2 761	0	0	**-65 080**
Reclassification and other	-14 918	3 408	90	-2 089	0	0	**-13 509**
At the end of the year	**118 979**	**215 614**	**32**	**23 627**	**0**	**0**	**358 253**
IMPAIRMENT							
At the beginning of the year	**1 060**	**4 655**	**4 157**	**32**	**1 703**	**0**	**11 608**
Additions	5 440	1 512	0	59	0	0	**7 011**
Decreases	-5 767	-4 391	-352	-83	-1 703	0	**-12 296**
Changes in the Group structure	-40	-389	-3 805	-7	0	0	**-4 241**
At the end of the year	**693**	**1 387**	**0**	**1**	**0**	**0**	**2 082**
NET AMOUNT							
At the beginning of the year	**50 299**	**71 269**	**136 863**	**7 769**	**7 143**	**2 884**	**276 229**
At the end of the year	**58 830**	**47 931**	**12**	**8 249**	**3 204**	**0**	**118 228**

Notes to the consolidated statement of financial position (cont.)

For the financial year ended 31 December 2015	Buildings, apartments and leasehold improvements	Technical equipment and machinery	Vehicles	Other tangible assets	Assets under construction	Advances for property, plant and equipment	Total
GROSS AMOUNT							
At the beginning of the year	**240 590**	**336 428**	**187 929**	**42 926**	**9 441**	**2 369**	**819 683**
Direct additions during the year	648	12 631	59 395	822	9 363	515	**83 373**
Internal development or reclassifi	1 471	7 654	0	1 090	-9 717	0	**499**
Disposals during the year	-9 756	-17 124	-57 210	-3 223	-240	0	**-87 554**
At the end of the year	**232 953**	**339 589**	**190 114**	**41 616**	**8 846**	**2 884**	**816 002**
ACCUMULATED DEPRECIATION							
At the beginning of the year	**171 849**	**248 958**	**51 126**	**34 579**	**0**	**0**	**506 512**
Depreciation charge	15 784	31 230	27 242	2 340	0	0	**76 595**
Disposals	-6 039	-16 520	-29 274	-3 108	0	0	**-54 941**
Reclassification	0	-4	0	4	0	0	**0**
At the end of the year	**181 593**	**263 664**	**49 094**	**33 814**	**0**	**0**	**528 166**
IMPAIRMENT							
At the beginning of the year	**396**	**4 262**	**3 782**	**32**	**1 703**	**0**	**10 175**
Additions	3 188	802	375	62	0	0	**4 427**
Decreases	-2 524	-409	0	-62	0	0	**-2 994**
At the end of the year	**1 060**	**4 655**	**4 157**	**32**	**1 703**	**0**	**11 608**
NET AMOUNT							
At the beginning of the year	**68 346**	**83 208**	**133 021**	**8 315**	**7 738**	**2 369**	**302 996**
At the end of the year	**50 299**	**71 269**	**136 863**	**7 769**	**7 143**	**2 884**	**276 229**

In 2016 and 2015, there were no restrictions as to the legal title to property, plant and equipment and intangible assets are not pledged as collateral in borrowing transactions.

The amount of contractual commitments for the acquisition of property, plant and equipment as of 31 December 2016 equaled to PLN 2 669 thousand (PLN 3 860 thousand as of 31 December 2015). The agreements will be executed within one year.

As at 31 December 2016 and 31 December 2015, the Group did not use any other property, plant and equipment in financial leases.

As at 31 December 2016 the Group recognized impairment of property, plant and equipment due to decisions not to further use selected assets.

Notes to the consolidated statement of financial position (cont.)

24. Other assets

Other assets	31 December 2016	31 December 2015
Financial assets gross		
Collection of bills and cheques	2 451	368
Sundry debtors	85 478	100 717
Settlements with brokerage offices – receivables	4 757	5 225
Settlements of payment cards transactions - receivables	101 513	76 052
Total financial assets, gross	**194 199**	**182 362**
Impairment allowance	-13 467	-4 925
Total financial assets, net	**180 732**	**177 438**
Non-financial assets gross		
Accruals and prepayments	35 974	50 249
Income receivable	1 566	3 787
Assets acquired for debt	2 581	9 125
Other	185	10 432
Public (law) settlements	422	57 680
Total non-financial assets, gross	**40 728**	**131 273**
Impairment allowance	0	-3 209
Total non-financial assets, net	**40 728**	**128 063**
Total	**221 460**	**305 501**

Non-current receivables as at the end of 2016 amounted to PLN 28 275 thousand (PLN 22 634 thousand at the end of 2015) and comprised mainly preliminary settlement deposit made by the Group which enables Group's clients to conclude transaction on the Warsaw Stock Exchange and operate as remote stock exchange member and additional payout within "deferred payment" from realization of the takeover of Visa Europe Limited by Visa Inc.

Legal dispute in relation to Raiffeisen Bank Polska S.A. income tax liabilities

On 6 December 2016 the Supreme Administrative Court overruled Bank's appeals against the Voivodeship Administrative Court's decisions dated 28 and 29 April 2016 relating to the tax office decisions on tax settlements for years 2004, 2006 and 2007.

As a result of inspections in years 2009 and 2012 the tax authorities expressed an opinion different to the one of the Bank as to the tax treatment of the result on investments made in 2004, 2006 and 2007. Having maintained its stance on the correctness of tax settlement the Bank has paid the tax liabilities with interest and recognized receivables from the Tax Authority. The Supreme Administrative Court decision closes legal dispute in the above described cases. The disputed receivables amounted to PLN 75.9 million, including PLN 57.2 million of main receivable and PLN 18.7 million of paid penalty interests. The amount was charged to the Bank's result for the year 2016: main receivable – in line "Income tax" (see note 12), interests – "Other operating expense" (see note 11), respectively.

Notes to the consolidated statement of financial position (cont.)

Change in impairment allowance on other receivables	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015
At the beginning of the year	**8 134**	**7 166**
Changes in the Group structure	-3 582	0
Impairment allowance recorded	12 697	4 887
Use of impairment allowance	-135	-785
Reversal of impairment allowance	-3 647	-3 134
As at the end of the year	**13 467**	**8 134**

25. Amounts due to banks and other monetary institutions

	31 December 2016	31 December 2015
Current accounts	140 168	251 817
Term deposits	194 067	226 973
Loans received	7 099 171	12 610 007
Total	**7 433 406**	**13 088 797**

Non-current amounts due to banks and other monetary financial institutions amounted PLN 4 925 126 thousand at the end of 2016 (PLN 6 536 310 thousand at the end of 2015).

As at 31 December 2016 and 2015 value of repurchase agreements (sell buy back) with banks and other monetary institutions equaled zero.

26. Amounts due to customers

	31 December 2016	31 December 2015
Amounts due to individuals	18 218 007	17 512 927
Amounts due to micro customers	2 565 414	1 978 426
Amounts due to large enterprises	12 326 483	14 608 143
Amounts due to SME	3 219 506	3 662 650
Amounts due to the public sector	1	0
Total	**36 329 411**	**37 762 146**

Non-current amounts due to customers amounted to PLN 62 612 thousand at the end of 2016 (PLN 67 935 thousand at the end of 2015).

The value of repurchase agreements (sell buy back) with clients as at 31 December 2016 and 31 December 2015 amounted to zero.

Notes to the consolidated statement of financial position (cont.)

27. Subordinated liabilities

	31 December 2016	31 December 2015
Loan of EUR 25 million due in 2017	110 849	106 812
Loan of EUR 50 million due in 2024	221 247	213 095
Loan of EUR 95 million due in 2022	0	404 882
Total	**332 096**	**724 789**

Subordinated loans will be repaid by the Parent Entity on the date of their maturity. In both 2016 and 2015 the Parent Entity did not record any delays in repayment schedules nor violated any other contractual terms concerning its liabilities. The loans are not additionally secured. All loans were granted by Raiffeisen Bank International.

In accordance with the decisions of the Polish Financial Supervision Authority (PFSA), the Group can classify subordinated liabilities as its own. For the purpose of calculating the Group's own funds, the amounts constituting subordinated loans classified as own funds are gradually amortized in accordance with the regulations of the Polish Financial Supervision Authority.

The amount of subordinated debt as at the end of 2016 equaled PLN 221 247 thousand (PLN 724 789 thousand as at 31 December 2015).

28. Liabilities from debt securities issued

For the financial year ended 31 December 2016	At the beginning of the year	Decreases due to the changes in the Group structure	Decreases - payment of interests	Change of accrued interest	At the end of the year
Liabilities from debt securities issued by Parent Entity	501 825	0	-15 390	15 395	501 830
Liabilities from debt securities issued by securitization entity	1 256 852	-1 259 674	0	2 822	0
Total	**1 758 677**	**-1 259 674**	**-15 390**	**18 217**	**501 830**

For the financial year ended 31 December 2015	At the beginning of the year	Increases from issue	Decreases - payment of interests	Change of accrued interest	At the end of the year
Liabilities from debt securities issued by Parent Entity	501 960	0	-15 890	15 755	501 825
Liabilities from debt securities issued by securitization entity	634 434	617 700	-13 464	18 182	1 256 852
Total	**1 136 394**	**617 700**	**-29 354**	**33 937**	**1 758 677**

At 19 November 2014 the Parent Entity issued "Series A bearer bonds of Raiffeisen Bank Polska S.A." amounting to PLN 500 million. These bonds are not secured, non – subordinated, denominated in PLN

Notes to the consolidated statement of financial position (cont.)

maturing at 19 November 2017. The bonds' interest rate is based on Wibor 6M increase by 1.3% interest margin . The interests are paid in semi – annual periods.

The issue of "Series A bearer bonds of Raiffeisen Bank Polska S.A." was carried out under Parent Entity corporate bonds issuance plan in total amount of PLN 2 billion.

29. Other liabilities

	31 December 2016	31 December 2015
Financial liabilities		
Interbank settlements	180 577	58 209
Settlements with brokerage offices	40 638	1 475
Sundry creditors	192 113	222 019
Settlements related to payment cards	30 730	31 025
Total financial liabilities gross	**444 058**	**312 728**
Non-financial liabilities		
Deferred income	62 448	68 672
Social and legal settlements	33 931	28 727
Other	1 253	19 890
Total non-financial liabilities gross	**97 632**	**117 289**
Total	**541 690**	**430 018**

Non-current liabilities as at 31 December 2016 amounted to PLN 53 638 thousand (PLN 37 212 thousand as at 31 December 2015).

30. Provisions

For the financial year ended 31 December 2016	At the beginning of the year	Provisions or impairment allowance recorded	Provisions or impairment allowance reversed	Provisions or impairment alllowance utilized	Foreign exchange differences	Change in the Group structure	At the end of the year
Impairment provisions for off-balance sheet commitments assessed individually	41 228	26 084	-42 406	0	646	0	**25 552**
Impairment provisions for off-balance sheet commitments assessed collectively IBNR	9 047	2 901	-6 576	0	72	0	**5 444**
Total impairment provisions	**50 275**	**28 985**	**-48 982**	**0**	**718**	**0**	**30 996**
Provisions for disputes and claims	17 902	2 067	-2 523	-2 800	0	-288	**14 358**
Provision for employee bonuses	56 861	83 576	-31 974	-35 761	0	-6 894	**65 808**
Provision for unused holidays	23 884	25 062	-26 888	-2 074	0	-3 731	**16 253**
Provision for pension and death benefits	3 543	0	-110	-12	0	-184	**3 237**
Restructuring provision	9 748	27 524	-909	-20 296	0	0	**16 067**
Other provisions	110	8	0	-108	0	0	**10**
Total provisions	**112 048**	**138 237**	**-62 404**	**-61 051**	**0**	**-11 097**	**115 733**
Total	**162 323**	**167 222**	**-111 386**	**-61 051**	**718**	**-11 097**	**146 729**

Notes to the consolidated statement of financial position (cont.)

For the financial year ended 31 December 2015	At the beginning of the year	Provisions or impairment allowance recorded	Provisions or impairment allowance reversed	Provisions or impairment alllowance utilized	Foreign exchange differences	Change in the Group structure	At the end of the year
Impairment provisions for off-balance sheet commitments assessed individually	26 630	37 969	-23 493	0	121	0	**41 227**
Impairment provisions for off-balance sheet commitments assessed collectively IBNR	8 320	5 524	-4 814	0	17	0	**9 047**
Total impairment provisions	**34 951**	**43 493**	**-28 307**	**0**	**138**	**0**	**50 275**
Provisions for disputes and claims	21 514	257	-2 998	-871	0	0	**17 902**
Provision for jubilee bonuses	38 742	8	-37 411	-1 339	0	0	**0**
Provision for employee bonuses	56 851	114 126	-36 260	-77 855	-1	0	**56 861**
Provision for unused holidays	26 613	1 129	-2	-3 857	0	0	**23 884**
Provision for pension and death benefits	3 565	34	-41	-16	0	0	**3 543**
Restructuring provision	37 821	206	-937	-27 342	0	0	**9 748**
Other provisions	39	109	0	-38	0	0	**110**
Total provisions	**185 146**	**115 869**	**-77 648**	**-111 318**	**-1**	**0**	**112 048**
Total	**220 097**	**159 362**	**-105 955**	**-111 318**	**137**	**0**	**162 323**

Impairment provisions for off-balance sheet commitments include impairment provisions for financial guarantees. Financial guarantees and other off-balance sheet commitments are discussed in note 32.

As at 31 December 2016 provisions for legal disputes comprised, mainly:

- provision resulting from a penalty imposed on the Parent Entity by the Office of Competition and Consumer Protection (OCCP) in October 2014 concerning the practices connected with concluding of agreements with customers relating to membership of the group insurance for life and endowment programm called "Program Pomnażania Oszczędności Kumulatus". The penalty amounted to PLN 21 122 thousand. The decision is not final. The Parent Entity appealed against the decision and raised a provision for this penalty in the amount of PLN 10 561 thousand, because, in its opinion the possible outflow will not exceed the amount of the provision;

- provision in the amount of PLN 1 663 thousand for potential claims resulting from disputes with former Polbank franchisee partners,

- provision in the amount of PLN 1 950 thousand relating to legal disputes from the settlements of the option transactions.

The restructuring provision as at 31 December 2016, in the amount of 16 070 thousand (PLN 9 748 thousand as at 31 December 2015) has been created mainly for the purpose of severance payments resulting from the restructuring programs, as well as costs associated with the liquidation of the Parent Entity branches. The change of the provision with reference to the year 2015 resulted mainly from creating provision for the realization of employment and branches optimization program.

Notes to the consolidated statement of financial position (cont.)

In the IV quarter of 2015 the Management Board of the Bank decided to liquidate "Raiffajne Lata" program what resulted with reversal of provision equal to PLN 37 411 thousand.

31. Equity

	Par value of shares held		Number of shares (in units)	
Registered share capital	**For the financial year ended 31 December 2016**	**For the financial year ended 31 December 2015**	**For the financial year ended 31 December 2016**	**For the financial year ended 31 December 2015**
At the beginning of the year	2 256 683	2 256 683	248 260	248 260
At the end of the year	**2 256 683**	**2 256 683**	**248 260**	**248 260**

All shares have been paid in full. All shares have exactly the same voting and dividend rights. The nominal value of one share is 9 090 PLN. Raiffeisen Bank International AG (RBI) is the only shareholder, currently in possession of 100% of the Bank's share capital.

Raiffeisen Bank International has been created from separated areas of Raiffeisen Zentralbank Österreich AG (RZB) and Raiffeisen International Bank-Holding AG (RI). RBI is a fully consolidated subsidiary of RZB. RZB as at 31 December 2016 holds 60.7% stake in RBI. The remaining part of the share capital is in free float on the Vienna Stock Exchange, where Raiffeisen has been listed since 2005.

Other capital and reserves	31 December 2016	31 December 2015
General banking risk reserve	995 019	970 019
Settlement of the purchase of an organized part of an entity	-3 883	-3 883
Revaluation reserve for avaiable for sale financial assets	-5 390	43 175
Revaluation reserve for cash flow hedge derivatives	-30 778	-37 955
Brokerage activities reserve	1 000	1 000
Other reserves	46 522	46 522
Other connected with consolidation	0	50
At the end of the year	**1 002 489**	**1 018 927**

The net profit for the current and prior years was distributed as follows:

Notes to the consolidated statement of financial position (cont.)

Retained earnings	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015
At the beginning of the year	742 959	590 139
Transfer of net profit to retained earnings	14 755	186 178
Transfer of net profit to general banking risk reserve	-25 000	-20 000
Transfer of net profit to supplementary capital	-54 052	-13 340
Other connected with consolidation	-632	0
Transactions with non-controlling interests	137 873	-18
At the end of the year	**815 903**	**742 959**

Dividends

Based on recommendations of the Management Board and the Supervisory Board the Parent Entity did not pay dividend from 2015 profit. The Management Board of the Parent Entity would not recommend dividend payment from 2016 profit.

Other notes

32. Contingent liabilities

The table below presents contingent liabilities and contingent assets arising from the contracts:

	31 December 2016	31 December 2015
Guarantees issued		
Bank guarantees	1 739 565	1 667 352
Letters of credit and bank acceptances	188 697	215 575
Total guarantees issued	**1 928 262**	**1 882 927**
Financial liabilities granted		
Granted loan commitments:	7 129 960	8 123 826
With initial maturity up to 1 year	3 396 644	3 720 595
With initial maturity above 1 year	3 733 316	4 403 231
Total financial liabilities granted	**7 129 960**	**8 123 826**
Total	**9 058 222**	**10 006 753**

	31 December 2016	31 December 2015
Guarantees received	5 871 309	6 724 186
Total	**5 871 309**	**6 724 186**

All loan commitments of the Group are unconditional, except for granted and unused tranches of mortgage loans and investment loans for small and medium enterprises. A detailed description of the risks related to off-balance commitments is presented in the notes on risk management.

Legal disputes

The total disputed amount in litigations against the Group equaled PLN 52 465 thousand as at 31 December 2016 (PLN 75 017 thousand as at 31 December 2015). The Group created provisions for cases in which probability of economic outflow was higher than 50%. For the remaining part of litigations against the Group the risk of economic outflow is estimated as possible (below 50%). As at 31 December 2016 the total value of provisions for litigations against the Bank amounted to PLN 3 730 thousand (mainly provisions for claims of former franchisee partners of the Bank and claims of the settlement transaction's options; PLN 5 486 thousand as at 31 December 2015), see note 30 of the financial statements.

In December 2016 Office of Competition and Consumer Protection (OCCP) issued a decision, in which it decided that the Bank infringed the collective consumer interests by not taking into account of negative LIBOR and after withdrawing this practice the Bank did not calculate negative interests on loans in the Swiss franc. In its decision OCCP fined Bank with PLN 3.5 million. The decision is not final, the Bank filed an appeal to the Consumer and Competition Protection Court. In the Bank opinion the risk of economic outflow is estimated below 50% and as of 31 December 2016 no provision for this case was created.

Other notes (cont.)

The above information does not concern (similarly to 2015), due to their character, the cases with the Consumer and Competition Protection Court. The value of provisions for these cases equaled PLN 10 561 thousand as at 31 December 2016 (PLN 10 561 thousand as at 31 December 2015).

33. The Group as a lessee

In the case of operating leases where the Group is a lessee, the minimum future lease payments resulting from irrevocable operating lease agreements are as follows:

	31 December 2016	31 December 2015
Up to 1 year	102 714	122 819
1 to 5 years	211 935	257 082
More than 5 years	120 740	148 767
Total	**435 389**	**528 668**

The liabilities listed in the table are related to signed operating lease agreements for buildings or apartments for the needs of the Group's business activities, and operating leases of cars.

34. Pledged assets and of limited disposability

In the following table the information about financial pledged assets or about assets of limited disposability is presented.

	Note	31 December 2016	31 December 2015
Cash and balances with Central Bank	15		
Mandatory reserves with the Central Bank		1 064 061	1 418 802
Amounts due from banks	16		
Collateral deposits and other		139 126	1 051 393
Investment securities	20		
Treasury bonds serving as collateral for received loans		1 185 902	0
Treasury bonds serving as collateral for derivative financial instruments		254 865	447 393
Financial instruments blocked for BFG		229 409	228 816
Loans and advances to customers	21		
Receivables serving as collateral for loans received		0	106 538
Receivables under securitization of finance leasing receivables		0	1 144 097
Collateral deposits for currency transaction- receivables		5 343	5 553

35. Sale of receivables

In 2016, the Parent Entity sold impaired loans and advances to customers with total capital value of PLN 122 779 thousand (in 2015 of PLN 257 412 thousand). Portfolios consisted of receivables granted to individuals, micro-entrepreneurs, and corporations. Receivables were in significant part covered by impairment allowance or fully written off from Parent Entity balance sheet. Total result from transactions of sale of these receivables amounted to PLN 12 183 thousand (in 2015 of PLN 24 954 thousand) and was

Other notes (cont.)

presented in line "Net provision for impairment losses on financial assets and provisions for off-balance sheet items". The buyers of the portfolios were non-standardized closed-end securitization and investment funds unrelated to the Parent Entity. All risks and rewards from sold portfolios were transferred to the buyers.

36. Custody activities

The Group acts as a custodian, which involves maintaining or investing assets on behalf of individuals, funds, pension plans and other institutions. Such assets and the related revenues have not been disclosed in the consolidated financial statements, because they do not belong to the Group.

As at 31 December 2016 the Custody Unit maintained 537 securities accounts for customers (537 accounts as at 31 December 2015). The fair value of financial instruments of Custody Unit's clients amounted to PLN 23 346 396 thousand as at 31 December 2016 (PLN 22 452 798 thousand as at 31 December 2015).

In the reporting period, the Parent Entity kept publicly traded securities, securities in a material form and securities traded abroad. As a part of providing custody services to customers, the Group cooperated with several brokerage offices. The Parent Entity acts as a depositary for customers and for its own portfolio and derivative rights, and as a representative for an entity that is not a KDPW (National Securities Depository) participant and clearing member.

37. Supplementary information to statement of cash flows

Cash and cash equivalents	31 December 2016	31 December 2015
Cash in hand at the Bank	667 808	1 067 024
Cash on the current account with the Central Bank	1 064 061	1 636 486
Cash on Nostro accounts with other banks	153 108	171 296
Deposits with other banks (due within 3 months)	0	38 400
Cash and cash equivalents presented in the cash flow statement	**1 884 977**	**2 913 206**

Reconciliation of changes in assets and liabilities presented in the statement of cash flows with the changes of the respective assets and liabilities in the statement of financial position is presented in the tables below. The differences are as follows:

1. Changes in the individual assets and liabilities were adjusted with interest disclosed in the position Interest received/paid.
2. Changes in the receivables being an equivalent of cash was excluded from the position Interbank placements, loans and advances to other banks and were disclosed in the position Net increase/decrease in cash and cash equivalents.
3. Change in Derivative financial instruments does not include the part of derivative valuation that was accounted through equity (valuation of cash-flow hedge derivatives)

Other notes (cont.)

4. The following items were excluded from change of Amounts due to banks and other monetary institutions:

a) interests from financial activity which were disclosed in position Transfer of interest and dividend from investing and financing activities;

b) inflows and outflows from financial activities from receiving and repayment (including interests) of long term loans from banks and were disclosed in the position Inflows from subordinated liabilities and long-term bank loans or Outflows from repayment of subordinated liabilities and long-term bank loans;

c) unrealized foreign exchange differences from received loans from banks and were disclosed in position Unrealized foreign exchange differences.

5. Changes in the Group structure.

Other notes (cont.)

For the year ended 31 December 2016	changes in statement of financial position	changes in statement of cash flows	difference of which:	1	2	3	4a	4b	4c	5
Interbank placements, loans and advances to other banks	991 787	914 240	77 547	19 623	57 924	0	0	0	0	0
Financial assets held for trading	4 523 068	4 388 013	135 055	135 055	0	0	0	0	0	0
Derivative financial instruments	162 892	-12 517	175 409	184 692	0	-8 860	0	0	0	-423
assets	95 337	-85 837	181 174	189 899	0	-8 860	0	0	0	135
liabilities	67 555	73 320	-5 765	-5 207	0	0	0	0	0	-558
Loans and advances to customers	5 341 628	-1 372 273	6 713 901	1 131 665	0	0	0	0	0	5 582 236
Amounts due to banks and other monetary institutions	-6 048 084	-266 944	-5 781 140	-116 344	0	0	126 392	-1 428 231	276 559	-4 639 515
Amounts due to customers	-1 432 735	-896 340	-536 394	-472 720	0	0	0	-34 686	0	-28 989

For the year ended 31 December 2015	changes in statement of financial position	changes in statement of cash flows	difference of which:	1	2	3	4a	4b	4c
Interbank placements, loans and advances to other banks	-671 459	-611 919	-59 540	21 106	-80 647	0	0	0	0
Financial assets held for trading	-12 208 787	-12 387 979	179 192	179 192	0	0	0	0	0
Derivative financial instruments	692 974	502 397	190 578	201 162	0	-10 585	0	0	0
assets	338 666	142 750	195 916	206 501	0	-10 585	0	0	0
liabilities	354 309	359 647	-5 338	-5 339	0	0	0	0	0
Loans and advances to customers	613 173	-775 381	1 388 554	1 388 554	0	0	0	0	0
Amounts due to banks and other monetary institutions	-2 896 095	-2 766 332	-129 762	-371 959	0	0	264 008	-232 285	210 473
Amounts due to customers	4 883 856	4 999 566	-115 711	-569 496	0	0	0	453 785	0

Other notes (cont.)

38. Net income from financial instruments

Net income from loans and advances granted to customers and banks

	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015
Interest income, including:	1 122 978	1 440 841
from loans and advances granted to banks	19 557	21 005
from loans and advances granted to customers	1 103 421	1 419 836
Commission income – fees and commissions on lending activity	54 093	52 146
Costs related to intermediation in the sale of credit products	-2 271	-3 944
Costs related to securitization of loan receivables	0	-218
Total	**1 174 800**	**1 488 825**

Net income on investment securities

	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015
Discount income	-41 030	5 994
Interest income	169 598	64 489
Total	**128 568**	**70 483**

The income described above relates to held to maturity and available for sale investments.

Net result from financial liabilities measured at amortized cost

	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015
Interest expenses – total cost of interest on financial liabilities not measured at the fair value through profit or loss	-565 695	-694 263
Commission expenses – fees and commissions on loans received	-165	-5 480
Total	**-565 860**	**-699 743**

39. Fair value of assets and liabilities

The main assumptions and methods used by the Group to measure the fair value of financial instruments are presented below:

- fair value of loans and advances to banks, granted on the interbank market to manage Group's liquidity, was estimated as the present value of future cash flows discounted with current interbank interest rate for currency in which the loan had been granted,
- fair value of loans to customers was estimated with a model based on present value of future cash flows discounted with current interest rate including current risk margin and adjusted repayment dates resulting from loan agreements. The current margins were selected depending on both currency and major product groups, i.e. fixed term loans, consumer loans and mortgage loans,

Other notes (cont.)

based on transactions from the period of 12 months. Currency mortgage loans value does not include risk of currency conversion,

- securities held to maturity (Treasury bonds and NBP money bills) – fair value of securities, for which there is an active market, was determined based on public quotations from the active market (market quotations as at the balance sheet date),
- fair value of amounts due to customers was estimated based on average current market interest rates offered by the Parent Entity with margin charge included. The margins were selected depending on both currency and major product groups,
- fair value of amounts due to banks and other monetary institutions, taken on the interbank market to manage Group's liquidity, was estimated based on the present value of future cash flows discounted with current interbank interest rate for currency in which the loan or deposit had been taken,
- fair value of debt securities issued was estimated with a model based on market price of the securities and the issuer's rating,
- fair value of "Cash and balances with Central Bank", "Other financial assets" and "Other financial liabilities" is set as their book value.

The methods for determining the fair value of the individual financial assets and liabilities measured at the fair value in the statement of financial position, together with the valuation models assigned to them, can be classified into three levels in the fair value hierarchy:

- *Level I* – financial assets and liabilities measured directly on the basis of prices quoted on an active market or with the use of valuation techniques based solely on market information. The mark-to-market valuation is used mainly with respect to listed securities.
- *Level II* – financial assets and liabilities measured with the use of valuation techniques based on assumptions developed on the basis of market observations or information from an active market. The mark-to-model valuation uses parameterization of models solely on the basis of quotations from an active market for a given type of instrument. Most derivative instruments, including forward transactions in securities, non-liquid treasury securities or securities issued by a Central Bank, as well as unlisted corporate debt securities and municipal securities, for the valuation of which data is collected from an active market are valued using this type of models.
- *Level III* – financial assets and liabilities measured on the basis of valuation techniques commonly used by market participants, whose assumptions are not based on information obtained from an active market. The mark-to-model valuation uses partial model parameterization based on estimated risk factors. This method is applicable to non-linear derivatives concluded on an inactive

Other notes (cont.)

market, unlisted corporate debt securities, which do not meet the criteria for being classified as Level II, as well as derivatives whose fair value was adjusted for write-downs in respect of credit risk.

A transfer between categories occurs, when a change in valuation model of an asset or a liability requires a reclassification to a different category. The Group assesses the valuation models at the end of the reporting period.

Financial assets categorized within Level III of fair value hierarchy were characterized by the following estimated parameters:

- credit spread estimated for the day of issue of a security. Credit spread for financial instruments categorized within Level III measured between 40 and 520 base points;
- probability of default indicator (PD). As at the day of consolidated financial statements the PD indicator for financial instruments categorized within Level III measured between 0% and 100%, while 100% applied to contracts of two customers with recognized impairment;
- loss given default indicator (LGD) measured between 36.17% and 63.44%.
- parameter of recovery rate (RR) measured between 36.56% and 63.83%.

The effect of estimated parameters on fair value calculation of financial instruments within Level III, which are measured to fair value in the statement of financial position as at 31 December 2016, was negligible. For debt securities being exposed to credit spread risk the estimated exposure vulnerability to credit spread fluctuation of +/- 100 bps amounted to + 569/ - 537 PLN thousand impact on financial result from profit and loss account and + 1 219/ - 1 242 PLN thousand impact on equity. For derivative financial instruments being subject to credit risk the estimated exposure vulnerability to probability of default fluctuation of +/- 100 bps amounted to +/- PLN 34 thousand change in profit or loss. No impact on equity.

Changes in financial instruments, which were categorized within Level III of fair value hierarchy and in Group's balance sheet measured at fair value, are presented in the table below.

Other notes (cont.)

For the financial year ended 31 December 2016	Financial assets held for trading	Derivative financial instruments - assets	Investment securities available for sale - debt securities	Derivative financial instruments - liabilities
Balance at the begining of the year	**91 907**	**9 859**	**319 970**	**7**
Increases, including:	275 813	3 645	84 013	360
Purchase	273 166	0	61 379	0
Derivatives opened during year	0	746	0	290
Income from financial instruments, included in:	2 647	0	22 634	0
Net interest income	2	0	47	0
Net income from financial instruments measured at fair value	2 645	0	0	0
Revaluation reserves	0	0	22 587	0
Reclassification	0	2 899	0	70
Decreases, including:	-86 071	-9 837	-110 088	-4
Settlement/ redemption	0	-542	0	-7
Sale	-77 076	0	-73 484	0
Loss from financial instruments, included in:	-8 995	-108	-36 604	3
Net interest income	-130	0	-113	0
Net income from financial instruments measured at fair value	-8 865	-108	0	3
Revaluation reserves	0	0	-36 491	0
Reclassification	0	-9 156	0	0
Changes due to changes in Group structure	0	-31	0	0
Balance at the end of the year	**281 649**	**3 667**	**293 895**	**363**
Unrealized result on financial instruments held in the portfolio at the end of the year, included in statement of comprehensive income in:	**-5 492**	**-6 162**	**-11 634**	**356**
Net interest income	728	0	2 270	0
Net income from financial instruments measured at fair value	-6 220	-6 162	0	356
Revaluation reserves	0	0	-13 904	0

Other notes (cont.)

For the financial year ended 31 December 2015	Financial assets held for trading	Derivative financial instruments - assets	Investment securities available for sale - debt securities	Derivative financial instruments - liabilities
Balance at the begining of the year	**165 257**	**814**	**351 436**	**113**
Increases, including:	86 869	9 731	134 083	6
Purchase	86 869	0	110 117	0
Derivatives opened during year	0	124	0	7
Income from financial instruments, included in:	0	0	23 966	0
Net interest income	0	0	328	0
Revaluation reserves	0	0	23 638	0
Reclassification	0	9 607	0	0
Decreases, including:	-160 220	-687	-165 549	-112
Settlement/ redemption	0	-29	0	-96
Sale	-75 994	0	-84 018	0
Loss from financial instruments, included in:	-84 225	-55	-81 530	0
Net interest income	-321	0	-651	0
Net income from financial instruments measured at fair value	-83 904	-55	0	0
Revaluation reserves	0	0	-80 879	0
Reclassification	0	-602	0	-17
Balance at the end of the year	**91 907**	**9 859**	**319 970**	**7**
Unrealized result on financial instruments held in the portfolio at the end of the year, included in statement of comprehensive income in:	**-83 162**	**9 616**	**-54 763**	**-89**
Net interest income	742	0	2 478	0
Net income from financial instruments measured at fair value	-83 904	9 616	0	-89
Revaluation reserves	0	0	-57 242	0

Level III comprises fair value of capital shares in Visa Europe which were classified as securities available for sale. The details concerning calculation of these shares fair value are presented in note 20 to the consolidated financial statements.

The table below presents fair values and book values of assets and liabilities split between levels of fair value hierarchy.

Other notes (cont.)

Postition description	31 December 2016					31 December 2015				
	Book value	Fair value	Level I	Level II	Level III	Book value	Fair value	Level I	Level II	Level III
Financial assets										
Cash and balances with Central Bank	1 731 869	1 731 869	0	0	1 731 869	2 703 510	2 703 510	0	0	2 703 510
Amounts due from banks	334 563	314 103	27 614	0	286 489	1 326 350	1 326 438	0	0	1 326 438
Financial assets held for trading	8 047 342	8 047 343	371 779	7 393 915	281 649	12 570 410	12 570 410	332 391	12 146 112	91 907
Derivative financial instruments, including:	466 709	466 720	0	463 054	3 666	562 046	562 047	0	552 188	9 859
Derivative financial instruments held for trading	466 709	466 720	0	463 054	3 666	553 489	553 489	0	543 631	9 859
Cash flow hedge derivative financial instruments	0	0	0	0	0	8 557	8 557	0	8 557	0
Investment securities, including:	7 962 554	7 922 498	7 568 463	0	354 035	3 841 655	3 810 755	3 395 290	0	415 465
Investment securities held to maturity	3 475 082	3 435 026	3 435 026	0	0	1 964 957	1 934 056	1 934 056	0	0
Investment securities available for sale, including:	4 487 472	4 487 472	4 133 437	0	354 035	1 876 698	1 876 697	1 461 232	0	415 465
Equity interests	60 140	60 140	0	0	60 140	95 495	95 495	0	0	95 495
Debt securities	4 427 332	4 427 332	4 133 437	0	293 895	1 781 203	1 781 202	1 461 232	0	319 970
Loans and advances to customers, including:	33 864 497	31 441 321	0	0	31 441 321	39 206 125	36 894 102	0	0	36 894 102
Individual customers	19 631 840	17 322 307	0	0	17 322 307	19 304 302	16 981 941	0	0	16 981 941
Micro customers	2 491 608	2 364 899	0	0	2 364 899	5 406 406	5 283 754	0	0	5 283 754
Large enterprises	10 342 216	10 355 266	0	0	10 355 266	12 448 416	12 570 192	0	0	12 570 192
SME	1 311 710	1 311 722	0	0	1 311 722	2 025 418	2 036 527	0	0	2 036 527
Public sector	87 123	87 127	0	0	87 127	21 583	21 689	0	0	21 689
Other financial assets	180 732	177 408	0	0	177 408	177 438	177 438	0	0	177 438
Total financial assets	**52 588 266**	**50 101 262**	**7 967 856**	**7 856 969**	**34 276 437**	**60 387 534**	**58 044 699**	**3 727 681**	**12 698 300**	**41 618 718**

Other notes (cont.)

Position description	31 December 2016					31 December 2015				
	Book value	Fair value	Level I	Level II	Level III	Book value	Fair value	Level I	Level II	Level III
Financial liabilities										
Amounts due to banks and other monetary institutions	7 433 406	7 325 622	2 888	0	7 322 734	13 088 797	13 033 377	0	0	13 033 377
Derivative financial instruments, including:	1 546 166	1 546 174	0	1 545 812	362	1 478 611	1 478 611	0	1 478 604	7
Derivative financial instruments held for trading	347 353	347 361	0	346 999	362	503 864	503 864	0	503 857	7
Cash flow hedge derivative financial instruments	1 180 821	1 180 821	0	1 180 821	0	954 211	954 211	0	954 211	0
Fair value hedge derivative financial instruments	17 992	17 992	0	17 992	0	20 536	20 536	0	20 536	0
Amounts due to customers, including:	36 329 411	36 369 470	0	0	36 369 470	37 762 146	38 188 259	0	0	38 188 259
Amounts due to individuals	18 218 007	18 239 621	0	0	18 239 621	17 512 927	17 657 546	0	0	17 657 546
Amounts due to micro customers	2 565 414	2 566 605	0	0	2 566 605	1 978 426	1 982 993	0	0	1 982 993
Amounts due to large enterprises	12 326 483	12 341 423	0	0	12 341 423	14 608 143	14 866 621	0	0	14 866 621
Amounts due to small and medium enterprises	3 219 506	3 221 820	0	0	3 221 820	3 662 650	3 681 099	0	0	3 681 099
Amounts due to the public sector	1	1	0	0	1	0	0	0	0	0
Subordinated liabilities	332 096	256 375	0	0	256 375	724 789	519 133	0	0	519 133
Liabilities from debt securities issued	501 830	501 843	0	0	501 843	1 758 677	1 758 744	0	0	1 758 744
Other financial liabilities	444 058	443 976	0	0	443 976	312 728	312 728	0	0	312 728
Total financial liabilities	**46 586 968**	**46 443 460**	**2 888**	**1 545 812**	**44 894 760**	**55 125 748**	**55 290 851**	**0**	**1 478 604**	**53 812 247**

Other notes (cont.)

40. Offsetting of financial assets and liabilities

As at 31 December 2016 offsetting criteria were not fulfilled, therefore financial assets and liabilities offsetting did not take place on the balance sheet dates.

As at 31 December 2015 offsetting criteria were fulfilled for subsidiary Raiffeisen Leasing Polska S.A., therefore financial assets and liabilities offsetting took place on 31 December 2015.

Additionally, in order to minimalize credit risk losses, the Group concludes master netting arrangements or similar agreements. The clauses of these agreements provide right for net settlement only in case of default, insolvency, bankruptcy or when a counterparty in unable to meet its obligations.

Master netting arrangements concluded by the Group contain:

- ISDA agreements or other based on a local law
- repo and reverse repo agreements.

Disclosures presented in the tables below refer to financial assets and liabilities subject to master netting arrangements or similar and may be potentially compensated in the statement of financial position. Additionally received and pledged cash collaterals for derivative and repo/reverse repo transactions were shown. They were established according to standard sector conditions. Collaterals in the form of cash deposits result from Credit Support Annex (CSA) or similar agreements, annexed to ISDA framework agreements or other based on local law.

31 December 2016	Gross amount of recognised financial assets	Amount offset	Net amount of financial assets presented in the statement of financial position	Related amount not offset in the statement of financial position		Net amount*
				Financial instruments	Cash collateral received	
FiNANCIAL ASSETS						
Derivative financial instruments	466 709	0	466 709	281 151	32 251	175 177
Total	**466 709**	**0**	**466 709**	**281 151**	**32 251**	**175 177**

31 December 2016	Gross amount of financial recognised liabilities	Amount offset	Net amount of financial liabilities presented in the statement of financial position	Related amount not offset in the statement of financial position		Net amount*
				Financial instruments	Cash collaterals pledged	
FINANCIAL LIABILITIES						
Derivative financial instruments	1 546 166	0	1 546 175	1 467 053	144 469	42 587
Total	**1 546 166**	**0**	**1 546 175**	**1 467 053**	**144 469**	**42 587**

Other notes (cont.)

31 December 2015	Gross amount of recognised financial assets	Amount offset	Net amount of financial assets presented in the statement of financial position	Related amount not offset in the statement of financial position		Net amount*
				Financial instruments	Cash collateral received	
FINANCIAL ASSETS						
Derivative financial instruments	562 046	0	562 046	379 620	30 840	171 156
Reverse repurchase securities agreements	40 429	0	40 429	40 209	0	220
Lease receivables - Loans and advances to customers	292 388	61 603	230 785	0	0	230 785
Loans granted to acquirers of securitized leaase debts - Loans and advances to customers	253 049	253 049	0	0	0	0
Total	**1 147 912**	**314 652**	**833 260**	**419 829**	**30 840**	**402 161**

31 December 2015	Gross amount of financial recognised liabilities	Amount offset	Net amount of financial liabilities presented in the statement of financial position	Related amount not offset in the statement of financial position		Net amount*
				Financial instruments	Cash collaterals pledged	
FINANCIAL LIABILITIES						
Derivative financial instruments	1 478 611	0	1 478 611	379 620	1 056 946	51 541
Bonds - Amounts due to banks and other monetary institutions	102	102	0	0	0	0
Loans granted to acquirers of securitized leaase debts - Amounts due to customers	1 394 800	253 049	1 141 751	0	0	1 141 751
Guarantee deposit - Other liabilities	61 501	61 501	0	0	0	0
Total	**2 935 014**	**314 652**	**2 620 362**	**379 620**	**1 056 946**	**1 193 292**

based on calculation per contract

Reconciliation of carrying amounts of financial assets and liabilities subject to master netting arrangements or similar agreements to the individual line item amounts presented in the statement of financial position:

31 December 2016	Net carrying amount	Item from the statement of financial position	Carrying amount of financial statement position	Carrying amount of items not subject of disclosure in offsetting note
FINANCIAL ASSETS				
Derivative financial instruments	281 151	Assets from derivative financial instruments	466 709	**185 558**
FINANCIAL LIABILITIES				
Derivative financial instruments	1 467 053	Liabilities from derivative financial instruments	1 546 166	**79 113**

Other notes (cont.)

31 December 2015	Net carrying amount	Item from the statement of financial position	Carrying amount of financial statement position	Carrying amount of items not subject of disclosure in offsetting note
FINANCIAL ASSETS				
Derivative financial instruments	562 046	Assets from derivative financial instruments	562 046	**0**
Reverse repurchase securities agreements	40 429	Loans and advances to customers	39 206 125	**38 934 911**
Lease receivables - Loans and advances to customers	230 785			
FINANCIAL LIABILITIES				
Derivative financial instruments	1 478 611	Liabilities from derivative financial instruments	1 478 611	**0**
Repurchase securities agreements	102	Amounts due to banks and other monetary institutions	13 088 797	**13 088 695**
Repurchase securities agreements	1 394 800	Amounts due to customers	37 762 146	**36 367 346**
Guarantee deposit	61 501	Other liabilities	430 018	**368 517**

41. Transactions with related parties

The Parent Entity identifies the following related entities:

- Parent entities:
  - ultimate parent entity – Raiffeisen Zentralbank Österreich AG (RZB).
  - parent entity – Raiffeisen Bank International AG (RBI).
- The Parent Entity's consolidated subsidiaries:

  – Raiffeisen-Leasing Polska S.A., Raiffeisen Insurance Agency Sp. z o.o., Raiffeisen-Leasing Service Sp. z o.o., Raiffeisen-Leasing Real Estate Sp z o.o (subsidiaries until 31 March 2016)

  - Raiffeisen Financial Services Polska Sp. z o.o., Raiffeisen Solutions Sp z o.o, Raiffeisen Investment Polska Sp. z o.o.; Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A.
- the Parent Entity's subsidiary not consolidated - Leasing Poland Sp. z o.o.
- Members of the Parent Entity's key personnel and the key personnel of the entities of the Capital Group,
- Other entities - other related entities – entities controlled by the parent entities and subsidiaries, as well as entities having significant influence on Raiffeisen Zentralbank Österreich AG,
- A special purpose entities Compass Variety Funding Ltd. (until 2 April 2015) and ROOF Poland Leasing 2014 DAC (subsidiary until 31 March 2016).

As a part of ordinary operations, a number of transactions were concluded with members of the Parent Entity's key personnel. The Parent Entity's key personnel include members of the Parent Entity Management Board and members of the Parent Entity's Supervisory Board, listed in note 1 to the consolidated financial

Other notes (cont.)

statements. Transactions with members of the Parent Entity's key personnel comprise mainly loans, deposits and foreign currency transactions. In 2016 and 2015 no transactions were concluded with members of the key personnel of the Parent Entity's parent entities or with persons related to the members of the Raiffeisen Bank Polska Capital Group's key personnel.

Other notes (cont.)

Consolidated statement of financial position items	Parent Entities		Members of the Group's and the Parent Entities' key personnel		Other related entities	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Amounts due from banks	146 551	1 032 207	0	0	13 343	9 398
Derivative financial instruments - assets	277 752	370 841	0	0	506	401
Loans and advances to customers	0	0	1 749	2 300	0	0
Other assets	95	97	0	0	1 325	522
Amounts due to banks and other monetary institutions	5 368 872	8 134 370	0	0	1 764 593	1 962 116
Derivative financial instruments - liabilities	1 477 686	1 400 241	0	0	2 009	99
Amounts due to customers	0	0	5 430	4 574	15 848	15 482
Subordinated liabilities	332 096	724 789	0	0	0	0
Other liabilities	26 383	21 426	0	0	580	326
Provision for liabilities and charges	2 407	2 433	8 400	4 000	1	0

Consolidated statement of profit or loss items	Parent Entities		Members of the Group's and the Parent Entities' key personnel		Other related entities	
	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015
Interest income	188 466	183 584	50	49	10 367	803
Interest expense	-79 627	-146 767	-52	-103	-23 495	-21 360
Fee and commission income	1 490	1 658	8	2	5 569	4 199
Fee and commission expenses	-1 181	-1 463	2	0	-2 673	-2 121
Net income from financial assets measured at fair value through profit or loss and net foreign exchange result	-20 722	-11 237	3	6	-1 599	-606
Result on sale of discontinued operations	33 751	0	0	0	0	0
General administrative expenses	-23 454	-19 017	-12 489	-16 003	-6 362	-7 489
Other operating income	694	445	0	4	13 156	180
Other operating expenses	0	0	0	0	-4	-212

Contingent liabilities and assets	Parent Entities		Members of the Group's and the Parent Entities' key personnel		Other related entities	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Guarantees and letters of credit	109 315	154 779	0	0	38 293	22 172
Guarantees received	77 483	1 286 821	0	0	13 422	73 086

Other notes (cont.)

Transactions with the Bank's parent entity comprised transactions aimed at providing financing for the Group's operations (mainly interbank deposits, loans received and subordinated loans) and closing of open positions resulting from derivative transactions. As a result, interest expenses, net income from financial instruments and general administrative expenses were recognized in the consolidated statement of profit or loss.

As guarantees and letters of credits are presented Parent Entity's guarantee liabilities issued on other Group banks request, as guarantees received are presented repayment guarantees in relation to loans taken from Parent Entity or re-guarantees received from other banks and relating to guarantees issued by the Parent Entity.

As at the date of these consolidated financial statements preparation, variable remuneration for the Management Board of the Parent Entity was not paid or awarded. Provision expenses for this purpose are presented in line provisions for employee bonuses. Before the Supervisory Board's decision it is not possible to accurately present variable remuneration for the Parent Entity Management Board, that is why the amount presented in the above table in line Provisions for liabilities and charges to Members of the Group's and Parent Entities' key personnel is only an estimation of the provision expense for the Parent Entity Management Board, according to terms defined in managerial contracts between Parent Entity and its Management Board in force for the year 2016.

The costs of settlements with members of the Group's key personnel for the financial year comprise remuneration:

Remuneration of members of the Group's key personnel	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015
Remuneration of the Management Board (salary)	10 352	13 735
Remuneration of the Supervisory Board	2 596	2 514
Remuneration connected with employment termination	109	213
Variable remuneration of the Management Board paid in the current reporting period *	2 646	5 068
Total	**15 703**	**21 530**

* variable remuneration for the period before current reporting period

Members of the Management Board signed a non-compete clause due upon termination of their contracts. Non-compete clause duration ranges maximum to 12 months, counting from the end of the notice period. Throughout that period remuneration equal to the last basic salary before the termination of the contract is paid. The Parent Entity may waive the non-compete clause within 30 days of the termination of the contract.

42. Seasonality and business cycles

In the Group's activity there were no significant events which are cyclical or subject to seasonal changes.

Other notes (cont.)

43. Events after the reporting date

Financial Stability Committee recommendations

In January 2017 the Financial Stability Committee presented a resolution on recommendations relating to restructuring of housing loans in foreign currencies. The Committee recommended to introduce various solutions encouraging banks and clients to voluntary decisions to restructure housing loans in foreign currencies.

These recommendations were:

- raised risk requirement for foreign currency exposures secured with mortgage on real estate up to 150%,
- raised minimum value of LGD parameter for exposures secured with mortgage on real estate, which purchase was financed by the loan in foreign currency,
- introduction of changes in the operations of the Borrowers' Support Fund,
- additional systemic risk buffer of 3% relating to all exposures on the territory of the Republic of Poland,
- updating and widening of the regulations relating to the calculation of the capital requirements connected with foreign currency portfolios,
- issuing by the PFSA of the supervisory recommendation relating to best practices connected with restructuring of the housing loans in foreign currencies,
- including of risks connected with housing loans in foreign currencies in calculation of payments for the bank guarantee fund.

The analysis of the Committee's resolution impact on the Group's consolidated financial statements in following periods, require among others gathering of the information on final solutions implementing these recommendations, which is not feasible before the consultation process is finalized. Due to the above finalization of the analysis of the Committee's resolution impact on the Group's consolidated financial statements is not possible on the date of publication of these consolidated financial statements.

Higher risk requirements for exposures secured with mortgage on real estate

On 25 January 2017 draft of Minister of Economic Development and Finance resolution relating to higher risk requirements for exposures secured with mortgage on real estate was presented. According to this draft, exposures in full and completely secured with mortgage on housing real estate, for which level of capital and interest installment depends on changes in the foreign currency rate or rates other than currency in which debtor receives income, are charged with the risk requirement of 150%. The draft resolution will come into force within 6 months from its publication. The resolution will have negative impact on Group's total capital ratio.

Other notes (cont.)

Merger of RBI and RZB

The Extraordinary General Shareholders' Meeting of Raiffeisen Bank International AG (RBI), which took place on 24 January 2017 accepted the merger of RBI and Raiffeisen Zentralbank Osterrich AG (RZB) and increase of RBI equity due to this merger. The merged entity would operate under the name Raiffeisen Bank International AG, and RBI shares would still be traded on the Stock Exchange in Vienna. Realisation of the RBI and RZB merger requires supervisory approvals. Once the merger is finalized, the ultimate parent entity of the Bank would be RBI.

Change in Parent Entity's Management Board

On 14 February 2017 Polish Financial Supervision Authority took a decision about the appointment of Witold Broniszewski as a Member of the Management Board supervising the management of the significant risk relating to the Parent Entity's activities.

Changes in the Bank's Articles of Association

The Extraordinary General Meeting convened for 29 September 2016 passed resolutions to amend the Bank's Articles of Association. The amendments to the Articles of Association related among others to changing the number and par value of the Bank shares by split of the existing shares without changing the share capital amount so that the share capital shall be divided into 225 668 340 shares with a par value of PLN 10 and all existing shares shall become new Series AA shares.

An application for registration of the amendments was filed with the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, on 7 November 2016.

On 14 February 2017, the Bank was notified of the registration of the amendments to the Articles of Association by the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register.

Conversion factor (CCF) for off-balance commitments

In the protocol issued after the inspection by Polish Financial Supervision Authority (PFSA) in December 2016, PFSA raised objections in relation to conversion factor (CCF) of 0% used by the Bank to off-balance commitments. In the PFSA Inspection Group's opinion, provisions of "Rules of the loans services delivery by Raiffeisen Bank Polska S.A." (Rules) and provisions of loans agreements did not clearly indicated that conditions from Appendix I point 4 of the Regulation No 575/2013 of the European Parliament and of the Council (CRR) are met, i.e.:

- ability to unconditionally cancel limit at any time without notice of termination or

- ability in the factual way to automatically cancel unused liabilities due to worsening credibility.

Other notes (cont.)

In the PFSA Inspection's opinion in the Bank there is no automatic cancellation of unused off balance commitments due to worsening credibility.

The Bank does not agree with this opinion and presented to the PFSA its reasoning pointing out the provisions of Appendix I to the CRR, which indicate the ability to automatic cancellation and do not require to assure in each case that the worsening credibility should result in automatic cancellation of the unused liability. Based on the process used in such situations, the liabilities in the Bank are possible to be factually automatically cancelled, which is proved by the character of this process, i.e. the customer cannot draw money without Bank's consent. In the Bank there is early warning system (EWS) relating to customers financial situation, which meets conditions outlined in the CRR. The monitoring process of customers' financial situation as part of EWS system allows to immediate freeze money granted within the limits, when worsening of customers credibility is identifies.

The 0% CCF is used for the off-balance commitments, which assuming usage of higher conversion factors, defined in the CRR, would generate risk exposure of PLN 2.6 billion, lowering total capital ratio by 1.1 b.p.

No other events having significant influence on the Raiffeisen Bank Polska S.A. Group consolidated financial statements have occurred after the reporting date.

Risk management

44. The nature and scope of risk associated with financial instruments

In its activity, the Group follows an active approach to risk management, involving its identification, measurement, monitoring and mitigating. The Group follows the principle that an effective risk management and control system is based on three well-adjusted elements:

- the organizational structure, comprising a segregation of duties and competencies, including a clear indication of functions performed by specific organizational units in the risk management and control process,
- the methods for monitoring, measurement and estimation of risk, which are necessary for the Group to correctly identify the risks undertaken,
- actions focused on using modern techniques for hedging and transferring risks in order to adjust the type and profile of the risks undertaken by the Group to the risk appetite described in the adopted strategic plans.

Organizational structure

The basic assumption adopted in the construction of the risk management and control system is to separate units controlling the risk from business units, i.e. the units that undertake risks. This is reflected in the Parent Entity's organizational structure. Risk management and risk control constitute a process, which is carried out at three basic levels:

1. Decisions made by the Parent Company's Supervisory Board and Management Board through the system of risk committees:
    a) The Asset-Liability Committee, which is mainly responsible for:
        - managing the Group's assets and liabilities;
        - development and acceptance of strategic plans in the area of balance sheet management from the products and prices perspective;
        - assessment of interest rate risk, liquidity and financing risk, foreign exchange risk and capital adequacy risk, as well as management of such risks;
        - observing the external environment and measuring its effect on profitability and capital;
        - determining the investment portfolio parameters;
        - managing the economic capital allocation.

Risk management (cont.)

b) The Operational Risk Steering Committee, which is responsible for:

- management of operational risk issues within the Group, including issues relating to safety and security, in order to reduce operational risk exposure and the size of operating losses;
- promoting economic profit by improving the safety and quality of the bank's processes;
- supervision over the process of planning the continuity of the Group's operations;
- ensuring compliance with legal acts, rules and regulations of the government, the Central Bank and other regulators.

c) The Credit Portfolio Risk Steering Committee, performing mainly the tasks related to:

- development and implementation of the policies and strategies for credit risk management;
- regular monitoring of the loan portfolio risk;
- analysis of the effect of external factors on the loan portfolio risk;
- supervision over the process of calculation, estimation and validation of risk parameters.

d) Bank Credit Committee, which is responsible for making lending decisions, within the scope of the assigned competencies.

e) Problematic Loan Committee is a part of problematic loans exposures management and is treated as a decision making body for those kinds of exposures.

f) The Models Validation Committee is responsible for managing the model risk and for the methodological aspects of the risk management system. It performs its function by supervising:

- creation, development (changes) and maintenance of models used in the Group to measure risks;
- the process for evaluating the quality of the models used;
- the process for estimating parameters and calculating risk measures;
- the system for capital adequacy assessment (ICAAP);
- it also ensures regulatory compliance in the area of capital adequacy assessment, model's risk measuring processes and methodologies.

Risk management (cont.)

2. Control performed by the Risk Management Department, Corporate Credit Risk Management Department and Retail Credit Risk Management Department.
3. Operational risk management – performed on the level of individual organizational units risk taking.

The principles for managing individual risks are implemented based on written strategies, policies and procedures.

Capital management process

The main objective of capital management process is to maintain stable capital adequacy in the long term by ensuring a proper process of identification, measurement, monitoring, mitigation and capital risk reporting.

Regulatory requirements in respect of capital adequacy is total capital ratio defined in article 92 par. 1 point c of Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013.

Moreover the Group is obliged to maintain an additional requirements in respect of own funds:

- based on article 138 par. 1 point 2a The Banking Law Act:

1) since October 2015 the Group is obliged by Financial Supervision Authority to maintain an additional capital adequacy equal to 2.08 p.p to cover risk resulting from portfolio of currency mortgage loans; in October 2016 as a result of review of the process the Group received a decision updating the amount of requirement - currently capital requirement amounts to 2.56 p.p;

- based on article 19 in relation to article 84 the act on macro-prudential supervision over the financial system and crisis management in financial system:

2) since January 2016 the Group is obliged to maintain additional equity amount of safety buffer amounted to 1.25 p.p:

- based on article 39 par.1 in relation to article 38 par.1 and 2 the act on macro-prudential supervision over the financial system and crisis management in financial system:

3) The Bank was identified by Financial Supervision Authority as other institution of system relevance and as a result since August 2016 the Group was imposed with a buffer amounted to 0.25 p.p.

Risk management (cont.)

Therefore the minimal level of total capital ratio should not be lower than:

	Requirements regulation	Supervision recommendation
The minimum for the tolal capital adequancy	8,00%	12,00%
Cover risk resulting from portfolio of currency mortgage loans	2,56%	2,56%
The sufety buffer	1,25%	1,25%
The buffer other institution of system relevance	0,25%	0,25%
The total capital adequency (%)	**12,06%**	**16,06%**

The amounts of regulatory capital and capital requirement determined for the purposes of calculating the total capital ratio were as follows:

	Method of calculating the requirement	31 December 2016	31 December 2015
Credit and counterparty risk	Standard	2 613 173	3 068 983
Market risk	Standard	44 066	40 291
Operational risk	Standard	271 001	315 915
Regulatory capital requirement		**2 928 240**	**3 425 189**
Own funds		**6 111 419**	**5 827 115**
Total capital ratio (%)		**16,70**	**13,61**

The main source of own funds to cover the capital requirements is Tier I capital (core capital), which is supplemented with subordinated liabilities (Tier II capital). Tier I capital amounted to PLN 5 875 197 thousand at the end of 2016 (PLN 5 578 275 thousand as at the end of 2015) and Tier II capital amounted to PLN 236 221 (PLN 248 840 thousand as at the end of 2015).

From 1 January 2016 to 30 March 2016 the Group did not comply with the requirement of the minimal total capital ratio resulting from supervisory recommendation (taking into account additional capital requirement to cover risk resulting from currency mortgage loans). The Group has undertaken actions to keep capital ratio at the required level. Starting from 31 March 2016 the Group complies with the regulatory requirements, and supervision requirements.

Internal capital calculation

Internal capital is defined as capital with a purpose of covering unexpected losses the Group incurs or may incur as a result of realization of risks that occur in Group's operations or in its economic environment. The Group carries out the process of internal capital assessment and reviews the process itself in compliance with Polish FSA (KNF) Resolution No. 258/2011 on Detailed Principles of Functioning of the Risk Management System (...) and Detailed Conditions of Internal Capital Assessment by Banks and of Reviewing the Process of Internal Capital.

The results of the process are reported to relevant committees. The methodology for internal capital assessment is reviewed annually and updated both in terms of identification of risk types and the applied methodology. Both the Management Board and Supervisory Board of the Bank are informed about the results of the review.

Internal capital is calculated based on the main types of risk the Group is exposed to, namely: credit risk, operational risk, liquidity risk, interest rate risk and currency risk (risk measured quantitatively). Aggregation of the results of the individual models is based on the Gaussian copula. Economic capital is calculated as a difference between value at risk (assuming a confidence level of 99.95% and a period of one year) and the reserves held for risks included in the calculation.

For the remaining identified types of risk, which are considered material, the Group periodically evaluates the risk levels and acts upon results to control the risk. Additionally, based on an internal model for risks difficult to measure, the Group calculates a capital buffer added to the total of internal capital.

45. Credit risk

Credit risk is the possibility of incurring a loss due to a debtor not meeting the terms of the agreement with the Group.

The aim of credit risk management is to increase the safety of the Group's lending activity by ensuring the highest quality of credit risk assessments and effectiveness of the decision-making process, as well as an effective credit exposure monitoring with regard to individual customers and the Group's loan portfolio. With respect to individual customers, the Group monitors their economic and financial situation, loan history, collateral provided and capital and organizational relations. The procedures implemented and modified in this area are aimed at identifying exposures and taking actions that are adequate to changes in the risk levels.

Credit risk monitoring on the portfolio level includes preparing regular, periodical analysis of the Group's loan portfolio, which ensures identification of adverse trends and concentrations, as well as performing ad hoc portfolio reviews, mainly in connection with changes in the external environment.

Credit risk monitoring procedures applied by the Group also include the principles for monitoring of collaterals and their periodical reviews. The scope and frequency of these reviews depends on the type of collateral and covers: collateral's value and its changes, the correctness, completeness and validity of documents associated with the collateral as well as insurance documents for collaterals (a review of insurance policies, payment schemes, validity dates).

The Group's exposure to credit risk arises mainly from its lending activity and, to a lesser extent, from the sales and operations on the trading portfolio, derivative instruments and participation in payment transactions and settlements of securities on the Group's own account and its customers behalf.

Risk management (cont.)

The Group applies internal procedures that allow determining the level of credit risk associated with granting a given customer a loan or providing other services bearing credit risk, as well as the level of risk acceptance. Implementation and modification of procedures in this area aims at both identifying and acting accordingly to the changing risk.

The Group supports a clear and transparent system of lending competences based on the multi-level system of credit committees with various, clearly defined competences. Each and every person involved in the decision-making process is responsible for the risk and return on transactions which are subject to their decisions.

In order to ensure independence of the credit risk assessments and quality of Group's loan portfolio, a clear division of responsibilities between business units and risk units has been introduced.

Business units are responsible for the management of individual credit exposures.
Risk management units are responsible for monitoring of risk of Group's entire loan portfolio and, as part of their duties, for performing, among others, the following functions:

- implementation of lending strategies, policies and procedures;
- ensuring proper application of credit process standards approved by the Group;
- monitoring of credit risk provisions levels,
- managing the portfolio of non-performing loans.

Before concluding a loan agreement, the Group makes an assessment of the customer's creditworthiness. Assessment of a customer is supported by the rating and scoring systems used by the Group. These systems constitute an important element of credit risk management within the Group.

In case of corporate customers, a customer's creditworthiness is assessed based on a rating system to classify the customer into one of the rating categories. The rating category is determined on the basis of an analysis of quantitative factors (annual and interim financial statements), qualitative factors, and additional warning signals. The rating category affects determination of standard risk costs and is an important parameter in Group's portfolio management.

The Group also estimates the risks associated with the purpose of the loan and customer's ability to service debt, in particular based on financial surpluses generated by the customer. The Group grants loans to customers characterized by high creditworthiness.

Retail customers' creditworthiness is assessed with the use of scoring cards. The Group grants loans to customers characterized by high creditworthiness. However, in order to reduce potential losses resulting from debt not being serviced, the Group strives to conclude collateral agreements, in particular, with regard to long-term loans.

Risk management (cont.)

Actions undertaken in respect of collateral, including establishing collateral that will ensure the highest possible level of recovery in the event of debt collection, are meant to properly secure Group's interests. Therefore, collateral established for loans serviced on a timely basis and overdue loans or impaired and not impaired loans, maintains the same quality. The policies regarding legal collateral are part of the internal regulations of the Group.

The Group accepts the following collaterals in its credit process:

- residential real estate mortgage,
- commercial real estate mortgage,
- registered pledge,
- pledged deposit,
- cash blocked on a bank account,
- bank guarantee,
- BGK guarantee,
- sovereign or municipal guarantee,
- corporate guarantee,
- suretyship,
- transfer of ownership as a security,
- assignment of receivables,
- bill of exchange,
- loan insurance,
- authorization to manage a bank account.

Discounted value of recoveries from collateral for the portfolio of loans and advances in which impairment allowance is recognized based on an individual analysis of future cash flows relating to repayment and recovery from collaterals amounted to PLN 835 941 thousand (2015: PLN 884 065 thousand).

The Group maintains close control over net open positions of derivative instruments, i.e. the differences between the call and put contracts, in terms of both their amount and maturity. At any time, the amount subject to credit risk is limited to the present fair value of instruments with positive fair value (i.e. assets), which in case of derivative instruments constitutes a small fraction of contract's value or the nominal values used to express the volume of existing instruments.

Exposure to credit risk on derivative instruments is managed as a part of the general credit limits for customers, together with the potential exposure to risk resulting from market changes.

Valuation techniques used by the Group for derivative financial instruments are usually based on maximum use of input data originating from active markets, including: interest rates, foreign exchange rates and implicit volatilities. In the absence of appropriate input from an active market, the Group usually utilizes its

Risk management (cont.)

own estimations of parameters necessary for pricing purposes based on Group's best knowledge and experience.

The main purpose of contingent liabilities is to ensure availability of funds as they are required. Those liabilities are related to the unused portion of loans, guarantees and letters of credit granted.

With respect to the credit risk on granted loan commitments, the Group is exposed to potential losses equal to the total amount of granted loan commitments. The likely loss is lower however than the entire amount of unused loan commitments based on the fact that the majority of those commitments depends on borrowers meeting certain credit criteria. The Group monitors periods of validity of its granted loan commitments, because credit risk is generally higher the longer the period.

Guarantees and letters of credit, which constitute Group's irrevocable commitments to pay client's third party liabilities in an event that the client is unable to pay, are subject to the same credit risk as loans.

Risk management (cont.)

As at 31 December 2016	Financial assets presented in the consoldiated statement of financial position							
Classes of maximum exposure with instrument types assigned to them	Amounts due from banks	Cash and balances with the Central Bank	Trading assets	Derivatives	Investment securities	Loans and advances	Other	**Total**
Cash and cash equivalents	**0**	**667 808**	**0**	**0**	**0**	**0**	**0**	**667 808**
Exposures to governments and central banks	**0**	**1 064 061**	**7 765 694**	**317**	**7 608 519**	**0**	**0**	**16 438 591**
Cash and balances with the Central Bank	0	1 064 061	0	0	0	0	0	1 064 061
Treasury bonds and bills	0	0	371 779	0	7 608 519	0	0	7 980 298
NBP bills	0	0	7 393 915	0	0	0	0	7 393 915
Derivative financial instruments	0	0	0	317	0	0	0	317
Exposures to banks	**334 563**	**0**	**8 831**	**283 186**	**0**	**0**	**0**	**626 580**
Cash on current and term accounts with other banks	292 234	0	0	0	0	0	0	292 234
Loans and advances granted to other banks	42 329	0	0	0	0	0	0	42 329
Derivative financial instruments	0	0	0	283 186	0	0	0	283 186
Corporate bonds	0	0	5 408	0	0	0	0	5 408
Mortgage backed bonds	0	0	3 423	0	0	0	0	3 423
Exposures to customers	**0**	**0**	**272 817**	**183 206**	**354 036**	**33 864 497**	**0**	**34 674 556**
Loans and advances granted to individuals	0	0	0	0	0	19 631 840	0	19 631 840
Loans and advances granted to micro customers	0	0	0	0	0	2 491 608	0	2 491 608
Loans and advances granted to large enterprises	0	0	0	0	0	10 342 216	0	10 342 216
Loans and advances granted to small and medium enterprises	0	0	0	0	0	1 311 710	0	1 311 710
Loans and advances granted to public sector entities	0	0	0	0	0	87 123	0	87 123
Equity investments available for sale	0	0	0	0	60 141	0	0	60 141
Derivative financial instruments	0	0	0	183 206	0	0	0	183 206
Corporate bonds	0	0	272 817	0	293 895	0	0	566 712
Other financial assets	**0**	**0**	**0**	**0**	**0**	**0**	**180 732**	**180 732**
Total	**334 563**	**1 731 869**	**8 047 342**	**466 709**	**7 962 555**	**33 864 497**	**180 732**	**52 588 267**

Risk management (cont.)

As at 31 December 2015	Financial assets presented in the consolidated statement of financial position							
Classes of maximum exposure with instrument types assigned to them	Amounts due from banks	cash and balances with the Central Bank	Trading assets	Derivatives	Investment securities	Loans and advances	Other	**Total**
Cash and cash equivalents	**0**	**1 067 024**	**0**	**0**	**0**	**0**	**0**	**1 067 024**
Exposures to governments and central banks	**0**	**1 636 486**	**12 478 504**	**3 643**	**3 426 190**	**0**	**0**	**17 544 823**
Cash and balances with the Central Bank	0	1 636 486	0	0	0	0	0	1 636 486
Treasury bonds and bills	0	0	332 392	0	3 426 190	0	0	3 758 582
NBP bills	0	0	12 146 112	0	0	0	0	12 146 112
Derivative financial instruments	0	0	0	3 643	0	0	0	3 643
Exposures to banks	**1 326 350**	**0**	**69 051**	**394 137**	**16 262**	**0**	**0**	**1 805 801**
Cash on current and term accounts with other banks	1 269 126	0	0	0	0	0	0	1 269 126
Loans and advances granted to other banks	57 224	0	0	0	0	0	0	57 224
Derivative financial instruments	0	0	0	394 137	0	0	0	394 137
Corporate bonds	0	0	51 461	0	16 262	0	0	67 724
Mortgage backed bonds	0	0	17 590	0	0	0	0	17 590
Exposures to customers	**0**	**0**	**22 855**	**164 266**	**399 203**	**39 206 125**	**0**	**39 792 448**
Loans and advances granted to individuals	0	0	0	0	0	19 304 302	0	19 304 302
Loans and advances granted to micro customers	0	0	0	0	0	5 406 406	0	5 406 406
Loans and advances granted to large enterprises	0	0	0	0	0	12 448 416	0	12 448 416
Loans and advances granted to small and medium enterprises	0	0	0	0	0	2 025 418	0	2 025 418
Loans and advances granted to public sector entities	0	0	0	0	0	21 583	0	21 583
Equity investments available for sale	0	0	0	0	95 495	0	0	95 495
Derivative financial instruments	0	0	0	164 266	0	0	0	164 266
Corporate bonds	0	0	22 855	0	303 708	0	0	326 562
Other financial assets	**0**	**0**	**0**	**0**	**0**	**0**	**177 438**	**177 438**
Total	**1 326 350**	**2 703 510**	**12 570 410**	**562 046**	**3 841 655**	**39 206 125**	**177 438**	**60 387 533**

Maximum exposure to credit risk for off-balance sheet items amounted to:	31 December 2016	31 December 2015
Guarantees	1 928 262	1 882 927
Granted loan commitments	7 129 960	8 123 825
Total	**9 058 222**	**10 006 752**

Risk management (cont.)

Loan exposures to banks and customers as well as other financial assets presented in the consolidated statement of financial position are regularly tested for impairment (on an individual or collective basis). For the purpose of disclosure they are classified into one of the three categories of receivables: unimpaired not-overdue, unimpaired overdue and impaired. The above mentioned assets are presented in the following table by the gross value and by the customer segments:

As at 31 December 2016	Exposure amount			Value of collateral reducing the maximum exposure to credit risk
	Analysed on an individual basis	Analysed on a collective basis	Total	
Not overdue receivables without identified impairment	**189 990**	**32 273 900**	**32 463 890**	**15 489 393**
Amounts due from Central Bank and other banks	0	1 395 205	1 395 205	31 041
Individual customers	9 258	17 655 503	17 664 761	9 305 900
Micro customers	0	1 961 456	1 961 456	1 151 691
Large enterprises	0	9 883 698	9 883 698	4 404 196
Small and medium enterprises	0	1 290 466	1 290 466	596 565
Public sector	0	87 572	87 572	0
Other financial assets	180 732	0	180 732	0
Overdue receivables without identified impairment	**8 991**	**1 874 702**	**1 883 693**	**917 341**
Amounts due from Central Bank and other banks	0	17	17	0
Individual customers	1 259	1 621 170	1 622 429	732 899
Micro customers	0	151 865	151 865	102 397
Large enterprises	7 732	88 995	96 727	71 180
Small and medium enterprises	0	12 655	12 655	10 865
Receivables with identified impairment	**1 104 135**	**1 723 002**	**2 827 137**	**1 144 455**
Amounts due from Central Bank and other banks	3 502	0	3 502	0
Individual customers	28 940	1 006 850	1 035 790	355 566
Micro customers	31 030	716 152	747 182	363 311
Large enterprises	971 942	0	971 942	412 993
Small and medium enterprises	55 254	0	55 254	12 585
Other financial assets	13 467	0	13 467	0
Total financial assets, gross	**1 303 116**	**35 871 604**	**37 174 720**	**17 551 189**
Impairment allowances on amounts due from Central Bank and other banks	**60**	**40**	**100**	**0**
Impairment allowances on loans and advances	**621 072**	**1 096 228**	**1 717 300**	**0**
Impairment allowances on other financial assets	**13 467**	**0**	**13 467**	**0**
Total financial assets, net	**668 517**	**34 775 336**	**35 443 853**	**17 551 189**

Risk management (cont.)

As at 31 December 2015	Exposure amount			
	Analysed on an individual basis	Analysed on a collective basis	Total	Value of collateral reducing the maximum exposure to credit risk
Not overdue receivables without identified impairment	**181 557**	**38 398 655**	**38 580 212**	**18 023 420**
Amounts due from Central Bank and other banks	301	2 962 686	2 962 987	13 240
Individual customers	635	17 445 941	17 446 576	9 318 683
Micro customers	3 265	4 319 543	4 322 808	3 453 756
Large enterprises	0	11 742 765	11 742 765	4 416 108
Small and medium enterprises	0	1 906 041	1 906 041	821 633
Public sector	0	21 679	21 679	0
Other financial assets	177 356	0	177 356	0
Overdue receivables without identified impairment	**11 868**	**2 536 922**	**2 548 790**	**1 446 614**
Amounts due from Central Bank and other banks	0	14	14	0
Individual customers	1 487	1 537 285	1 538 772	732 664
Micro customers	1 132	701 899	703 031	497 122
Large enterprises	9 168	188 141	197 309	141 618
Small and medium enterprises	0	109 583	109 583	75 210
Other financial assets	81	0	81	0
Receivables with identified impairment	**1 542 482**	**1 723 154**	**3 265 636**	**1 253 175**
Individual customers	45 534	892 686	938 220	365 703
Micro customers	162 636	682 623	845 259	415 094
Large enterprises	1 234 867	147 845	1 382 712	448 328
Small and medium enterprises	94 520	0	94 520	24 050
Other financial assets	4 925	0	4 925	0
Total financial assets, gross	**1 735 907**	**42 658 731**	**44 394 638**	**20 723 209**
Impairment allowances on amounts due from Central Bank and other banks	**0**	**165**	**165**	**0**
Impairment allowances on loans and advances	**990 121**	**1 053 029**	**2 043 150**	**0**
Impairment allowances on other financial assets	**4 925**	**0**	**4 925**	**0**
Total financial assets, net	**740 861**	**41 605 537**	**42 346 399**	**20 723 209**

Risk management (cont.)

The ageing analysis of overdue assets without identified impairment is presented in the following table.

31 December 2016	**Past due for**					
Past due financial receivables without identified impairment	Less than 30 days	Between 30 and 90 days	Between 90 and 180 days	Between 180 days and 1 year	More than 1 year	**Total**
Gross loans and advances - past due but not impaired	**1 383 144**	**427 037**	**3 501**	**3 223**	**66 788**	**1 883 693**
Amounts due from Central Bank and other banks	0	0	0	0	17	**17**
Individual customers	1 268 951	346 757	235	1 270	5 216	**1 622 429**
Micro customers	93 753	57 851	23	54	184	**151 865**
Large enterprises	15 638	21 564	139	1 850	57 536	**96 727**
Small and medium enterprises	4 802	865	3 104	49	3 835	**12 655**
Total	**1 383 144**	**427 037**	**3 501**	**3 223**	**66 788**	**1 883 693**
31 December 2015	**Past due for**					
Past due financial receivables without identified impairment	Less than 30 days	Between 30 and 90 days	Between 90 and 180 days	Between 180 days and 1 year	More than 1 year	**Total**
Gross loans and advances - past due but not impaired	**1 937 608**	**557 055**	**2 211**	**3 139**	**48 696**	**2 548 709**
Amounts due from Central Bank and other banks	0	2	0	0	12	**14**
Individual customers	1 192 833	340 282	1 403	1 731	2 523	**1 538 772**
Micro customers	551 113	151 744	9	55	110	**703 031**
Large enterprises	98 279	56 624	42	354	42 010	**197 309**
Small and medium enterprises	95 383	8 403	757	999	4 041	**109 583**
Other gross financial assets – past due but not impaired	81	0	0	0	0	**81**
Total	**1 937 689**	**557 055**	**2 211**	**3 139**	**48 696**	**2 548 790**

Overdue but not impaired exposures relate to clients for which the Group did not identify impairment in individual analysis and exposures with overdue amount below limit set by the Group.

Risk management (cont.)

The following table presents credit quality of receivables neither past due nor impaired from Central Bank, other banks and the Group's clients, set up based on internal rating models:

- exposures to National Bank of Poland were assigned a rating equal to that of Poland (rating A).
- for banks, branches of foreign credit institutions, financial sector institutions and the public sector, until October 2016 the Group used ten grade scale ranging from A1 to D (where an A rating means minimal credit risk, and a D rating means impairment). Since November 2016 the Group started using the new model rating to better diversify the risk. As a result the new 28-degrees scale of ratings was implemented. According the new scale grades from 1A to 9C and 10 are assigned, where 1A is assigned to customers with the lowest level of credit risk and rating 10 to customer consider as insolvent.

Credit quality of financial assets neither past due nor impaired, gross	**31 December 2016**				**31 December 2015**			
	to governments and central banks	to banks	to the public sector	**Total**	to governments and central banks	to banks	to the public sector	**Total**
1C	0	2 163	0	2 163	0	0	0	0
2A	0	7 803	0	7 803	0	0	0	0
2B	0	35 097	0	35 097	0	0	0	0
2C	0	13 449	0	13 449	0	0	0	0
3A	0	1 080	0	1 080	0	0	0	0
3B	0	225 025	0	225 025	0	0	0	0
3C	0	1 502	0	1 502	0	0	0	0
4A	0	1 096	0	1 096	0	0	0	0
4B	0	297	0	297	0	0	0	0
5B	0	54	0	54	0	0	0	0
8C	0	37 571	0	37 571	0	0	0	0
A	1 064 061	0	0	1 064 061	1 636 486	4 056	0	1 640 542
A3	0	0	0	0	0	25 590	0	25 590
B1	0	0	0	0	0	1 120 115	0	1 120 115
B2	0	0	2 177	2 177	0	15 351	10 953	26 304
B3	0	0	79 729	79 729	0	7 369	3 976	11 345
B4	0	0	871	871	0	397	6 750	7 147
B5	0	0	4 795	4 795	0	0	0	0
C	0	0	0	0	0	36 857	0	36 857
Non-rated exposures	0	6 007	0	6 007	0	116 766	0	116 766
Total	**1 064 061**	**331 144**	**87 572**	**1 482 777**	**1 636 486**	**1 326 501**	**21 679**	**2 984 666**

Risk management (cont.)

- for individual and micro clients ranging from 0.5 to 5.0 (where a rating of 0.5 means minimal risk of failing to repay the loan and a rating of 5.0 means impairment)

Credit quality of financial assets neither past due nor impaired gross	31 December 2016			31 December 2015		
	to individuals	to micro customers	Total	to individuals	to micro customers	Total
0.5	8 864 916	71 581	8 936 497	8 437 720	15 174	8 452 894
1.0	1 065 186	144 171	1 209 357	1 387 976	97 041	1 485 017
1.5	1 352 441	562 252	1 914 693	1 267 535	483 192	1 750 727
2.0	3 432 244	445 746	3 877 990	3 449 444	912 747	4 362 191
2.5	1 189 722	179 531	1 369 253	1 134 170	918 644	2 052 814
2.5.1	174	121 904	122 078	8 562	980 863	989 425
3.0	637 060	87 923	724 983	616 271	320 082	936 353
3.0.1	0	86 393	86 393	1 677	184 704	186 381
3.5	604 392	114 550	718 942	573 947	169 758	743 705
4.0	140 119	51 536	191 655	166 875	73 439	240 314
4.5	118 815	25 520	144 335	70 347	26 801	97 148
4.5.1	67	0	67	19	0	19
Non-rated exposures	259 625	70 349	329 974	332 033	140 363	472 396
Total	**17 664 761**	**1 961 456**	**19 626 217**	**17 446 576**	**4 322 808**	**21 769 384**

- for corporate clients (including small and medium size enterprises) the Group uses 28-degrees scale with ratings ranging from 1A to 9C and 10, where 1A rating is assigned to customers with the lowest level of credit risk, 10 ratings are assigned to customers who consider as insolvent;
- 5 grade scale for project investments with ratings ranging from 6.1 to 6.5 (where 6.1 rating means a minimum risk of default and 6.5 rating means impairment);
- for corporate clients (including small and medium enterprises) are assigned ratings from 0.5 to 5.0 (where 0.5 means minimal risk of failing to repay the loan and a rating of 5.0 means impairment) and from A1 to D (where an A means minimal credit risk, and a D rating means impairment).

Risk management (cont.)

Credit quality of financial assets neither past due nor impaired gross	31 December 2016			31 December 2015		
	large enterprises	small and medium enterprises	Total	large enterprises	small and medium enterprises	Total
6.1	428 241	0	428 241	495 309	0	495 309
6.2	1 356 385	0	1 356 385	1 482 276	0	1 482 276
6.3	745 760	0	745 760	819 546	0	819 546
6.4	410 038	0	410 038	374 453	0	374 453
6.5	373	0	373	34 036	0	34 036
1C	164	0	164	3	0	3
2A	0	0	0	68	0	68
2B	14	0	14	0	0	0
2C	3 234	0	3 234	4 761	0	4 761
3A	0	0	0	2 142	0	2 142
3B	1 737	0	1 737	91 358	0	91 358
3C	135 786	0	135 786	66 821	0	66 821
4A	69 201	0	69 201	43 465	0	43 465
4B	62 812	308 210	371 022	139 228	373 748	512 976
4C	207 192	0	207 192	510 918	0	510 918
5A	493 193	0	493 193	385 614	3	385 617
5B	302 897	352 528	655 425	703 186	352 873	1 056 059
5C	909 326	0	909 326	950 345	0	950 345
6A	962 122	98 706	1 060 828	1 530 052	115 650	1 645 702
6B	1 243 557	108 393	1 351 950	1 237 464	143 057	1 380 521
6C	1 025 005	101 138	1 126 143	1 127 006	198 042	1 325 048
7A	551 391	98 814	650 205	684 214	179 582	863 796
7B	364 987	77 804	442 791	325 330	166 937	492 267
7C	222 770	61 554	284 324	233 376	114 580	347 956
8A	74 299	33 005	107 304	137 167	124 662	261 829
8B	37 830	13 120	50 950	51 705	37 022	88 727
8C	133 112	14 515	147 627	21 842	31 635	53 477
9A	13 802	0	13 802	18 565	0	18 565
9B	3 913	10 719	14 632	19 584	34 954	54 538
9C	3 691	0	3 691	45 980	0	45 980
1.0	2 399	1 745	4 144	0	3 016	3 016
1.5	0	0	0	3 372	0	3 372
2.0	0	0	0	2 678	0	2 678
2.5	71	0	71	124	0	124
3.5	0	0	0	2	0	2
4.5	0	0	0	46 513	0	46 513
C3	0	0	0	40 429	0	40 429
Non-rated exposures	118 396	10 215	128 611	113 833	30 280	144 113
Total	**9 883 698**	**1 290 466**	**11 174 164**	**11 742 765**	**1 906 041**	**13 648 806**

Risk management (cont.)

The below tables present credit quality of trading assets, derivatives and investment securities, set up based on internal rating models of the Group:

- Treasury bonds as well as bills and other receivables from National Bank of Poland were assigned a rating equal to that of Poland (rating A);
- Similarly the rating of a particular corporation is assigned to its issued debt securities as well as equity instruments, according to rating scales described above.

	31 December 2016			31 December 2015		
	to governments and central banks	to banks	Total	to governments and central banks	to banks	Total
1C	0	865	865	0	0	0
2A	0	3 062	3 062	0	0	0
2B	0	25	25	0	0	0
2C	0	3 438	3 438	0	0	0
3A	0	5 557	5 557	0	0	0
3B	0	278 761	278 761	0	0	0
3C	0	173	173	0	0	0
5A	0	136	136	0	0	0
A	15 374 530	0	15 374 530	15 908 337	0	15 908 337
A3	0	0	0	0	775	775
B1	0	0	0	0	387 788	387 788
B2	0	0	0	0	51 606	51 606
B4	0	0	0	0	3 944	3 944
B5	0	0	0	0	16 265	16 265
C	0	0	0	0	288	288
Non-rated exposures	0	0	0	0	18 785	18 785
Total	**15 374 530**	**292 017**	**15 666 547**	**15 908 337**	**479 451**	**16 387 788**

	31 December 2016			31 December 2015		
	to individuals	to micro customers	Total	to individuals	to micro customers	Total
5B	0	3	3	0	0	0
5C	0	13	13	0	0	0
6B	0	123	123	0	0	0
Non-rated exposures	1 135	2 566	3 701	615	847	1 462
Total	**1 135**	**2 705**	**3 840**	**615**	**847**	**1 462**

Risk management (cont.)

	31 December 2016			31 December 2015		
	large enterprises	medium enterprises	Total	large enterprises	medium enterprises	Total
1.5	40	0	40	0	0	0
2.0	0	0	0	15 443	0	15 443
4.5	0	0	0	3	0	3
6.1	6 255	0	6 255	4 372	0	4 372
6.2	30 808	0	30 808	35 091	0	35 091
6.3	24 804	0	24 804	20 925	0	20 925
6.4	5 776	0	5 776	9 699	0	9 699
6.5	477	0	477	246	0	246
2A	326	0	326	314	0	314
2B	5 021	0	5 021	0	0	0
2C	28	0	28	0	0	0
3B	292 680	0	292 680	11	0	11
4A	698	0	698	3 817	0	3 817
4B	1 948	3 349	5 297	385	2 720	3 105
4C	9 187	0	9 187	5 494	0	5 494
5A	3 456	0	3 456	4 714	0	4 714
5B	27 368	2 219	29 587	6 184	1 264	7 448
5C	32 726	0	32 726	16 093	0	16 093
6A	34 163	739	34 902	24 204	517	24 722
6B	151 308	475	151 783	243 008	409	243 417
6C	16 985	188	17 173	40 805	453	41 258
7A	2 022	428	2 450	8 467	57	8 524
7B	19 942	237	20 179	23 590	485	24 075
7C	43 295	387	43 682	427	112	539
8A	27	176	203	0	63	63
8B	51	72	123	59	59	118
8C	0	39	39	3	7	10
9B	0	19	19	0	6	6
10	16 986	0	16 986	0	0	0
B3	15 005	0	15 005	0	0	0
C2	0	0	0	25	0	25
C3	0	0	0	559	0	559
C4	0	0	0	804	0	804
C5	12	0	12	1 004	0	1 004
C6	7	0	7	320	0	320
C7	0	0	0	10	0	10
C8	179	0	179	178	0	178
C9	0	0	0	28	0	28
Non-rated exposures	56 199	111	56 310	111 098	1 326	112 424
Total	**797 779**	**8 439**	**806 218**	**577 381**	**7 479**	**584 861**

Risk management (cont.)

The following table provides information on concentration of credit risk by industry in case of exposures from the Central Bank, other banks and the Parent Entities clients.

Structure of gross exposures by industrial sectors

	31 December 2016		31 December 2015	
Name of the industry	Gross amount of exposures	Share in total exposure (%)	Gross amount of exposures	Share in total exposure (%)
Households	20 410 226	55,2%	19 909 764	45,0%
Wholesale and retail trade; repair of motor vehicles, motorcycles,	3 971 528	10,7%	5 148 633	11,7%
Manufacturing	3 072 416	8,3%	4 685 669	10,7%
Financial and insurance activities	2 000 561	5,4%	3 407 422	7,7%
Activities related to real estate	2 732 544	7,4%	3 374 734	7,6%
Transport and warehouse	956 644	2,6%	1 651 452	3,7%
Construction	1 020 482	2,8%	1 269 961	2,9%
Production and supply of electricity, gas, steam and air conditioning supply	567 729	1,4%	1 030 700	2,3%
Professional, scientific and technical activities	717 736	1,9%	757 651	1,7%
Administration activities and supporting activities	217 351	0,6%	615 068	1,4%
Information and communication	497 577	1,3%	580 996	1,3%
Hotels and restaurants	358 180	1,0%	489 311	1,1%
Other	457 547	1,4%	1 290 914	2,9%
Total	**36 980 521**	**100%**	**44 212 275**	**100%**

Risk management (cont.)

Practices „Forbearance"

With reference to document 2012/853 issued by European Securities and Markets Authority (ESMA) and instruction from European Banking Authority in relation to disclosures concerning the "forborne" exposure Group implemented following practices for classification of those exposures .

The exposures flagged as "forborne" are loan agreements with reference to which concession agreement with debtors, who experience or will experience the difficulties in meeting their financial commitments, was made. The concession agreement applies one of the following actions:

- changes in current agreement conditions, as a result of which – as it is presumed – the debtors could not meet due to the financial difficulties ("at risk"), leading to insufficient ability to service the debt, which would not take place if debtor did not face financial difficulties;
- full or partial refinancing of debt agreement at risk, which would not take place if debtor did not face financial difficulties.

Exposures are not reported as forborne, when all of the below conditions are met:

- the agreement is no longer considered at risk, including situations when it was removed from agreement at risk category after analysis of debtor's financial situation, which proved the agreement does not fulfill conditions required to consider it as at risk,
- from the date the exposure was assessed as not at risk at least two-year probation period passed,
- the regular payments of significant amount of principal or interest have been made during at least half of the probation period,
- none of the exposures to the debtor is more than 30 days past-due at the end of the probation period.

When the concession agreement leads to significant change in conditions or future expected cash flows, compared to market conditions or expected future cash flows from current financial assets, current financial asset is derecognized from the statement of financial position, and new financial assets is recognized in the statement of financial position, at the recognition date, in value net of impairment loss due to credit risk applicable for the new financial asset. The difference between impairment losses due to credit risk are recognized in profit or loss. This recognition is not related to the change or lack of change in legal form of the transaction and is based on its economic substance.

With reference to non-retail exposures the forbearance agreement, changing the conditions of agreement due to the debtor financial difficulties is treated as one of the triggers to perform individual impairment loss test and results in requirement to perform analysis whether to recognize an impairment loss on the exposure.

Risk management (cont.)

The retail exposures flagged as „forborne" for which impairment trigger was identified are covered by collective model of impairment . The retail exposures flagged as forborne for which impairment trigger was not identified are covered by IBNR model.

The details of the impairment loss calculation for loans exposures are presented in note 2.9 to the consolidated financial statements.

The below table presents the value of „forborne" exposures:

Forborne exposures				
31 December 2016	**Gross value**	**Impairment allowance**	**Net value**	**Value of received collateral**
Not impaired exposures	**809 570**	**18 596**	**790 974**	**587 725**
Non past due	**513 232**	**6 499**	**506 733**	**386 679**
Individual customers	265 713	1 317	264 396	145 678
Micro customers	112 146	633	111 513	106 080
Large enterprises	132 398	4 370	128 028	132 342
Small and medium enterprises	2 975	179	2 796	2 579
Past due	**296 338**	**12 097**	**284 241**	**201 046**
Individual customers	182 560	5 683	176 877	94 202
Micro customers	55 802	2 408	53 394	49 023
Large enterprises	53 708	3 711	49 997	53 708
Small and medium enterprises	4 268	295	3 973	4 113
Impaired exposuers	**932 106**	**512 060**	**420 046**	**422 208**
Collective basis	**341 804**	**166 114**	**175 690**	**180 500**
Individual customers	172 711	96 030	76 681	74 374
Micro customers	169 093	70 084	99 009	106 126
Individual basis	**590 302**	**345 946**	**244 356**	**241 708**
Individual customers	21 764	9 763	12 001	10 055
Micro customers	15 336	10 011	5 325	4 701
Large enterprises	543 763	319 577	224 186	224 108
Small and medium enterprises	9 439	6 595	2 844	2 844
Total	**1 741 676**	**530 656**	**1 211 020**	**1 009 933**

Risk management (cont.)

Forborne exposures				
31 December 2015	**Gross value**	**Impairment allowance**	**Net value**	**Value of received collateral**
Not impaired exposures	**953 733**	**28 478**	**925 255**	**590 092**
Non past due	**645 091**	**13 989**	**631 101**	**398 119**
Individual customers	242 071	2 152	239 919	119 837
Micro customers	137 912	678	137 234	119 307
Large enterprises	255 430	10 664	244 766	153 744
Small and medium enterprises	9 677	496	9 182	5 231
Past due	**308 643**	**14 489**	**294 154**	**191 972**
Individual customers	169 774	7 190	162 584	81 761
Micro customers	71 953	2 729	69 224	52 312
Large enterprises	63 302	4 328	58 974	55 580
Small and medium enterprises	3 614	242	3 372	2 320
Impaired exposuers	**1 009 117**	**491 992**	**517 125**	**465 662**
Collective basis	**276 839**	**127 992**	**148 847**	**159 859**
Individual customers	132 592	70 169	62 423	62 377
Micro customers	143 357	57 342	86 015	97 170
Large enterprises	890	481	409	312
Individual basis	**732 277**	**364 000**	**368 278**	**305 803**
Individual customers	22 634	12 328	10 306	8 868
Micro customers	30 674	18 166	12 508	11 743
Large enterprises	659 210	318 736	340 474	280 228
Small and medium enterprises	19 760	14 770	4 990	4 965
Total	**1 962 850**	**520 470**	**1 442 380**	**1 055 754**

In "Not impaired exposures" category loan exposures with impairment trigger identified, but no impairment loss recognized are presented, of gross value PLN 202 672 thousand (31 December 2015 PLN 330 996 thousand), and impairment loss (IBNR) of PLN 8 555 thousand (31 December 2015 PLN 15 657 thousand).

In the table below forborne exposures to loans share is presented:

Net amount exposures				
31 December 2016	**Forborne**	**Loans and advances to customers by borrower segment**	**% share**	**Under probation***
Individual customers	529 955	19 631 840	3%	309 330
Micro customers	269 241	2 491 608	11%	93 669
Large enterprises	402 211	10 342 216	4%	306 872
Small and medium enterprises	9 613	1 311 710	1%	6 329
Public sector	0	87 123	0%	0
Total	**1 211 020**	**33 864 497**	**4%**	**716 200**

Risk management (cont.)

Net amount exposures				
31 December 2015	**Forborne**	**Loans and advances to customers by borrower segment**	**% share**	**Under probation***
Individual customers	475 233	19 304 302	2%	287 811
Micro customers	304 981	5 406 406	6%	141 202
Large enterprises	644 623	12 448 416	5%	263 849
Small and medium enterprises	17 543	2 025 418	1%	4 570
Public sector	0	21 583	0%	0
Total	**1 442 380**	**39 206 125**	**4%**	**697 432**

** the Group classifies to the category "Under probation", which is defined for 2 years, the exposures towards which previously concessions were granted and which are currently under observation before the full recovery*

In the table below forborne exposures are presented by days past due:

Forborne exposures - gross		Past due					
31 December 2016	Not past due	Less than 30 days	Between 30 and 90 days	Between 90 and 180 days	Between 180 days and 1 year	More than 1 year	**Total**
Not impaired exposures	**513 233**	**150 682**	**100 036**	**1 989**	**0**	**43 630**	**809 570**
Individual customers	265 713	120 312	62 221	0	0	27	448 273
Micro customers	112 146	30 105	25 697	0	0	0	167 948
Large enterprises	132 399	265	12 118	0	0	41 325	186 107
Small and medium enterprises	2 975	0	0	1 989	0	2 278	7 242
Impaired exposuers	**315 321**	**10 899**	**35 643**	**37 347**	**29 368**	**503 528**	**932 106**
Individual customers	8 290	8 481	24 157	27 717	11 753	114 076	194 474
Micro customers	6 084	2 418	11 486	9 630	17 335	137 476	184 429
Large enterprises	300 335	0	0	0	0	243 429	543 764
Small and medium enterprises	612	0	0	0	280	8 547	9 439
Total	**828 554**	**161 581**	**135 679**	**39 336**	**29 368**	**547 158**	**1 741 676**

Forborne exposures - gross		Past due					
31 December 2015	Not past due	Less than 30 days	Between 30 and 90 days	Between 90 and 180 days	Between 180 days and 1 year	More than 1 year	**Total**
Not impaired exposures	**645 090**	**151 470**	**134 540**	**617**	**865**	**21 152**	**953 733**
Individual customers	242 071	95 548	74 169	0	0	56	411 845
Micro customers	137 912	42 229	29 725	0	0	0	209 866
Large enterprises	255 429	13 302	30 206	0	278	19 516	318 731
Small and medium enterprises	9 677	391	440	617	587	1 580	13 291
Impaired exposuers	**407 573**	**28 698**	**41 723**	**60 107**	**16 265**	**454 751**	**1 009 117**
Individual customers	15 604	11 636	23 671	12 785	3 232	88 300	155 227
Micro customers	9 055	16 149	13 175	8 601	5 578	121 471	174 030
Large enterprises	375 044	162	4 877	34 471	6 807	238 738	660 099
Small and medium enterprises	7 869	751	0	4 250	648	6 242	19 761
Total	**1 052 662**	**180 168**	**176 263**	**60 724**	**17 131**	**475 903**	**1 962 850**

Risk management (cont.)

Changes in carrying amount of "forborne" loans and advances to customers during the year ended 31 December 2016 are presented below:

	For the financial year ended 31 December 2016	For the financial year ended 31 December 2015
Net carrying amount at the beginning of period	**1 442 380**	**1 848 130**
Impairment allowances	-58 782	102 971
Amount of exposures with the flag removed in the year	-625 778	-1 117 183
Amount of exposures flagged in the year	559 441	720 719
Other changes/repayments	-30 571	-112 257
Changes in the Group structure	-75 670	0
Net carrying amount at the end of period	**1 211 020**	**1 442 380**

Concentration limits

In order to diversify the credit risk, the Group implemented internal concentration limits relevant to the scale of activity and complexity of exposure reducing the size of the portfolios. Limits were implemented for internal control purposes and management of the exposure through regular monitoring.

Credit risk limits are determined in internal policies and accepted by the Management Board of the Parent Entity.

The Parent Entity monitors in compliance with the article 395 of Regulation (UE) No 575/2013 of the European Parliament and of the Council of 26 June 2013 the utilization of concentration limits for individual clients and groups of clients within the same capital or organizational group.

The amounts of acceptable credit concentration limit for a single client or a group of related clients were as follows:

Acceptable concentration limit	31 December 2016	31 December 2015
Bank exposure concentration limit (25%)	1 527 855	1 456 779

The Group had no exposures exceeding the above mentioned concentration limit.

Exposure to a single borrower is subject to further limitations in the form of specific limits concerning exposure to risk and daily supply risk limits applicable to items such as foreign exchange forward contracts. The actual risk exposure is compared with the acceptable limits on a daily basis.

Customer balance and off-balance's exposures exceeding 10% of Group's equity are presented below – as at 31 December 2016 PLN 611 142 thousand (PLN 582 711 thousand as at 31 December 2015). They are presented based on exposure to a single customer or a capital group without taking into account any deductions resulting from the use of credit risk reduction techniques or exemptions defined in article 395 of Regulation (UE) No 575/2013 of the European Parliament and of the Council of 26 June 2013 of the

Risk management (cont.)

Resolution on exposure concentration limits. Exposures to governments, Central Banks and other banks were also included.

31 December 2016				
Customer No.	**Borrower name**	**Exposure**	**Entity / Group**	**% share**
1	Borrower 1	8 583 718	Grupa	140%
2	Borrower 2	8 329 279	Podmiot	136%
3	Borrower 3	7 393 915	Podmiot	121%
4	Borrower 4	657 590	Grupa	11%

31 December 2015				
Customer No.	**Borrower name**	**Exposure**	**Entity / Group**	**% share**
1	Borrower 1	12 146 112	Podmiot	208%
2	Borrower 2	4 140 150	Grupa	71%
3	Borrower 3	3 993 673	Podmiot	69%
4	Borrower 4	703 792	Grupa	12%

As at 31 December 2016 exposures to borrowers: 1, 2 and 3 relate to the National Bank of Poland and the State Treasury and are not subject to total exposure limit of 25% of equity (resulting from article 400 of Regulation (UE) No 575/2013 of the European Parliament and of the Council of 26 June 2013). After applying exceptions set out in article 400 of Regulation (UE) , exposure to those borrowers is below the permissible credit concentration limit which is below 25%.

Retail mortgage loans denominated in foreign currencies

The CHF mortgage loans portfolio is a significant subject of credit risk management due to its value and share in the total loans portfolio of the Parent Entity. The share of loans denominated in CHF was equal to 35.23% of all loans of the Parent Entity as at the end of the 2016, of which 33.19% concerned individual clients and 1.44% micro-enterprises.

The below table presents the carrying value of the mortgage loans portfolio of the Parent Entity analyzed by denomination currencies and sub-portfolios as at 31 December 2016 and 31 December 2015.

Risk management (cont.)

Loans for individuals and micro customers secured by mortgage by denomination currencies	31 December 2016 (f/x rate PLN/CHF 4,1)		31 December 2015 (f/x rate PLN/CHF 3,9)	
	Gross amount	Share in portfolio	Gross amount	Share in portfolio
Individual customers				
PLN	1 954 915	10,6%	1 708 456	9,3%
EUR	3 657 369	19,8%	3 754 023	20,3%
CHF	11 538 547	62,4%	11 629 234	63,1%
USD	5 673	0,0%	5 572	0,0%
Total	**17 156 504**	**93%**	**17 097 285**	**93%**
Micro customers				
PLN	832 755	4,5%	787 747	4,3%
EUR	84 461	0,5%	95 002	0,5%
CHF	407 544	2,2%	454 018	2,5%
Total	**1 324 760**	**7%**	**1 336 767**	**7%**
Total				
PLN	2 787 669	15,1%	2 496 204	13,5%
EUR	3 741 829	20,2%	3 849 025	20,9%
CHF	11 946 091	64,6%	12 083 252	65,6%
USD	5 673	0,0%	5 572	0,0%
Total	**18 481 262**	**100%**	**18 434 051**	**100%**

The table presents only retail loans (individual customers and micro customers) and mortgage products (loans arising from the restructuring and consolidation among mortgages have not been presented in the table above).

As at 31 December 2016 the impairment allowance on mortgage loans in CHF for infividual customers amounted to PLN 131 748 thousand and decreased by PLN 10 176 thousand compared to the end of the year 2015.

Average LTV on mortgage loans for individual clients denominated in foreign currencies amounted to 126.1% as at 31 December 2016 (as at 31 December 2015 amounted to 125.69%).

The below table presents quality of gross mortgage loans portfolio granted to individual clients by past due days (DPD) as at 31 December 2016

Risk management (cont.)

Loans for individuals and micro customers secured by mortgage by dpd (in PLN thous)	not overdue	Past due (DPD)			
		<1 - 90>	<91 - 180>	above 180	Total
		Individual customers			
PLN	1 350 967	85 572	9 699	508 677	1 954 915
EUR	3 504 059	136 124	11 851	5 335	3 657 369
CHF	10 241 538	1 125 099	62 594	109 316	11 538 547
USD	5 673	0	0	0	5 673
Total	**15 102 237**	**1 346 795**	**84 144**	**623 328**	**17 156 504**
		Micro customers			
PLN	558 052	23 062	3 097	248 544	832 755
EUR	79 006	4 931	219	305	84 461
CHF	362 355	36 743	5 040	3 406	407 544
Total	**999 413**	**64 736**	**8 356**	**252 255**	**1 324 760**
		Total			
PLN	1 909 017	108 634	12 796	757 222	2 787 669
EUR	3 583 062	141 055	12 071	5 641	3 741 829
CHF	10 603 892	1 161 842	67 634	112 723	11 946 091
USD	5 673	0	0	0	5 673
Total	**16 101 644**	**1 411 531**	**92 501**	**875 586**	**18 481 262**

Proposals of system solutions connected with currency risk of portfolios denominated in CHF, presented by different state and supervisory agencies, might have negative influence on financial results and equity of the Bank. The analysis of the draft impact on the consolidated financial statements of the Group could not be finalized at the moment of publication of these financial statements due to the significant differences in draft projects submitted for processing by the Parliament and being developed by the supervisory authorities.

Exposures from Renewable Energy Sources segment

Due to changing legal environment and changes in legislative process, in particular:

- changes in acts regulating Renewable Energy Sources (RES) market,
- amendment of regulations relating to installation of RES, i.e. Act on Investments in Wind farms (called distance act) dated 20 May 2016,

there were changes, which have direct impact on the RES market, including Wind farms market. Negative impact on the RES market has also temporary oversupply of Green certificates and its consequences.

According to the Bank's policy, the Bank does not finance new projects from Wind farms segment, and existing Bank's exposure is under constant monitoring and credit reviews on quarterly basis, including detailed analysis of cash flows. All exposures from Wind farms segment are in the repayments period and are financed as a part of project finance. Bank's exposure to the Wind farms is decreasing in the following months. The above described strategy will be continued.

Risk management (cont.)

In calculation of impairment on Renewable Energy portfolio, Bank prepares scenario estimations taking into account expected developments in prices of green certificates in the future. Bank takes into account scenarios with highest probabilities assigned and calculates both scenarios where the market price significantly increases above current market values of green certificates and scenarios where market price, according to experts judgments, decreases significantly in the future, i.e. the financing period.

46. Liquidity risk

The main purpose of the liquidity risk management process is to develop a structure of balance sheet in Group that allows the Group to achieve profit targets defined in the financial plan and, at the same time, to maintain Group's ability to timely settle its liabilities and comply with both internal and external (regulatory) liquidity risk limits.

In order to ensure a safe liquidity profile, the Group defined in the Risk management strategy, approved by the Supervisory Board, the main indicators, which the Group intends to maintain on the appropriate levels, among others:

- The excess of the accumulated adjusted liquidity gap, constructed in accordance with the applicable Group's methodology in all maturity tenors,
- In the short horizon possessing a surplus of inflows over outflows in a defined internal crisis scenario, which includes both the financial markets crisis and Group's reputational crisis,
- Holding of the internally defined buffers above the minimum levels of all supervisory liquidity ratios relating to the Group.

The managing of current and inter-day liquidity of the Group is performed by Liquidity Management Team. The level of mid-term and long-term liquidity risk incurred by the Group is assessed based on liquidity reports and the Department of Assets and Liabilities is responsible for operational management of this risk.

The liquidity reports show the liquidity gap level (static analysis of the liquidity gap), i.e. a gap between the maturities of assets and liabilities in particular time periods, based on the level of liquidity ratios achieved, which show the ratio of accumulated inflows to accumulated outflows in any given period.

The reports are prepared for balance sheet and off-balance sheet items in PLN and in base foreign currencies, i.e. EUR, USD, CHF, JPY,GBP as well as other foreign currencies cumulatively. The reports take into account the elements of modeling the behavior of the financial market and that of Group's customers (e.g. renewal of deposits, core deposits on current accounts, the probability of realization of off-balance sheet liabilities, necessity to maintenance of required balance of the mandatory reserve and adjustment of receivables due to identified impairment).

The Group also calculates on a daily basis regulatory liquidity ratios in accordance with the requirements of

Risk management (cont.)

Resolution No. 386/2008 of the Polish Financial Supervision Authority as amended and also prognosis of the regulatory ratios in horizon of a few months. The level of LCR ratio is also subject to calculation and limitation.

In the annual stress tests the Group analyzes the potential liquidity threats in crisis situation by examining them for their potential severity and the probability of their occurrence. As a part of this process The Central Crisis Scenario is defined, the result of which is then tested on a daily basis and not meeting its conditions may be a background to start the emergency plan. This scenario assumes the simultaneous occurrence of the financial markets crisis and reputational crisis, resulting in, among others, respectively on increased outflow of deposits depending on the category, the negative impact of exchange rates reflected in the necessity to increase the balance of collateral accounts for settlement of derivative transactions, no possibility to obtain funds from the interbank market or immediate outflow of deposits of high concentration risk. In such defined scenario the Group assumes the possibility of undisturbed operations in the horizon of a minimum of 30 days without having to take additional action.

In the Group, mid-term and long-term liquidity risk is managed by the Asset – Liability Committee (ALCO), which determines the desired structure of Group's balance sheet using a system of limits covering e.g. the liquidity gap amount, the level of deposit concentration, the ratio of loan portfolio value to the value of deposits.

The Department of Asset and Liability Management operates on the financial market to achieve an appropriate structure of the portfolio of assets and liabilities, so that the required liquidity risk limits are complied with. The Group's pricing and product policy, as an instrument that affects the structure of the Bank's balance sheet, is another tool used to manage liquidity risk.

The following table presents an ageing analysis of financial liabilities in the form of undiscounted cash flows.

Risk management (cont.)

31 December 2016							
			Contractual cash flows				
Type of liability	Nominal amount	Book value	within 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	Total
Liabilities in respect of derivative financial instruments	**1 422 184**	**1 546 166**	**266 970**	**147 255**	**590 338**	**7 899**	**1 012 462**
Inflows	25 708 321	-	13 554 018	3 091 540	9 413 096	375 199	**26 433 853**
Outflows	27 130 505	-	13 820 988	3 238 795	10 003 434	383 098	**27 446 315**
Financial liabilities	**45 026 974**	**45 040 801**	**34 995 784**	**5 164 379**	**5 575 265**	**283 597**	**46 019 025**
Amounts due to banks and other monetary institutions	7 426 757	7 433 406	304 025	2 293 250	5 344 063	0	**7 941 338**
including received loans	7 094 115	7 099 171	0	2 254 237	5 331 004	0	**7 585 241**
Amounts due to customers	36 324 355	36 329 411	34 297 908	2 345 517	63 505	340	**36 707 270**
Subordinated liabilities	331 804	332 096	3 373	10 120	146 119	251 197	**410 809**
Liabilities from issuance of debt securities	500 000	501 830	7 775	507 775	0	0	**515 550**
Other financial liabilities	444 058	444 058	382 703	7 717	21 578	32 060	**444 058**
Guarantee liabilities granted	**1 928 262**	**-**	**0**	**1 928 262**	**0**	**0**	**1 928 262**
Financial liabilities granted	**7 129 960**	**-**	**0**	**3 396 756**	**3 733 204**	**0**	**7 129 960**

31 December 2015							
			Contractual cash flows				
Type of liability	Nominal amount	Book value	within 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	Total
Liabilities in respect of derivative financial instruments	**1 540 544**	**1 478 611**	**200 365**	**169 544**	**949 396**	**10 027**	**1 329 332**
Inflows	30 934 565	-	22 298 619	2 701 376	6 227 346	11 747	**31 239 088**
Outflows	32 475 109	-	22 498 984	2 870 920	7 176 742	21 774	**32 568 419**
Financial liabilities	**53 550 160**	**53 647 138**	**35 892 979**	**9 989 394**	**8 096 496**	**943 890**	**54 922 759**
Amounts due to banks and other monetary institutions	13 083 000	13 088 797	2 753 474	4 064 115	6 642 775	263 536	**13 723 900**
including received loans	12 608 303	12 610 007	2 264 391	4 031 011	6 629 628	263 536	**13 188 567**
Amounts due to customers	37 676 274	37 762 146	32 680 607	5 381 280	70 598	295	**38 132 780**
Subordinated liabilities	724 455	724 789	9 526	28 577	247 728	679 666	**965 496**
Liabilities from issuance of debt securities	1 753 700	1 758 677	182 813	471 685	1 133 354	0	**1 787 852**
Other financial liabilities	312 731	312 729	266 559	43 738	2 042	392	**312 731**
Guarantee liabilities granted	**1 882 927**	**-**	**0**	**1 882 927**	**0**	**0**	**1 882 927**
Financial liabilities granted	**8 123 825**	**-**	**83 336**	**3 637 258**	**4 403 231**	**0**	**8 123 825**

The following table presents the cumulative liquidity gap of the Group including off-balance transactions (without credit lines).

Risk management (cont.)

	within 1 month	up to 3 months	up to 12 months	up to 2 years	up to 3 years	up to 5 years	up to 20 years
31 December 2016	-11 678 432	-17 304 521	-19 009 829	-20 698 944	-18 138 933	-11 826 321	971 460
31 December 2015	-3 702 518	-11 000 766	-17 320 105	-18 291 576	-17 251 091	-12 370 669	209 470

Amounts due to customers in current accounts are presented in liabilities „within 1 month".

The Group's activities are aimed at transforming the maturities of assets and liabilities to reflect the preferences of customers who place their deposits with the Group and receive loans from it, while maintaining the acceptable level of risk mitigated by mid-term and long-term financing obtained on the interbank market.

The structure of maturities of assets and liabilities and an ability to replace at acceptable cost interest-bearing liabilities upon their maturities, all are considered significant elements of Group's liquidity assessment and its exposure to changes in interest rates and foreign exchange rates.

47. Other market risks

47.1. Market risk

Market risk is related to open positions on interest rate, foreign exchange and equity products exposed to changes in market values. For the purposes of determining risk limits, the Group uses simulation methods relying on the base point value and methods based on the net position value.

The market risk management process is subject to continuous assessment and evolution in order to adjust it to changing market conditions.

The management process comprises:

- identification of risk factors;
- risk measurement;
- risk monitoring;
- risk reporting.

47.2. Currency risk

Currency risk is a risk of changes in value of individual financial instruments due to fluctuations in foreign exchange rates. In connection with its activity, the Group is exposed to the effect of fluctuations in foreign exchange rates on its financial position and cash flows.

Currency risk, understood as the probability of incurring a loss, depends on:

- foreign exchange rate fluctuations,
- non-matching receivables and liabilities in foreign currencies.

Risk management (cont.)

The main purpose of currency risk management is to identify areas prone to currency risk and take actions aimed at reducing the risk to an acceptable level.

For the purposes of currency risk management, the Group has developed a system of market risk levels. As part of the division of responsibilities in the risk management process the Group's Management Board determines in its Asset and Liability Management Policy the level of general currency risk appetite, taking into account budget assumptions and the effect of potential losses on the Group's equity.

The Group's currency risk management policy assumes having a foreign exchange position, which enables the Group to offer its customers competitive foreign exchange quotations. Currency risk is immaterial – the capital requirement in respect of foreign exchange risk is equal to PLN 3 133 thousand. The Group uses simulation methods in the management process, utilizing value at risk (VaR) method in calculation of currency risk exposure.

Detailed values of the individual limits are determined by the Asset – Liability Committee and cover:

- the maximum overnight open position levels for each currency,
- the maximum open position in Greek's ratios for each currency pair
- the total overnight and intraday open position levels for all currencies,
- the value at risk limit, determined for a 1-day position maintenance horizon and the confidence level of 99%. Value at risk is determined by the variance — covariance method,
- monthly, quarterly and annual maximum loss limits.

The amount of currency risk borne by the Parent Entity, measured by VaR method according to the above described parameters is presented in the below table:

Value at risk limit	31 December 2016				31 December 2015
	Min.	Max.	Average	As at 30 December 2016	As at 31 December 2015
Currency risk	11	663	80	84	221

Moreover, for the purposes of calculating the requirement with respect to currency risk exposure, the so-called basic method is used, which determines the acceptable limits of exposure to the risk of unmatched currency receivables and liabilities (i.e. total position) with respect to the Group's own funds.

Daily reports on Group's currency position, comprising an analysis of foreign exchange operations in the context of both the compliance with prudential regulatory standards (limits) and the economic results, are presented to the directors of organizational units responsible for risk management and control and to the Members of the Management Board of the Parent Entity.

Risk management (cont.)

As at 31 December 2016 and 31 December 2015 the Group carried out an analysis of the impact of changes in foreign exchange rates on foreign exchange positions of the Group for three foreign currencies (EUR, CHF, USD), which have the largest open position. The results of this analysis are presented in the table below (in PLN thousand):

As at 31 December 2016	Base position	Exposure after rate change of -50 pts	Exposure after rate change of +50 pts	Impact on the profit/loss rate after change of -50 pts	Impact on the profit/loss after rate change of +50 pts
EUR	-47 367	-47 314	-47 421	54	-54
USD	5 956	5 949	5 963	-7	7
CHF	-8 190	-8 180	-8 200	10	-10
Total				**57**	**-57**

As at 31 December 2015	Base position	Exposure after rate change of -50 pts	Exposure after rate change of +50 pts	Impact on the profit/loss rate after change of -50 pts	Impact on the profit/loss after rate change of +50 pts
EUR	27 555	27 522	27 589	-33	33
USD	4 244	4 240	4 250	-5	5
CHF	16 982	16 960	17 004	-22	22
Total				**-60**	**60**

Assuming that exchange rates fall at the same time by 50 base points, the Group's result of the currency position would increase by PLN 57 thousand, while with an increase in exchange rate by 50 base points the Group's result would decrease by PLN 57 thousand.

As at 31 December 2016, Group's net short currency position amounted to PLN 55 557 thousand, which constituted 0.90% of Group's own funds (31 December 2015 net currency position of the Group amounted to PLN 50 276 thousand, which was equal to 0.86 % of Group's own funds). The following table presents the Group's balance sheet and off-balance items by currency.

Assets, liabilities and off-balance items in foreign currencies and the Group's currency position					
As at 31 December 2016	**EUR**	**USD**	**CHF**	**Other**	**Total**
Components of currency position – assets	8 196 124	517 692	12 174 196	215 508	21 103 520
Components of currency position – liabilities	8 611 992	1 776 804	4 422 048	397 563	15 208 407
Off-balance components of currency position – amounts receivable	10 850 430	9 618 640	824 926	613 002	21 906 998
Off-balance components of currency position – amounts payable	10 481 929	8 353 572	8 585 264	428 776	27 849 541
Net long currency position (+)	**0**	**5 956**	**0**	**2 171**	**8 127**
Net short currency position (-)	**47 367**	**0**	**8 190**	**0**	**55 557**

Assets, liabilities and off-balance items in foreign currencies and the Group's currency position					
As at 31 December 2015	**EUR**	**USD**	**CHF**	**Other**	**Total**
Components of currency position – assets	11 111 882	616 960	12 401 741	252 526	24 383 110
Components of currency position – liabilities	11 727 413	1 980 337	3 209 911	332 488	17 250 149
Off-balance components of currency position – amounts receivable	16 829 196	22 105 727	1 205 429	658 354	40 798 706
Off-balance components of currency position – amounts payable	16 186 110	20 738 106	10 380 277	576 899	47 881 392
Net long currency position (+)	**27 555**	**4 244**	**16 982**	**1 494**	**50 276**
Net short currency position (-)	**0**	**0**	**0**	**0**	**0**

Risk management (cont.)

For period covered by these consolidated financial statements there were no significant changes in currency risk management.

47.3. Interest rate risk for cash flows and fair value

Interest rate risk results from the fact that the possible changes in market interest rates can affect future cash flows or the fair value of financial instruments held by the Group.

The main objectives of interest rate risk management include identification of the areas in which the Group is exposed to interest rate risk and structuring of balance sheet, so that the maximum net interest income can be achieved.

The Group's policy on interest rate risk management assumes the existence of a system of internal transfer prices within the Group, as part of which the business units do not incur interest rate risk on their own behalf, but transfer the risk to the units responsible for its central management.

For the purpose of interest rate risk management in the Group, a system of market risk levels has been developed. As part of the division of responsibilities in the risk management process the Parent Entity's Management Board in its Assets and Liabilities Management Policy determines the level of general interest rate risk appetite, taking into account the budget assumptions and the effect of potential losses on Group's equity.

Subsequently, the detailed values of the individual limits are determined by the Asset – Liability Committee and cover:

- the maximum open interest rate position limits measured as the amount of change in the fair value resulting from a 1 base point increase in market interest rates. The limits are diversified with respect to the source of exposure (bank book and trading book), their currency and time period in accordance with the repricing date grid used in the Group,
- the value at risk limits, determined for the bank and trading books separately, assuming a 1-day position maintenance horizon and the confidence level of 99%. Value at risk is determined by the variance – covariance method. The Group does not have any open interest rate positions on instruments with non-linear risk profile,
- monthly, quarterly and annual maximum loss limits.

All limits associated with interest rate risk are monitored by the Risk Management Department. Risk is measured on a daily basis. Daily reports on the utilization of different risk limits are distributed in an electronic format to Group's business units and the Members of the Board supervising them.

The Asset – Liability Committee (ALCO) is responsible for periodical control of the interest rate risk management. During its monthly meetings ALCO evaluates the levels of risk to which the Group is exposed to and, if necessary, instructs the relevant units to take appropriate steps to mitigate it.

Risk management (cont.)

The Group maintains separate bank and trading portfolios. According to the Regulation of the Parent Entity's Management Board on detailed principles for separating the trading portfolio, it includes:

- transactions concluded with an intention to obtain financial gains in the short term as a result of changes in the market parameters, in particular foreign exchange rates and interest rates;
- all transactions hedging the risk on transactions included in the trading portfolio;
- internal hedging instruments, which mitigate bank portfolio risks.

Due to the fact that the risks on transactions concluded are not uniform, sub-portfolios within the trading portfolio had to be separated, which allows the Group to monitor positions and limits on individual types of transactions.

For the purposes of capital requirement calculation regarding the trading book exposure to interest rate risk, the Parent Entity uses the method of an average, updated period of return. Transactions not classified to the trading portfolio are included in the bank portfolio.

The following table presents the level of the Parent Entity's exposure to interest rate risk, for the bank book and the trading book separately, measured in terms of the amount of the change in the fair value resulting from a 1 base point increase in market interest rates. The values in different maturity brackets are presented as absolute values in order to present the general level of exposure to interest rate risk, irrespective of the direction of a given position.

	31 December 2016				31 December2015			
	Min.	Max.	Average	As at 31 December	Min.	Max.	Average	As at 31 December
Bank book								
<1Y	26	374	97	34	0	458	308	300
1 – 3Y	1	232	102	56	0	81	14	13
>3Y	17	30	24	27	0	84	9	17
Trading book								
<1Y	0	31	10	2	0	92	23	12
1 – 3Y	0	65	13	7	1	129	40	55
>3Y	0	81	28	16	0	101	35	29

The following table presents the level of the Parent Entity's exposure to interest rate risk, for the bank book and the trading book separately, measured using the value at risk, in accordance with the model parameters defined in the system of limits.

	31 December 2016				31 December 2015
	Min.	Max.	Average	As at 31 December	As at 31 December
Banking book	1 160	7 500	6 158	6 238	4 849
Trading book	177	1 388	541	474	293

Risk management (cont.)

The Bank also calculates the value of Earnings-at-Risk, which shows the sensitivity of net interest income in the year time horizon, assuming immediate and identical for all the currencies change in market interest rates by 100 basis points, continuing throughout the duration of the simulation.

The result of the measurement as the end of 2016 showed the impact on interest result of PLN 150 975 thousand, which is 2.5% of the own funds of the Bank included in the calculation of the capital adequacy ratio compared to PLN 169 059 thousand for the end of 2015 year, representing 2.8% of the funds.

The following table presents an analysis of asset, liabilities and off-balance sheet items sensitivity to changes in interest rates. The table presents the carrying amounts of the Group's assets and liabilities for the earlier of the two dates: change of the contractual interest rate date or due date.

Valuation of derivative financial instruments used mainly to reduce the Group's exposure to changes in interest rates are presented under Derivative financial instruments in Assets and Liabilities.

Risk management (cont.)

Group's exposure to interest rate risk

As at 31 December 2016	Non-interest bearing	1M	3M	6M	12M	2Y	5Y	>5Y	Total
Assets									
Cash and balances with the Central Bank	667 808	1 064 061	0	0	0	0	0	0	**1 731 869**
Amounts due from banks	34 998	286 565	13 000	0	0	0	0	0	**334 563**
Financial assets held for trading	0	7 665 025	6 494	266 986	632	106 076	2 072	57	**8 047 342**
Derivative financial instruments	466 709	0	0	0	0	0	0	0	**466 709**
Investment securities	45 540	5 979 963	26 331	1 896 120	0	0	0	0	**7 947 954**
Loans and advances to customers	0	12 761 988	18 726 103	2 051 677	177 650	11 548	135 531	0	**33 864 497**
Other financial assets	180 732	0	0	0	0	0	0	0	**180 732**
Liabilities									
Amounts due to banks and other monetary institutions	0	3 302 165	4 120 809	0	0	0	10 432	0	**7 433 406**
Derivative financial instruments	1 546 166	0	0	0	0	0	0	0	**1 546 166**
Amounts due to customers	0	14 879 130	14 496 966	3 880 318	2 528 967	535 323	8 367	340	**36 329 411**
Subordinated liabilities	0	0	332 096	0	0	0	0	0	**332 096**
Liabilities from debt securities issued	0	0	0	501 830	0	0	0	0	**501 830**
Other financial liabilities	443 976	5	77	0	0	0	0	0	**444 058**
Contingent liabilities									
Guarantee liabilities granted	1 928 262	0	0	0	0	0	0	0	**1 928 262**
Financial liabilities granted	7 129 960	0	0	0	0	0	0	0	**7 129 960**

Risk management (cont.)

Group's exposure to interest rate risk

As at 31 December 2015	Non-interest bearing	1M	3M	6M	12M	2Y	5Y	>5Y	Total
Assets									
Cash and balances with the Central Bank	1 067 024	1 636 486	0	0	0	0	0	0	**2 703 510**
Amounts due from banks	4 053	1 302 297	10 000	10 000	0	0	0	0	**1 326 350**
Financial assets held for trading	0	12 432 967	39 339	44 443	5 275	12 548	4 226	31 612	**12 570 410**
Derivative financial instruments	562 046	0	0	0	0	0	0	0	**562 046**
Investment securities	80 895	3 360 953	169 344	230 464	0	0	0	0	**3 841 655**
Loans and advances to customers	0	24 018 309	14 605 433	94 639	246 382	37 456	203 662	244	**39 206 125**
Other financial assets	171 990	5 447	0	0	0	0	0	0	**177 437**
Liabilities									
Amounts due to banks and other monetary institutions	0	6 216 521	6 437 394	246 444	178 005	0	10 432	0	**13 088 797**
Derivative financial instruments	1 478 611	0	0	0	0	0	0	0	**1 478 611**
Amounts due to customers	0	19 114 397	8 852 099	6 007 016	3 719 080	68 254	945	355	**37 762 146**
Subordinated liabilities	0	404 336	320 452	0	0	0	0	0	**724 789**
Liabilities from debt securities issued	0	0	1 256 852	501 825	0	0	0	0	**1 758 677**
Other financial liabilities	309 584	3 144	0	0	0	0	0	0	**312 728**
Contingent liabilities									
Guarantee liabilities granted	1 882 927	0	0	0	0	0	0	0	**1 882 927**
Financial liabilities granted	8 123 825	0	0	0	0	0	0	0	**8 123 825**

Risk management (cont.)

47.4. Operational risk

Operational risk is defined as the risk of incurring a loss due to ill-adjusted unadjusted or unreliable processes, people or systems, or due to external events. This definition includes legal risk, but it does not include strategic risk or reputation risk.

For the purposes of calculating the capital requirement for operational risk, the Group uses the Standardized Approach method, which determines both the method for calculating the capital requirement and the operational risk management requirements.

The aim of the operational risk management is to increase the safety of the Group's operations by implementing effective mechanisms for the identification, assessment and quantification, mitigation, monitoring and reporting operational risk.

The Group's operational risk management policy should reflect the Group's operational risk profile and ensure that adequate measures are taken to:

- control the risk at an acceptable level adequate to the Group's size and the nature of its operations;
- eliminate the reasons and the adverse effects of operational events;
- minimize losses incurred as a result of operational events;
- improve the effectiveness of processes;
- shape the awareness of operational risk.

Group's operational risk appetite is defined as:

- the value of internal capital allocated to operational risk
- the estimated value of operating losses from operational events identified in the Group within 12 months.

The main principles of operational risk management in the Group are as follows:

- the operational risk owners are the managers of business lines and the individual organizational units;
- the operational risk management process is supervised by the Operational Risk Steering Committee;
- there is an independent operational risk management function in place at the Risk Management Department;
- the internal audit function performs an independent review of the operational risk management procedures and process;
- operational risk data is collected regularly;
- exposures are estimated and operational risk is reported;
- actions are taken to reduce operational risk to an acceptable level.

Risk management (cont.)

In accordance with the Group's Operational Risk Management Policy, the following methods and tools for operational risk management are used in the Group:

- collecting information on operational events;
- monitoring of key risk indicators
- scenario analysis for events characterized by low frequency and high severity,
- assessment of operational risk for the key operational risk areas,
- operational risk reporting ensuring regular and timely flow of information to relevant decisive bodies.