GETIN NOBLE

BANK • SPÓŁKA AKCYJNA

Consolidated financial statements of the

GETIN NOBLE BANK S.A. CAPITAL GROUP

for the year ended 31 December 2017

with the independent auditor's report

Warsaw, April 2018

Selected financial data

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 (restated) PLN thousand	01.01.2017-31.12.2017 EUR thousand	01.01.2016-31.12.2016 (restated) EUR thousand
Net interest income	1,296,916	1,316,680	305,538	300,907
Net fee and commission income	154,103	126,387	36,305	28,884
Profit/ (loss) before tax	(661,028)	(42,365)	(155,730)	(9,682)
Net profit/ (loss)	(573,325)	(54,855)	(135,068)	(12,536)
Net profit/ (loss) attributable to equity holders of the parent	(574,944)	(58,545)	(135,450)	(13,380)
Total comprehensive income/ (losses) for the period	(483,172)	(118,978)	(113,829)	(27,191)
Net cash flows	341,174	278,786	80,376	63,712

	31.12.2017 PLN thousand	31.12.2016 (restated) PLN thousand	31.12.2017 EUR thousand	31.12.2016 (restated) EUR thousand
Loans and advances to customers	42,711,803	46,633,758	10,240,428	10,541,085
Total assets	59,835,536	66,159,808	14,345,953	14,954,749
Amounts due to customers	48,613,567	53,041,128	11,655,414	11,989,405
Total equity	4,315,503	4,757,098	1,034,669	1,075,293
Tier 1 capital	4,196,859	4,661,062	1,006,224	1,053,585
Tier 2 capital	1,329,687	1,363,985	318,801	308,315
Total capital ratio	12.6%	15.0%	12.6%	15.0%
Number of shares	901,696,125	883,381,106	901,696,125	883,381,106

The selected financial figures comprising the basic items of the consolidated financial statements have been converted into euro in accordance with the following principles:

- the items of assets, liabilities and equity have been converted in accordance with the average exchange rates announced by the National Bank of Poland as at 31 December 2017, i.e. 1 EUR = 4.1709 PLN and as at 31 December 2016, i.e. 1 EUR = 4.4240 PLN,
- the items of the income statement as well as the items of the statement of cash flows have been converted in accordance with exchange rates constituting arithmetic means of the average exchange rates established by the National Bank of Poland as at the last day of every month within 12-month period ended 31 December 2017 and 31 December 2016 (1 EUR = 4.2447 PLN and 1 EUR = 4.3757 PLN respectively).

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I. CONSOLIDATED FINANCIAL STATEMENTS

1. Consolidated income statement

	Note	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 (restated) PLN thousand
CONTINUED ACTIVITY			
Interest income	II.8	2,551,697	2,830,096
Interest expense	II.8	(1,254,781)	(1,513,416)
Net interest income		**1,296,916**	**1,316,680**
Fee and commission income	II.9	317,679	315,653
Fee and commission expense	II.9	(163,576)	(189,266)
Net fee and commission income		**154,103**	**126,387**
Dividend income	II.10	4,349	11,472
Result on financial instruments measured at fair value through profit or loss and net foreign exchange result	II.11	50,990	35,182
Result on other financial instruments	II.12	8,850	85,228
Result on investments in subsidiaries, associates and joint ventures	II.13	152,964	45,420
Other operating income	II.14	61,828	52,506
Other operating expense	II.14	(250,044)	(114,727)
Net other operating income and expense		**(188,216)**	**(62,221)**
Administrative expenses	II.15	(894,875)	(859,040)
Net impairment allowances on financial assets and off-balance sheet provisions	II.16	(1,260,723)	(700,116)
Operating profit		**(675,642)**	**(1,008)**
Share of profits of associates	II.27	14,614	(3,388)
Share of profits of joint ventures		-	304
Tax on certain financial institutions		-	(38,273)
Profit/ (loss) before tax		**(661,028)**	**(42,365)**
Income tax	II.17	87,703	(12,490)
Net profit/ (loss)		**(573,325)**	**(54,855)**
Attributable to:			
equity holders of the parent		(574,944)	(58,545)
non-controlling interests		1,619	3,690
Earnings per share in PLN:	II.18		
basic, for profit/(loss) for the period attributable to equity holders of the parent		(0.64)	(0.07)
diluted, for profit/(loss) for the period attributable to equity holders of the parent		(0.64)	(0.07)

In 2017 and 2016 there were no discontinued operations in the Group.

2. Consolidated statement of comprehensive income

	Note	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 (restated) PLN thousand
Net profit/(loss) for the period		**(573,325)**	**(54,855)**
Items that may not be reclassified to profit or loss, of which:		**(34)**	**96**
Actuarial gains/ (losses)	II.38	(42)	118
Tax effect related to items that may not be reclassified to profit or loss	II.17	8	(22)
Items that may be reclassified to profit or loss, of which:		**90,187**	**(64,219)**
Valuation of available-for-sale financial assets		74,563	(94,024)
Cash flow hedges	III.6	36,780	14,744
Tax effect related to items that may be reclassified to profit or loss	II.17	(21,156)	15,061
Net other comprehensive income/ (loss)		**90,153**	**(64,123)**
Total comprehensive income/ (loss) for the period		**(483,172)**	**(118,978)**
Attributable to:			
equity holders of the parent		(484,791)	(122,668)
non-controlling interests		1,619	3,690

3. Consolidated statement of financial position

	Note	31.12.2017 PLN thousand	31.12.2016 (restated) PLN thousand	01.01.2016 (restated) PLN thousand
ASSETS				
Cash and balances with the Central Bank	II.19	3,341,593	3,152,195	2,724,472
Amounts due from banks and financial institutions	II.20	656,216	1,178,205	2,294,916
Financial assets held for trading	II.21	8,000	12,966	17,870
Financial assets measured at fair value through profit or loss	II.22	158,491	171,972	166,817
Derivative financial instruments	II.23	584,178	102,136	168,911
Loans and advances to customers	II.24	42,711,803	46,633,758	49,225,014
Financial assets, of which:	II.25	9,855,529	12,208,924	12,695,546
available-for-sale		8,181,036	12,006,283	12,541,224
held-to-maturity		1,674,493	202,641	154,322
Investments in associates	II.27	224,046	45,670	57,288
Investments in joint ventures		-	-	172,338
Intangible assets	II.28	236,900	238,919	217,240
Property, plant and equipment	II.29	276,807	284,216	307,678
Investment properties	II.30	628,118	721,534	695,152
Non-current assets held for sale	II.32	247,713	415,565	439,432
Income tax assets, of which:		426,721	348,637	336,030
receivables relating to current income tax		4,625	-	4,031
deferred tax assets	II.17	422,096	348,637	331,999
Other assets	II.33	479,421	645,111	896,634
TOTAL ASSETS		**59,835,536**	**66,159,808**	**70,415,338**
LIABILITIES AND EQUITY				
Liabilities				
Amounts due to banks and financial institutions	II.34	1,848,166	2,595,427	3,828,812
Derivative financial instruments	II.23	248,080	1,664,441	1,520,459
Amounts due to customers	II.35	48,613,567	53,041,128	55,726,221
Debt securities issued	II.36	4,443,174	3,819,593	4,093,061
of which subordinated debt		2,664,538	2,438,035	2,133,337
Other liabilities	II.37	345,455	256,945	401,006
Deferred tax liabilities	II.17	1,307	3,942	-
Provisions	II.38	20,284	21,234	23,063
Total liabilities		**55,520,033**	**61,402,710**	**65,592,622**
Equity attributable to equity holders of the parent		**4,315,498**	**4,750,289**	**4,822,711**
Share capital	II.39	2,461,630	2,411,630	2,650,143
Retained earnings		(337,778)	(170,213)	(218,087)
Net profit/(loss)		(574,944)	(58,545)	-
Other capital	II.40	2,766,590	2,567,417	2,390,655
Non-controlling interests		**5**	**6,809**	**5**
Total equity		**4,315,503**	**4,757,098**	**4,822,716**
TOTAL LIABILITIES AND EQUITY		**59,835,536**	**66,159,808**	**70,415,338**

4. Consolidated statement of changes in equity

2017	Attributable to equity holders of the parent							Non-controlling interests	Total equity
	Share capital	Retained earnings	Net profit/ (loss)	Other capital			Total		
				Reserve capital	Revaluation reserve	Other capital reserves			
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
As at 01.01.2017	**2,411,630**	**(228,758)**	**-**	**2,472,942**	**(184,919)**	**279,394**	**4,750,289**	**6,809**	**4,757,098**
Comprehensive income/ (loss) for the period	-	-	(574,944)	-	90,153	-	**(484,791)**	1,619	**(483,172)**
Increase in share capital of the parent company*	50,000	-	-	-	-	-	**50,000**	-	**50,000**
Distribution of profit for the previous year	-	(109,020)	-	109,020	-	-	**-**	-	**-**
Acquisition of control of a subsidiary	-	-	-	-	-	-	**-**	5	**5**
Loss of control of a subsidiary	-	-	-	-	-	-	**-**	(6,119)	**(6,119)**
Dividend paid to non-controlling interests	-	-	-	-	-	-	**-**	(2,309)	**(2,309)**
As at 31.12.2017	**2,461,630**	**(337,778)**	**(574,944)**	**2,581,962**	**(94,766)**	**279,394**	**4,315,498**	**5**	**4,315,503**

* The Bank increased its share capital by carrying out the private issue of series B ordinary bearer shares for the amount of PLN 50,000,001.87, which were registered by the District Court for the Capital City of Warsaw in Warsaw, XII Commercial Division of the National Court Register on 5 July 2017.

2016 (restated)	Attributable to equity holders of the parent							Non-controlling interests	Total equity
	Share capital	Retained earnings	Net profit/ (loss)	Other capital			Total		
				Reserve capital	Revaluation reserve	Other capital reserves			
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
As at 01.01.2016	**2,650,143**	**123,044**	**-**	**2,470,570**	**(120,796)**	**40,881**	**5,163,842**	**5**	**5,163,847**
Correction of prior period errors	-	(341,131)	-	-	-	-	(341,131)	-	(341,131)
As at 01.01.2016 after adjustments	**2,650,143**	**(218,087)**	**-**	**2,470,570**	**(120,796)**	**40,881**	**4,822,711**	**5**	**4,822,716**
Comprehensive income for the period	-	-	(58,545)	-	(64,123)	-	**(122,668)**	3,690	**(118,978)**
Distribution of profit for the previous year	-	(2,372)	-	2,372	-	-	**-**	-	**-**
Decrease in share capital of the parent company *	(238,513)	-	-	-	-	238,513	**-**	-	**-**
Sale of non-controlling interests in a subsidiary	-	50,246	-	-	-	-	**50,246**	4,319	**54,565**
Deconsolidation of a subsidiary	-	-	-	-	-	-	**-**	(5)	**(5)**
Dividend paid to non-controlling interests	-	-	-	-	-	-	**-**	(1,200)	**(1,200)**
As at 31.12.2016	**2,411,630**	**(170,213)**	**(58,545)**	**2,472,942**	**(184,919)**	**279,394**	**4,750,289**	**6,809**	**4,757,098**

* On 25 February 2016 the Financial Supervision Authority approved the changes to the Getin Noble Bank S.A. Articles of Association as regard the reduction the share capital by the amount of PLN 238,513 thousand, by reduction of the nominal value of one share from PLN 1.00 to PLN 0.91. The amount resulting from the share capital reduction was transferred to a separate reserve fund. On 21 September 2016, the Court registered the merger of the Bank's shares by combining every 3 ordinary bearer shares with the existing nominal value of PLN 0.91 each into one share with a new nominal value of PLN 2.73, thus the exchange ratio was set as 3:1. The merger of the shares was carried out while maintaining the unchanged amount of the share capital, i.e. PLN 2,411,630,419.38.

5. Consolidated statement of cash flows

	Note	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 (restated) PLN thousand
Cash flow from operating activities			
Net profit/ (loss)		(573,325)	(54,855)
Adjustments:		1,579,158	1,489,628
Amortisation and depreciation	II.15	84,470	80,219
Share of (profits)/ losses of associates	II.27	(14,614)	3,388
Share of (profits)/ losses of joint ventures		-	(304)
(Gains)/ losses from investing activities		(51,977)	31,674
Interests and dividends		224,074	242,153
Change in amounts due from banks and financial institutions		671,226	967,774
Change in financial assets held for trading		4,966	4,904
Change in financial assets measured at fair value through profit or loss		13,481	(5,155)
Change in derivative financial instruments (assets)		(498,021)	67,166
Change in loans and advances to customers		3,921,955	2,591,256
Change in available-for-sale financial instruments		4,220,352	458,779
Change in held to maturity financial instruments		(1,457,903)	(12,486)
Change in other assets		158,974	251,523
Change in non-current assets held for sale		161,917	26,039
Change in amounts due to banks and financial institutions		117,013	(583,041)
Change in derivative financial instruments (liabilities)		(1,370,591)	155,534
Change in amounts due to customers		(4,427,561)	(2,685,093)
Change in debt securities issued		(38,283)	15,465
Change in other liabilities		(2,814)	(144,931)
Change in provisions		(737)	(1,733)
Other adjustments		(54,057)	34,292
Income tax paid		(15,618)	(13,019)
Change in income tax	II.17	(67,094)	5,224
Net cash flows from operating activities		**1,005,833**	**1,434,773**
Cash flows from investing activities			
Sale of shares in a subordinated entity		13	181,434
Sale of intangible assets and property, plant and equipment		72,242	78,501
Sale of investments in financial instruments		8,450	1,400
Dividends received	II.10	4,349	11,472
Purchase of shares in a subsidiary		(103,936)	-
Purchase of intangible assets and property, plant and equipment		(85,709)	(197,459)
Purchase of investments in financial instruments		(22,399)	(37,233)
Other investment inflows/ (outflows)		161	4,343
Net cash flows from/ used in investing activities		**(126,829)**	**42,458**
Cash flows from financing activities			
Proceeds from issue of shares		50,000	-
Proceeds from issue of debt securities		834,000	340,000
Redemption of issued debt securities		(263,225)	(628,933)
Repayment of loans		(914,320)	(650,344)
Dividends paid to non-controlling interests		(2,309)	(1,200)
Interest paid		(234,703)	(257,968)
Other financial outflows		(7,273)	-
Net cash flows used in financing activities		**(537,830)**	**(1,198,445)**
Net increase/(decrease) in cash and cash equivalents		341,174	278,786
Cash and cash equivalents at the beginning of the period		3,367,640	3,088,854
Cash and cash equivalents at the end of the period		**3,708,814**	**3,367,640**

Notes disclosed on pages from 9 to 129 are an integral part of the consolidated financial statements.
This is a translation of the consolidated financial statements originally issued in Polish.

(data in PLN thousand)

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information about the Bank

The parent of the Group is Getin Noble Bank S.A. ("the Bank", "the parent", "the Issuer"") with its registered office in Warsaw at Przyokopowa 33, registered pursuant to the decision of the District Court of Warsaw, XII Commercial Department of the National Court Register on 25 April 2008 under entry No. 0000304735. The parent company has been granted with statistical number REGON 141334039. The legal basis for the Bank's activity is its Articles of Association drawn up in the form of a notarial deed of 5 March 2008 (as amended).

On 5 July 2017 the District Court for the Capital City of Warsaw in Warsaw, XII Commercial Division of the National Court Register made an entry of the increase of the Bank's share capital by a private issue of serie B ordinary bearer shares for the amount of PLN 50,000,001.87. New issue shares were acquired by LC Corp B.V.

The share capital of the Bank amounts to PLN 2,461,630 thousand and is divided into 883,381,106 shares of serie A and 18,315,019 shares of serie B with a nominal value of PLN 2.73 each. The Bank's shares are ordinary bearer shares, each of which gives right to one vote at the Bank's General Meeting. All shares of the Bank are introduced to public trading on the main market of Warsaw Stock Exchange and are quoted under the abbreviated name of GETINOBLE, labelled with the code PLGETBK00012.

On 26 January 2018 the Management Board of Getin Noble Bank S.A. adopted a resolution on the increase of the Bank's share capital within the authorized capital by private subscription for series C shares. Pursuant to the resolution, the Bank's Management Board decided to increase the share capital from PLN 2,461,630,421.25 to PLN 2,651,630,416.89, i.e. by the amount of PLN 189,999,995.64, by issuing 69,597,068 ordinary bearer series C shares with a nominal value of PLN 2.73 per share.

The ownership structure of significant batches of shares of the parent entity as of the date of these consolidated financial statements according to the information available to the Bank is as follows:

	Number of shares	Number of votes at AGM	% share in share capital	% share in votes at AGM
LC Corp B.V.	356,874,554	356,874,554	39.58%	39.58%
Leszek Czarnecki (directly)	88,208,870	88,208,870	9.78%	9.78%
Getin Holding S.A.	66,771,592	66,771,592	7.41%	7.41%
Other shareholders	389,841,109	389,841,109	43.23%	43.23%
Total	**901,696,125**	**901,696,125**	**100.00%**	**100.00%**

The parent company of the Bank and the Capital Group is Mr. Leszek Czarnecki, who directly and through his subordinated entities has 56.93% share in Getin Noble Bank S.A. Data on the shares held by Mr. Leszek Czarnecki and its subordinated entities are presented in the following table:

	Number of shares	Number of votes at AGM	% share in share capital	% share in votes at AGM
LC Corp B.V.	356,874,554	356,874,554	39.58%	39.58%
Leszek Czarnecki (directly)	88,208,870	88,208,870	9.78%	9.78%
Getin Holding S.A.	66,771,592	66,771,592	7.41%	7.41%
Other entities	1,403,191	1,403,191	0.16%	0.16%
Total	**513,258,207**	**513,258,207**	**56.93%**	**56.93%**

(data in PLN thousand)

2. Management and Supervisory Board of the Bank

At the date of approval of these consolidated financial statements, composition of the management and supervisory board of Getin Noble Bank S.A. was as follows:

Management Board of Getin Noble Bank S.A.	
President of the Management Board	Artur Klimczak
Vice President of the Management Board	Jerzy Pruski
Members of the Management Board	Karol Karolkiewicz
	Maciej Kleczkiewicz
	Marcin Kuksinowicz
	Marcin Romanowski
	Maciej Szczechura

Supervisory Board of Getin Noble Bank S.A.	
President of the Supervisory Board	dr Leszek Czarnecki
Vice President of the Supervisory Board	Krzysztof Bielecki
Members of the Supervisory Board	Barbara Bakalarska
	Remigiusz Baliński
	Mariusz Grendowicz
	Jacek Lisik

On 14 December 2016 Mr. Krzysztof Rosiński resigned from the position of the President of the Management Board of the Bank with the effect from 9 January 2017. Simultaneously the Supervisory Board of the Bank appointed the Vice-President of the Management Board Mr. Artur Klimczak as President of the Management Board, if and with the effect from the date of giving consent to appointment of Mr. Artur Klimczak as President of Management Board by the Polish Financial Supervision Authority. At the same time the Supervisory Board appointed Mr. Artur Klimczak acting President of the Management Board as from 10 January 2017.

The Supervisory Board of the Bank appointed Mr. Krzysztof Rosiński as Vice-President of the Management Board, with the effect from 10 January 2017.

On 31 January 2017 the Bank's Supervisory Board appointed Mr. Jerzy Pruski as Vice President of the Management Board with the effect from 1 February 2017.

On 6 February 2017 Mr. Krzysztof Rosiński resigned from the Bank's Management Board and position of the Vice-President of the Management Board.

On 11 April 2017 the Supervisory Board adopted a resolution appointing the existing Members of the Management Board to perform their functions for a joint three-year term commencing on the date of adoption of the resolution approving the financial statements for 2016 by the Annual General Meeting of the Bank, with the exception of Mr. Marcin Dec, who resigned from standing for a Member of the Management Board for another term of office.

On 30 May 2017 the Polish Financial Supervision Authority approved the appointment of Mr. Artur Klimczak as President of the Management Board of Getin Noble Bank S.A.

On 19 June 2017 Mr. Krzysztof Basiaga resigned from his position as a Member of the Bank's Management Board with effect from 30 September 2017.

On 27 June 2017 the Bank's Supervisory Board appointed Mr. Marcin Romanowski as a Member of the Management Board with effect from 1 October 2017. At the same time, Mr. Radosław Stefurak resigned from his position as a Member of the Management Board with effect from 30 September 2017.
On 7 September 2017 the Bank's Supervisory Board appointed Mr. Marcin Kuksinowicz as a Member of the Management Board and Mr. Maciej Kleczkiewicz as a Member of the Management Board with effect from 11 September 2017.

On 12 June 2017 the Supervisory Board adopted resolutions appointing Mr. Leszek Czarnecki as the President of the Supervisory Board and the election of Mr. Krzysztof Bielecki as the Vice President of the Supervisory Board.

On 10 October 2017 the Extraordinary General Meeting of the Bank adopted a resolution on appointment Mrs Barbara Bakalarska as a Member of the Supervisory Board for a three-year joint term of office commencing on the day of adoption of the resolution, i.e. from 10 October 2017.

In the 12-month period ended 31 December 2017 and until the date of approval of these financial statements there were no other changes in the composition of the Bank's Management and Supervisory Board.

3. Information about the Capital Group

Getin Noble Bank S.A. Capital Group ("the Capital Group", "the Group") consists of Getin Noble Bank S.A. as the parent entity and its subsidiaries. The Bank holds also investments in associates.
The entities comprising the Group have been incorporated for an indefinite term.

Getin Noble Bank S.A. is a universal bank offering numerous products in the area of financing, saving and investing as well as a wide spectrum of additional services which are provided to clients using a variety of channels, from traditional bank branches to the latest technological solutions used in the online banking and bank branches of the new generation.

Retail banking is conducted under the Getin Bank brand, which specialises in customer deposits, as well as in sale of retail loans. Getin Bank offers also a number of investment products, it is also an active player in the segment of financial services dedicated to corporate clients, as well as local government units. Noble Bank represents the private banking segment, which is dedicated to wealthy clients.

The product offer of the Bank is supplemented by the products offered by its subsidiaries, among others: concierge services, brokerage services related to the securities and commodities markets. In co-operation with its related entities the Group offers also money saving services by offering participation units, investment consultancy, investment portfolio management, creation and management of investment funds as well as services in the area of financial and credit intermediation, savings, investments and personal finances.

Presented below is information on subsidiaries included in these consolidated financial statements of the Getin Noble Bank S.A. Capital Group:

(data in PLN thousand)

	% share in capital/ votes held by the Group	
	31.12.2017	31.12.2016
Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A.	-*	70.03%
Noble Securities S.A.	100%	100%
Noble Concierge sp. z o.o.	100%	100%
BPI Bank Polskich Inwestycji S.A.	100%	100%
Sax Development sp. z o.o.	100%	100%
Property Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych [1]	100%	100%
ProEkspert sp. z o.o.	100%	100%
ProEkspert sp. z o.o. sp. k. [2]	-	100%
Debtor Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	100%	100%
Open Finance Wierzytelności Detalicznych Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	81.26%	-
GNB Leasing Plan DAC [3]	0%	0%
GNB Auto Plan 2017 sp. z o.o. [3]	0%	-

* since 1 June 2017 an associate accounted for with the equity method

[1] Property Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Non-public assets closed-end investment fund) holds 100% share in 9 special purpose entities.

[2] The company has been dissolved.

[3] Special purpose entity (SPV), with which the Bank carried out a securitisation transaction; the Group does not hold any equity interest in the entity.

All subsidiaries are consolidated using the full method.

As at 31 December 2017 the Group held 42.91% share in the equity of an associate Open Finance S.A. valued with the equity method (42.15% as at 31 December 2016).

On 1 June 2017 the registry court registered a merger of Open Finance Towarzystwo Funduszy Inwestycyjnych S.A. and Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A. As a result of this transaction, the Bank lost control of the merged entity. Currently, the Group's share in the equity of an associate accounted for from 1 June 2017 with the equity method, is 37.62%.

Due to the substance of the relationship between Getin Noble Bank S.A. and special purpose entities – GNB Leasing Plan DAC and GNB Auto Plan 2017 sp. z o. o., with which the Bank carried out securitization transactions, the entities have been consolidated using the full method, despite the fact that the Group does not hold any equity interest in the entities.

As at 31 December 2017 the Bank’s share in the total number of voting rights in its subordinated entities was equal to the Bank’s share in share capital of the those entities.

3.1. Changes in the Capital Group in 2017

Loss of control of Noble Funds TFI S.A.

On 1 June 2017 the registry court registered a merger of Open Finance Towarzystwo Funduszy Inwestycyjnych S.A. (OF TFI, acquire) and Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A. (NF TFI, acquirer). As a result of this transaction and corporate changes made in NF TFI after the merger, GNB lost control of NF TFI.

Loss of control of Noble Funds TFI S.A. in the consolidated financial statements of the Group has been recognised as at the date of registration of the merger of Open Finance TFI S.A. and Noble Funds TFI S.A., i.e. on 1 June 2017. As a result of the merger, the Bank's share in the company's share capital fell to 37.62%, and due to maintaining a significant influence, the investment in associate accounted for with the equity method were recognised in the consolidated financial statements.

As of 1 June 2017 the carrying amount of assets and liabilities and the non-controlling interests of Noble Funds TFI S.A. were derecognised from the consolidated financial statements of the Getin Noble Bank S.A. Capital Group, the investment retained in the former subsidiary was recognized at fair value, and the resulting difference was recognised as profit in the income statement. The fair value of the investment representing 37.62% share of Noble Funds TFI S.A. was determined on the basis of independent valuation of the merged company made by the external entity as of the merger date. The valuation of the shares held did not include minority interest discount due to the fact that the Bank retained a significant influence in Noble Funds TFI S.A. allowing it to participate in financial and operating policy decisions. The current shareholding structure of the company after the merger and the fact that none of the shareholders control the company has been also taken into account here.

Until the end of May 2017 Noble Funds TFI S.A. was a wholly-consolidated subsidiary, and from 1 June 2017 it is accounted for with the equity method.

The accounting settlement of the acquisition of the associate was not completed by the end of 2017, and the values of items presented in note II.13 are temporary.

Acquisition of investment certificates of Open Finance Wierzytelności Detalicznych NSFIZ

On 15 March 2017 Getin Noble Bank S.A. settled the acquisition transaction of 1,013,000 investment certificates of Open Finance Wierzytelności Detalicznych Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (OFWD NSFIZ) from Open Life TUŻ S.A. giving 52.33% of voting rights at the Fund Investors' Meeting. The purchase price of investment certificates amounted to PLN 106,598 thousand and corresponds to the fund's net asset value per investment certificate (WANCI) from the last valuation day preceding the transaction, i.e. 10 March 2017. The reason for Getin Noble Bank S.A. to invest in OFWD NSFIZ is to provide ongoing liquidity to the fund and reputation risk management.

At the acquisition date the Group recognised in the consolidated financial statements the non-controlling interest in the acquiree in the amount of PLN 97,092 thousand reflecting the proportional share of other investors in the carrying value of net assets of the fund. Due to the economic nature of the investment certificates (i.e. the financial instrument giving the holder the right to present it to the issuer for repurchase), the non-controlling interests in the OFWD NSFIZ were classified in accordance with IAS 32 as a financial liability of the Group and the change in net assets attributable to the holders of such investment certificates is recognised as profit / loss in the consolidated income statement.

Below are the basic financial figures of the OFWD NSFIZ as at the acquisition date and the settlement of a subsidiary acquisition in accordance with IFRS 3:

	PLN thousand
Amounts due from banks	13,097
Portfolio of loan receivables	336,642
Other assets	384
TOTAL ASSETS	**350,123**
Amounts due to banks	50,046
Debt securities issued	91,089
Other liabilities	5,295
TOTAL LIABILITIES	**146,430**
The fair value of the identifiable net assets at the acquisition date	**203,693**
Bank's share in the fair value of net assets at the acquisition date	**106,598**
The fair value of the consideration transferred on the acquisition date	**106,598**
Goodwill / (gain from bargain purchase)	-
Total transaction costs associated with the acquisition	172

As at the date of acquisition the gross value of portfolios of receivables (at purchase prices) resulting from agreements amounted to PLN 349,962 thousand. The carrying amount of these receivables at the acquisition date reflects the expected cash flows based on the best estimates. In the period from the date of acquisition, the consolidated statement of comprehensive income of the Group includes PLN 63,799 thousand loss of the fund, and if the transaction took place at the beginning of the reporting period – it would be PLN 83,125 thousand of the fund's loss.

In subsequent transactions the Bank acquired 559,668 investment certificates of the Fund and increased its share to 81.26% as of 31 December 2017.

Securitization of the car loans portfolio

On 14 July 2017 the Bank entered into significant agreements regarding securitization transaction of the loan portfolio from car loans. The main contract is the Securitization Agreement regarding the sale by Getin Noble Bank S.A. receivables from car loans worth PLN 700 million to GNB Auto Plan 2017 sp. o. o. with its registered office in Warsaw ("SPV") for the price equal the outstanding principal balance. As a result of the actions undertaken, the special-purpose entity issued senior bonds with the value of PLN 500 million.

3.2. Changes in investments in associates

Acquisition of shares in Open Finance S.A.

Due to the fact that the increase of the share capital of Open Finance S.A. through the issue of serie E shares issued pursuant to the resolution of the Extraordinary General Meeting of the company dated 29 August 2016 did not take place, in the first half of 2017 the company conducted a public offering of serie E shares and private subscription of serie F shares.

On the basis of the share subscription agreement entered into by Getin Noble Bank S.A. with Open Finance S.A. and in execution of the preliminary agreement, the Bank accepted the offer to subscribe for 8,698,635 serie F shares of the company under private subscription. The total issue price of serie F shares offered to the Bank by the company amounted to PLN 10,090.4 thousand and was paid on 28 April this year. In addition, Getin Noble Bank S.A. purchased 297,147 serie E shares at an issue price of PLN 1.16, which were paid on 31 May 2017. Transactions were concluded outside the regulated market.

On 30 June 2017 the District Court for the Capital City of Warsaw in Warsaw, XII Commercial Division of the National Court Register, issued a decision to register the share capital increase of Open Finance S.A. At present, after the registration of shares, the Bank holds 42.91% of the share capital of the company after its increase and 42.91% of the total number of votes.

4. Approval of the consolidated financial statements

These consolidated financial statements were approved by the Management Board of the parent company on 23 April 2018.

5. Significant accounting policies

5.1. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and in areas not covered by the above standards in accordance with the Accounting Act of 29 September 1994 as amended and the respective secondary legislation issued on its basis, as well as the requirements relating to issuers of securities registered or applying for registration on an official quotations market. IFRS comprise standards and interpretations issued by the International Accounting Standards Board.

5.2. Basis of preparation of the financial statements

In these consolidated financial statement a fair value model was adopted for investment properties and financial instruments measured at fair value through profit or loss, including derivatives and available-for-sale financial instruments, except those when fair value cannot be reliably measured. Investments in associates are accounted for using the equity method. Other items of financial assets and liabilities (including loans and advances to customers) are recognised at amortised cost less impairment allowances or acquisition cost less impairment allowances.

Getin Noble Bank S.A. is in the process of implementing of *Plan for a sustainable improvement in profitability* („the Plan", „PPN"), being the recovery program within the meaning of Article 142 of the Banking Law, approved by the Polish Financial Supervision Authority on 23 September 2016.

In the second quarter of 2017, due to higher impairment losses on assets in the first quarter of this year, the Bank started, in agreement with the Polish Financial Supervision Authority, work on updating the PPN. On 30 August the Polish Financial Supervision Authority has accepted the document entitled Plan for a sustainable improvement in profitability of Getin Noble Bank S.A. for 2017-2021. Update of the Recovery Program for 2016-2019 ("Updated PPN"), which is an update of the Bank's recovery program within the meaning of art. 142 of the Banking Law.

The merits of the updated PPN are the improvement in the profitability of the Bank's operations and the successive increase in capital adequacy, allowing for achieving, in the last period covered by the PPN, capital ratios that meet the requirements of the combined buffer (the updated PPN assumes temporary non-compliance with minimum capital requirements).

Introduced in the IV quarter of 2017 regulatory changes related to:

- the entry into force of the Ordinance of the Minister of Development and Finance of 25 May 2017 regarding higher 150% risk weights for exposures secured by mortgages on real estate,
- recommendation of the Polish Financial Supervision Authority of 24 October 2017 in respect of subordinated bonds issued, so that the minimum nominal value of one subordinated bond was at least PLN 400 thousand,

had a negative impact on the Bank's capital adequacy level, as a result of which some of the assumptions taken into account by the Bank in the PPN have changed. Starting from 1 January 2018 the Bank did not meet the minimum required level of the combined capital buffer, and therefore, pursuant to Art. 60 par. 1 of the Act of 5 August 2015 on macro-prudential supervision over the financial system and crisis management in the financial system, the Bank prepared and applied to the KNF for approval of the Capital Protection Plan (POK).

The Plan sets out additional activities in relation to the ones indicated in the PPN that the Bank intends to take to increase its own funds to the level ensuring coverage of the requirements of the combined capital buffer; they are based on two key assumptions consistent with the concept adopted in PPN, i.e.: optimization of current financial results, while minimizing the period of non-compliance with capital requirements and concentration on building a capital base based on the highest quality funds (Tier 1). Thus, the Bank plans to significantly raise capital by issue of shares and AT1 instruments guaranteed by the Main Shareholder, Mr. Leszek Czarnecki in the total amount of about PLN 1 billion. The Bank received from the Main Shareholder a support letter confirming the above plans expressed in the Capital Protection Plan approved by the Management Board and the Supervisory Board on 23 April 2018. The Management Board of the Bank is convinced that a positive decision regarding the acceptance of the POK by the KNF will be taken in the near future. The Capital Protection Plan assumes achieving the minimum levels of the combined capital buffer by the end of 2019. In the opinion of the Bank's Management Board, the assumptions underlying the updated PPN and the Capital Protection Plan are rational and achievable and as at the date of approval of these consolidated financial statements there is not any threat to its implementation.

As described in note III.3 of these consolidated financial statements, in the reporting period the Bank maintained supervisory liquidity measures at the level required by the Polish Financial Supervision Authority. The table below presents the supervisory liquidity measures of Getin Noble Bank S.A .:

Supervisory liquidity measures		Minimum value	Value as at	
			31.12.2017	31.12.2016
M1	Short-term liquidity gap (in PLN million)	0.00	4,573	5,647
M2	Short-term liquidity factor	1.00	1.68	1.96
M3	Ratio of coverage of non-liquidity assets with own funds	1.00	2.10	2.56
M4	Coverage ratio of non- liquid assets and limited liquidity assets with own funds and stable external funds	1.00	1.21	1.24

In connection with the above, in the opinion of the Bank's Management Board, there is no significant uncertainty as to the Bank's ability to continue as a going concern. These consolidated financial statements have been prepared based on the assumption that the Group entities would continue their activities in the foreseeable future, i.e. for a period of at least 12 months from the reporting date.

In addition, still having a significant portfolio of foreign currency loans, the Bank is exposed to the potential introduction of statutory regulations related to the restructuring of foreign currency mortgages, which may have a negative impact on the Bank's financial position.

On 13 October 2017 the Polish Parliament started working on a bill prepared by the President amending the law to support borrowers in financial difficulties who have taken out a housing loan. The draft law assumes more attractive conditions of borrowers' support by raising the minimum income enabling applications for support, increasing the support limit and extending the maximum support period and the repayment period, as well as introducing a Restructuring Fund for foreign currency loans. The Fund would allow the voluntary conversion of foreign currency loans into Polish zlotys under conditions agreed with the client – that is, with the redemption of a part of the debt resulting from changes in exchange rates agreed upon with the borrower. The Fund would be financed by banks having portfolios of foreign currency mortgages. The contribution would amount to a maximum of 0.5% of the carrying amount of the loans subject to restructuring and be payable on a quarterly basis. The bill does not indicate how long the Fund would be funded by contributions from banks.

Introducing the amendment of the act in accordance with the submitted bill may increase the burden for the Bank due to participation in the system of support for borrowers in financial difficulty. As at the date of preparation of this financial statement it is not known whether and in what form the bill presented by the President of the Republic of Poland amending the Act on support of borrowers in financial difficulties who have entered into a housing loan will enter into force and therefore the Bank is unable to reliably estimate its potential impact on capital ratios, financial position and results of the Bank.

5.3. Entity entitled to audit financial statements

The entity entitled to audit consolidated financial statements is Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw.

5.4. Functional and reporting currency

The consolidated financial statements are presented in the Polish currency (PLN) and all the figures, unless otherwise stated, are expressed in PLN thousands. Polish zloty is the functional currency of the parent company and the other entities included in the consolidated financial statements and the reporting currency of the consolidated financial statements.

5.5. Changes in the applied standards and interpretations

Amendments to existing standards applied for the first time in the Group's financial statements for 2017

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2016, except for the adoption of amendments to standards applicable for annual periods beginning on or after 1 January 2017, as follows:

- Amendments to IAS 7 *Statement of cash flows* – Disclosure initiative; as adopted by EU on 6 November 2017,
- Amendments to IAS 12 *Income taxes* – Recognition of deferred tax assets for unrealised losses; as adopted by EU on 6 November 2017,
- Amendments to IFRS 12 *Disclosure of interests in other entities* as part of changes resulting from the Annual Improvements to IFRS Standards 2014-2016 Cycle; as adopted by EU on 7 February 2018.

New standards and interpretations published and adopted by the EU, but are not yet effective

Approving these consolidated financial statements, the following new standards and amendments to existing standards were issued by the International Accounting Standards Board (IASB) and adopted by the EU, but are not yet effective:

- IFRS 9 *Financial instruments* – as adopted by EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- IFRS 15 *Revenue from contracts with customers* and amendments to IFRS 15 *Effective Date of IFRS 15* – as adopted by EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),
- IFRS 16 *Leases* – as adopted by EU on 9 November 2017 (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 4 *Insurance contracts* – Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* – as adopted by EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 15 *Revenue from contracts with customers* – Clarifications to IFRS 15 – as adopted by EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to various standards *Annual Improvements to IFRSs (2014–2016 Cycle)* – as adopted by EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 2 *Share-based payments* – Classification and Measurement of Share-based Payment Transactions – as adopted by EU on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IAS 40 *Investment Property* – Transfers of Investment Property – as adopted by EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 9 *Financial instruments* – Prepayment Features with Negative Compensation – as adopted by EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019 roku),
- Interpretation IFRIC 22 *Foreign Currency Transactions and Advance Consideration* – as adopted by EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

In the reporting period the Group has not early adopted the above new standards.

IFRS 15 Revenue from contracts with customers

The new standard was issued by the International Accounting Standards Board on 28 May 2014, adopted in the European Union on 22 September 2016 and is effective for annual periods beginning on or after 1 January 2018.

IFRS 15 has replaced all existing regulations and interpretations on revenue recognition. The principles provided for in IFRS 15 apply to all contracts with customers resulting in revenues except for: leases within the scope of IAS 17 *Leases*, insurance contracts within the scope of IFRS *4 Insurance contracts*, financial instruments and other contractual rights or obligations within the scope of IFRS 9 *Financial Instruments*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint arrangements*, IAS 27 *Separate financial statements*, IAS 28 *Investments in associates and joint ventures*.

The core principle of the new standard is the recognition of revenues in such a way as to indicate the transfer of goods or services to customers in an amount that reflects the consideration (i.e. payment) that the Group expects in exchange for those goods or services.

The main criterion for recognition of revenue is not the moment of transferring the "risk and benefits" in accordance with IAS 18, but the moment of satisfying the performance obligation, which follows the transfer of control. It determines the recognition of revenue in accordance with IFRS 15. However, it is expected that this moment, in most cases, coincides with the transfer of risk and benefits in the meaning of IAS 18.

Any goods or services sold as a bundle that is distinct should be recognized separately. In addition, all discounts and rebates should in principle be allocated to individual elements of the bundle. Where a contract contains elements of variable consideration, it is only included in the transaction price if it is highly probable that its inclusion will not result in a significant revenue reversal in the future. In addition, in accordance with IFRS 15, the costs incurred to obtain and secure a contract with a client must be recognised as an asset and amortised on a systematic basis that is consistent with the pattern of consuming the benefits from the contract.

This core principle is delivered in a five-step model framework:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance obligation

The Group has analysed the impact of the implementation of IFRS 15 on the manner of recognising revenues from contracts with clients. The first phase of the project concerned the analysis of the differences between IFRS 15 and the existing rules in the area of revenue recognition. The following areas were considered in terms of potential differences in relation to the implementation of the new standard:

- identification of distinct goods and services under the contract with the client, i.e. the level of aggregation of the elements promised in the contract,
- the method of allocating a consideration under the contract to various goods and services identified under the contract,
- decision: recognition of revenue over time or at a point in time,
- the manner of measuring the degree of performance satisfaction in the case of revenue recognized over time,
- assessment of the time value of money on the basis of contractual provisions,
- impact on the way revenue is recognized in the case of modification of the contract,
- way of taking into account the variable consideration, e.g. contractual penalties in terms of income from the contract,
- capitalization of costs related to the contract.

In the next step, the Group identified types of generated revenues, which in principle should be recognized in accordance with IFRS 15:

- consideration from contracts in which the Group acts as an intermediary (sale of investment and insurance products),
- additional consideration paid by billing / card organizations for marketing and promotional activities,
- revenues from the sale of property, plant and equipment, including properties acquired for debts,

- commissions for loans and borrowings, for credit cards and keeping bank accounts with regard to fees and commissions, which are not part of the effective interest rate,
- revenues from brokerage activities.

The Group has not identified any material categories of income and expenses whose recognition or presentation would have change as a result of the implementation of IFRS 15.

Due to the fact that the Group primarily offers financial instruments in the form of loans and borrowings, the revenue from which is recognized on the basis of the effective interest rate – the impact of implementing IFRS 15 will not be significant for a true and fair view of the financial position and result of the Group.

The Group estimates that due to the relatively homogeneous nature of the Group's operating activities, the impact of IFRS 15 on disclosures will not be material. However, it is assumed that the existing disclosures may be modified if their change enables users of the financial statements to become better acquainted with the nature, amount, dates of acquisition and uncertainty related to revenues and cash flows resulting from contracts with customers. At the same time, the Group will update the Accounting Policy in terms of revenue recognition.

IFRS 9 Financial instruments

The European Commission by Regulation 2016/2067 of 22 November 2016 approved the International Financial Reporting Standard No. 9 *Financial Instruments* (IFRS 9) in the version published by the International Accounting Standards Board on 24 July 2014, which will replace the existing standard IAS 39 *Financial Instruments: recognition and valuation*. IFRS 9 will be effective for annual periods beginning on or after 1 January 2018.

The new standard introduces changes to the classification and valuation principles for financial assets, impairment model for financial instruments based on the concept of "expected loss" and new approach to hedge accounting.

Classification and measurement of financial instruments

In accordance with IFRS 9, the classification of financial assets occurs at the time of initial recognition of an asset in the statement of financial position and depends on:

- business model for managing the financial assets, which is defined at a level that reflects the way in which groups of financial assets are jointly managed to meet a specific business objective, and
- the characteristics of contractual cash flows, i.e. whether the contractual cash flows represent only payments of principal and interest on the principal amount outstanding (the so-called SPPI test – solely payments of principal and interest).

Depending on the Group's business model, financial assets may be classified as:

- held for contractual cash flows (measured at amortized cost if they meet the conditions of the SPPI);
- held for contractual cash flows or for sale (measured at fair value through other comprehensive income if they meet the conditions of the SPPI);
- managed to realize cash flows by selling assets and other (measured at fair value through profit or loss).

Financial assets are reclassified only if and when the Group changes its business model for managing the financial assets. In this case, the Group reclassifies all financial assets affected.

The Group may, at the time of initial recognition, make an irrevocable choice for certain equity investments that would otherwise be measured at fair value through profit or loss in order to account for subsequent changes in fair value through other comprehensive income. Dividends arising from such an investment are recognized in profit or loss.

The classification of derivative instruments did not change after the entry into force of IFRS 9, they are still valued at fair value through profit or loss.

The Group carried out an analysis of financial assets in terms of meeting the conditions of the cash flow characteristics test and assigning them to an appropriate business model for the proper classification of financial instruments in accordance with IFRS 9. The changes in the classification and measurement of financial instruments include the following assets:

- Loans and advances to customers – a portfolio of stock loans which contractual cash flows do not merely constitute repayments of principal and interest on unpaid capital were classified as at fair value through profit or loss. Other loans and advances to customers are maintained in order to obtain cash flows under the contract and meet the SPPI criteria, therefore they are still measured at amortized cost.
- The Bank assessed the business model for corporate bonds that, according to IAS 39, were classified as available for sale and measured at fair value through other comprehensive income and stated that the portfolio meets the criteria of the business model, which aims to receive cash flows resulting from the contract. Therefore, and meeting the SPPI criteria in accordance with IFRS 9, these corporate bonds were classified as measured at amortized cost.
- Equity instruments that, in accordance with IAS 39, were classified as available for sale and measured at fair value through other comprehensive income, were irrevocably designated in accordance with IFRS 9 to measure at fair value through other comprehensive income. Changes in the fair value of these financial instruments will not be reclassified to the income statement at the time they are sold.
- Portfolio of receivables, which in accordance with IAS 39 was classified as available for sale and measured at fair value through other comprehensive income, was classified in accordance with IFRS 9 as measured at fair value through profit or loss.

The application of the new standard has not affected the classification and measurement of financial liabilities, except for derivatives, as IFRS 9 largely retains the current requirements of IAS 39.

Hedge accounting

The Group used the option provided by IFRS 9 and continues to apply hedge accounting in accordance with IAS 39. Hence, as far as hedge accounting is concerned, the entry into force of IFRS 9 has not affected the Group's financial position.

Impairment

In IFRS 9 a new model of impairment has been introduced based on the concept of "expected credit loss" (ECL), which replaced the "incurred loss" model in IAS 39. Due to this change, from 2018 the Group calculates the impairment charges based on ECL and taking account of forecasts and expected future economic conditions in the context of credit risk assessment of exposures, which was not possible in IAS 39 models.

The ECL model of impairment applies to financial assets classified as financial assets measured at amortized cost or at fair value through other comprehensive income, except for equity instruments.

Changing the current concept of incurred loss for expected loss has far-reaching consequences for modelling of credit risk parameters and the amount of write-offs. In the new concept, the Loss Identification Period parameter does not apply, nor there is an Incurred But Not Reported category. In accordance with IFRS 9, the impairment write-offs are determined in the following stages in place of IBNR and non-performing write-offs:

1. Stage 1: 12-month expected credit loss – expected loss associated with the occurrence of impairment within 12 months from the balance sheet date for such exposures, that have not had a significant increase in credit risk since initial recognition and no impairment has been identified.
2. Stage 2: lifetime expected loss – expected loss associated with the occurrence of impairment over the expected life of the financial asset for such exposures that have had a significant increase in credit risk since initial recognition,

3. Stage 3: lifetime expected loss – expected loss associated with the occurrence of impairment over the expected life of the financial asset for such exposures that have had an impairment identified since initial recognition.

The new method of calculating the impairment of financial assets has also an impact on the recognition of interest income. In particular, the interest income on the assets in stage 1 and 2 is determined by applying the effective interest rate to the gross value of exposures, while in stage 3 by applying the effective interest rate to the amortized cost of the asset, including impairment losses (as for impaired assets in IAS 39).

The new impairment model based on ECL concept had the greatest impact on the amount of write-offs for the exposures categorized in stage 2. This is a new item in IFRS 9, including estimation of lifetime losses without identifying objective evidence of impairment, but only with a significant increase in credit risk since initial recognition. Such an approach will result in a prior recognition of the total loss during the life of the asset and, as a result, an increase in write-offs.

As part of the reconstruction of the asset valuation methodologies, a new definition of default in line with the EBA recommendations and the provisions of IFRS 9 has been implemented, criteria for the transfer of exposures between stages have been developed, new models have been developed to estimate multiannual risk parameters tailored to the Group's expectations regarding the future macroeconomic situation. In the process of modeling the expected exposure for the moment of entry into default for revolving exposure without defined schedules, models of carrying and off-balance sheet values were implemented based on historical behavioral patterns of repayments and pulls until the default of the exposure.

In the field of modeling the transfer between stage 1 and stage 2, a model of a significant increase in credit risk has been developed based on a comparison of the lifetime default probability from the moment of initial exposure recognition with the lifetime default probability from the moment of the assessment. The model takes into account the basic available exposure characteristics from the moment of initial recognition and the moment of current assessment, i.e. scoring/ rating, behavioral data, etc. In addition, the criteria for classifying exposures to stage 2 include criteria such as delay in repayment 30 DPD, or premises related to the deterioration of the borrowers' economic and financial situation. In the area of LGD models, changes to methodologies have been introduced, including changes in the default classification or inclusion of the liftime horizon. The increase in write-downs due to the introduction of models and methodologies in accordance with IFRS 9 is related to many factors, including:

- implementation of a new definition of default,
- in stage 1 – extension of currently used LIP to 12 months,
- in stage 2 – recognition of exposures with a significant increase in risk and transition from the LIP loss identification period to the lifetime period,
- in stage 3 – modification of currently used LGD estimation methods.

Comparative data

In accordance with the provisions of IFRS 9, the Group decided not to restate comparable data for prior periods in respect of changes in classification and measurement and impairment, and differences in the carrying amount of assets resulting from the first application of IFRS 9 were recognized as an element of retained earnings in the equity as at 1 January 2018.

The table below presents the impact of the implementation of IFRS 9 on the classification and measurement of financial assets and liabilities as at 1 January 2018.

	Valuation category according to IAS 39	Valuation category according to IFRS 9	Carrying value according to IAS 39 as at 31.12.2017	Change due to		Carrying value according to IFRS 9 as at 01.01.2018
				reclassification	revaluation/ ECL write off	
			PLN thousand	PLN thousand	PLN thousand	PLN thousand
ASSETS						
Amounts due from banks and financial institutions	Amortised cost	Amortised cost	656,216	-	(1,245)	654,971
Loans and advances to customers	Amortised cost	Amortised cost	42,711,803	166,549	(1,136,585)	41,741,767
Loans and advances to customers	Amortised cost	Fair value through profit or loss	55,714	(785)	-	54,929
Available-for-sale financial assets	Fair value through other comprehensive income	Fair value through other comprehensive income	7,551,555	-	-	7,551,555
Available-for-sale financial assets	Fair value through other comprehensive income	Fair value through other comprehensive income	247,612	-	-	247,612
Available-for-sale financial assets	Fair value through other comprehensive income	Amortised cost	381,869	52,878	(8,278)	426,469
Held-to-maturity financial assets	Amortised cost	Amortised cost	1,674,493	-	(12,123)	1,662,370
Total assets			**53,279,262**	**218,642**	**(1,158,231)**	**52,339,673**
LIABILITIES						
Provisions	According to IAS 37	According to IFRS 9	20,284	-	27,042	47,326
Derivative financial instruments	Fair value through profit or loss	Fair value through profit or loss	248,080	4,264	-	252,344
Total liabilities			**268,364**	**4,264**	**27,042**	**299,670**

The value of other items of financial assets presented in the consolidated statement of financial position did not change significantly as a result of the first application of IFRS 9.

Due to the ongoing discussions related to the implementation of the provisions of IFRS 9, especially regarding the classification and measurement of financial instruments containing a multiplier and the lack of market practice in other matters, the final effect of changes may differ from the presented above.

The total impact of the implementation of IFRS 9 on the Group's equity amounted to PLN -800.0 million, of which the most significant item was the increase in write-offs on financial assets PLN -963.6 million net of tax.

Other changes are related to the reclassification of financial asset portfolios, the recognition of non-performing interest in the carrying amount and the recognition of a counterparty credit risk adjustment (CVA, DVA). The Group also recognized income tax assets in the amount of PLN 170.9 million.

Impact of IFRS 9 on capital adequacy

On 27 December 2017 the EU issued the Regulation (EU) 2017/2395 of the European Parliament and of the Council amending Regulation (EU) 575/2013 regarding the possible uses of transitional arrangements to mitigate the impact of the introduction of IFRS 9 on own funds and on the treatment of large exposures of certain exposures to public sector entities denominated in the national currency of any Member State. The Regulation allows the Bank to include in its Tier 1 capital a certain part of the increased provisions for expected credit losses in the transition period, i.e. from 1 January 2018 to 31 December 2022 due to the first application of IFRS 9, if the opening balance as of the day of application reflects a decrease Tier 1 capital as a result of increased provisions for expected credit losses, including a write-off for a lifetime expected losses on financial assets affected by impairment due to credit risk compared to the closing balance of the previous day.

The Management Board of the Bank decided to apply the concessions during the transitional period and, in accordance with the provisions of the Regulation, informed the Polish Financial Supervision Authority. After applying transitional solutions, the Group's total capital ratio remained unchanged. In the event of non-application of transitional solutions and taking into account the full impact of the implementation of IFRS 9, the total capital ratio would decrease by 208 basis points.

MSSF 16 Leases

IFRS 16 introduces new principles for the accounting for leases. The main change is elimination of the classification of leases as either operating lease or finance lease, and instead provides a single lease accounting model, what will have an impact on the recognition of lease in statement of financial position and income statement of the lessee. The Group has not yet completed the analysis of the impact of the new standard. The Group believes that the application of the new standard will have an impact on the recognition, presentation, measurement and disclosure of assets under operating lease and the corresponding liabilities in the financial statements of the Group as the lessee.

New standards and amendments to existing standards issued by the IASB, but not yet adopted by the EU

IFRSs as adopted by the EU do not differ significantly from the regulations issued by the IASB, with the exception of the following new standards, amendments to standards and a new interpretation, which as at 23 April 2018 have not yet been adopted by the EU (following effective dates refer to the standards in the full version):

- IFRS 14 *Regulatory Deferral Accounts* – effective for annual periods beginning on or after 1 January 2016; The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 17 *Insurance contracts* – effective for annual periods beginning on or after 1 January 2021,
- Amendments to IFRS 10 *Consolidated financial statements entities* and IAS 28 *Investments in associates and joint ventures* – Sale or contribution of assets between an investor and its associate or joint venture including later amendments; effective date has been postponed until the end of research on the equity method,
- Interpretation IFRIC 23 *Uncertainty over Income Tax Treatments*; effective for annual periods beginning on or after 1 January 2019.
- Amendments to IAS 28 *Investments in associates and joint ventures* – Long-term interests in Associates and Joint Ventures; effective for annual periods beginning on or after 1 January 2019
- *Annual Improvements to IFRS Standards 2015-2017 Cycle*; effective for annual periods beginning on or after 1 January 2019,
- Amendments to IAS 19 *Employee Benefits* – Plan Amendment, Curtailment or Settlement; effective for annual periods beginning on or after 1 January 2019,
- Amendments to *References to the Conceptual Framework in IFRS Standards*; effective for annual periods beginning on or after 1 January 2020.

The dates of entry into force are dates resulting from the content of standards issued by the International Accounting Standards Board. The dates of application of the standards in the EU may differ from the dates of application resulting from the content of the standards and are announced at the time of its endorsement by the EU.

The Group estimates that the above new standards, amendments to existing standards and new interpretations would not have a material impact on the consolidated financial statements if they were applied by the Group at the balance sheet date.

5.6. Presentation changes

The comparative data for the 12-month period ended 31 December 2016 presented in these consolidated financial statements have been restated to reflect the presentation changes introduced in the current reporting period.

Presentation changes of interests

The presentation change relates to the transfer of interest income/ expense related to assets/ liabilities subject to a negative interest rate between "Interest Income" and "Interest Expense".

Item in the consolidated income statement for the period 01.01.2016 - 31.12.2016	Publicated data PLN thousand	Presentation adjustment PLN thousand	Restated data PLN thousand
Interest income related to:	2,752,123	77,973	2,830,096
amounts due from banks and financial institutions	4,530	4,893	9,423
available-for-sale and held-to-maturity financial assets	243,100	4,398	247,498
derivative financial instruments	226,029	68,682	294,711
Interest expense related to:	1,435,443	77,973	1,513,416
amounts due to banks and financial institutions	46,978	4,893	51,871
available-for-sale and held-to-maturity financial assets	-	4,398	4,398
derivative financial instruments	(54,082)	68,682	14,600
Net interest income	**1,316,680**	**-**	**1,316,680**

The value of "negative" interest recognised in the consolidated income statement for 2017 amounts to PLN 87,105 thousand.

Presentation change of impairment allowances for the portfolio held for sale

Since 2017 the Group has changed a presentation of impairment allowances for the portfolio of loan receivables held for sale, which have been transferred from "Other operating expense". As a result of the presentation change, the comparative data has been restated.

Item in the consolidated income statement for the period 01.01.2016 - 31.12.2016	Data before adjustment PLN thousand	Presentation adjustment PLN thousand	Restated data PLN thousand
Other operating expense, including:	135,636	(20,909)	114,727
recognition of provisions and impairment charges for other assets	29,283	(20,909)	8,374
Net impairment allowances on financial assets and off-balance sheet provisions, including:	659,554	20,909	680,463
portfolio of loan receivables held for sale	-	20,909	20,909

The restatement of comparative data in the income statement due to a change in the presentation did not affect the Group's result for 2016.

5.7. Consolidation rules

The consolidated financial statements comprise the financial statements of Getin Noble Bank S.A. as a parent company and its subsidiaries. The financial statements of the Bank and its subsidiaries used in the preparation of the consolidated financial statements shall have the same reporting date.

The parent company prepares consolidated financial statements using uniform accounting principles (policies) for like transactions and other events in similar circumstances. If a member of the group uses accounting policies other than those adopted in the consolidated financial statements, appropriate adjustments are made to that group member's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

Subsidiaries

The Bank, regardless of the nature of its involvement with an entity (the investee), shall determine whether it is a parent by assessing whether it controls the investee.

An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Thus, the Bank controls an investee if and only if it has all the following:

a) power over the investee,
b) exposure, or rights, to variable returns from its involvement with the investee, and
c) the ability to use its power over the investee to affect the amount of the investor's returns.

Consolidation of an investee shall begin from the date the Bank obtains control of the investee and cease when the Bank loses control of the investee.

Consolidated financial statements:

a) combine like items of assets, liabilities, equity, income, expenses and cash flows of the Bank with those of its subsidiaries,
b) offset (eliminate) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary
c) eliminate in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognised in assets, are eliminated in full). IAS 12 applies to temporary differences that arise from the elimination of profits and losses resulting from intragroup transactions.

The Bank shall attribute the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests. The Bank shall present non-controlling interests in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions. When the proportion of the equity held by non-controlling interests changes, the Bank shall adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The Bank shall recognise directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent.

If the Bank loses control of a subsidiary, it shall:

a) derecognise the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost,
b) derecognise the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them),
c) recognise the fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control,
d) recognise if the transaction, event or circumstances that resulted in the loss of control involves a distribution of shares of the subsidiary to owners in their capacity as owners, that distribution,
e) reclassify to profit or loss, or transfer directly to retained earnings the amounts recognised in other comprehensive income in relation to the subsidiary
f) recognise any investment retained in the former subsidiary at its fair value at the date when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant IFRSs,

g) recognise any resulting difference as a gain or loss in profit or loss attributable to the parent.

Investments in associates and joint ventures

Associates are those entities over which the investor has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

Where the Bank holds 20% or more of the voting power (directly or through subsidiaries) on an investee, it will be presumed the Bank has significant influence unless it can be clearly demonstrated that this is not the case. If the holding is less than 20%, the entity will be presumed not to have significant influence unless such influence can be clearly demonstrated. The Bank loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint control is the contractually agreed sharing of control of an agreement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

With respect to the accounting for investments in associates and joint ventures the Group applies the equity method, under which, on initial recognition the investment is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the investee's profit or loss is recognised in the investor's profit or loss, and the investor’s other comprehensive income includes the investor’s share of the investee's other comprehensive income. If an investor's share of losses of an associate or joint venture equals or exceeds its interest in the associate or joint venture, the investor discontinues recognising its share of further losses.

Profits and losses resulting from upstream and downstream transactions between the Bank and its subsidiaries and an associate or a joint venture are recognised in the Group’s consolidated statements only to the extent of the unrelated investors’ interest in the associate or the joint venture. The Bank's interest in the associate’s or the joint venture’s profit or loss from those transactions is eliminated.

At the end of each reporting period, the Group assesses the existence of circumstances which indicate the impairment of net investment in the associate or the joint venture. If such evidence exists, the Group estimates the recoverable amount, i.e. the value in use of the investment or fair value less costs to sell of an asset, depending on which one is higher. And if the asset carrying amount exceeds its recoverable amount, the Group recognises impairment losses in the income statement.

5.8. Foreign currency translation

Transactions expressed in foreign currencies are converted to PLN at the exchange rate applicable as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted to PLN at average exchange rate of the National Bank of Poland applicable as at the reporting date. The resulting exchange rate differences are recognized in the proper lines of the income statement. Non-monetary assets and liabilities denominated in foreign currencies and recorded at their historical cost are converted to PLN at the exchange rate applicable at the date of the transaction. The non-monetary assets and liabilities measured at fair value are converted at the average exchange rate applicable as at the date of the measurement at fair value.

5.9. Financial assets and liabilities

The Group classifies financial assets to the following categories:

- held-to-maturity financial assets,

- financial instruments measured at fair value through profit or loss,
- loans and receivables,
- available-for-sale financial assets.

The Management Board decides on the classification of financial assets and liabilities upon their initial recognition based on the characteristics of the instruments and criteria of IAS 39.

Held-to-maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity other than:

- those designated upon initial recognition, as at fair value through profit or loss,
- those designated as available for sale,
- those that meet the definition of loans and receivables.

Financial assets or liabilities measured at fair value through profit or loss

A financial asset or financial liability at fair value through profit or loss is a financial asset or financial liability that meets either of the following conditions:

a) it is classified as held for trading. A financial asset or financial liability is classified as held for trading if:
   - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term,
   - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking,
   - it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).
b) upon initial recognition it is designated as at fair value through profit or loss in accordance with IAS 39.

Loans and receivables

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

a) those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss,
b) those that the entity upon initial recognition designates as available for sale,
c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified as any other of the previously listed three categories.

Financial assets held for sale are recognised at fair value increased by the transaction costs directly attributable to the purchase or issuance of the financial asset. Results of changes in fair value of financial assets available for sale (if there is a market price available from the active market or the fair value can be reliably measured in other way) are recognized in the other comprehensive income until the asset is derecognised from the statement of financial position or impaired when the cumulative gain or loss recognized previously in other comprehensive income is than recognised in the income statement. Changes in fair value recognized as other comprehensive income are presented in the statement of comprehensive income.

Financial liabilities

Financial liability is any liability that is:

a) a contractual obligation:
   - to deliver cash or another financial asset to another entity,
   - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity,

b) a contract that will or may be settled in the entity's own equity instruments and is:
   - a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments,
   - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this reason, the entity's own equity instruments do not include instruments which are contracts concerning future receipt or issue by the entity of its own equity instruments.

Recognition, derecognition and measurement of financial assets and liabilities

Purchase and sale of financial assets is recognised at the transaction date (and not upon cash receipt or payment), and recorded in the books of account and in the financial statements for the period they relate to.

A financial asset is derecognised from the Group's statement of financial position upon expiry of the contractual rights relating to the financial instruments; usually in case when the instrument is sold or all cash flows assigned to the financial instrument are transferred to an independent third party.

In particular, the Group writes-off loan receivables from the balance sheet in correspondence with impairment write-downs, if such receivables are non-collectible, i.e.:

- the costs of further debt recovery exceed the expected recoveries,
- it is impossible to determine the debtor's property that can be used for execution purposes, and the debtor's address in unknown,
- the claims have become prescribed or written off,
- the ineffectiveness of the execution with regard to the Bank's receivable has been confirmed by a relevant document issued by the competent enforcement proceedings authority, or the Bank obtained a decision on the conclusion of bankruptcy proceedings or on the dismissal or the bankruptcy petition due to the lack of debtor assets.

A financial liability or part of a financial liability is derecognised by the Group from its statement of financial position only when the obligation specified in the contract is settled, cancelled or expired.

The value of assets and liabilities and the financial gain (loss) are determined and disclosed in the accounting books in a reliable and clear manner, presenting the Group's financial and economic standing. Upon initial recognition, the financial asset or liability is measured at fair value plus, in the case of financial assets or liabilities not classified as measured at fair value through financial gain (loss), the transactions costs that can be directly attributed to the acquisition or issue of the financial asset or liability. For the purpose of measurement of a financial asset, after initial recognition it is classified as of the date of acquisition or creation into one of the following categories:

- held-to-maturity investments,
- financial assets measured at fair value through profit or loss,
- loans and receivables,
- available-for-sale financial assets.

After initial recognition, the Group measures financial assets, including derivatives that are assets, at fair value, without deducting the transaction costs that may be incurred upon sale or other method of asset disposal. Exception is made for the following financial assets:

a) loans and receivables measured at amortised costs using the effective interest rate method,
b) investments held to maturity measured at amortized costs using the effective interest rate method,
c) investments in equity instruments not quoted in the active market, whose fair value cannot be reliably measured, as well as related to them derivatives which must be settled by delivering unquoted equity instruments measured at cost.

Available for sale financial assets are measured at fair value. The effects of changes in their fair value are recognised in the other comprehensive income until the asset is derecognised from the statement of financial position or impaired, when the cumulative gain or loss recognised previously in other comprehensive income is than recognised in the income statement. Changes in fair value recognised as other comprehensive income are presented in the statement of comprehensive income. Interest income calculated with the effective interest rate method is recognised in the income statement.

After initial recognition, the Group measures all financial liabilities at amortised cost using the effective interest rate method, except for the following:

a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be measured at fair value except for a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, which shall be measured at cost,
b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies,
c) financial guarantee – after initial recognition, an issuer of such a contract shall measure it at the higher of:
   - the amount representing the most appropriate estimate of expense necessary to fulfil the current obligation under the financial guarantee, taking into account the probability of its realisation;
   - the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18.

The Group does not offset financial assets against financial liabilities, unless this is required or allowed under a standard or interpretation. Financial assets and financial liabilities are offset and recognised on a net basis only if the Group holds a valid legal right to offset the recognised amounts and intends to settle the amounts net, or to realize a given asset and settle the liability at the same time.

5.10. Derivative financial instruments

A derivative is a financial instrument with all three of the following characteristics:

a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying'),
b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors,
c) it is settled at a future date.

Derivative financial instruments not subject to hedge accounting are recognized as of the date of the trans action and measured at fair value as of the end of the reporting period. The Group recognizes changes in fair value in result on financial instruments measured at fair value through profit or loss or in foreign exchange result (FX swap, FX forward and CIRS transactions), respectively in correspondence to receivables/liabilities arising from derivative financial instruments.

The result of the final settlement of derivative transactions is recognised in "Result on financial instruments measured at fair value through profit or loss or and net foreign exchange gains".

The notional amounts of derivative transactions are recognized in off-balance sheet items as of the date of the transaction and throughout their duration. Revaluation of off-balance sheet items expressed in foreign currencies takes place at the end of the day, at the average exchange rate of the National Bank of Poland (fixing as of the valuation date).

The fair value of financial instruments quoted in a market is the market price of such instruments. In other cases, the fair value is determined based on a measurement model, inputs to which have been obtained from an active market (particularly in the case of IRS and CIRS instruments using the discounted cash flow method).

5.11. Embedded derivative instruments

Derivative instruments embedded in other financial instruments are treated as separate derivative instruments and valued at fair value, if they meet the definition of a derivative, economic characteristics and risks related to embedded derivatives are not strictly related to economic characteristics and risks specific for the underlying instrument and the underlying instrument is not measured at fair value through profit or loss. Embedded derivative instruments are measured at fair value, and their changes are recognized in the income statement.

5.12. Hedge accounting

The Group has adopted accounting policy for cash flow hedge accounting for hedging interest rate risk in accordance with IAS 39 endorsed by the European Commission Regulation. The "carve out" in accordance with IAS 39 endorsed by the European Commission Regulation enables the Group to establish a group of derivative instruments as a hedging instrument, and cancels certain restrictions resulting from the provisions of IAS 39 in the scope of deposit hedging (with the ability to pay on demand) and adoption of the hedging policy for less than 100% of cash flows. In accordance with IAS 39 endorsed by the European Commission Regulation, hedge accounting can be applied to deposits, and a hedging relationship is ineffective only when a re-measured value of cash flows within the given time interval is lower than the value hedged in the given time interval. In accordance with hedge accounting, hedging instruments are classified as:

- fair value hedge, securing against the fair value change risk for a recognised asset or liability, or
- cash flow hedge, securing against cash flow changes which may be attributed to a specific risk related to a recognised asset, liability or forecasted transaction, or
- hedge of a net investment in a foreign entity.

Hedging of the currency risk for the future liability of increased probability is accounted for as a cash flow hedge.

At the time of designation of the hedging instrument, the Bank formally assigns and documents the hedging relationship as well as the purpose of risk management and the strategy for establishment of the hedging instrument. The documentation comprises identification of the hedging instrument, hedged transaction or item, nature of the risk being hedged as well as the manner of assessing the efficiency of the given hedging instrument in offsetting of the risk by changes of the fair value of the item being hedged or cash flows related to the hedged risk. It is expected that the hedging instrument is to be highly efficient in offsetting changes of the fair value or cash flows resulting from the risk being hedged. Efficiency of the hedge relationship is assessed on a regular basis in order to verify whether it is highly effective in all reporting periods for which it has been designated.

Fair value hedge

A fair value hedge is a hedge against changes in the fair value of a recognised asset or liability or an unrecognised future commitment, or an identified portion of such asset, liability or future commitment, that is attributable to a particular risk and could affect profit or loss.

The Group uses hedge for fair value of deposits portfolio in PLN with fixed interest rate against changes in fair value due to the risk of changes in WIBOR benchmark interest rate. Hedging instrument in this kind of hedge portfolio is all or part of a portfolio of IRS. The Bank designates hedging relationships based on sensitivity analysis of the fair value of the hedged portfolio of deposits and portfolio of hedging instruments on the risk of changes in WIBOR benchmark interest rate. This analysis is based on measures of "BPV" and "duration". The effectiveness of the hedging relationship is measured on a monthly basis.

In the portfolio securities of fair value the interest expense on the hedged part of the portfolio of deposits are adjusted for accrued income and interest expense from hedging IRS transaction for a given reporting period. At the same time the change in fair value of derivative instruments designated as hedging instruments during the period is recognised in the income statement under "Result on financial instruments measured at fair value through profit or loss and net foreign exchange gains" – in the same position as the change in the fair value of the hedged item arising from the hedged kind of risk. Change in fair value of part of deposits portfolio in PLN designated in the period as a hedged item adjusts "Amounts due to customers" in the statement of financial position. Adjustment to the hedged portfolio of deposits is amortised linearly started from the month following the adjustment for the time remaining to maturity of the hedged cash flows. The amount of amortisation adjusts "Interest expense" in the income statement.

Cash flow hedge

The Group hedges the volatility of cash flows for mortgage loans denominated in CHF and EUR using specifically identified float-to-fixed CHF/PLN and EUR/PLN CIRS portfolio and the volatility of cash flows for the deposits in PLN separated from existing CIRS transactions using a specifically identified portfolio of fixed-to-float IRS. During the hedging period the Group analyses the hedge relationship effectiveness. The ineffective portion of hedge is recognised in the income statement as “The result on financial instruments measured at fair value through profit or loss and net foreign exchange gains”. The effective portion of changes accumulated in the revaluation reserve is gradually reclassified (amortised) to the income statement in accordance with the schedule prepared by the Group until the maturity of the original portfolio.

The Group discontinues hedge accounting if the hedging instrument expires or is sold, terminated or exercised, if the hedge no longer meets the criteria for hedge accounting, or the Group revokes the designation.

5.13. Impairment of financial assets

At the end of each reporting period, the Group estimates whether there is any objective evidence indicating the impairment of any financial asset. If such evidence is identified, the Group determines the amounts of impairment write-downs. Impairment loss is incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Loans, purchased receivables, other receivables

The value of granted loans, borrowings and receivables, including purchased receivables is periodically assessed whether any indicators of impairment exist and what is the level of impairment allowances in accordance with IAS 39.

If there is objective of evidence impairment of loans and receivables or held-to-maturity investments measured at amortised cost, the amount of the impairment allowance is the difference between the carrying value of the asset and the current value of estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of an asset is decreased using the allowance account. The amount of impairment loss is charged to the income statement. The Group first assesses if there is objective evidence for the impairment of individual financial assets which are considered individually significant and individually or collectively in case of financial assets which are not significant. Where no objective evidence for loan impairment assessed on an individual basis has been identified by the Group, such exposure is included in the portfolio of items of similar character of credit risk and the collective analysis of the impairment is conducted.

Loans, advances and receivables, which are individually significant, are subject to individual periodical evaluation in order to determine whether impairment losses occurred (the Group adopts the threshold for individually significant exposure at the outstanding balance of the principal of PLN 2 million). The impairment of an individual loan, advance or receivable is recognised and, as a consequence, an impairment allowance is made where there is objective evidence for the impairment due to one or more events which shall influence future estimated cash flows from such loans, advances or receivables. Such events include the following:

- lack or delay in repayment of loan interest or principal,
- an exposure is in the quarantine after the cessation of the condition relating to the lack or delay in repayment as described in the preceding bullet point,
- significant financial difficulties of a debtor resulting in a decrease in credit risk rating,
- unknown place of residence and undisclosed property of a debtor,
- request for an immediate repayment of the entire loan due to termination of the loan contract (an exposure was transferred to debt recovery),
- filing a notion for the debtor bankruptcy or commencement of corporate recovery proceedings,
- imposed administration has been established or debtor activities has been suspended (in case of banking entities),
- the Bank requested to initiate enforcement proceedings or learned of the auction date of the property securing the Bank's claims in enforcement proceedings conducted under the request of other creditor,
- the loan/ borrowing has been questioned by the debtor in legal proceedings,
- restructuring of the loan/ borrowing (as described in the section on restructuring of the exposures),
- fraud;
- infection of loan/ borrowing with the impairment of other loan/ borrowing granted to the same debtor within the specified product groups,
- failure to meet the conditions of transition to a quarantine,
- problems of retail counterparty due to job loss or reduced income, not paying debts to other financial institutions or significant deterioration of the results of the scoring assessment,
- death of the client.

If impairment was recognised for the assets which are assessed individually but the estimated cash flows do not indicate the need for recording or maintaining impairment allowance, the Group calculates the allowance for incurred but not reported losses on a collective basis.

An impairment allowance for loans that are subject to individual evaluation is determined as a difference between the carrying amount of the loan and the present value of estimated future cash flows discounted using the initial effective interest rate. In case of loans for which collateral has been established, the present value of estimated future cash flows includes cash flows that can be obtained through execution of the collateral, less costs of execution and costs to sell, if execution is probable. The carrying amount of loan is decreased by the amount of the corresponding impairment allowance.

Homogenous groups of loans that are not significant individually and individually significant items for which the individual evaluation showed no impairment, are subject to collective evaluation for impairment, including incurred but not reported credit losses (IBNR). In order to estimate collective impairment allowances, the Group classifies loans into portfolios with similar credit risk characteristics and assesses if there is objective evidence for impairment. The main impairment indicators are:

- lack or delay in repayment of loan interest or principal,
- an exposure is in the quarantine after the cessation of the condition relating to the lack or delay in repayment as described in the preceding bullet point,
- significant financial difficulties of a debtor resulting in a decrease in credit risk rating,
- unknown place of residence and undisclosed property of a debtor,
- request for an immediate repayment of the entire loan due to termination of the loan contract (an exposure was transferred to debt recovery),
- the loan/ borrowing has been questioned by the debtor in legal proceedings,
- the loan/ borrowing restructuring (as described in the section on restructuring of the exposures),
- fraud;
- infection of loan/ borrowing with the impairment of other loan/ borrowing granted to the same debtor within the specified product groups,
- failure to meet the conditions of transition to a quarantine,
- problems of retail counterparty due to job loss or reduced income, not paying debts to other financial institutions or significant deterioration of the results of the scoring assessment,
- death of the client.

The collective impairment measurement process consists of two elements:

- estimation of collective impairment allowances for exposures which are not considered individually significant and for which impairment has been identified,
- estimation of allowances for incurred but not reported credit losses (IBNR) – the exposures for which no impairment has been identified.

The present value of estimated future cash flows for exposures assessed on a collective basis is estimated based on the expected future cash flows discounted using the effective interest rate for particular portfolio, and historical data relating to overdue, length of period being impaired and repayments for particular portfolio.

The portfolio parameters i.e. PD (probability of default), RR (recovery rates), and CR (cure rate – transfer from impaired status to restructuring), which are required for the calculation of impairment allowances are determined based on the historical data. In addition, to include in the group assessment in the calculation of allowances a scenario of repayment of the exposure in accordance with the agreement, additional PD is determined for exposures for which no impairment indicator has been reported concerning lack of or delay in repayment (probability of default determined depending on the type of reported evidence of impairment). For the purpose of estimating the recovery rates (RR) and cure rate (CR) information on the exposure characteristics as of reporting date of the impairment indicator of non-repayment or delays in repayment are used such as: exposure value, month of exposure duration or LTV level (for mortgage portfolio). All parameters are determined independently for defined product group using statistical methods. Parameter estimation is made on the basis of historical base of exposures on a monthly basis, while the impact of data inappropriate to the current level of the loan portfolio risk is reduced, for example, do not include data older than 12 months in PD estimates and data older than 24 months for CR calculation. For the purpose of RR estimation the Group uses time series of 60 months. In justified cases, manual adjustment is allowed in order to reflect the impact of current circumstances. To reduce discrepancies between estimated and actual values of parameters, the Group regularly reviews the methodology and the assumptions (including the division into homogeneous groups of loans) underlying performance parameters.

In order to estimate an allowance for each identified portfolio, the Group also determines a maximum period of the quarantine for restructured exposures, the probable period of restructuring, the conditions of transfer of exposure from impaired status to restructuring and other.

For the purposes of determining the value of IBNR allowance for defined portfolios the Group performs analysis of the length of the period in which the disclosure of losses occur, i.e. LIP (loss identification period). These analyses are carried out on the basis of the observed effects on the accounts at the Bank and delinquencies and entry into impairment for the customer. The Group also carries out back testing of the LIP level on the basis of direct telephone surveys of customers.

For the purposes of estimating the likelihood of insolvency for exposures with reported impairment indicators other than non-repayment or delay in repayment, the Group adopts a LIPNONPERF of 12 months.

For the purposes of calculating provisions for off-balance sheet exposures, the Group estimates the value of the credit conversion factor (CCF) that allows identification of the outflow of funds made available by the Bank to the customer before the impairment occurs. The Group estimates the CCF for defined homogeneous product groups on historical data.

Held-to-maturity investments

The Group assesses whether there is objective evidence that an individual, held-to-maturity investment is impaired. If there is objective evidence of impairment, the amount of impairment losses is equal to the difference between the carrying value of an asset and the current value of estimated future cash flows (excluding future credit losses not incurred) discounted using the effective interest rate as at the date on which such evidence occurs for that financial asset.

If, in the subsequent period, the amount of the impairment loss decreases and the decrease can be related to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the impairment loss balance. The amount of the reversal is recognised in the profit or loss.

Available-for-sale financial assets

At the end of each reporting period, the Group assesses whether there is any objective evidence that a financial asset and/ or a group of financial assets is impaired.
At the end of each reporting period, the Group performs an analysis of whether there is objective evidence that an individual asset and/ or a portfolio of financial assets have been impaired. Evidence that a financial asset or a group of financial assets is permanently impaired may be due to the existence of one or more indicators, among others, significant financial difficulties of the issuer, non-repayment or delayed repayment of outstanding liabilities, granting facilities for repayment of liabilities to the issuer not otherwise received, other observable data that may indicate an calculable decline of future cash flows arising from the financial asset, that appeared after the date of their initial recognition in the Group's accounting books.

Should there be any objective evidence of impairment of a financial assets available for sale, the amount constituting the difference between the acquisition cost of the assets (decreased by all capital repayments and interest) and its current fair value, less any impairment losses for these assets component previously recognised in profit or loss, is removed from equity and recognised in profit or loss. The reversal of impairment write-downs for equity instruments classified as available for sale shall not be reversed through profit or loss. If, in the next period, the fair value of a debt instrument available for sale increases and the increase can be objectively related to an event subsequent to the recognition of the impairment loss in the financial profit or loss, then the amount of the reversals is recognised in the financial profit or loss.

5.14. Repo/ reverse repo agreements

Repo and reverse-repo and sell-buy-back and buy-sell back agreements are sale or purchase transactions of securities with the agreement to repurchase or resale them at a specific future date and price.

Repo and sell-buy back agreements are recognised in "Amounts due to banks and financial institutions" when occur. Reverse-repo and buy-sell back agreements are recognised in "Amounts due from banks and financial institutions".

(data in PLN thousand)

Repo and reverse repo agreements are measured at amortised cost, and securities which are subject to repo/reverse repo transactions are not derecognised from balance sheet and measured in accordance with principles applicable for particular securities portfolio. The difference between sale and repurchase price is treated as interest income or expense, respectively and is settled over the period of the agreement with an effective interest rate.

5.15. Contingent liabilities

As part of its operations, the Group makes transactions that, at the time of execution, are not recognised in the statement of financial position as assets or liabilities, but which result in contingent liabilities. A contingent liability is:

- possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group;
- present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be reliably measured.

Off-balance sheet liabilities that carry the risk of the counterparty's failure to meet the relevant contractual obligations are provided for in accordance with IAS 37. Financial guarantees are treated and recognised in accordance with IAS 39.

5.16. Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and recognised on a net basis only if the Group holds a valid legal right to offset the recognised amounts and intends to settle the amounts net, or to realise a given asset and settle the liability at the same time.

5.17. Property, plant and equipment

Tangible fixed assets are recognised at acquisition or manufacturing cost less depreciation and any impairment losses. The initial value of a tangible fixed asset comprises its acquisition price and all the costs directly attributable to the purchase and preparation of an asset to be put into operation. The initial cost also includes the costs of replacement of parts of plant and equipment when incurred if the criteria for recognition are met. Any costs incurred after the date when the fixed asset is put into operation, such as the costs of maintenance and repairs, are recognised in profit or loss when incurred.

Fixed assets, when acquired, are divided into component parts that are items of significant value and to which a separate period of economic life can be attributed. The costs of general overhauls also constitute a component part. Depreciation is provided on a straight-line basis over the estimated useful life of the respective asset.

Type of assets	Estimated economic useful life
Investment in third party assets	rental duration - up to 10 years
Buildings	from 40 to 66,6 years
Machinery and technical equipment	from 4 to 14 years
Computer units	from 2 to 10 years
Means of transport	from 2,5 to 5 years
Office equipment, furniture	from 2 to 10 years

The residual value, economic useful life and method of depreciation of the assets are verified and, if necessary, adjusted as at the end of each financial year.

An item of tangible fixed asset can be removed from the statement of financial position when the asset is sold or when no economic gains are expected from continuing to use such an asset. All gains or losses resulting from the removal of such an asset from the statement of financial position (calculated as the difference between possible net proceeds from the sale of the asset and the carrying amount of the asset) are recognised in the financial profit or loss for the period in which the asset was removed.

Investments in progress apply to fixed assets under construction or assembly and are recognised at the acquisition or manufacturing cost. Fixed assets under construction are not depreciated until their construction is completed and the assets are put into operation. When an asset is overhauled, the overhaul cost is recognised in tangible fixed assets in the statement of financial position provided that the criteria for such recognition are met.

5.18. Investment properties

Investment property is real estate (land, buildings or parts of them or both items) which the Group treats as a source of income from rent or holds due to the related increase in value, or both, and such real estate is not used during performance of services or other administrative activities, or intended for sale as part of the entity's ordinary business.

Investment property is recognised as an asset when it is probable that the future economic benefits that are associated with the property will flow to the Group, and the cost of the property can be reliably measured.

An investment property is measured initially at its cost. Transaction costs are included in the initial measurement. After initial recognition property is remeasured at fair value, and gains or losses arising from changes in the fair value of investment property are recognised in net profit or loss for the period in which it arises. Fair value of investment properties is recognised in accordance with IFRS 13.

Investment property is derecognised upon disposal or permanent withdrawal from use, if no future economic benefits from its disposal are expected. All profit or loss arising from the derecognition of an investment property are recognised in the income statement in the period of derecognition.

Transfer of assets to investment property is made only when there is a change in use evidenced by end of owner-occupation or commencement of an operating lease agreement. If a property occupied by the Group becomes an investment property, the Group applies rules as for property, plant and equipment up to the date of change in use of property.

5.19. Intangible assets

An intangible asset acquired in a separate transaction is initially measured at acquisition or production cost. The cost of acquisition of an intangible asset in a business combination is equal to its fair value as of the date of the business combination. An initially recognized intangible asset with a definite useful life is recognised at the cost of acquisition or production less amortization and impairment write-downs.

The following expenditures for development works are capitalized in intangible assets:

- expenditure on services used in the creation of an intangible asset,
- expenditure on employee benefits directly related to the creation of a given asset.

Expenditures incurred on intangible assets generated internally, with the exception of expenditures for development projects, are recognized as costs of the period in which they have been incurred.

The Group assesses whether the useful life of an intangible asset is definite or indefinite. An intangible asset with a definite useful life is amortised throughout its useful life and subject to impairment tests every time that evidence is identified that the asset is impaired. Estimated useful life of software is 2 to 10 years. The core deposit intangible is subject to straight-line amortisation over a period within which according to the assumptions the majority of benefits from the intangible assets is expected to be realised. The period and method of amortisation of intangible assets with a definite useful life are verified at least as of the end of each financial year. Changes in the expected useful life or in the expected method of consuming the economic benefits from an intangible asset are recognised through a change of, respectively, the period or method of amortisation, and treated as changes of estimates. The amortisation charges for intangible assets with a definite useful life are recognised in profit and loss, in the respective category for the function of that intangible asset.

Intangible assets with an indefinite useful life and those which are not used are, on an annual basis, subject to impairment tests with respect to individual assets or at the level of a cash-generating unit. In case of other intangibles, the Group assesses annually whether there impairment triggers have been recognised. The economic useful life periods are also subject to verification on an annual basis and, if necessary, adjusted with effect from the beginning of the financial year.

Gains or losses arising from the derecognition of an intangible assets in the statement of financial position are measured by the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Core Deposit Intangible

According to IFRS 3, acquired identifiable intangible assets must be recognised separately from goodwill, regardless of whether acquiree had recognised the asset prior to the acquisition transaction occurring or no. As a result of the acquisition by Getin Noble Bank S.A. of the organised part of business the intangible assets fulfilling the criteria for separate recognition in statement of financial position of the Bank were identified – relationships with deposit customers ("Core Deposit Intangible"). From the Bank perspective, it reflects the benefit of cheaper source of finance as the difference between the cost of finance from external sources (i.e. interbank market) and interest cost of acquired current accounts and inflow of non-interest income less respective expenses. Fair value measurement is to determine the present value of future benefits, constituting the difference between the cost of finance from external sources (i.e. interbank market) and interest cost of current accounts estimated for anticipated period of deposit customers retention based on historical customers' behaviour and churn rate.

The core deposit intangible is subject to straight-line amortisation over a period within which according to the assumptions the majority of benefits from the intangible assets is expected to be realised.

Goodwill

Goodwill arising on the business combination is initially measured at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. After initial recording, goodwill is recognised at cost less any accumulated impairment write-downs. Goodwill is tested for impairment annually if there is an indication that the goodwill may be impaired. Goodwill is not amortised. The impairment loss is determined by estimating the recoverable value of the cash-generating unit to which the goodwill was allocated. If the recoverable value of the cash-generating unit is lower than its carrying amount plus goodwill, the impairment loss is recognised.

5.20. Business combination of entities not under common control

Business combination units that are not jointly-controlled concern the combination of separate entities into the single reporting entity. Business combination of units results in the acquisition of control by a parent company over the entities taken over. Business combinations that are not under common control are settled under the acquisition method. The acquisition method captures business combination on the perspective of the entity identified as the acquiring entity. The acquiring entity recognises the acquired assets, liabilities and accepted contingent liabilities including those which were not previously recognised by the acquired entity.

The application of the acquisition method consists in the following:

- identification of the acquiring entity,
- identification of the cost of combination,
- allocation of the cost of the combination on the acquisition date to the acquired assets and accepted liabilities and contingent liabilities.

The acquiring entity determines the cost of combination in the amount equal to the sum of the fair values on the date of exchange of the acquired assets, liabilities taken or assumed, and equity instruments issued by the acquiring entity in return for the control over the acquired entity.

5.21. Assets held for sale and discontinued operations

Assets held for sale include tangible fixed assets, if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition can only be met when the occurrence of the sale transaction is highly probable and the asset is available for immediate sale in its present condition. The classification of an asset as held for sale assumes the intention of the Bank's management to make a sale transaction within one year from the date of its classification as held for sale.

Assets held for sale are recognised at the lower of its carrying amount and fair value less costs to sell. Assets classified as held for sale are not subject to depreciation.

If the criteria for assets held for sale are no longer met, the Group ceases its recognition as assets held for sale and reclassifies to the proper category of assets. In this case, the asset is measured at the lower of:

- its carrying amount before the asset was classified as held for sale, adjusted for any depreciation or revaluations that would have been recognised had the asset not been classified as held for sale,
- its recoverable amount at the date of the subsequent decision not to sell.

A discontinued operation is a component of the Group that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. The reclassification to the discontinued operations is made when the operation is disposed or when the operation meets the criteria of discontinued operation.

5.22. Impairment of non-financial tangible fixed assets

The carrying amount of particular assets is tested for impairment periodically. If the Group has identified evidence of impairment, determines whether the current carrying amount of the asset is higher than the amount recoverable through further use or sale, i.e. the recoverable amount of the asset is estimated. If the recoverable amount is lower than the current carrying amount, the asset is impaired and the impairment loss is charged in the profit or loss.

The recoverable amount of an asset is determined as the higher of two amounts: the amount expected to be received from sale less the selling costs and the asset’s value in use. An asset’s value in use is determined as the future cash flows expected to be derived from the asset, discounted with the current market rate of interest plus a margin against a risk specific to the given class of assets.

The impairment loss of an asset may be reversed only up to the carrying amount of the asset less the accumulated depreciation which would have been determined if the asset had not been impaired.

5.23. Cash and cash equivalents

The Group recognises the following cash and cash equivalents: cash and balances on current accounts in the Central Bank and balances on current accounts and overnight deposits in other banks.

5.24. Accrued expense and deferred income

Accrued expenses (assets) are particular expenses which will be recognised in the profit or loss in future reporting periods. Accrued expenses (assets) are recognised under “Other assets”.

Accrued expenses (liabilities) are provisions for the goods and services provided to the Group which are to be paid for in the future reporting periods. These are recognised under “Other liabilities”. Deferred income includes, i.a. the amounts received during a reporting period for goods and services to be supplied in the future and certain types of income received in advance which will be recognized in the financial profit or loss in the future reporting periods. They are also recognised under “Other liabilities”.

5.25. Employee benefits

In accordance with the Polish Labour Code and the Remuneration Policies, the Group’s employees are entitled to disability/ retirement severance pay. Such severance pay is paid as a lump sum to an employee upon termination of his or her employment for retirement or disability and the severance pay amount depends on the number of the employee’s years of service and his or her individual pay level. The Group creates a provision for severance pay to assign the future costs to the periods to which they relate. In accordance with IAS 19, disability/retirement severance pay is provided under termination benefit plans. The current amount of such liabilities as at each reporting date is determined by an independent actuary. The liabilities are equal to discounted payments to be made in the future, taking into account the employee turnover rate, and they relate to the reporting period. Demographic and employee turnover figures are based on historical data.

Pursuant to the provisions contained in the Remuneration Policy, the Remuneration Rules and the Bonus Rules, a bonus may be granted to Bank employees. An employee may be covered by the bonus system if it has been provided for a given organizational unit of the Bank or for a given position. The subjective scope of each bonus regulation is determined each time in the regulation itself. The rules for rewarding managers are specified in the Policy of variable remuneration components or in the bonus rules of a given unit.

5.26. Provisions

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The Group creates provisions included in liabilities in line “Provisions” for:

a) retirement severance pay

   The Group creates provisions for retirement severance pay. The amount of provisions is determined according to valuation made by an independent actuary and updated at the end of each reporting period. The provision is expensed to profit or loss except for actuarial gains and losses that are recognised in the revaluation reserve.

b) off-balance sheet commitments

   The Bank creates a provision for contingent liabilities related to financing that are subject to the risk of impairment. If as at the balance sheet date, there are objective evidence of impairment of assets in respect of contingent liabilities, the Bank creates a provision equal to the difference between the statistically estimated part of the off-balance sheet exposure (the balance equivalent of the current off-balance sheet items) and the present value of the estimated future cash flows.

c) other

   The Group creates provisions for legal obligations or highly probable obligations whose amount can be reliably estimated. Such obligations may result, for instance, from contracts concluded, as well as in relation to pending lawsuits.

5.27. Leases

The Group as a lessee

Finance lease agreements which transfer substantially all the risks and rewards incident to ownership of the leased asset on the Group are recognised in the statement of financial position as at the date of commencement of the lease term at the lower of two values: the fair value of the asset and the present value of the minimum lease payments. Finance lease payments are apportioned between the operating expenses and the reduction of the outstanding liability so as to produce a constant interest rate on the remaining balance of the liability. Other operating expenses are recognised directly in the financial profit or loss. Tangible fixed assets used under finance leases are depreciated over the shorter of the following two periods: the lease term or the estimated life of the asset.

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset leased are classified as operating leases. Operating lease payments are recognised under expense in the financial profit or loss on a straight-line basis over the term of the relevant lease.

The Group as a lessor

The Group presents assets under operating leases in the relevant fixed asset group, according to the nature of the respective asset. Fixed asset under operating lease agreements are depreciated on a straight-line basis over the lease agreement period, taking into account residual value. The residual value is determined at the amount the Group could currently expect to obtain, taking into account the age and condition of the asset at the end of the lease agreement, less the estimated costs of disposal.

Operating lease income is recognised as income on a straight-line basis over the agreement period, unless another systematic basis is more representative of the time pattern of the user's benefit.

5.28. Other receivables

Other receivables are recognised at the amount of the payment due, less impairment write-downs. In case the effect of the time value of money is material, the receivable amount is determined by discounting expected future cash flows to the current value using a discount rate that reflects current market assessments of the time value of money. If the discounting method has been applied, increase of the receivable amount over time is recognised in the income statement.

5.29. Other liabilities

Other liabilities are recognised at the amount of the payment due. In case the effect of the time value of money is material, the payable amount is determined by discounting expected future cash flows to the current value using a discount rate that reflects current market assessments of the time value of money. If the discounting method has been applied, increase of the payable amount in time is recognised in the income statement.

5.30. Equity

Equity consists of reserves and funds created in accordance with the applicable laws, regulations and the articles of association. The equity consists of share capital, repurchased own shares, retained earnings (undistributed profit or loss from prior years) and other capital.

Share capital

Share capital is recognized at nominal value according to the articles of association and the court register.

Purchased own shares

If an entity acquires own equity instruments, the amount paid for the instruments including all the direct costs related to such acquisition is recognised as a change in equity. The acquired own shares are recognised at the purchase price until the shares are cancelled or disposed.

Retained earnings (undistributed profit or loss from prior years)

Retained earnings include appropriated profits for the current and previous periods, which have not been allocated on the other capital or distributed to the shareholders.

Dividends for the year that have been approved by the General Shareholders' Meeting but have not been paid as at the reporting date are disclosed under "Other liabilities" in the statement of financial position.

Other capital

a) Reserve capital
   The capital from the sale of shares above par value (share premium) less the direct costs associated with it and created from profit. Reserve capital includes the capital resulting from the settlement of a business combination.
b) Revaluation reserve
   Revaluation reserve from measurement of available-for-sale financial assets, revaluation of cash flow hedges, valuation of stock option benefits, actuarial gains and losses and deferred tax relating to temporary differences recognised in the revaluation reserve.
c) Other capital reserves
   Other capital reserves are created from the appropriations from profit and other sources and are used for covering special losses and expenses. The General Risk Fund is also included in this position.

All items of the equity described above, in case of acquisition/ combination of entities, apply to the events taking place after obtaining control over the given entity until the day such control is ceased.

5.31. Share-based payments

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using selected pricing model. While measuring equity-settled transactions, no account is taken of any performance conditions other than the conditions linked to the price of the parent company's shares ("market conditions").

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled until the date in which particular employees become entitled to awards ("vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the parent company's Management Board, at that date, based on the best available estimate of the number of equity instruments, will eventually be vested. No expense is recognised for awards that are not eventually vested, except for the awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified. Furthermore, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had been vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect of outstanding options is reflected as additional share dilution on determination of the earnings per share.

Cash-settled transactions

Cash-settled transactions are initially measured at fair value at the granting date using the relevant model and entailing the terms and conditions upon which the options were granted. This fair value is expensed over the whole period until the vesting with recognition of a corresponding liability. The liability is re-measured at the end of each reporting period up to and including the settlement date with the changes in the fair value being recognised through profit or loss.

5.32. Revenues

Revenue is recognised in the amount in which it is probable that economic benefits associated with the transaction will flow to the Group and if the amount of income can be measured reliably. By revenue recognition apply the criteria described below.

Net interest income

Interest income and expense include all interest income and expense on financial instruments valued at amortised cost with effective interest rate and available-for-sale assets. Interest income also includes incremental costs relating to originated loans and advances, including integral and direct internal costs.

The following financial assets and liabilities the Group measures with amortised cost method:

- loans and advances granted and other receivables - not held for trading,
- financial assets held to maturity,
- financial liabilities not designated, upon initial recognition, as financial liabilities measured at fair value through profit or loss and not being derivative instruments.

The effective interest rate is the rate that discounts the expected cash flows until maturity or the next market-based repricing date to the current net carrying amount of the financial asset or financial liability. That calculation should include all fees paid or received by the Group under the contract for the asset or liability, excluding the potential future credit losses.

Fees/ commissions amortised with the effective interest rate method include for example, loan approval fees, loan origination fees, fees for loan disbursement, etc. The commission item is also remuneration for insurance when there is a direct connection between credit product and insurance product. Such fees are an integral part of the return generated by the given financial instrument. This category also comprises fees and charges for changing the terms and conditions of contracts, which modifies the originally calculated effective interest rate.

If it is probable that a loan agreement is executed, the fees and charges for the Group’s obligation to execute the agreement are considered as remuneration for continuing involvement in the purchase of the financial instrument, deferred and recognised as an adjustment of the effective rate of return at the time of execution of the agreement (using the effective interest rate method or the straight-line method, depending on the nature of the product). In case of an asset for which impairment has been identified, the interest income is recognised in profit or loss based on net exposure determined as the difference between gross exposure and impairment allowance, and using the effective interest rate that was applied in the determination of the impairment allowance.

Net interest income also comprises the profit or loss on the interest charged and paid in relation to the derivative CIRS and IRS instruments, as well as SWAP points.

Net fee and commission income

Fees and commissions that are recognised over time using the straight-line method or upfront, are recognised in "Net fee and commission income". The fee and commission income include fee and commission income arising from services comprising execution of significant services. This category includes fees and commissions for transaction services where the Group acts as an agent or provides services such as distribution of investment fund units, investment and structured products, income and expense on commission and fees not being an integral part of loan receivables measured using effective interest rate method.

The Bank offering insurance products to its customers, recognises revenue from insurance services based on professional judgement whether the sale of the insurance is limited to the provision of insurance products or the sale of insurance is linked to the sale of financial instrument. The principles for assessment of the economic content of offered financial instruments and insurance products, which are sold by the Bank, are presented in Note 6.1 of these financial statements.

As a result of the assessment of a direct link between an insurance product and a financial instrument, the Group may conclude:

- the existence of direct combination which results in the recognition of remuneration for offering insurance products under the amortised cost method using the effective interest rate method in interest income,
- no direct combination which results in the recognition of remuneration for offering insurance products in commission income in accordance with IAS 18,
- the existence of the combined product of financial instrument and insurance product, resulting in the allotment of remuneration for offering insurance product allocating the fair value of financial instrument and the fair value of an insurance product sold in conjunction with this instrument.

If combined product is identified, the remuneration for the sale of insurance product is allotted and recognised as a part of amortised cost of a financial instrument and as commission income related to agency services. Allotment is made according to the ratio of the fair value of the financial instrument and the fair value of agency services in relation to the sum of these two values. Fair value measurement of the agency services and the financial instrument is based on market data. In the case of provision of after-sales services resulting from the offered insurance product, the corresponding part of the remuneration allocated to the agency service is settled during the term of the insurance contract according to the method of completion, taking into account the principle of matching revenues and expenses. This remuneration is recognised in fee and commission income.

The Group estimates the share of commission that will be returned (e.g. due to the termination of the insurance contract by the customer, prepayments or other) in the periods after the sale of an insurance product. The estimated part of commission is deferred up to the value of expected returns. For the part relating to revenues accounted for at amortised cost, the projected returns are included in the remuneration recognised at amortised cost of a financial instrument. In a situation, when the remuneration is divided for a combined product, the projected returns for the part accounted for using the effective interest rate and recognised as remuneration for agency service of insurance sale are assigned to those items in the same way as the remuneration has been split.

The Group estimates the costs related to the sale of insurance product in accordance with the method of accounting for income and expenses depending on the form of sales of insurance product.

The Group classifies costs associated with the sale of insurance product to directly related and other indirectly related costs, including fixed costs (recognised as incurred).

Costs directly related to the sale of insurance product are accounted for in accordance with the principle of matching revenues and expenses as follows:

- element of amortised cost of a financial instrument if all revenues related to the sale of the insurance product is accounted for using the effective interest rate, or
- respectively in the ratio applied when the revenue is recognised as part of the calculation of amortised cost and revenue recognised at once or deferred as remuneration for the service agency if there was a split of the remuneration made for a combined product.

Revenues from intermediary services of financial products

The Group recognises revenues and the allocated to them costs associated with the intermediary services of financial products based on invoices issued and estimates made. The amount of the revenue is determined as the fair value of the payment received or due. In accordance with IAS 18, the revenue from the intermediary in sale of a given financial product is recognized in statement of comprehensive income when the following conditions have been met:

- the entity has transferred to the buyer significant risks and rewards of ownership of the product (through the customer's submission of application form for loan/investment/insurance product required by the relevant bank/financial institution),
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the products sold,
- the amount of revenue can be measured reliably.

Result on financial instruments measured at fair value through profit or loss and net foreign exchange gains

Result on financial instruments measured at fair value through profit or loss and net foreign exchange gains comprises profits and losses from fair value measurement of held-for-trading financial assets and liabilities, financial assets and liabilities initially recognised as financial instruments measured at fair value through profit or loss and derivatives, as well as gains and losses arising from the purchase/disposal of foreign currencies and from the translation of assets and liabilities denominated in foreign currencies at the average NBP exchange rate for a given currency prevailing the balance sheet date.

Result on other financial instruments

Result on other financial instruments comprises of realised gains and losses from disposal of financial assets classified as available-for-sale and held-to-maturity.

5.33. Other operating income and expense

Other operating income and expense comprises income and expenses not related directly to the banking activities of the Group. These include, in particular, the result from sale and disposal of fixed assets, net gains/losses from fair value adjustments of investment properties, rental income and costs, income from sale of other services, penalties and fines received and paid, as well as expense relating to the debt collection activities, court fees and costs of promotions and rewards for customers. Moreover, in other operating income the Group recognises also a gain on bargain purchase from the business combinations in accordance with IFRS 3.

5.34. Dividends

Dividend income is recognised in the profit or loss when the right of shareholders to dividend is established, provided the dividend is paid from profits made after the acquisition date.

5.35. Income tax

Current tax

Liabilities and receivables due to the current tax for the current and previous periods are measured as the expected amount to be paid to (or received from) tax authorities assuming the tax rates and tax regulations effective as at the reporting date.

Deferred tax

For the purposes of financial reporting, deferred tax is provided calculated, using the liability method, on temporary differences arising as at the end of the reporting period between the tax value of assets and liabilities and their book value presented in the financial statements.

Deferred tax liabilities are recognised with respect to all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- in case of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carried forward unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be achieved against which the above differences, assets and losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- in case of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be achieved against which the temporary differences can be utilised.

The carrying amount of a deferred tax asset is verified at the end of each reporting period and is subject to a respective decrease by the amount which corresponds to the lower probability of generating taxable income sufficient for partial or full realisation of the deferred tax asset. A deferred tax asset that was not recognised is re-assessed as at the end of each reporting period and is recognised to the amount which corresponds to the probability of generating taxable income in the future in order to utilise that asset.

Deferred income tax assets and provision for deferred income tax are determined using tax rates that are expected to be applied when a deferred tax asset is realised or the provision is released, based on the tax rates (and regulations) that have been effective or is expected to be effective at the end of the reporting period.

Income tax concerning items recognised directly in other comprehensive income or in equity is recognised directly in other comprehensive income or in equity, respectively.

The Group offsets deferred income tax assets against the deferred tax liability only if it holds a valid and enforceable legal right to offset current income tax receivables against tax liabilities and if the deferred tax is related to the same taxpayer and the same tax authority.

6. Significant values based on professional judgement and estimates

6.1. Professional judgement

In the process of applying the accounting policies to the issues listed below, the most important, apart from the accounting estimates, was the professional judgment of the management.

Commissions for insurance

The Group applies the following principles for revenue recognition from commissions received for offering the Bank's customers insurance products:

The Bank offering insurance products to its customers, recognises revenue from insurance services based on professional judgement whether the sale of the insurance is limited to the provision of insurance products or the sale of insurance is linked to the sale of financial instrument. The assessment is based on the economic content of an offered financial instruments and insurance products sold by the Bank. The aim of the assessment is to distinguish based on the economic content the revenue which account for:

- an integral part of the remuneration for offering extra financial instrument,
- the remuneration for providing agency services,
- the remuneration for providing additional services after the sale of product.

Direct link between an insurance product and a financial instrument occurs in particular, when at least one of two conditions is met:

- financial instrument is offered by the Bank always with the insurance product, i.e. both transactions were concluded at the same time or have been included in the sequence in which each new transaction follows from the previous one,
- insurance product is offered by the Bank only with a financial instrument, i.e. it is not possible to buy at the Bank an insurance product identical to the legal form, conditions and economic content without the combined purchase of a financial instrument.

The Bank also analyses the economic content of the insurance product, including the fulfilment of the criteria of independence of the insurance contracts from offered financial instruments, by setting:

- degree of combined product sale, i.e. the percentage share of financial instruments with insurance protection to a number of agreements on financial instruments in the Bank's portfolio, broken down by financial instruments and insurance products or insurance groups in accordance with the Bank's product offer,
- average annual real interest rate of individual financial instruments in the Bank's portfolio, broken down by including insurance protection and without insurance protection, by financial instruments and insurance products or insurance groups in accordance with the Bank's product offer,
- possibility of joining the insurance protection without having a financial instrument,
- lack of the requirement of the Bank to conclude the insurance contract by the client for the purchased financial instrument, number of insurance contracts similar in terms of terms and conditions, concluded in other insurance company than the insurance company, whose products are offered by the Bank together with a financial instrument (the percentage share in the whole loan portfolio – broken down into financial instruments in accordance with the Bank's product offer),
- level of resignation and the reimbursed remuneration, broken down by financial instruments and insurance products or insurance groups, according to the Bank's product offer,
- number of insurance contracts continued after the early repayment of a loan, together with information on loan products with which they were associated,

- scope of activities performed by the Bank to the insurance company during the term of the insurance contract,
- effects of analysis of management reports on the results of individual business lines, financial instruments in accordance with the product offer of the Bank, banking services.

As a result of the assessment of a direct link between an insurance product and a financial instrument, the Group may conclude:

- the existence of direct combination which results in the recognition of remuneration for offering insurance products under the amortised cost method using the effective interest rate method in interest income,
- no direct combination which results in the recognition of remuneration for offering insurance products in commission income in accordance with IAS 18,
- the existence of the combined product of financial instrument and insurance product, resulting in the allotment of remuneration for offering insurance product allocating the fair value of financial instrument and the fair value of an insurance product sold in conjunction with this instrument.

If combined product is identified, the remuneration for the sale of insurance product is allotted and recognised as a part of amortised cost of a financial instrument and as commission income related to agency services. Allotment is made according to the ratio of the fair value of the financial instrument and the fair value of agency services in relation to the sum of these two values. The Bank considers as revenue recognized upfront up to 30% of bancassurance income related to loans. The remaining part of revenues is recognized over time by the economic duration of the loan agreement at amortized cost. Fair value measurement of the agency services and the financial instrument is based on market data. In the case of provision of after-sales services resulting from the offered insurance product, the corresponding part of the remuneration allocated to the agency service is settled during the term of the insurance contract according to the method of completion, taking into account the principle of matching revenues and expenses.

The Bank estimates the share of commission that will be returned (e.g. due to the termination of the insurance contract by the customer, prepayments or other) in the periods after the sale of an insurance product. The estimated part of commission is deferred up to the value of expected returns.

The Bank estimates the costs related to the sale of insurance product in accordance with the method of accounting for income and expenses depending on the form of sales of insurance products.

The Group classifies costs associated with the sale of insurance product to directly related and other indirectly related costs, including fixed costs (recognised as incurred). Costs directly related to the sale of insurance product are accounted for in accordance with the principle of matching revenues and expenses.

Classification of lease agreements

The Group classifies an agreement as operating or financial lease based on an assessment of the extent to which the risks and rewards of ownership of a leased asset lie with the lessor and the lessee. This assessment is based on the economic content of each transaction.

Portfolio parameters in the valuation of loan exposures

The portfolio parameters i.e. PD (probability of default), RR (recovery rates), and CR (cure rate – transfer from impaired status to restructuring), which are required for the calculation of impairment allowances are determined based on the historical data. In addition, to include in the group assessment in the calculation of allowances a scenario of repayment of the exposure in accordance with the agreement, additional PD is determined for exposures for which no impairment indicator has been reported concerning lack of or delay in repayment (probability of default determined depending on the type of reported evidence of impairment). For the purpose of estimating the recovery rates (RR) and cure rate (CR) information on the exposure characteristics as of reporting date of the impairment indicator of non-repayment or delays in repayment are used such as: exposure value, month of exposure duration or LTV level (for mortgage portfolio). All parameters are determined independently for defined product group using statistical methods. Parameter estimation is made on the basis of historical base of exposures on a monthly basis, while the impact of data inappropriate to the current level of the loan portfolio risk is reduced, for example, do not include data older than 12 months in PD estimates and data older than 24 months for CR calculation. For the purpose of RR estimation the Group uses time series of 60 months. In justified cases, manual adjustment is allowed in order to reflect the impact of current circumstances. To reduce discrepancies between estimated and actual values of parameters, the Group regularly reviews the methodology and the assumptions (including the division into homogeneous groups of loans) underlying performance parameters.

In order to estimate an allowance for each identified portfolio, the Group also determines a maximum period of the quarantine for restructured exposures, the probable period of restructuring, the conditions of transfer of exposure from impaired status to restructuring and other.

For the purposes of determining the value of IBNR allowance for defined portfolios the Group performs analysis of the length of the period in which the disclosure of losses occur, i.e. LIP (loss identification period). These analyses are carried out on the basis of the observed effects on the accounts at the Bank and delinquencies and entry into impairment for the customer. The Group also carries out back testing of the LIP level on the basis of direct telephone surveys of customers.

For the purposes of estimating the likelihood of insolvency for exposures with reported impairment indicators other than non-repayment or delay in repayment, the Group adopts a LIPNONPERF of 12 months.

Consolidation of the Special Purpose Entity

In connection with the transaction of securitisation of the receivables resulting from acquired by Getin Noble Bank S.A. lease contract portfolios carried out in November 2015, the Bank performed an analysis of the risks, benefits and the business sense of the special purpose entity, GNB Leasing Plan Ltd. (SPV) under the provisions of IFRS 10. On the basis of the conclusions, it was stated that the substance of the relationship between the SPV and the Bank indicates that the SPV is controlled by the Bank. Therefore, the SPV has been consolidated using the full method, despite the fact that the Group does not hold any equity interest in the entity.

In connection with the transaction of securitisation of the car loan receivables of Getin Noble Bank S.A. carried out in July 2017, the Bank performed an analysis of the risks, benefits and the business sense of the special purpose entity, GNB Auto Plan 2017 sp. z o.o. with its registered office in Warsaw ("SPV") under the provisions of IFRS 10. On the basis of the conclusions, it was stated that the substance of the relationship between the SPV and the Bank indicates that the SPV is controlled by the Bank. Therefore, the SPV has been consolidated using the full method, despite the fact that the Group does not hold any equity interest in the entity.

6.2. Uncertainty of estimates

While preparing financial statements in accordance with IFRS, the Group is required to make estimates and assumptions that affect the amounts reported in the financial statements. These assumptions and estimates are reviewed on an ongoing basis by the Group's management and based on historical experience and various other factors, including such expectations as to the future events which seem justified in a particular situation. Although these estimates are based on the best knowledge of the current conditions and of the activities undertaken by the Group, the actual results may be different from these estimates. Estimates made as at the end of the given reporting period reflect the conditions as at the given date (e.g. currency exchange rates, interest rates, market prices). The areas for which the Group has made estimates include:

Impairment of loans and advances to customers

At the end of each reporting period, the Group assesses whether there is any objective evidence that a financial asset or a group of assets is impaired. The Group assesses whether there is any evidence indicating a reliably measurable decrease in estimated future cash flows relating to the loan portfolio, before such a decrease can be allocated to a particular loan in order to estimate the level of impairment. The estimates may include observable data indicating an unfavourable change in the debt repayment ability of a particular category of borrowers or in the economic situation in a particular country or part of the country, which is related to problems in this group of financial assets. The methodology and assumptions for estimating amounts of cash flows and the periods in which they occur is subject to review on a regular basis in order to identify the discrepancies between the estimated and actual amounts of losses.

Uncertainty is associated with estimates of impairment in value of portfolio (both in relation to the impaired portfolio and regular portfolio, for which an IBNR allowance is made), which follows from the assumptions and specific of statistical models used.

Derivatives, financial assets and financial liabilities measured at fair value through profit or loss

The fair value of derivatives, financial assets and financial liabilities not quoted on active markets is determined based on widely recognized measurement methods. All the models are subject to approval before application and calibrated to ensure that the results achieved reflect the actual data and comparable market prices. As far as practicable, the models use only observable data from an active market; however, under certain circumstances, the Bank estimates the relevant uncertainties (such as the counterparty risk, volatility and market correlations). Change in the assumptions adopted for these factors may affect the measurement of certain financial instruments.

Fair value of investment property

The Group makes estimates of the fair value of investment property. The estimate reflects market conditions as at the valuation date and is based on current real estate valuations.

Impairment of other tangible fixed assets

At the end of each reporting period the Group assesses the existence of impairment indicator for fixed assets. If such indicators are identified, the Bank estimates the value in use. Estimation of the value in use of fixed asset assumes, i.a. the adoption of the assumptions with respect to the amounts, timing of future cash flows that the Group may receive in respect of any asset and other factors. While estimating the fair value less costs to sell, the Group uses available market data or independent appraisals, which in principle are also based on estimates.

Valuation of provisions for retirement benefits

The provision for retirement severance pay is determined based on the valuation performed by an independent actuary and it is subject to revision at the end of each reporting period.

Impairment of goodwill

After its initial recognition, goodwill is measured at cost less any accumulated impairment allowances. Impairment tests are carried out once a year. Furthermore, as at each reporting date the assessment is made whether there are impairment triggers with respect to goodwill.

The Group assesses whether there are any circumstances as of the balance sheet date indicating that the carrying value of goodwill is lower than its recoverable amount. An annual goodwill impairment test is performed for this purposes, regardless of whether there is any evidence of goodwill impairment or not. The test is performed in accordance with IAS 36.

The recoverable amount is estimated according to the value in use of the cash generating units (hereinafter referred to as CGUs), attributed to goodwill. CGUs represent the lowest level within the entity at which the goodwill is monitored for internal management purposes not larger than an operating segment.

Value in use is the present estimated value of the future cash flows the Group expects to derive from further use of the CGU. Value in use includes the end (residual) value of the CGU. The residual value of the CGU is calculated by extrapolating cash flow projections beyond the forecast period, while applying a determined growth rate.

Forecasts related to future flows cover five years and are based on the following:

- historical data reflecting CGU potential with regard to cash flow generation,
- balance sheet and profit or loss account projections for the CGU as of the goodwill impairment test date,
- balance sheet and profit or loss account forecasts for the period covered by the forecast,
- assumptions included in the Group’s budget,
- analysis of the reasons for discrepancies between future cash flow forecasts and the actual flows obtained.

Future cash flows constituting the bases for value in use calculation reflect the value of potential dividends/additional capital contributions, taking into account a determined level of generated profit as well as regulatory capital necessary to maintain the assumed capital adequacy level. The present value of future cash flows is calculated using the adequate discount rate, taking into account the risk free rate, the risk premium, the low capitalization premium and the specific risk premium. The present value of future cash flows is compared to the carrying value (as of the date of the test) for the total of the following: goodwill and CGU net assets (CGU own funds and profits).

Items of deferred tax assets

Component of deferred tax asset has been estimated and recognized based on the assumption that future tax profits will be achieved which will allow for its utilization. The decrease in the tax results in the future could make this assumption unjustified.

Economic useful life of property, plant and equipment and intangible assets

While estimating the useful life of particular type of property, plant and equipment and intangible assets the following factors are considered, i.e.:

- current average useful life reflecting on rate of physical usage, intensity, utilization, etc.,
- impact of technological obsolescence,
- the period of control over the asset and the legal limits or other similar limits on the use of the asset,
- whether the asset's useful life is dependent on that of other assets of the entity,
- other factors that can affect the useful life of this type of assets.

When the period of use of a given asset results from a contract term, the useful life of such an asset corresponds to the period defined in the contract. If, however, the estimated useful life is shorter than the period defined in the contract, the estimated useful life is applied. The Group reviews useful lives of assets annually, based on current estimates.

Although estimates used are based on best knowledge, actual results may differ from the applied estimates. The compliance of actual results with the estimated values is being revised in reporting periods.

6.3. Changes in estimates

In the current reporting period, the Group has not changed the areas for which it has made estimates.

6. Correction of prior period errors

Test for impairment of investment in associate Open Finance S.A.

In the period 2014-2016, i.e. from the moment when the market valuation/ fair value of the investment held in the affiliate Open Finance S.A. as a result of the decrease of the company's share price on the Warsaw Stock Exchange in 2014 by 84% (from PLN 16.48 per share to PLN 2.56 per share) was significantly lower than the net carrying value of the investment, the Group verified on each balance sheet date whether there was any impairment of the investment in the associate in accordance with IAS 36 by comparing its carrying amount with the utility value of the investment estimated on the basis of the financial plans of the Open Finance S.A. Capital Group. Cash flows from the projected financial results of the Open Finance S.A. Capital Group were increased by the estimates of the financial effects of the identified areas of synergy of the operations of the associated entity with Getin Noble Bank S.A., and then, after discounting, they were included in the determination of the recoverable amount of the investment in the associate.

The applied approach assumed that the significant difference between the fair value and the balance sheet value does not have a permanent character and the financial results achieved by the Open Finance S.A. Group will be close to the plans.

In previous periods, the Bank incorrectly assessed the probability of financial forecasts being the basis for the impairment test. This is also indicated by the persistence of the low market valuation of Open Finance S.A. and the lack of implementation of the planned financial results of the Open Finance Group. As a result, a retrospective adjustment was made to the principles of determining value in use, assuming that the more appropriate method of calculating the value in use of an investment is the percentage of the Bank's share in consolidated net assets included in the consolidated financial statements of the Open Finance S.A. Capital Group, adjusted for goodwill and the trademark of Home Broker S.A. due to the unification of the accounting principles of the associated entity and Getin Noble Bank S.A. (in detail, this adjustment was described in the Getin Noble Bank S.A. financial statements for 2011). The Bank has re-assessed the investment in Open Finance S.A. in terms of impairment at the end of previous periods and corrected the error and retrospectively restated the opening balances of assets and equity in the earliest period presented, as the error was made in periods prior to the earliest period presented in these financial statements.

Test for impairment of goodwill recognised upon the acquisition of Bank Przemysłowy S.A.

Goodwill was recognised upon the acquisition of Bank Przemysłowy S.A. in Łódź in 2004. In accordance with IAS 36 the Bank performed annually an impairment test with respect to the goodwill – regardless whether the impairment triggers existed. The recoverable amount was estimated based on the value in use of the cash-generating units (CGU) which were assigned to goodwill. The value in use of the CGU was the present, estimated value of the future cash flows for the period of 5 years taking into account the end value (residual) of CGU. The residual value of CGU was calculated based on an extrapolation of the cash flows projections beyond the budget period using the long-term growth rate at the level of NBP long-term inflation rate.

The forecasts of future cash flows were based on historical data reflecting the CGU's potential for generating cash flows, forecasted balance sheet and income statement of the CGU as of the date of testing, and forecasted statement of financial position and income statement for the period covered by forecast from the Bank's plans approved by the Management Board and Supervisory Board of Getin Noble Bank S.A., as well as the assumptions contained in the Bank's budgets for subsequent years.

In 2017, during the verification of the prepared impairment test in relation to goodwill, an error was diagnosed consisting in the failure to include in the model of allocation on GCU side costs not directly attributed to the CGU (so-called general management costs and fees for BFG). Therefore, the Bank recalculated the goodwill model at the end of previous periods and adjusted the error and retrospectively restated the opening balances of assets and equity in the earliest period presented, as the error was made in periods prior to the earliest period presented in these financial statements.

Impairment loss on significant credit exposure

In its loan portfolio the Bank has a significant exposure related to the syndicated loan granted for the refinancing of the construction loan and financing of the net investment expenses related to the implementation of the project – construction of a shopping center. In 2016 the Bank when testing it for impairment, incorrectly interpreted events related to emerging problems in the project implementation (exceeding the planned construction costs, delays in completion of the investment, the dispute of the borrower with the main contractor).

Assuming that these are not events that could affect the impairment of the exposure, the Bank did not estimate a possible significant reduction in the value of the collateral that actually occurred. This was also confirmed by the value of offers to purchase receivables, which the consortium of banks financing the project received. Considering the above, the Bank determined that the write-off should have been made in 2016 and therefore corrected the error and retrospectively restated the opening balances of assets and equity as at 31 December 2016.

Comparative data for previous periods presented in these consolidated financial statements are presented as if the errors of previous periods never took place. Corrections concerning each item of the financial statements affected by the errors described above are disclosed below:

Adjustment 1 – relates to investment in associate Open Finance S.A.

Adjustment 2 – relates to goodwill recognised upon the acquisition of Bank Przemysłowy S.A.

Adjustment 3 – relates to impairment loss on significant loan exposure.

01.01.2016	Published data PLN thousand	Adjustment 1 PLN thousand	Adjustment 2 PLN thousand	Adjusted data PLN thousand
Investments in associates	347,112	(289,824)	-	57,288
Intangible assets	268,547	-	(51,307)	217,240
Income tax assets, of which:	336,030	-	-	336,030
receivables relating to current income tax	4,031	-	-	4,031
deferred tax assets	331,999	-	-	331,999
Retained earnings	123,044	(289,824)	(51,307)	(218,087)

31.12.2016	Published data PLN thousand	Adjustment 1 PLN thousand	Adjustment 2 PLN thousand	Adjustment 3 PLN thousand	Adjusted data PLN thousand
Loans and advances to customers	46,665,793	-	-	(32,035)	46,633,758
Investments in associates	323,112	(277,442)	-	-	45,670
Intangible assets	290,226	-	(51,307)	-	238,919
Income tax assets, of which:	345,191	(2,641)	-	6,087	348,637
receivables relating to current income tax	-	-	-	-	-
deferred tax assets	345,191	(2,641)	-	6,087	348,637
Retained earnings	170,918	(289,824)	(51,307)	-	(170,213)
Net profit/ (loss)	(42,338)	9,741	-	(25,948)	(58,545)

01.01.2016 – 31.12.2016	Published data PLN thousand	Adjustment 1 PLN thousand	Adjustment 3 PLN thousand	Adjusted data PLN thousand
Net impairment allowances on financial assets and off-balance sheet provisions	(680,463)	12,382	(32,035)	(700,116)
Income tax	(15,936)	(2,641)	6,087	(12,490)
Net profit/ (loss)	**(38,648)**	**9,741**	**(25,948)**	**(54,855)**
Attributable to:				
equity holders of the parent	(42,338)	9,741	(25,948)	(58,545)
non-controlling interests	3,690	-	-	3,690
Earnings/ (losses) per share in PLN:				
basic, for profit for the period attributable to equity holders of the parent	(0.05)			(0.07)
diluted, for profit for the period attributable to equity holders of the parent	(0.05)			(0.07)

7. Net interest income

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 (restated) PLN thousand
Interest income related to:		
loans and advances to customers	2,010,553	2,250,743
amounts due from banks and financial institutions	8,310	9,423
available-for-sale and held-to-maturity financial assets	213,700	247,498
derivative financial instruments	293,056	294,711
obligatory reserve	26,078	27,721
Total interest income	**2,551,697**	**2,830,096**
of which:		
interest income from impaired financial assets	214,145	200,658
interest income calculated using the effective interest rate in relation to financial assets not measured at fair value through profit or loss	2,258,641	2,535,385
Interest expense related to:		
amounts due to customers	999,460	1,275,930
amounts due to banks and financial institutions	45,434	51,871
available-for-sale and held-to-maturity financial assets	7,516	4,398
derivative financial instruments	7,213	14,600
debt securities issued	195,158	166,617
Total interest expense	**1,254,781**	**1,513,416**
of which:		
interest expense calculated using the effective interest rate in relation to financial liabilities not measured at fair value through profit or loss	1,247,568	1,498,816
Net interest income	**1,296,916**	**1,316,680**

Details regarding the restatement of comparative data due to a change in the presentation of interest income/ expense on assets / liabilities subject to a negative interest rate are presented in note II. 5.6.

8. Net fee and commission income

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Fee and commission income related to:		
loans and advances	18,629	25,735
bank accounts service	33,586	37,019
payment cards and credit cards	39,696	45,805
investment products and asset management	110,555	103,893
insurance products	84,192	67,853
brokerage activities	29,756	33,651
other fee and commission income	1,265	1,697
Total fee and commission income	**317,679**	**315,653**
Fee and commission expense related to:		
loans and advances	12,453	10,836
payment cards and credit cards	45,877	45,995
investment and deposit products and asset management	83,055	105,421
insurance products	4,633	9,239
brokerage activities	8,100	7,964
other fee and commission expense	9,458	9,811
Total fee and commission expense	**163,576**	**189,266**
Net fee and commission income	**154,103**	**126,387**

9. Dividend income

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Dividends received:		
from financial instruments classified as available-for-sale	1,318	5,521
from financial instruments classified as measured at fair value through profit or loss	3,031	5,951
Total dividend income	**4,349**	**11,472**

10. Result on financial instruments measured at fair value through profit or loss and net foreign exchange result

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Result on financial instruments, of which:	(24,409)	,(1,538)
debt securities	2,633	3,249
equity securities and investment certificates	(3,070)	,(4,421)
derivative instruments	(23,972)	(366)
Valuation of the liability at fair value through profit or loss	17,884	-
Exchange differences on translation of foreign currency loans	30,846	16,293
Other exchange differences	26,669	20,427
Total result on financial instruments measured at fair value through profit or loss and net foreign exchange result	**50,990**	**35,182**

11. Result on other financial instrument

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Result on financial instruments measured at fair value with changes in other comprehensive income, of which:		
debt securities	63	17,586
equity securities	7,623	67,642
receivables portfolio	1,164	-
Total result on other financial instruments	**8,850**	**85,228**

The result on equity securities in 2016 includes the result on sale of shares of Biuro Informacji Kredytowej S.A. in the amount of PLN 48.3 million and the revenue on settlement of the VISA Europe Ltd transaction in the amount of PLN 22.4 million.

12. Result on investments in subsidiaries, associates and joint ventures

On 1 June 2017 the registry court registered a merger of Open Finance Towarzystwo Funduszy Inwestycyjnych S.A. and Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A. As a result of this transaction, the Bank lost control of the merged entity.

Presented below is the result of the Group of the loss of control in Noble Funds TFI S.A .:

	PLN thousand
Fair value of residual shares as at the date of loss of control	165,161
Carrying value of assets as at the date of loss of control	(18,316)
Carrying value of non-controlling interests as at the date of loss of control	6,119
Profit of the Group	**152,964**

In 2016 Getin Noble Bank S.A. sold 50.72% shares of its joint venture Getin Leasing S.A. The Group's profit before tax on this transaction amounted to PLN 45,420 thousand.

13. Net other operating income and expense

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 (restated) PLN thousand
Other operating income:		
rental income	7,945	8,255
revenues from sales of products and services	11,045	10,633
recovered legal and debt collection costs	9,051	8,204
reversal of provisions and impairment charges for other assets	2,160	2,635
gains from the sale of non-financial fixed assets	964	3,211
revenue from bad debts recovered	5,252	728
revenues from brokerage activities	4,806	6,032
revenue from sale of receivables	1,705	2
damages, penalties and fines received	899	1,081
revenues from card organisations related to promotional activities	7,239	178
reversal of the unused part of a cost accrual	5,417	2,655
other income	5,345	8,892
Total other operating income	**61,828**	**52,506**

Other operating expense:		
rental costs	3,859	2,849
cost of products and services sold	12,727	11,695
debt collection and monitoring of receivables, including legal costs	73,796	39,791
recognition of provisions and impairment charges for other assets	23,446	7,658
costs of accrual for unused holidays leave	1,172	716
costs related to investment products	550	1,910
costs of promotions and rewards for customers	12,409	16,786
fair value measurement of investment property [1)]	109,317	17,607
damages, penalties and fines paid	1,693	4,759
losses on the sale of non-financial fixed assets	2,033	2,496
donations	874	1,034
other expense	8,168	7,426
Total other operating expense	**250,044**	**114,727**
Net other operating income and expense	**(188,216)**	**(62,221)**

Details regarding the restatement of comparative data due to a change in the presentation of the impairment loss on the portfolio of receivables are presented in note II. 5.6.

[1)] Loss on fair value adjustments of investment property is primarily a result of revaluation of undeveloped land, including agricultural parcels, which account for significant part of the Group's investment property. After the entry into force in April 2016 of the new provisions of the Law on shaping the agricultural system, a noticeable fall in prices was observed on the market of agricultural real estate and a significantly lower number of contracts of sale and purchase.

14. Administrative expenses

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Employee benefits	399,163	386,696
salaries	337,415	327,230
employment costs and other employee benefits	61,748	59,466
Use of materials and energy	20,591	20,965
External services, of which	240,811	240,792
marketing and advertising	35,101	28,163
IT services	42,461	40,079
lease and rental	91,529	101,231
security and cash processing services	6,754	6,017
telecommunication and postal services	26,302	30,405
legal and advisory services	11,266	8,727
other external services	27,398	26,170
Other taxes and charges	15,109	12,093
Amortisation and depreciation	84,470	80,219
Other expenses	17,398	5,545
Total administrative expenses excluding payments to the Bank Guarantee Fund	**777,542**	**746,310**
Payments to the Bank Guarantee Fund, of which:	117,333	112,730
contribution to the guarantee fund of banks	70,553	70,702
contribution to the resolution fund (former prudential)	46,780	34,342
payment due to bankruptcy of Bank Spółdzielczy in Nadarzyn	-	7,686
Total administrative expenses	**894,875**	**859,040**

15. Net impairment allowances on financial assets and off-balance sheet provisions

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 (restated) PLN thousand
Loans and advances to customers, of which:	**1,018,217**	**678,731**
corporate	67,709	132,448
car	43,774	31,117
mortgage	563,991	254,103
retail	342,743	261,063
Amounts due from banks	(463)	(476)
Available-for-sale financial assets	31,025	(1,175)
Portfolio of loan receivables held for sale	138,878	20,909
Off-balance sheet provisions	(679)	609
Other financial assets	73,745	-
Investment in associates	-	1,518
Total net impairment allowances on financial assets and off-balance sheet provisions	**1,260,723**	**700,116**

Details regarding the restatement of comparative data due to a change in the presentation of the impairment loss on the portfolio of receivables are presented in note II. 5.6.

The increase in impairment allowances for loans and advances to customers in 2017 resulted from the performed review and updating of scenarios and values used in the assessment of individually significant exposures with recognized impairment. In 2017 less sales of impaired loans portfolios were made than in previous years.

The item "Other financial assets" includes an allowance for deferred payments for sold debt portfolios for which indications of impairment have been identified.

2017	Loans and advances to customers PLN thousand	Amounts due from banks PLN thousand	Available-for-sale financial assets PLN thousand	Portfolio of loan receivables held for sale PLN thousand	Off-balance sheet provisions PLN thousand	Other financial assets PLN thousand	Investment in associates PLN thousand	Total PLN thousand
Impairment allowances/ provisions as at beginning of the period	**2,695,237**	**625**	**10,204**	**20,909**	**3,474**	**-**	**291,342**	**3,021,791**
Net change in impairment allowances/ provisions recognised in the income statement	1,018,217	(463)	31,025	138,878	(679)	73,745	-	**1,260,723**
Utilisation - write-offs	(129,006)	-	-	-	-	-	-	**(129,006)**
Utilisation - sale of the portfolio	(177,223)	-	-	-	-	-	-	**(177,223)**
Net other decreases*	(211,131)	-	-	-	-	-	-	**(211,131)**
Impairment allowances/ provisions as at end of the period	**3,196,094**	**162**	**41,229**	**159,787**	**2,795**	**73,745**	**291,342**	**3,765,154**

* The "net other decreases" item is a result of the Group’s methodology to calculate impairment charges, according to which the interest income adjustment under IAS 39 is recognised as a reclassification adjustment between interest income and net impairment allowances on loan receivables. This item also reflects changes in the valuation of impairment allowances accrued in a foreign currency.

2016 (restated)	Loans and advances to customers PLN thousand	Amounts due from banks PLN thousand	Available-for-sale financial assets PLN thousand	Portfolio of loan receivables held for sale PLN thousand	Off-balance sheet provisions PLN thousand	Other financial assets PLN thousand	Investment in associates PLN thousand	Total PLN thousand
Impairment allowances/ provisions as at beginning of the period	**2,372,122**	**1,101**	**11,379**	**-**	**2,865**	**-**	**289,824**	**2,677,291**
Net change in impairment allowances/ provisions recognised in the income statement	678,731	(476)	(1,175)	20,909	609	-	1,518	**700,116**
Utilisation - write-offs	(78,465)	-	-	-	-	-	-	**(78,465)**
Utilisation - sale of the portfolio	(134,717)	-	-	-	-	-	-	**(134,717)**
Net other decreases	(142,434)	-	-	-	-	-	-	**(142,434)**
Impairment allowances/ provisions as at end of the period	**2,695,237**	**625**	**10,204**	**20,909**	**3,474**	**-**	**291,342**	**3,021,791**

16. Income tax

Current income tax is calculated according to Polish tax regulations. The basis of calculation is the pre-tax accounting profit adjusted for non-deductible costs, non-taxable income and other income and expenses changing the tax base as defined in the Act on Corporate Income Tax of 15 February 1992 with later amendments.

For purposes of financial reporting, deferred tax is calculated using the liability method in respect of temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 (restated) PLN thousand
Consolidated income statement		
Current income tax	10,939	10,147
Current tax charge	10,939	10,170
Adjustments related to current tax from previous years	-	(23)
Deferred income tax	(98,642)	2,343
Related to origination and reversal of temporary differences	(94,886)	(17,633)
Utilisation of tax loss from previous years	186	19,976
Tax loss from current year	(3,942)	-
Income tax in the consolidated income statement	**(87,703)**	**12,490**
Consolidated statement of comprehensive income		
Deferred income tax		
Related to available-for-sale financial assets	14,168	(17,862)
Related to cash flow hedges	6,988	2,801
Related to actuarial gains/ losses	(8)	22
Income tax in the consolidated statement of comprehensive income	**21,148**	**(15,039)**
Total main components of income tax	**(66,555)**	**(2,549)**

Reconciliation of tax charge	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 (restated) PLN thousand
Profit/ (loss) before tax	**(661,028)**	**(42,365)**
Tax calculated at tax rate of 19%	(125,595)	(8,049)
Impact of permanent differences between profit / (loss) before tax and taxable income, including:	**37,892**	**20,539**
Impact of different tax rates	3,016	504
Impact of consolidation of investment funds	35,680	76
Impact of entities accounted for with the equity method	(2,777)	644
Impact of non-taxable income (dividends)	(826)	(2,179)
Impact of non-deductible expenses (including contribution to the BGF)	26,402	9,228
Impact of impairment allowances for investments in associates	-	288
Tax on certain financial institutions	-	7,272
Impact of settlement of loss of control in a subsidiary, disposal of entities	(29,084)	(2,940)
Impact of other permanent differences	5,481	7,646
Total tax charges to profit/ (loss) before tax	**(87,703)**	**12,490**

2017	As at 01.01.2017	Changes in period: Recognised in the income statement	Changes in period: Recognised in other comprehensive income	Changes in period: Acquisition/ sale of entities	As at 31.12.2017
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Accrued interest on investment securities and derivative instruments	49,452	(9,869)	-	-	39,583
Accrued interest on loans and amounts due from banks	52,468	(21,245)	-	-	31,223
Fees and commissions paid in advance	69,038	(5,329)	-	-	63,709
Difference between tax and balance sheet amortisation	18,522	2,433	-	-	20,955
Valuation of available-for-sale financial assets	931	-	3,286	-	4,217
Provision for non-tax deductible amortisation of intangible assets	5,468	(391)	-	-	5,077
Other	6,987	(3,026)	-	(11)	3,950
Deferred tax liability	**202,866**	**(37,427)**	**3,286**	**(11)**	**168,714**
Accrued interest on deposits, issue of own securities and derivative instruments	92,171	(14,242)	-	-	77,929
Impairment allowances on loans, advances to customers and off-balance sheet liabilities	271,664	64,594	-	-	336,258
Tax loss	100,272	3,759	-	-	104,031
Fees and commissions received in advance	8,643	(1,011)	-	-	7,632
Provisions for operating costs	16,775	(2,320)	-	(1,279)	13,176
Valuation of available-for-sale financial assets	22,097	-	(10,882)	-	11,215
Valuation of cash flow hedge	22,193	-	(6,988)	-	15,205
Valuation of investment properties	6,735	13,387	-	-	20,122
Other	7,011	(2,952)	8	(132)	3,935
Deferred tax assets	**547,561**	**61,215**	**(17,862)**	**(1,411)**	**589,503**
Net deferred tax assets	**344,695**	**98,642**	**(21,148)**	**(1,400)**	**420,789**

2016 (restated)	As at 01.01.2016	Changes in period: Recognised in the income statement	Changes in period: Recognised in other comprehensive income	Changes in period: Acquisition/ sale of entities	As at 31.12.2016
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Accrued interest on investment securities and derivative instruments	41,845	7,607	-	-	49,452
Accrued interest on loans and amounts due from banks	71,027	(18,559)	-	-	52,468
Fees and commissions paid in advance	63,909	5,129	-	-	69,038
Difference between tax and balance sheet amortisation	19,338	(816)	-	-	18,522
Valuation of available-for-sale financial assets	5,037	-	(4,106)	-	931
Provision for non-tax deductible amortisation of intangible assets	5,860	(392)	-	-	5,468
Valuation of investment in joint venture	25,809	(25,809)	-	-	-
Other	2,491	4,496	-	-	6,987
Deferred tax liability	**235,316**	**(28,344)**	**(4,106)**	**-**	**202,866**
Accrued interest on deposits, issue of own securities and derivative instruments	103,931	(11,760)	-	-	92,171
Impairment allowances on loans, advances to customers and off-balance sheet liabilities	250,478	21,186	-	-	271,664
Tax loss	120,248	(19,976)	-	-	100,272
Fees and commissions received in advance	12,170	(3,527)	-	-	8,643
Provisions for operating costs	12,449	4,326	-	-	16,775
Valuation of available-for-sale financial assets	8,341	-	13,756	-	22,097
Valuation of cash flow hedge	24,994	-	(2,801)	-	22,193
Accrued contribution to the Borrowers Support Fund	25,471	(25,471)	-	-	-
Valuation of investment properties	2,546	4,189	-	-	6,735
Other	6,687	346	(22)	-	7,011
Deferred tax assets	**567,315**	**(30,687)**	**10,933**	**-**	**547,561**
Net deferred tax assets	**331,999**	**(2,343)**	**15,039**	**-**	**344,695**

Deferred tax assets are recognized in the amount expected to be realized through the use of future taxable income estimated on the basis of the following documents: *Strategy for 2016-2018*, *Plan for a sustainable improvement in profitability of Getin Noble Bank S.A. for the years 2017-2021. Update of the Repair Action Program for the years 2016-2019* and the *Capital Protection Plan*, approved by the Bank's Management Board and Supervisory Board. The realization of the deferred tax asset depends on the fulfillment of the assumptions adopted in these documents and the assumptions regarding the moment of impairment losses on loans and advances to customers to become probable.

Law on the value added tax, corporate income tax and social security charges are subject to frequent changes. These frequent changes cause lack of market practice, inconsistent interpretations and established precedents that may apply. Existing regulations also contain ambiguities that cause differences in opinions as to the legal interpretation of tax laws, both between state authorities and state bodies and businesses.

Tax settlements and other areas of activity (for example customs or foreign exchange) may be subject to scrutiny by the authorities that are authorized to impose high penalties and fines, and any additional tax liability resulting from controls must be paid with interest. These conditions make the tax risk in Poland higher than in countries with more mature tax systems. As a consequence, the amounts presented and disclosed in the financial statements may change in the future as a result of post-control decisions by tax authorities.

On 15 July 2016 changes have been made to the Tax Code to take account of the provisions of the General Precautionary Abuse Prevention Clause (GAAR). GAAR is supposed to prevent the creation and use of artificial legal structures created to avoid paying taxes in Poland. GAAR defines a tax evasion as an activity primarily for the purpose of obtaining a tax advantage. According to GAAR, this action does not result in a tax advantage if the method of operation is artificial and has no economic and business justification. Any occurrence of (i) unjustified division of operations, (ii) involvement of intermediaries despite economic or business justification, (iii) mutually supportive or compensating elements, and (iv) other actions with similar effects to those previously mentioned may be treated as a condition of existence of the artificial activities subject to GAAR. New regulations will require much greater judgment when assessing the tax implications of individual transactions.

The GAAR clause should apply to transactions made after it enters into force and to transactions that were made before the entry into force of the GAAR, but for which, after the date of entry into force of the clause, benefits have been or are still being achieved. The implementation of the above provisions will allow Polish tax authorities to challenge the taxpayers' legal arrangements and contracts, such as the restructuring and reorganization of the group.

Getin Noble Bank S.A. identifies the risks inherent in the GAAR clause and takes steps to minimize them.

In December 2016 the Mazowiecki Customs and Tax Office (MUCS) started in Getin Noble Bank S.A. tax proceedings for corporate income tax for 2011. For the time being, MUCS is still reviewing the source documents submitted by the Bank in December 2017, in response to the request for submission of source documents received in November 2017. By a decision of 9 April 2018, MUCS set a new deadline for the end of the inspection proceedings on 20 June 2018.

17. Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing a net profit for the period attributable to ordinary shareholders of the parent company by weighted average number of ordinary shares issued within the given period.

	01.01.2017-31.12.2017	01.01.2016-31.12.2016 (restated)
Net profit/ (loss) attributable to equity holders of the parent (in PLN thousand)	(574,944)	(58,545)
Weighted average number of ordinary shares	894,721,364	883,381,106
Basic earnings per share (in PLN)	**(0.64)**	**(0.07)**

Diluted earnings per share

The diluted earnings per share is calculated by dividing net profit for the period attributable to the ordinary owners of the parent by the weighted average of issued ordinary shares outstanding during the period adjusted with the weighted average of the ordinary shares which would be issued as a result of the conversion of all dilutive potential equity instruments into the ordinary shares.

Neither in 2017 nor 2016 Getin Noble Bank S.A. did not issue any dilutive instruments. A diluted earnings per share is equal to basic earnings per share.

18. Cash and balances with the Central Bank

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Cash	210,392	179,465
Current account at the Central Bank	3,131,201	2,972,719
Other	-	11
Total cash and balances with the Central Bank	**3,341,593**	**3,152,195**

During the day, the Bank may use funds on the current account at the Central Bank to carry out current money settlements, however, it must ensure that the average monthly balance is maintained on this account in the amount consistent with the declaration of the obligatory reserve.

On 30 January 2018 the Management Board of the National Bank of Poland agreed to release Getin Noble Bank S.A. from the obligation to maintain 55% of the required obligatory reserve from 31 January 2018, not later than until 31 December 2018.

Funds on the obligatory reserve account bear interest of 0.9 of the NBP reference rate. As at 31 December 2017 and 2016 the interest rate was 1.35%. Since 1 January 2018 interest of the funds on the obligatory reserve will amount to 0.5%.

19. Amounts due from banks and financial institutions

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Current accounts	653,170	1,178,576
Deposits and other receivables	3,208	254
Total amounts due from banks and financial institutions	**656,378**	**1,178,830**
Impairment allowances	(162)	(625)
Total amounts due from banks and financial institutions net	**656,216**	**1,178,205**

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Receivables with variable interest rate	655,937	1,178,142
Receivables with fixed interest rate	279	63
Total amounts due from banks and financial institutions net	**656,216**	**1,178,205**

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Current accounts and overnight deposits	653,170	1,178,576
Amounts due with term of maturity:	3,208	254
up to 1 month	269	116
from 1 to 3 months	167	11
from 3 months to 1 year	551	51
from 1 year do 5 years	2,221	76
Total amounts due from banks and financial institutions	**656,378**	**1,178,830**
Impairment allowances	(162)	(625)
Total amounts due from banks and financial institutions net	**656,216**	**1,178,205**

Current accounts of other banks and cash collateral receivables are presented in current receivables.

20. Financial assets held for trading

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Equity securities, of which:	1,530	3,600
listed	1,530	1,189
non-listed	-	2,411
Debt securities, of which issued by:	5,751	8,379
banks and financial entities	642	14
non-financial entities	5,109	8,365
Investment certificates	719	987
Total assets held for trading	**8,000**	**12,966**

Fair value of shares of listed companies was determined on the basis of published quotations from active market.

21. Financial assets at fair value through profit or loss

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Shares and stocks in other entities, of which:	158,491	161,882
non- listed	158,491	161,882
Rights to shares in other entities, of which:	-	10,090
non- listed	-	10,090
Total financial assets at fair value through profit or loss	**158,491**	**171,972**

Financial assets at fair value through profit or loss are only financial assets that were classified in this category on initial recognition.

Shares and stocks in other non-listed entities include a package of 858,334 ordinary registered shares of Towarzystwo Ubezpieczeń Europa S.A. (TU Europa), with a total nominal value of PLN 3,433 thousand, representing a total of 9.08% of the share capital and entitling to a total of 9.08% of votes at the general meeting of shareholders.

The fair value of the TU Europa shares on 31 December 2017 and 2016 was based on the valuation prepared by an independent contractor specializing in this type of service. The valuation used a combination of three methods:

- index method based on the Price/Earnings ratio in a number of retrospective and prospective comparisons,
- index method based on the Price/Book value ratio, where the ratio was fixed for the comparison group as at 31 December 2017,
- income method assuming modelling of the entity's profits in the coming years and its ability to pay out dividends on the assumption of maintaining an appropriate level of solvency margin.

22. Derivative financial instruments

In the table below are presented nominal values of underlying instruments and fair value of derivative financial instruments according to their maturity:

	31.12.2017	up to 1 month PLN thousand	from 1 to 3 months PLN thousand	from 3months to 1 year PLN thousand	from 1 year to 5 years PLN thousand	over 5 years PLN thousand	Total PLN thousand	Fair value assets PLN thousand	Fair value liabilities PLN thousand
Currency transactions	**Currency swap**	**3,124,345**	**1,816,675**	**-**	**-**	**-**	**4,941,020**	**244**	**13,192**
	Purchase	1,555,637	908,302	-	-	-	**2,463,939**		
	Sale	1,568,708	908,373	-	-	-	**2,477,081**		
	CIRS	**1,136,475**	**1,883,870**	**3,408,377**	**23,232,540**	**-**	**29,661,262**	**543,892**	**224,699**
	Purchase	571,210	930,244	1,751,185	11,735,499	-	**14,988,138**		
	Sale	565,265	953,626	1,657,192	11,497,041	-	**14,673,124**		
	FX/Purchase/Sale	**-**	**-**	**-**	**-**	**57,833**	**57,833**	**1,245**	**52**
	Purchase	-	-	-	-	31,654	**31,654**		
	Sale	-	-	-	-	26,179	**26,179**		
	Forward	**29,160**	**10,756**	**49,908**	**-**	**-**	**89,824**	**1,239**	**677**
	Purchase	14,765	5,485	25,162	-	-	**45,412**		
	Sale	14,395	5,271	24,746	-	-	**44,412**		
Interest rate transactions	**Interest rate swap (IRS)**	**-**	**44,618**	**-**	**514,874**	**286,710**	**846,202**	**14,154**	**2,017**
	Purchase	-	22,309	-	257,437	143,355	**423,101**		
	Sale	-	22,309	-	257,437	143,355	**423,101**		
	Options	**7,134**	**10,702**	**64,210**	**1,256,914**	**-**	**1,338,960**	**3,691**	**4,307**
	Purchase	3,567	5,351	32,105	628,375	-	669,398		
	Sale	3,567	5,351	32,105	628,539	-	669,562		
Other transactions	**Futures transactions**	**-**	**1,450**	**131**	**-**	**-**	**1,581**	**-**	**-**
	Purchase	-	31	118	-	-	149		
	Sale	-	1,419	13	-	-	1,432		
	Indices and commodity contracts	**-**	**322**	**4,584**	**4,333**	**109,895**	**119,134**	**4,385**	**943**
	Purchase	-	161	2,292	2,370	58,875	63,698		
	Sale	-	161	2,292	1,963	51,020	55,436		
	Share options	**-**	**-**	**-**	**165,658**	**-**	**165,658**	**13,183**	**-**
	Purchase	-	-	-	165,658	-	165,658		
	Other	**-**	**-**	**-**	**-**	**89**	**89**	**2,145**	**2,193**
	Purchase	-	-	-	-	33	33		
	Sale	-	-	-	-	56	56		
	Total derivative financial instruments	**4,297,114**	**3,768,393**	**3,527,210**	**25,174,319**	**454,527**	**37,221,563**	**584,178**	**248,080**

	31.12.2016	up to 1 month PLN thousand	from 1 to 3 months PLN thousand	from 3months to 1 year PLN thousand	from 1 year to 5 years PLN thousand	over 5 years PLN thousand	Total PLN thousand	Fair value assets PLN thousand	Fair value liabilities PLN thousand
Currency transactions	**Currency swap**	**6,519,917,**	**1,162,068**	**-**	**-**	**-**	**7,681,985**	**11,473**	**12,547**
	Purchase	3,253,508	586,058	-	-	-	**3,839,566**		
	Sale	3,266,409	576,010	-	-	-	**3,842,419**		
	CIRS	**-**	**1,238,380**	**7,115,381**	**26,687,979**	**-**	**35,041,740**	**7,199**	**1,628,030**
	Purchase	-	581,796	3,429,486	12,716,190	-	**16,727,472**		
	Sale	-	656,584	3,685,895	13,971,789	-	**18,314,268**		
	FX/Purchase/Sale	**-**	**116**	**37,177**	**-**	**7,427**	**44,720**	**851**	**228**
	Purchase	-	-	28,715	-	869	**29,584**		
	Sale	-	116	8,462	-	6,558	**15,136**		
	Forward	**36,852**	**65,728**	**7,000**	**-**	**-**	**109,580**	**883**	**2,000**
	Purchase	18,496	32,951	3,496	-	-	**54,943**		
	Sale	18,356	32,777	3,504	-	-	**54,637**		
	Options	**-**	**5,082**	**22,130**	**-**	**-**	**27,212**	**6,409**	**6,409**
	Purchase	-	2,541	11,065	-	-	**13,606**		
	Sale	-	2,541	11,065	-	-	**13,606**		
Interest rate transactions	**Interest rate swap (IRS)**	**-**	**-**	**-**	**462,478**	**400,254**	**862,732**	**16,556**	**2,459**
	Purchase	-	-	-	231,239	200,127	**431,366**		
	Sale	-	-	-	231,239	200,127	**431,366**		
	Options	**8,234**	**-**	**16,470**	**1,619,795**		**1,644,499**	**8,673**	**9,217**
	Purchase	4,117	-	8,235	809,794	-	822,146		
	Sale	4,117	-	8,235	810,001	-	822,353		
Other transactions	**Indices and commodity contracts**	**6,011**	**20,096**	**139,675**	**-**	**-**	**165,782**	**9,292**	**2,770**
	Purchase	4,682	19,043	65,960	-	-	89,685		
	Sale	1,329	1,053	73,715	-	-	76,097		
	Share options	**-**	**-**	**-**	**-**	**165,658**	**165,658**	**39,393**	**-**
	Purchase	-	-	-	-	165,658	165,658		
	Other	**6**	**-**	**2,068**	**-**	**-**	**2,074**	**1,407**	**781**
	Purchase	-	-	1,454	-	-	1,454		
	Sale	6	-	614	-	-	620		
	Total derivative financial instruments	**6,571,020**	**2,491,470**	**7,339,901**	**28,770,252**	**573,339**	**45,745,982**	**102,136**	**1,664,441**

23. Loans and advances to customers

	31.12.2017 PLN thousand	31.12.2016 (restated) PLN thousand
Loans and advances	39,647,939	43,489,589
Purchased receivables	6,172,465	5,753,081
Receivables from debit and credit cards	87,493	86,325
Total	**45,907,897**	**49,328,995**
Impairment allowances	(3,196,094)	(2,695,237)
Total net	**42,711,803**	**46,633,758**

31.12.2017	Gross value of unimpaired loans PLN thousand	Gross value of impaired loans PLN thousand	Allowances for unimpaired loans PLN thousand	Allowances for impaired loans PLN thousand	Total net PLN thousand
corporate loans	9,896,706	816,738	(7,094)	(371,157)	**10,335,193**
car loans	1,529,389	340,671	(6,209)	(200,809)	**1,663,042**
mortgage loans	23,687,761	4,679,794	(42,550)	(1,819,079)	**26,505,926**
retail loans	3,557,014	1,399,824	(40,092)	(709,104)	**4,207,642**
Total	**38,670,870**	**7,237,027**	**(95,945)**	**(3,100,149)**	**42,711,803**

31.12.2016 (restated)	Gross value of unimpaired loans PLN thousand	Gross value of impaired loans PLN thousand	Allowances for unimpaired loans PLN thousand	Allowances for impaired loans PLN thousand	Total net PLN thousand
corporate loans	9,393,646	824,655	(11,212)	(329,709)	**9,877,380**
car loans	1,807,894	335,144	(7,075)	(180,227)	**1,955,736**
mortgage loans	27,228,415	4,795,828	(43,903)	(1,440,840)	**30,539,500**
retail loans	3,630,551	1,312,862	(39,741)	(642,530)	**4,261,142**
Total	**42,060,506**	**7,268,489**	**(101,931)**	**(2,593,306)**	**46,633,758**

31.12.2017	Impaired loans by the valuation model					
	Individual valuation model			Group valuation model		
	Gross value PLN thousand	Allowances PLN thousand	Net value PLN thousand	Gross value PLN thousand	Allowances PLN thousand	Net value PLN thousand
corporate loans	326,275	(196,147)	130,128	490,463	(175,010)	315,453
car loans	-	-	-	340,671	(200,809)	139,862
mortgage loans	1,479,144	(689,267)	789,877	3,200,650	(1,129,812)	2,070,838
retail loans	21,365	(9,502)	11,863	1,378,459	(699,602)	678,857
Total	**1,826,784**	**(894,916)**	**931,868**	**5,410,243**	**(2,205,233)**	**3,205,010**

31.12.2016 (restated)	Impaired loans by the valuation model					
	Individual valuation model			Group valuation model		
	Gross value PLN thousand	Allowances PLN thousand	Net value PLN thousand	Gross value PLN thousand	Allowances PLN thousand	Net value PLN thousand
corporate loans	320,690	(168,256)	152,434	503,965	(161,453)	342,512,
car loans	-	-	-	335,144	(180,227)	154,917
mortgage loans	1,675,276	(527,358)	1,147,918	3,120,552	(913,482)	2,207,070
retail loans	24,884	(4,912)	19,972	1,287,978	(637,618)	650,360
Total	**2,020,850**	**(700,526)**	**1,320,324**	**5,247,639**	**(1,892,780)**	**3,354,859**

	31.12.2017 PLN thousand	31.12.2016 (restated) PLN thousand
Loans and advances to customers with due date:		
up to 1 month	6,003,595	5,144,559
from 1 month to 3 months	765,363	977,046
from 3 months to 1 year	3,700,928	4,010,810
from 1 year to 5 years	11,499,916	13,111,687
over 5 years	23,938,095	26,084,893
Total	**45,907,897**	**49,328,995**
Impairment allowances	(3,196,094)	(2,695,237)
Total net	**42,711,803**	**46,633,758**

	31.12.2017 PLN thousand	31.12.2016 (restated) PLN thousand
Loans and advances to customers and finance lease receivables, of which:		
local government units	1,179,110	1,122,499
financial institutions other than banks	1,553,148	451,234
non-financial institutions other than natural persons	8,649,881	9,934,599
natural persons	31,329,664	35,125,426
Total	**42,711,803**	**46,633,758**

	31.12.2017	31.12.2016
The value of loans and advances with fixed interest rate (in PLN million)	1,987	936
% of the total loans and advances portfolio	4.65%	2.01%

In 2017 Getin Noble Bank S.A. Capital Group sold receivables, which consisted of both impaired loans and receivables written-off from the accounts. The nominal value of portfolio covered by the assignment agreements totalled to PLN 347 million.

In 2016 the Group sold receivables, which nominal value totalled to PLN 934 million (the carrying amount of the portfolio amounted to PLN 818 million, of which PLN 755 million was the portfolio of unimpaired lease receivables).

Loans in Swiss francs

The following tables show the structure and the quality of mortgage loans denominated and indexed in Swiss francs:

31.12.2017	Gross value of unimpaired loans PLN thousand	Gross value of impaired loans PLN thousand	Allowances for unimpaired loans PLN thousand	Allowances for impaired loans PLN thousand	Total net PLN thousand
mortgage loans	9,039,963	1,247,923	(27,184)	(316,174)	**9,944,528**

31.12.2016	Gross value of unimpaired loans PLN thousand	Gross value of impaired loans PLN thousand	Allowances for unimpaired loans PLN thousand	Allowances for impaired loans PLN thousand	Total net PLN thousand
mortgage loans	11,243,005	1,817,478	(31,066)	(317,504)	**12,711,913**

24. Financial assets

Available-for sale financial assets

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Available-for-sale debt securities	**7,798,340**	**11,882,782**
issued by central banks	799,785	824,780
issued by banks and other financial entities	349,709	315,727
issued by non- financial entities	35,886	25,560
issued by the State Treasury	6,612,960	10,716,715
Impairment allowances	**(5,111)**	**(5,051)**
issued by non- financial entities	(5,111)	(5,051)
Total available-for-sale debt securities net	**7,793,229**	**11,877,731**
Available-for-sale equity securities	**144,319**	**133,705**
issued by banks and other financial entities	139,103	78,834
issued by non- financial entities	5,216	54,871
Impairment allowances	**(4,124)**	**(5,153)**
issued by non- financial entities	(4,124)	(5,153)
Total available-for-sale equity securities net	**140,195**	**128,552**
Portfolio of receivables	**279,606**	**-**
Impairment allowances	**(31,994)**	**-**
Portfolio of receivables net	**247,612**	**-**
Total available-for-sale financial assets	**8,181,036**	**12,006,283**

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Available-for-sale financial assets at the beginning of the period	**12,006,283**	**12,541,224**
Increases (purchases)	99,405,626	164,950,592
Decreases (sales and settlements)	(101,815,016)	(165,348,273)
Impairment allowances	(31,025)	1,175
Reclassification to held-to-maturity financial instruments	(1,454,067)	(13,792)
Fair value changes	78,849	(124,643)
Other decreases, including derecognition of the balances of the deconsolidated subsidiary	(9,614)	-
Available-for-sale financial assets at the end of the period	**8,181,036**	**12,006,283**

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Available-for-sale financial assets with maturity date:	7,798,340	11,882,782
up to 1 month	1,276,889	1,750,966
from 1 to 3 months	155,114	31,414
from 3 months to 1 year	2,086,736	1,361,723
from 1 year to 5 years	4,130,776	8,025,056
over 5 years	148,825	713,623
Financial assets of uncertain maturity	423,925	133,705
Total available-for-sale financial assets net	**8,222,265,**	**12,016,487**
Impairment allowances	(41,229)	(10,204)
Total available-for-sale financial assets net	**8,181,036**	**12,006,283**

Held-to-maturity financial assets

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Held-to-maturity financial assets	**1,674,493**	**202,641**
issued by the State Treasury	1,461,145	-
issued by local government units	173,233	160,347
issued by non- financial entities	40,115	42,294
Impairment allowances	-	-
Total held-to-maturity financial assets net	**1,674,493**	**202,641**

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Held-to-maturity financial assets with maturity date:	1,674,493	202,641
up to 1 month	1,922	606
from 1 to 3 months	4,194	4,274
from 3 months to 1 year	22,011	3,880
from 1 year to 5 years	828,779	60,366
over 5 years	817,587	133,515
Total held-to-maturity financial assets	**1,674,493**	**202,641**
Impairment allowances	-	-
Total held-to-maturity financial assets net	**1,674,493**	**202,641**

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Held-to-maturity financial assets at the beginning of the period	**202,641**	**154,322**
Increases (purchases)	18,549	43,211
Decreases (sales and settlements)	(8,250)	(9,400)
Reclassification from available-for-sale financial instruments	1,454,067	13,792
Accrued interest and adjustments for amortized cost	7,486	716
Held-to-maturity financial assets at the end of the period	**1,674,493**	**202,641**

In January 2017 Getin Noble Bank S.A. has reclassified treasury bonds with a nominal value of PLN 1.5 billion from the portfolio of available-for-sale instruments to the portfolio of financial instruments held to maturity, on the basis of the internal analysis of investment horizon.

The decision was made in connection with the following circumstances: securities were purchased and held to close the open interest rate gap to which the Bank was previously exposed to; according to the Bank, there has been a change in the outlook for global inflation stemming mainly from the change in inflation outlook in the USA and the Bank intends to maintain the instruments until their maturity date.

	reclassification date PLN thousand	31.12.2017 PLN thousand
Carrying amount of the reclassified financial assets	1,454,067	1,461,149
Fair value of the reclassified financial assets	1,454,067	1,493,902

The effective interest rate as of the reclassification date was from 2.24 pp. up to 2.80 pp., while the expected cash flows to be recovered by the Bank as of the reclassification date was PLN 1,754,161 thousand.

As at the reclassification date the fair value of valuation losses of reclassified securities recognized in other capitals amounted to PLN 46,193 thousand net of tax. Until 31 December 2017 the amount of PLN 6,203 thousand was amortized to the income statement. The remaining amount of the loss from the valuation of reclassified securities recognized in other capitals was PLN 39,990 thousand as at the end of 2017. If the securities were not reclassified, the Bank would recognize a smaller loss in other comprehensive income by PLN 26,530 thousand net of tax.

25. Assets pledged as security

	Carrying amount of assets pledged as security	
	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Available-for-sale financial assets:		
Treasury bonds as collateral for Guaranteed Deposit Protection Funds of the Bank Guarantee Fund	318,818	317,975
Treasury bonds which secure the obligation to pay contributions to the Bank Guarantee Fund	39,643	-
Treasury bonds as collateral for loans received	1,752,252	2,825,074
Treasury bonds as collateral in a repo agreement	126,624	259,953
Treasury bonds as collateral for receivables repayment	119,273	92,601
Total assets pledged as security	**2,356,610**	**3,495,603**

Getin Noble Bank S.A. will maintain the portfolio of assets being loan collaterals until the repayment of those liabilities. In accordance with art. 369 of the Act on Banking Guarantee Fund (BFG), deposit guarantee system and compulsory restructuring Getin Noble Bank S.A. maintains the guarantee fund in the amount set by the resolution of the BFG. The basis for calculation is the total amount of deposits received by the Bank on all accounts being basis for the calculation of the obligatory reserve.

26. Investments in associates

Grupa Getin Noble Banku S.A. posiada udziały w następujących jednostkach stowarzyszonych:

31.12.2017	% share in capital/ votes held by the Bank	Gross value PLN thousand	Impairment allowance PLN thousand	Carrying value PLN thousand
Open Finance S.A.	42.91%	348,120	(291,342)	56,778
Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A. *	37.62%	167,268	-	167,268
Total investments in associates		**515,388**	**(291,342)**	**224,046**

* until 1 June 2017 a subsidiary of the Group.

31.12.2016 (restated)	% share in capital/ votes held by the Bank	Gross value PLN thousand	Impairment allowance PLN thousand	Carrying value PLN thousand
Open Finance S.A.	42.15%	337,012	(291,342)	45,670
Total investments in associates		**337,012**	**(291,342)**	**45,670**

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 (restated) PLN thousand
Investments in associates at the beginning of the period	**45,670**	**57,288**
Initial value of the investment in Noble Funds TFI S.A.	165,161	-
Acquisition of shares in Open Finance S.A.	10,435	-
Share of profit/ (loss) of Open Finance S.A.*	673	(10,100)
Share of profit of Noble Funds TFI S.A.	6,334	-
Distributions received from an investee	(4,227)	-
Impairment allowance	-	(1,518)
Investments in associates at the end of the period	**224,046**	**45,670**

* Share of profit of associates included in the consolidated income statement was adjusted for the elimination of the Bank's share of unrealised gains on transactions between the Bank and entities of Open Finance S.A. Group.

Presented below is a summary of the financial data of the associates. The amounts shown come from the audited consolidated financial statements of the Open Finance S.A. Capital Group and the unaudited financial statements of Noble Funds TFI S.A., both prepared in accordance with IFRS.

Open Finance S.A. Capital Group	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Non-current assets	553,816	550,966
Current assets	66,754	80,581
Current liabilities	124,560	121,636
Non-current liabilities	126,805	122,296

Open Finance S.A. Capital Group	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Sales revenues	351,655	317,831
Net profit/ (loss) *	(18,173)	(23,941)
Total comprehensive income/ (loss) *	(18,173)	(23,941)

* Attributable to equity holders of the parent

The fair value of the investment of Getin Noble Bank S.A. in Open Finance S.A., for which there are published price quotations amounted to PLN 43.1 million as at 31 December 2017.

Noble Funds TFI S.A.	31.12.2017 PLN thousand
Non-current assets	7,185
Current assets	65,405
Current liabilities	5,435
Non-current liabilities	117

Noble Funds TFI S.A.	01.06.2017-31.12.2017 PLN thousand
Sales revenues	110,186
Net profit	17,041
Total comprehensive income	17,041

27. Intangible assets

	31.12.2017 PLN thousand	31.12.2016 (restated) PLN thousand
Patents and licenses	178,596	151,996
Other intangible assets	27,830	34,744
Capital expenditure on intangible assets	30,474	52,179
Total intangible assets	**236,900**	**238,919**

Getin Noble Bank S.A. recognises as at 31 December 2017 an intangible asset in the form of relationships with deposit customers (*Core Deposit Intangible*) in the amount of PLN 27,764 thousand, which have been identified and measured in the acquisition of an organized part of a business of DnB Nord Polska S.A. and DZ Bank Polska S.A. with an initial value of PLN 58,807 thousand. The relationships with customers reflect the benefits of obtaining a cheaper source of finance of the Bank activities and are measured at present value of future benefits as the difference between the cost of finance obtained from external sources and the interest cost of the acquired current accounts including estimated customer behaviour.

The core deposit intangible is subject to straight-line amortisation over a period of 104 months, i.e. the period within which according to the assumptions the majority of benefits from the intangible assets are expected to be realised. The remaining amortisation period from the end of 2017 is 49 months for the relationships identified in the acquisition of an organised part of a business of DnB Nord Polska S.A. and 52 months for the relationships identified in the acquisition of an organised part of a business of DZ Bank Polska S.A.

2017	Patents and licenses PLN thousand	Goodwill PLN thousand	Other intangible assets PLN thousand	Capital expenditures on intangible assets PLN thousand	Total PLN thousand
Gross value as at 01.01.2017	**316,841**	**51,307**	**61,970**	**52,179**	**482,297**
Increases, of which:	60,479	-	25	19,726	**80,230**
purchase	22,448	-	25	19,726	**42,199**
transfer of capital expenditures	38,031	-	-	-	**38,031**
Decreases, of which:	(18,964)	-	(144)	(40,094)	**(59,202)**
liquidation and sale	(17,907)	-	(144)	-	**(18,051)**
transfer of capital expenditures	-	-	-	(38,031)	**(38,031)**
other decreases*	(1,057)	-	-	(2,063)	**(3,120)**
Gross value as at 31.12.2017	**358,356**	**51,307**	**61,851**	**31,811**	**503,325**
Amortisation as at 01.01.2017	**148,164**	**-**	**27,226**	-	**175,390**
Increases, of which:	30,016	-	6,939	-	**36,955**
amortisation charge for the period	30,016	-	6,939	-	**36,955**
Decreases, of which:	(15,526)	-	(144)	-	**(15,670)**
liquidation and sale	(14,831)	-	(144)	-	**(14,975)**
other decreases*	(695)	-	-		**(695)**
Amortisation as at 31.12.2017	**162,654**	**-**	**34,021**	**-**	**196,675**
Impairment allowances as at 01.01.2017	**16,681**	**51,307**	**-**	**-**	**67,988**
Increases	3,502	-	-	1,337	4,839
Decreases	(3,077)	-	-	-	(3,077)
Impairment allowances as at 31.12.2017	**17,106**	**51,307**	**-**	**1,337**	**69,750**
Carrying value as at 01.01.2017	**151,996**	**-**	**34,744**	**52,179**	**238,919**
Carrying value as at 31.12.2017	**178,596**	**-**	**27,830**	**30,474**	**236,900**

* including derecognition of the balances of the deconsolidated subsidiary.

2016	Patents and licenses PLN thousand	Goodwill PLN thousand	Other intangible assets PLN thousand	Capital expenditures on intangible assets PLN thousand	Total PLN thousand
Gross value as at 01.01.2016	**266,605**	**51,307**	**61,964**	**47,798**	**427,674**
Increases, of which:	50,252	-	6	31,527	**81,785**
purchase	24,119	-	6	31,090	**55,215**
transfer of capital expenditures	26,036	-	-	-	**26,036**
other increases	97	-	-	437	**534**
Decreases, of which:	(16)	-	-	(27,146)	**(27,162)**
liquidation and sale	(16)	-	-	-	**,(16)**
transfer of capital expenditures	-	-	-	(26,036)	**,(26,036)**
other decreases	-	-	-	(1,110)	**(1,110)**
Gross value as at 31.12.2016	**316,841**	**51,307**	**61,970**	**52,179**	**482,297**
Amortisation as at 01.01.2016	**122,373**	**-**	**20,073**	**-**	**142,446**
Increases, of which:	25,807	-	7,153	-	**32,960**
amortisation charge for the period	25,807	-	7,153	-	**32,960**
Decreases, of which:	(16)	-	-	-	**(16)**
liquidation and sale	(16)	-	-	-	**(16)**
Amortisation as at 31.12.2016	**148,164**	**-**	**27,226**	**-**	**175,390**
Impairment allowances as at 01.01.2016	**16,681**	**51,307**	**-**	**-**	**67,988**
Impairment allowances as at 31.12.2016	**16,681**	**51,307**	**-**	**-**	**67,988**
Carrying value as at 01.01.2016	**127,551**	**-**	**41,891**	**47,798**	**217,240**
Carrying value as at 31.12.2016	**151,996**	**-**	**34,744**	**52,179**	**238,919**

28. Property, plant and equipment

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Land and buildings	143,784	169,624
Plant and machinery	113,394	100,851
Vehicles	8,469	713
Other tangible fixed assets, including equipment	8,983	10,554
Assets under construction	2,177	2,474
Total property, plant and equipment	**276,807**	**284,216**

In 2017 and 2016 there were no restrictions of rights concerning legal title of the Group to fixed assets serving as collateral for liabilities.

In 2017 the value of compensations received from third-parties in respect of impairment or loss of fixed assets, recognised in profit or loss account, amounted to PLN 61 thousand (PLN 103 thousand in 2016).

2017	Land and buildings PLN thousand	Plant and machinery PLN thousand	Vehicles PLN thousand	Other tangible fixed assets PLN thousand	Assets under construction PLN thousand	Total PLN thousand
Gross value as at 01.01.2017	**317,531**	**262,855**	**3,369**	**40,673**	**2,474**	**626,902**
Increases, of which:	6,051	47,648	9,324	2,777	659	**66,459**
purchase	5,516	46,710	8,682	2,777	659	**64,344**
transfer from investment properties	535	-	-	-	-	**535**
transfer from assets under construction	-	938	-	-	-	**938**
other increases	-	-	642	-	-	**642**
Decreases, of which:	(44,829)	(36,471)	(2,770)	(9,815)	(956)	**(94,841)**
liquidation and sale	(25,546)	(35,355)	(1,460)	(9,113)	(1)	**(71,475)**
transfer to investment properties	(17,295)	-	-	-	-	**(17,295)**
transfer to non-current assets held for sale	(1,705)	-	-	-	-	**(1,705)**
transfer from assets under construction	-	-	-	-	(938)	**(938)**
other decreases*	(283)	(1,116)	(1,310)	(702)	(17)	**(3,428)**
Gross value as at 31.12.2017	**278,753**	**274,032**	**9,923**	**33,635**	**2,177**	**598,520**
Depreciation as at 01.01.2017	**137,504**	**159,891**	**2,656**	**29,957**	**-**	**330,008**
Increases, of which:	14,008	28,780	1,132	4,190	-	**48,110**
depreciation charge for the period	14,008	28,780	537	4,190	-	**47,515**
other increases	-	-	595	-	-	**595**
Decreases, of which:	(26,417)	(29,351)	(2,334)	(9,504)	-	**(67,606)**
liquidation and sale	(24,383)	(28,480)	(1,085)	(8,860)	-	**(62,808)**
transfer to investment properties	(1,886)	-	-	-	-	**(1,886)**
transfer to non-current assets held for sale	(54)	-	-	-	-	**(54)**
other decreases*	(94)	(871)	(1,249)	(644)	-	**(2,858)**
Depreciation as at 31.12.2017	**125,095**	**159,320**	**1,454**	**24,643**	**-**	**310,512**
Impairment allowances as at 01.01.2017	**10,403**	**2,113**	**-**	**162**	**-**	**12,678**
Increases	90	-	-	-	-	**90**
Decreases	(619)	(795)	-	(153)	-	**(1,567)**
Impairment allowances as at 31.12.2017	**9,874**	**1,318**	**-**	**9**	**-**	**11,201**
Carrying value as at 01.01.2017	**169,624**	**100,851**	**713**	**10,554**	**2,474**	**284,216**
Carrying value as at 31.12.2017	**143,784**	**113,394**	**8,469**	**8,983**	**2,177**	**276,807**

***** including derecognition of the balances of the deconsolidated subsidiary.

2016	Land and buildings PLN thousand	Plant and machinery PLN thousand	Vehicles PLN thousand	Other tangible fixed assets PLN thousand	Assets under construction PLN thousand	Total PLN thousand
Gross value as at 01.01.2016	**327,665**	**247,597**	**7,448**	**40,663**	**2,438**	**625,811**
Increases, of which:	5,187	20,079	591	427	1,549	**27,833**
purchase	510	19,636	591	427	1,549	**22,713**
transfer from investment properties	4,677	-	-	-	-	**4,677**
transfer from assets under construction	-	443	-	-	-	**443**
Decreases, of which:	(15,321)	(4,821)	(4,670)	(417)	(1,513)	**(26,742)**
liquidation and sale	(14,324)	,(3,039)	,(2,924)	(408)	(1,070)	**(21,765)**
transfer to investment properties	(538)	-	-	-	-	**(538)**
transfer to non-current assets held for sale	(459)	-	-	-	-	**(459)**
transfer from assets under construction	-	-	-	-	(443)	**(443)**
other decreases	-	(1,782)	(1,746)	(9)	-	**(3,537)**
Gross value as at 31.12.2016	**317,531**	**262,855**	**3,369**	**40,673**	**2,474**	**626,902**
Depreciation as at 01.01.2016	**138,048**	**136,822**	**6,030**	**23,406**	**-**	**304,306**
Increases, of which:	13,517	26,451	361	6,930	-	**47,259**
depreciation charge for the period	13,517	26,451	361	6,930	-	**47,259**
Decreases, of which:	(14,061)	(3,382)	(3,735)	(379)	-	**(21,557)**
liquidation and sale	(14,056)	(2,747)	(2,051)	(370)	-	**(19,224)**
transfer to non-current assets held for sale	(5)	-	-	-	-	**(5)**
other decreases	-	(635)	(1,684)	(9)	-	**(2,328)**
Depreciation as at 31.12.2016	**137,504**	**159,891**	**2,656**	**29,957**	**-**	**330,008**
Impairment allowances as at 01.01.2016	**10,403**	**2,231**	**-**	**162**	**1,031**	**13,827**
Increases	-	-	-	-	-	-
Decreases	-	(118)	-	-	(1,031)	**(1,149)**
Impairment allowances as at 31.12.2016	**10,403**	**2,113**	**-**	**162**	**-**	**12,678**
Carrying value as at 01.01.2016	**179,214**	**108,544**	**1,418**	**17,095**	**1,407**	**307,678**
Carrying value as at 31.12.2016	**169,624**	**100,851**	**713**	**10,554**	**2,474**	**284,216**

29. Investment properties

Investment properties are lands without or with buildings and premises being a separate property, which the Group purchased or acquired in exchange for a partial or total debt reduction under the loan/ advance granted, and which are held to earn rentals or for capital appreciation. There are no limitations in realization of the future economic benefits from investment properties and rights to transfer the related income and profits.

The Group applies a fair value model for investment properties under which after initial recognition investment properties are measured at fair value and gains or losses arising from a change in the fair value are recognised in profit or loss.

The fair value of investment properties as at 31 December 2017 was measured based on the valuation carried out on that day by independent valuers and Real Estate Valuation Unit in Getin Noble Bank S.A., which are skilled to make investment properties valuation, as well as experienced in such valuations made in locations were assets of the Group are situated. The valuation of the investment properties was carried out by reference to market prices of similar properties using the average price adjustment method or pair comparison in comparative approach. In case of lack of transactions concerning similar properties, the value of a property was specified by investment method in accordance with income approach, straight capitalisation technique. Estimating the fair value of properties, most favourable and best use approach was used (what is the valid use of these properties).

Fair value of investment properties was classified at level 3 of fair value hierarchy.

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Fair value of investment properties at the beginning of the period	**721,534**	**695,152**
Increases, of which:	87,682	127,749
purchase/ acquisition of property	52,402	124,782
transfer from non-current assets held for sale	19,871	2,429
transfer from property, plant and equipment	15,409	538
Decreases, of which:	(72,795)	(83,760)
sale of property	(9,085)	(6,689)
transfer to non-current assets held for sale	(62,975)	(66,635)
transfer to property, plant and equipment	(535)	(4,677)
other decreases	(200)	(5,759)
Net loss on fair value adjustments	(108,303)	(17,607)
Fair value of investment properties at the end of the period	**628,118**	**721,534**

In 2017 and 2016 the following amounts of income and expenses related with investment properties were recognised in the consolidated income statement:

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Rental income from investment properties	4,665	5,069
Direct operating expenses related to investment properties, which generated rental income in the period	456	658
Direct operating expenses related to investment properties, which did not generate rental income in the period	2,588	2,388

30. Finance and operating lease

Liabilities arising from finance leases

The Group uses cars, computer and technical equipment, as well as other facilities under finance leases. According to the agreements for the duration of the lease agreement the leased asset is used by the Group. In exchange for the acquired rights to use of the leased asset, the Group is required to make lease payments in the amounts and on the dates specified in the lease agreements. After the end of the lease the Group has the right to acquire the object of leasing, provided that it has fulfilled all obligations to the lessor. If the Group does not exercise the option to purchase the leased asset, it is required to return it to the lessor. Some lease agreements provide for the possibility of extending the period of the lease. There are no other restrictions. There are no contingent rents.

	Minimum lease payments		Present value of minimum lease payments	
	31.12.2017 PLN thousand	31.12.2016 PLN thousand	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Lease liabilities:	**15,222**	**12,358**	**14,736**	**12,139**
up to 1 year	305	4,790	304	4,762
from 1 year to 5 years	14,917	7,568	14,432	7,377
Future financial burden	(486)	(219)		
Present value of minimum lease payments	**14,736**	**12,139**		

As at 31 December 2017 the net carrying value of fixed assets used under finance leases amounted to PLN 19,638 thousand (PLN 18,354 thousand at 31 December 2016).

Operating lease agreements - Group as lessor

The Group earns income from renting business premises and residential investment properties held. These agreements are treated as operating lease. These agreements do not provide for contingent fees incurred by the lessee, from the provisions of the lease agreements do not arise limitations. Agreements are concluded mainly for a specified period of 2-5 years, with the possibility of renewal of the contract.

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Payments due from the balance sheet date:		
up to 1 year	4,066	3,335
from 1 year to 5 years	7,654	5,202
over 5 years	977	-
Total future minimum payments arising from irrevocable operating leases	**12,697**	**8,537**

Future minimum lease payments were calculated for fixed-term contracts only.

Liabilities arising from operating lease – the Group as lessee

Operating lease agreements in which the Group is the lessee, relate to lease of cars and properties used by the Group in the normal course of business. According to the agreements for the duration of the lease agreement the leased asset is used by the Group. In exchange for the acquired rights to use of the leased asset, the Group is required to make lease payments in the amounts and on the dates specified in the lease agreements. Some lease agreements provide for the possibility of extending the period of the lease.

Lease payments arising from operating leases are recognized as costs in the income statement on a straight-line basis during the lease term. Minimum lease payments due to operating leases recognized as a cost in the income statement for 2017 amounted to PLN 95,538 thousand (PLN 106,215 thousand in 2016).

Both in 2017, as well as in 2016, there were no significant contingent lease fees or irrevocable subleasing contracts.

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Payments due from the balance sheet date:		
up to 1 year	54,704	44,323
from 1year to 5 years	111,215	95,285
over 5 years	2,078	6,255
Total future minimum payments arising from irrevocable operating leases	**167,997**	**145,863**

Future minimum lease payments were calculated for fixed-term contracts only.

31. Non-current assets held for sale

Non-current assets held for sale as at 31 December 2017 and 2016 are properties not used by the Group and a separate portfolio of mortgage loans granted by Getin Noble Bank S.A., which are expected to be disposed within one year.

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Properties	15,668	21,604
Portfolio of mortgage loans	232,045	393,961
Total non-current assets held for sale	**247,713**	**415,565**

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Non-current assets held for sale at the beginning of the period	**415,565**	**439,432**
Increases, of which:	64,536	87,050
transfer from property, plant and equipment	1,561	454
transfer from investment properties	62,975	66,635
transfer from loans and advances to customers	-	19,961
Decreases, of which:	(232,388)	(110,917)
transfer to investment properties	(19,871)	(2,429)
sale/ liquidation	(49,587)	(62,488)
impairment allowances/ fair value adjustment	(137,943)	(20,909)
other decreases	(24,987)	(25,091)
Non-current assets held for sale at the end of the period	**247,713**	**415,565**

Getin Noble Bank S.A. Group conducts active efforts aimed at selling mortgage loan receivables in the Debtor NS FIZ portfolio. In 2017 the Bank conducted advanced talks with an American investor, however, due to the lack of final agreement regarding the shape of the transaction and structural changes on the investor's side, the transaction was not finalized.

Currently, intensive work is under way to sell the debt portfolio in the ordinary way through a tender procedure.

32. Other assets

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Receivables from sundry debtors, of which:	552,792	635,923
tax, subsidies and social insurance receivables	21,330	14,218
payment cards settlements	22,092	16,006
other receivables *	509,370	605,699
Accrued expenses	21,361	25,946
Recourses and guarantee deposits	4,522	3,695
Other assets	5,951	7,239
Total other assets	**584,626**	**672,803**
Impairment allowances	(105,205)	(27,692)
Total other assets net	**479,421**	**645,111**

* Item „other receivables” as at 31 December 2017 includes receivables from deferred payments, among others for sale of receivables portfolios (PLN 78 million; PLN 125 million as at the end of 2016) and sale of shares (PLN 168 million; PLN 188 million as at the end of 2016).

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Impairment allowances at the beginning of the period	**27,692**	**23,092**
Increases recognised in the income statement	77,045	2,797
Decreases recognised in the income statement	(532)	(291)
Other increases	1,000	2,094
Impairment allowances at the end of the period	**105,205**	**27,692**

33. Amounts due to banks and financial institutions

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Current accounts	85,415	65,884
Deposits of other banks and financial institutions	212,784	49,205
Loans and advances received	1,548,343	2,478,626
Other amounts due to banks	1,624	1,712
Total amounts due to banks and financial institutions	**1,848,166**	**2,595,427**

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Amounts due with variable interest rate	1,786,061	2,548,080
Amounts due with fixed interest rate	62,105	47,347
Total amounts due to banks and financial institutions	**1,848,166**	**2,595,427**

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Current liabilities	237,720	69,455
Term liabilities with due date:	1,610,446	2,525,972
up to 1 month	57,950	3,375
from 1 month to 3 months	463,756	70,149
from 3 months to 1 year	524,040	881,628
from 1 year to 5 years	478,487	1,473,111
over 5 years	86,213	97,709
Total amounts due to banks and financial institutions	**1,848,166**	**2,595,427**

34. Amounts due to customers

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Amounts due to corporate entities	**6,690,170**	**7,853,932**
current accounts and overnight deposits	2,327,735	1,741,631
term deposits	4,362,435	6,112,301
Amounts due to budgetary entities	**2,304,468**	**2,424,948**
current accounts and overnight deposits	1,347,073	1,455,464
term deposits	957,395	969,484
Amounts due to natural persons	**39,618,929**	**42,762,248**
current accounts and overnight deposits	9,661,322	7,193,419
term deposits	29,957,607	35,568,829
Total amounts due to customers	**48,613,567**	**53,041,128**

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Current accounts and overnight deposits	13,336,130	10,390,514
Term liabilities with due date:	35,277,437	42,650,614
up to 1 month	8,086,361	8,533,760
from 1 month to 3 months	11,816,259	13,794,276
from 3 months to 6 months	7,533,723	9,613,762
from 6 months to 1 year	4,803,320	5,623,194
from 1 year to 5 years	2,845,720	4,067,272
over 5 years	192,054	1,018,350
Total amounts due to customers	**48,613,567**	**53,041,128**

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Amounts due with variable interest rate	13,585,181	11,010,030
Amounts due with fixed interest rate	35,028,386	42,031,098
Total amounts due to customers	**48,613,567**	**53,041,128**

35. Debt securities issued

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Debt securities issued, of which:	4,401,168	3,780,722
subordinated bonds	2,630,557	2,406,851
other bonds	1,770,611	1,365,855
bank securities	-	8,016
Interest, of which:	42,006	38,871
on subordinated bonds	33,981	31,184
on other bonds	8,025	7,656
on bank securities	-	31
Total debt securities issued	**4,443,174**	**3,819,593**

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Amounts due with variable interest rate	4,427,484	3,800,659
Amounts due with fixed interest rate	15,690	18,934
Total debt securities issued	**4,443,174**	**3,819,593**

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Debt securities issued with maturity date:		
up to 1 month	7,118	5,126
from 1 month to 3 months	428,581	21,006
from 3 months to 1 year	374,726	281,317
from 1 year to 5 years	1,265,012	3,147,094
over 5 years	2,367,737	365,050
Total debt securities issued	**4,443,174**	**3,819,593**

In 2017 the following issues and redemptions of bonds were made by Getin Noble Bank S.A.:

Type of securities issued	Issue date	Redemption date	Number of securities	Nominal value PLN thousand
Getin Noble Bank bonds PP6-IV	2017-01-31	2024-01-31	42,000	42,000
Getin Noble Bank bonds PP6-V	2017-04-04	2024-04-04	55,000	55,000
Getin Noble Bank bonds PP6-VI	2017-04-27	2024-04-29	62,000	62,000
Getin Noble Bank bonds PP6-VII	2017-05-31	2024-05-31	40,000	40,000
Getin Noble Bank bonds PP6-VIII	2017-06-28	2024-06-28	40,000	40,000
Getin Noble Bank bonds PP6-IX	2017-07-26	2024-07-26	30,000	30,000
Getin Noble Bank bonds PP6-X	2017-08-30	2024-08-30	40,000	40,000
Getin Noble Bank bonds PP6-XI	2017-10-10	2024-10-10	25,000	25,000
Total			**334,000**	**334,000**

Type of redeemed securities	Issue date	Redemption date	Number of securities	Nominal value PLN thousand
Getin Noble Bank bonds SP-I	2015-03-23	2017-03-03	28	28
Getin Noble Bank bonds SP-I	2015-03-23	2017-04-20	356	356
Getin Noble Bank bonds SP-I	2015-03-23	2017-05-02	42	42
Getin Noble Bank bonds SP-I	2015-03-23	2017-06-12	257	257
Getin Noble Bank bonds SP-I	2015-03-23	2017-06-23	229	229
Getin Noble Bank bonds GNB14001	2014-06-30	2017-06-30	6,089	60,890
Getin Noble Bank bonds SP-I	2015-03-23	2017-07-05	95	95
Getin Noble Bank bonds SP-I	2015-03-23	2017-07-19	92	92
Getin Noble Bank bonds B	2011-08-10	2017-08-10	350	35,000
Getin Noble Bank bonds SP-I	2015-03-23	2017-08-18	285	285
Getin Noble Bank bonds C	2011-09-01	2017-09-01	50,000	50,000
Getin Noble Bank bonds D	2011-09-20	2017-09-20	20,000	20,000
Getin Noble Bank bonds SP-I	2015-03-23	2017-10-03	652	652
Getin Noble Bank bonds SP-I	2015-03-23	2017-10-04	17	17
Getin Noble Bank bonds SP-I	2015-03-23	2017-10-10	71	71
Getin Noble Bank bonds 17/10/2017	2011-10-17	2017-10-17	45,000	45,000
Getin Noble Bank bonds SP-I	2015-03-23	2017-10-24	164	164
Getin Noble Bank bonds SP-I	2015-03-23	2017-12-08	47	47
Getin Noble Bank bonds GNB14018	2014-12-19	2017-12-19	5,000	50,000
Total			**128,774**	**263,225**

On 21 March 2016 the Bank asked the Polish Financial Supervision Authority for acceptance of the *Plan of sustained profitability improvement of Getin Noble Bank S.A. for 2016-2019,* being the recovery program within the meaning of Article 142 of the Banking Law. This fact, in accordance with Issue Terms of Coupon Bonds, entitles bondholders to written request for earlier redemption of bonds at nominal value specified in Issue Terms plus interest accrued to the date of earlier redemption. Therefore, in 2017 and until the date of publication of these financial statements, the Bank redeemed bonds in the amount of PLN 3.03 million (of nominal value). The remaining amount that may be requested for earlier redemption is maximum PLN 14.93 million (of nominal value).

In 2017 as part of the Getin Noble Bank S.A. securitization transaction of the loan receivables portfolio, the company GNB Auto Plan 2017 sp. z o.o. carried out a private issue of bonds worth PLN 500 million secured by a registered pledge on the company's assets, in particular on receivables resulting from car loans. The interest on the issued bonds consists of a margin of 1.2% and WIBOR (3M).

During the reporting period, there were no cases of overdue settlement by the Group of liabilities arising from repayment of principal or interest and redemption of own debt securities.

36. Other liabilities

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Interbank settlements	72,906	58,744
Sundry debtors, of which:	107,213	95,335
statutory liabilities	31,264	34,899
payment cards settlements	1,674	175
other	74,275	60,261
Amounts due to the BFG	35,188	-
Finance lease liabilities	14,736	12,139
Accruals	30,162	32,634
Provision for unused holidays	12,942	-
Deferred income	14,593	12,869
Liabilities related to brokerage activities	1,453	6,977
Amounts due to non-controlling interests in OFWD	26,215	-
Other liabilities	30,047	38,247
Total other liabilities	**345,455**	**256,945**

37. Provisions

2017	Restructuring provision PLN thousand	Provision for litigation PLN thousand	Provision for employee benefits PLN thousand	Provision for issued commitments and guarantees PLN thousand	Total PLN thousand
Provisions as at 01.01.2017	**103**	**4,170**	**13,487**	**3,474**	**21,234**
Recognition/ actualisation	-	15,003	261	1,761	**17,025**
Utilisation	(87)	(1,717)	(86)	-	**(1,890)**
Reversal	(16)	(1,612)	-	(2,440)	**(4,068)**
Other decreases	-	-	(12,017)	-	**(12,017)**
Provisions as at 31.12.2017	**-**	**15,844**	**1,645**	**2,795**	**20,284**

2016	Restructuring provision PLN thousand	Provision for litigation PLN thousand	Provision for employee benefits PLN thousand	Provision for issued commitments and guarantees PLN thousand	Total PLN thousand
Provisions as at 01.01.2016	**-**	**4,477**	**15,721**	**2,865**	**23,063**
Recognition/ actualisation	3,248	1,293	918	6,158	**11,617**
Utilisation	(3,145)	(1,600)	(730)	-	**(5,475)**
Reversal	-	-	(2,344)	(5,549)	**(7,893)**
Other decreases	-	-	(78)	-	**(78)**
Provisions as at 31.12.2016	**103**	**4,170**	**13,487**	**3,474**	**21,234**

Provision for retirement benefits is created individually for each employee on the basis of an actuarial valuation performed by an independent actuary. The basis for calculation of provisions is the expected amount of retirement benefit that the Group is obliged to pay pursuant to the remuneration policy. The recognized provisions are equal to the discounted payments to be made in the future, taking into account staff turnover and relate to the period ending at the reporting date. Presented below are changes in a provision for future employee benefits:

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Present value of the obligation at the beginning of the period	**1,469**	**1,356**
Total expense recognised in the income statement, of which::	210	296
current service cost	168	164
past service cost	-	97
interest cost	42	35
Total expense recognised in the other comprehensive income, of which:	42	(118)
actuarial (gains)/ losses due to ex post adjustments of assumptions	(17)	(86)
actuarial (gains)/ losses due to changes in demographic variables	(3)	63
actuarial (gains)/ losses due to changes in financial variables	62	(95)
Benefits paid	(76)	(65)
Sale of a subsidiary	-	-
Present value of the obligation at the end of the period	**1,645**	**1,469**
Present value of the short-term obligation	**250**	**273**
Present value of the long-term obligation	**1,395**	**1,196**

The future payments of employee benefits have been discounted with 3.3% discount rate, i.e. at the level of yield of the safest long-term securities listed on the Polish capital market as at the valuation date. Effect of increase/ decrease in the discount rate on the change in the provision for retirement benefits is presented in the table below:

	31.12.2017		31.12.2016	
	+0.25 pp. PLN thousand	-0.25 pp. PLN thousand	+0.25 pp. PLN thousand	-0.25 pp. PLN thousand
Provision for retirement benefits	1,550	1,648	1,428	1,513

Court proceedings

In 2017 and 2016 Getin Noble Bank S.A. nor its subsidiary were the party in any legal proceeding concerning liabilities or receivables which value would amounted to at least 10% of own funds of the Group. Moreover, the total value of claims in all proceedings pending at 31 December 2017 concerning the Bank's and its subsidiaries' liabilities also did not exceed 10% of own funds of the Group.

The total value of the subject of the dispute in court proceedings regarding loan agreements indexed in CHF as at 31 December 2017 amounted to PLN 193 million.

As at 31 December 2017 the Group recognised provision for litigation against the Bank and its subsidiaries, which in the opinion of the Group implies the risk of outflow of funds for fulfilling the obligation. As at 31 December 2017 the provision amounted to PLN 15,844 thousand (PLN 4,170 thousand as at 31 December 2016).

In 2017 the Bank created PLN 5 million provision for pending proceedings on annulment of the decision of the President of UOKiK under reference number RKT-61-35/12/SB on the practice infringing collective consumer interests in offering insurance protection as part of group life insurance. By virtue of a decision of the second instance court of 23 January 2018, the Bank was obliged to pay PLN 5 million.

In 2017 three collective actions pending against Getin Noble Bank S.A.: claim for compensation for funds lost by customers filled in 2011 (the case was suspended by the Court of Appeal) and two claims from 2014 on loans indexed to the CHF currency (as at 31 December 2017 no final decision was made on admitting a case to be heard in a class action). As at the end of 2017 the Group did not recognised provision for litigation on collective actions. On the basis of analysis of the risk of particular cases, the Group assessed that it is more likely that no present obligation exists as at 31 December 2017.

38. Share capital

Share capital of Getin Noble Bank S.A. amounts to PLN 2,461,630 thousand and consists of 883,381,106 shares of serie A and 18,315,019 shares of serie B with nominal value of PLN 2.73 each. The Bank's shares are traded on the Warsaw Stock Exchange. The Bank's shares are ordinary bearer shares, each share has the right to 1 vote during the General Meeting of the Bank. All the Bank's shares are admitted to stock exchange trading on the Warsaw Stock Exchange and are listed under the abbreviated name GETINOBLE, marked with the code PLGETBK00012.

On 5 July 2017 the District Court for the Capital City of Warsaw in Warsaw, XII Commercial Division of the National Court Register made an entry of the increase of the Bank's share capital by a private issue of serie B ordinary bearer shares for the amount of PLN 50,000,001.87.

39. Other capital

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Reserve capital	2,581,962	2,472,942
Revaluation reserve, of which:	(94,766)	(184,919)
valuation of available-for-sale financial assets	(29,840)	(90,237)
cash flow hedge	(64,820)	(94,611)
actuarial losses	(106)	(71)
Other capital reserves	279,394	279,394
Total other capital	**2,766,590**	**2,567,417**

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Revaluation reserve for available-for-sale financial assets at the beginning of the period	**(90,237)**	**(14,071)**
Increase/ (decrease) due to remeasurement	55,918	(68,324)
Accumulated (profit)/ loss transferred to income statement due to sale/ redemption	4,479	(7,842)
Revaluation reserve for available-for-sale financial assets at the end of the period	**(29,840)**	**(90,237)**

40. Dividends paid and proposed

In the reporting period the parent entity did not pay or declare any dividends.
On 9 may 2017 the General Shareholders Meeting of Getin Noble Bank S.A. decided to allocate the Bank’s full profit for the year 2016 to increase the reserve capital.

Recommendation of the Polish Financial Supervision Authority on dividend policy for banks

On 24 November 2017, the Polish Financial Supervision Authority published the recommendation on 2018 dividend policy for banks. In order to ensure further stable development of the sector, the Supervision Authority recommends that the dividend could be paid only by the banks that do not run the recovery plan, gain a positive assessment during supervisory review and evaluation process (BION), have an appropriate leverage ratio and meet the relevant capital requirements for other systematically important institution and criterion of significant exposure of foreign currency mortgage loans to households.

41. Contingent liabilities

The Group has commitments to grant loans. These commitments comprise approved but not fully utilised loans, unused credit card limits and unused overdraft limits on current accounts. The Group issues guarantees and letters of credit which serve as security in case the Group's customers will discharge their liabilities towards third parties. The Group charges fee for these commitments issued which are settled in accordance with the nature of the given instrument.

Provisions are recognised for contingent liabilities with the risk of loss of value of the underlying assets. If, at the balance sheet date, objective evidence has been identified that assets underlying contingent liabilities are impaired, the Group creates a provision in the amount of a difference between statistically estimated part of the off-balance sheet exposure (balance sheet equivalent of current off-balance sheet items) and the present value of estimated future cash flows. The created provision does not reduce the value of the assets underlying the off-balance sheet contingent liabilities and is recognised in the statement of financial positions under "Provisions" and in the income statement.

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Financial contingent liabilities granted	**1,944,322**	**2,123,989**
to financial entities	147,977	336,374
to non-financial entities	1,720,460	1,727,512
to budgetary entities	75,885	60,103
Guarantees granted	**169,036**	**164,387**
to financial entities	4,095	4,974
to non-financial entities	160,477	152,921
to budgetary entities	4,464	6,492
Total contingent liabilities granted	**2,113,358**	**2,288,376**

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Financial	-	-
Guarantees	277,004	261,710
Total contingent liabilities received	**277,004**	**261,710**

42. Fair value of assets and liabilities

The fair value is the price that would be obtained for the sale of an asset or paid to transfer a liability in a transaction carried out in the normal manner between market participants at the measurement date. For many financial instruments their market values are not available, therefore fair values are estimated using various valuation techniques. The fair value of financial assets and liabilities was measured using a model based on estimates of present value of future cash flows by discounting cash flows using market interest rates.

For certain classes of financial assets and liabilities due to the lack of expected significant differences between the carrying value and fair value, due to their characteristics, it was assumed that the carrying amount is in line with their fair value.

42.1. Financial assets and liabilities that are not presented at fair value in the statement of financial position

The principal methods and assumptions used in estimating the fair value of financial assets and liabilities that in the consolidated statement of financial position are not stated at fair value are as follows:

Cash and balances with the Central Bank

Due to the short-term nature of these assets it is assumed that the carrying value is consistent with the fair value.

Amounts due from banks and financial institutions

The amounts due from banks consist primarily of deposits concluded in the interbank market and securities for derivatives transactions (CIRS). Deposits made in the interbank market are fixed-rate short-term deposits. For this reason, it was assumed that the fair value of amounts due from banks is equal to their book value.

Loans and advances to customers

The fair value was calculated for loans with a fixed payment schedule. For contracts where such payments have not been defined (e.g. bank overdraft), it is assumed that the fair value is equal to the carrying value. Similar assumption is accepted for payments due and the agreements with the impairment.

In order to calculate the fair value, based on the information recorded in transactional systems, for each loan agreement a schedule of principal and interest cash flows is identified, which are grouped by type of interest rate, start date, type of product and the currency in which the agreement is performed. So established cash flows were discounted using rates which take into account the current margins for each product type. In the case of foreign currency loans for which there is no adequate new loans trial in the period considered, a margins are established as for loans in PLN adjusted for historical differences between the margins for loans in PLN and in foreign currencies. Comparison of the amount of cash flows associated with the agreement discounted with the interest with its book value, determines the difference between the fair value and the carrying amount. Identifying right interest rate to discount the cash flow is based on the currency of the agreement, the product and date of the cash flow.

Amounts due to banks and financial institutions

It is assumed that the fair value of deposits from other banks and floating-rate loans taken out in the interbank market is their carrying amount.

Amounts due to customers

The fair value was calculated for fixed-rate deposits with a fixed maturity. For demand deposits, it is assumed that the fair value is equal to their book value. In order to calculate the fair value on the basis of data from transactional systems future principal and interest cash flows are determined which are grouped according to the currency of the period of the original deposit, the nature of the product and date of cash flows. The calculated cash flows are discounted with interest rate constructed as the sum of the market rate of the yield curve for each currency and deposits and completion date profit margins on deposits run in the final month of the period. The margin is calculated by comparing interest rates on deposits granted in the last month with market interest. The discounting period is defined as the difference between the end of the deposit (the accepted accuracy of the calendar month) and the date on which the report is presented. Calculated in this way, the discounted value is compared to the carrying value, with the result that we get the difference between the carrying value and fair value of the portfolio of contracts taken to the calculation.

Debt securities issued

The fair value of debt securities listed on the Catalyst bond market was estimated on the basis of market quotations.

Due to the fact that for the majority of financial assets and liabilities carried at amortised cost (other than those described in detail above) using the effective interest rate the period of the next revaluation does not exceed 3 months, the carrying value of these items is not materially different from their fair values.

Presented below is a summary of the carrying amounts and fair values of financial assets and liabilities:

	31.12.2017		31.12.2016	
	Carrying amount	Fair value	Carrying amount (restated)	Fair value
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
ASSETS				
Cash and balances with the Central Bank	3,341,593	3,341,593	3,152,195	3,152,195
Amounts due from banks and financial institutions	656,216	656,216	1,178,205	1,178,205
Loans and advances to customers	42,711,803	41,690,998	46,633,758	43,823,307
Held-to-maturity financial assets	1,674,493	1,711,629	202,641	207,193
LIABILITIES				
Amounts due to banks and financial institutions	1,848,166	1,848,166	2,595,427	2,595,427
Amounts due to customers	48,613,567	49,604,096	53,041,128	53,881,102
Debt securities issued	4,443,174	4,289,856	3,819,593	3,656,400

The fair values of financial assets and liabilities meet the conditions for classification to level 3, with the exception of debt securities issued on an active market and included in level 1, and those for which the fair value is close to their carrying amount, and therefore not remeasured.

42.2. Financial assets and liabilities at fair value in the statement of financial position

The Group classifies the individual financial assets and liabilities measured and presented in the financial statements at fair value by applying the following hierarchy:

Level 1

Financial assets and liabilities measured at fair value based on market quotations available in active markets for identical instruments. To this category the Group classifies available-for-sale debt and equity financial assets for which there exists an active market and a portfolio of liquid debt and equity securities of Brokerage House traded on a regulated market.

Level 2

Financial assets and liabilities measured using techniques based on market quotations directly observed or other information based on market quotations. To this category the Group classifies debt and equity securities of limited liquidity in the portfolio of Brokerage House traded on a regulated market, available-for-sale the NBP bills valued on the basis of the reference curve, investment certificates valued at the price announced by the fund, as well as derivatives.

Level 3

Financial assets and liabilities measured using techniques based quotations which cannot be directly observed on the market. To this category the Group classifies shares and equity instruments that are not traded on a regulated market, valued at cost less impairment losses and financial assets which fair value is determined using internal valuation models.

The carrying amounts of financial instruments at fair value by 3 hierarchy levels are presented below:

31.12.2017	Level 1 PLN thousand	Level 2 PLN thousand	Level 3 PLN thousand	Total PLN thousand
ASSETS				
Financial assets held for trading	1,973	-	6,027	**8,000**
Financial assets at fair value through profit or loss	-	-	158,491	**158,491**
Derivative financial instruments	-	570,995	13,183	**584,178**
Available-for-sale financial assets	6,726,940	799,785	654,311	**8,181,036**
LIABILITIES				
Derivative financial instruments	-	248,080	-	**248,080**

31.12.2016	Level 1 PLN thousand	Level 2 PLN thousand	Level 3 PLN thousand	Total PLN thousand
ASSETS				
Financial assets held for trading	1,340	-	11,626	**12,966**
Financial assets at fair value through profit or loss	-	-	171,972	**171,972**
Derivative financial instruments	-	62,743	39,393	**102,136**
Available-for-sale financial assets	10,837,348	826,608	342,327	**12,006,283**
LIABILITIES				
Derivative financial instruments	-	1,664,441	-	**1,664,441**

In 2017 and 2016 there were no movements between level 1 and level 2 of the fair value hierarchy, neither any asset or liability was moved from level 1 or level 2 to level 3 of fair value hierarchy.

Transfers between levels of the fair value hierarchy of financial instruments measured at fair value on a regular basis occur in the following situations:

- transfer from level 1 to 2 – if there are no market quotations available on active markets for identical instruments at the balance sheet date,
- transfer from level 2 to 3 – if the non-market item used in the valuation techniques used became material at the balance sheet date.

Valuation techniques and inputs when measuring fair value of assets and liabilities classified at level 2 and 3 of the fair value hierarchy are as follows:

Derivative financial instruments

Option transactions characterised by a non-linear values profile are measured on the basis of valuation models (Black, 76, replication model, Bachelier model, Monte Carlo simulation) with parameters corresponding to the valued instruments. The market inputs in this case are foreign exchange rates, index levels, volatility surfaces of the option strategies and data allowing the construction of discount curves.

Other derivatives of the linear nature are valued based on discounted cash flow model using the discount curves and projection curves, generated on the basis of market quotations for financial instruments. Discount curves are constructed according to the concept of discounting on the basis of the cost of security, using OIS rates, SWAP points quotations, FRA transactions, IRS, tenor basis swaps and CCBS credit. In addition, for the instruments based on a variable interest rate curve the projection curve is constructed, based on quotations of FRA transactions, IRS and the appropriate reference indices.

Valuation of the put option on held shares portfolio, classified at level 3 of the fair value hierarchy, is made with the Black-Scholes model using the current market parameters and the fair value of the shares derived from the valuation of the company. Such calculated amount is discounted by the discounted estimate of the potential future liability, which depends on the results of cooperation between the entities of the TU Europa S.A. Capital Group and the entities associated with Mr. Leszek Czarnecki within the period 2012-2021. The fair value of the option amounted to PLN 21,259 thousand. If share value increases by 1%, the fair value of the option will be reduced by PLN 652 thousand, if share value drops by 1%, the value of the option will increase by PLN 662 thousand.

The NBP bills

The measurement is based on the reference curve, constructed on the basis of short-term interbank deposits.

Shares and equity instruments without quoted market price

Shares classified as financial assets at fair value through profit or loss are valued based on a valuation made by an independent entity specialising in this type of service. The valuation is carried out using the income method and the indicator method based on market indicators (P/E and BV) of a group of comparable companies. Each of these methods are granted equal weight.

Corporate bonds

Measurement of available-for-sale debt securities categorised within Level 3 of the fair value hierarchy is based on a cash flow model, and the discount rate for unrealised cash flows is based on market discount rate determined from the zero-coupon curve plus a risk premium, appropriate for a given security. The risk premium as an unobservable input on the market, is calculated by an entity providing services of corporate bonds placement. Depending on the type of paper and the issuer, the premium is calculated as:

- the issue margin for securities issued in the last six months, if the issuer is not affiliated with the Bank,
- adjusted margin of other securities of the same issuer,
- adjusted margin of securities of other issuer (group of issuers) similar in its characteristics to the issuer of the measured securities.

The fair value of securities measured in accordance with the above valuation model (using margins in the range of 0.42% to 5.58%) amounted to PLN 380,568 thousand. In case of upward shift of risk margins by 25 basis points the fair value decreases by PLN 2,895 thousand, in case of downward shift of risk margins by 25 basis points the fair value increases by PLN 2,919 thousand.

Principles for the measurement of corporate securities are included in the procedure introduced by the Resolution of the Management Board of the Bank. The measurement is made in the Bank's transaction system based on the prices calculated by the Market Risk and Valuation Department – a unit responsible for the valuation of financial instruments in the Bank. The unit price of the securities is estimated periodically on the basis of the discounted cash flow model as described above.

Change in financial assets / liabilities categorised within Level 3 of the fair value hierarchy:

2017	Financial assets held for trading PLN thousand	Financial assets measured at fair value through profit or loss PLN thousand	Derivative financial instruments PLN thousand	Available-for-sale financial assets PLN thousand
Balance at the beginning of the period	**11,626**	**171,972**	**39,393**	**342,327**
Gains or losses, of which:	1,067	(3,391)	(26,210)	(12,371)
recognised in income statement	1,067	(3,391)	(26,210)	(19,426)
recognised in other comprehensive income	-	-	-	7,055
Purchases	75,787	-	-	461,117
Sales/ settlements	(82,453)	(10,090)	-	(136,762)
Other changes/ reclassifications/ transfers	-	-	-	-
Balance at the end of the period	**6,027**	**158,491**	**13,183**	**654,311**

2016	Financial assets held for trading PLN thousand	Financial assets measured at fair value through profit or loss PLN thousand	Derivative financial instruments PLN thousand	Available-for-sale financial assets PLN thousand
Balance at the beginning of the period	**16,106**	**166,817**	**39,836**	**259,224**
Gains or losses, of which:	(289)	(4,935)	(443)	(6,003)
recognised in income statement	(289)	(4,935)	(443)	7,782
recognised in other comprehensive income	-	-	-	(13,785)
Purchases	65,680	10,090	-	284,637
Sales/ settlements	(69,871)	-	-	(181,739)
Other changes/ reclassifications/ transfers	-	-	-	(13,792)
Balance at the end of the period	**11,626**	**171,972**	**39,393**	**342,327**

42.3. Non-financial assets at fair value in the statement of financial position

31.12.2017	Level 1 PLN thousand	Level 2 PLN thousand	Level 3 PLN thousand	Total PLN thousand
ASSETS				
Investment properties	-	-	628,118	**628,118**
Non-current assets held for sale	-	-	247,713	**247,713**

31.12.2016	Level 1 PLN thousand	Level 2 PLN thousand	Level 3 PLN thousand	Total PLN thousand
ASSETS				
Investment properties	-	-	721,534	**721,534**
Non-current assets held for sale	-	-	415,565	**415,565**

Change in non-financial assets classified within Level 3 of the fair value hierarchy is presented in notes 30 and 32 of these financial statements.

43. Company Social Benefits Fund

The act of 4 March 1994 on the Company Social Benefits Fund with later amendments assumes that the Company Social Benefits Fund is created by employers employing above 20 employees on a full-time basis. The Group creates such fund and makes periodic allowances. The purpose of the Fund is to finance social activity, loans granted to its employees and other social costs.

The Group has compensated the Fund's assets with its liabilities to the Fund as these assets do not account for separate assets of the Group. As a result of the above, net balance of settlements with the Fund as at 31 December 2017 and 2016 amounted to PLN 0.

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Allowances for the Fund during the reporting period	3,170	2,961

44. Additional notes to the statement of cash flows

For the purpose of the consolidated statement of cash flows, the following classification of economic activity types has been assumed:

- operating activities – comprise the basic scope of activities related to provision of services by the Group entities, covering actions aimed at generating profit but not constituting investment or financial activity. The Group prepares the statement of cash flows from operating activities using the indirect method, under which a net profit for a reporting period is adjusted by non-cash effects of transactions, prepayments and accrued income and accrued costs and deferred income which relate to future or past inflows and outflows from operating activities and by other items of costs and revenues connected with cash flows from investing activities.
- investing activities – comprise activities related to purchasing and selling stocks or shares in subordinated entities as well as intangible assets and fixed assets. Inflows from investment activities include also received dividends related to held shares and stocks in other entities. Changes of debt securities available-for-sale are presented in operating activities.
- financing activities – include operations that involve raising funds in the form of capital or liabilities as well as servicing of the sources of finance.

Cash and cash equivalents

For the purpose of the statement of cash flows cash and cash equivalents comprise carrying amount of cash and cash equivalents and balances of current accounts and short-term deposits.

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Cash and balances with the Central Bank	3,341,593	3,152,195
Current amounts due from banks	367,221	215,335
Short-term deposits in banks	-	110
Total cash and cash equivalents	**3,708,814**	**3,367,640**

Explanation of differences between changes of assets and liabilities as stated in the statement of financial position and changes presented in the statement of cash flows

2017	Change in statement of financial position PLN thousand	Statement of cash flows PLN thousand	Difference PLN thousand	
Change in amounts due from banks and financial institutions	521,989	671,226	(149,237)	1)
Change in derivative financial instruments (assets)	(482,042)	(498,021)	15,979	2)
Change in available-for-sale financial assets	3,825,247	4,220,352	(395,105)	3)
Change in held-to-maturity financial assets	(1,471,852)	(1,457,903)	(13,949)	4)
Change in other assets	165,690	158,974	6,716	5)
Change in non-current assets held for sale	167,852	161,917	5,935	6)
Change in amounts due to banks and financial institutions	(747,261)	117,013	(864,274)	7)
Change in derivative financial instruments (liability)	(1,416,361)	(1,370,591)	(45,770)	8)
Change in debt securities issued	623,581	(38,283)	661,864	9)
Change in other liabilities	88,510	(2,814)	91,324	10)
Change in provisions	(950)	(737)	(213)	11)

2016	Change in statement of financial position PLN thousand	Statement of cash flows PLN thousand	Difference PLN thousand	
Change in amounts due from banks and financial institutions	1,116,711	967,774	148,937	1)
Change in derivative financial instruments (assets)	66,775	67,166	(391)	2)
Change in available-for-sale financial assets	534,941	458,779	76,162	3)
Change in held-to-maturity financial assets	(48,319)	(12,486)	(35,833)	4)
Change in non-current assets held for sale	23,867	26,039	(2,172)	6)
Change in amounts due to banks and financial institutions	(1,233,385)	(583,041)	(650,344)	7)
Change in derivative financial instruments (liability)	143,982	155,534	(11,552)	8)
Change in debt securities issued	(273,468)	15,465	(288,933)	9)
Change in provisions	(1,829)	(1,733)	(96)	11)

1) "Change in part of receivables comprising cash equivalents (current accounts and overnight deposits in other banks) was excluded from “Change in amounts due from banks and financial institutions” and is presented under “Increase/decrease of net cash and cash equivalents”,
2) „Change in derivative financial instruments (asset)” does not include the valuation of cash flow hedge recognized in revaluation reserve,
3) „Change in available-for-sale financial assets” does not include valuation of financial assets recognized in revaluation reserve and includes the closing balance of the deconsolidated subsidiary,
4) Change arising from the purchase of financial instruments was excluded from “Change in held-to-maturity financial assets” and presented in investing activities,
5) „Change in other assets” includes the closing balance of the deconsolidated subsidiary,
6) Change arising from sale of properties was excluded from “Change in non-current assets held for sale” and presented in investing activities,
7) Change arising from the payment of long term loan was excluded from “Change in amounts due to banks and financial institutions” and presented in financing activities,
8) “Change in derivative financial instruments (liabilities)” does not include the valuation of cash flow hedge recognized in revaluation reserve,
9) Change arising from the issue and redemption of long-term securities (bonds and deposit certificates) was excluded from “Change in debt securities issued” and presented in financing activities,
10) „Change in other liabilities” includes the closing balance of the deconsolidated subsidiary,
11) “Change in provisions” does not include actuarial gains/ (losses) recognized in the revaluation reserve.

45. Information on operating segments

There are the following reporting operating segments in the Group:

Banking

The scope of Group’s activities covered by this segment is providing banking services and conducting business activity in the area of: accepting cash deposits payable on demand or on maturity date, running the deposit accounts, running other bank accounts, granting loans, issuing and confirming bank guarantees and opening and confirming letters of credit, issuing bank securities, running banking cash settlements, granting cash loans, cheque and bill of exchange operations and operations relating to warrants, issuing payment cards and carrying out operations with the use of these cards, term financial operations, purchases and sales of cash debts, safeguarding of items and securities and providing safe boxes, running purchase and sale of foreign currencies, granting and confirming guarantees, performing ordered activities, connected with the issue of securities, intermediary in monetary transfers and settlements in foreign exchange transactions. The Group conducts its activity in this segment throughout the country, provides private banking services - current accounts for individual customers, savings accounts, deposits, consumer and mortgage loans, term deposits, both in zlotys and foreign currencies. The segment's income includes all income recognised by Getin Noble Bank S.A., BPI Bank Polskich Inwestycji S.A., GNB Leasing Plan DAC and GNB Auto Plan 2017 sp. z o.o. Assets of this segment comprise assets of Getin Noble Bank S.A., BPI Bank Polskich Inwestycji S.A., GNB Leasing Plan DAC and GNB Auto Plan 2017 sp. z o.o.

Other activities

The scope of Group's other activities is providing services related to financial intermediation and asset management.

In this segment the Group also conducts brokerage activities associated with the securities and commodities, provides services in the preparation of investment analysis, financial analysis and other recommendations of a general nature relating to transactions in financial instruments.

The scope of this segment includes also placing cash collected by means of public offering of unit fund, advising with respect to securities transactions, managing securities portfolios on demand, creating and managing investment funds, as well as rental services and property management.

The segment's income includes income recognised by Noble Securities S.A., ProEkspert sp. z o.o., Noble Funds TFI S.A. (until end of May 2017), Sax Development sp. z o.o., Debtor NS FIZ, Open Finance Wierzytelności Detalicznych NS FIZ and entities of Property FIZAN Group. The segment's income also includes the share of profits of associate Open Finance S.A. and Noble Funds TFI S.A. (since June 2017). The segment assets include assets of Noble Securities S.A., ProEkspert sp. z o.o., Sax Development sp. z o.o., Debtor NS FIZ, Open Finance Wierzytelności Detalicznych NS FIZ and entities of Property FIZAN Group.

None of operating segments of the Group was combined with other segment in order to create the above reporting operating segments. The Management Board monitors separately operational results of segments in order to make decisions relating to allocation of resources, assessment of results of such allocation and the results of activities. The basis for the assessment of the financial performance is pre-tax profit or loss. Income tax is monitored on the Group's entities level.

Transaction costs used in transactions between operating segments are established on the arm's length basis, similar to the transactions with unrelated third parties. Amounts of revenues, profit before tax and total assets presented in segments does not include consolidation adjustments and eliminations.

2017	Banking PLN thousand	Other activities PLN thousand	Consolidation adjustments PLN thousand	Total PLN thousand
Revenues of segments				
external	2,949,263	112,678	37,913	3,099,854
internal	220,033	29,060	(249,093)	-
Total revenues of segments	**3,169,296**	**141,738**	**(211,180)**	**3,099,854**
Profit/ (loss) before tax of segments				
external	(480,889)	(216,241)	36,102	(661,028)
internal	29,580	9,343	(38,923)	-
Total profit/ (loss) of segments	**(451,309)**	**(206,898)**	**(2,821)**	**(661,028)**
Segments assets as at 31.12.2017	**63,512,921**	**1,790,989**	**(5,468,374)**	**59,835,536**

Banking segment income includes interest income amounting to PLN 2,705,407 thousand, and profit before tax also includes interest expense amounting to PLN 1,423,915 thousand.

2016 (restated)	Banking PLN thousand	Other activities PLN thousand	Consolidation adjustments PLN thousand	Total PLN thousand
Revenues of segments				
external	3,327,192	133,684	(59,444)	3,401,432
internal	252,204	30,313	(282,517)	-
Total revenues of segments	**3,579,396**	**163,997**	**(341,961)**	**3,401,432**
Profit/ (loss) before tax of segments				
external	55,774	22,571	(120,710)	(42,365)
internal	69,709	2,427	(72,136)	-
Total profit/ (loss) of segments	**125,483**	**24,998**	**(192,846)**	**(42,365)**
Segments assets as at 31.12.2016	**69,050,487**	**1,734,807**	**(4,625,486)**	**66,159,808**

Banking segment income includes interest income amounting to PLN 2,889,342 thousand, and profit before tax also includes interest expense amounting to PLN 1,603,020 thousand.

46. Related party transactions

The Getin Noble Bank S.A. Capital Group understands related party as the Group's associates and entities related to the ultimate parent – Mr. Leszek Czarnecki.

The consolidated financial statements comprise financial statements of Getin Noble Bank S.A. and the financial statements of subsidiaries mentioned in the note II.3.

31.12.2017	Statement of financial position						Off-balance sheet
	Assets – loans and purchased receivables PLN thousand	Assets – financial instruments PLN thousand	Assets – other receivables PLN thousand	Liabilities – deposits PLN thousand	Liabilities – other PLN thousand	Impairment allowances PLN thousand	Financial liabilities and guarantees granted PLN thousand
Associates	**-**	**499,192**	**17,895**	**29,869**	**-**	**33**	**162**
Entities related by the parent:	**5,789,283**	**216,872**	**288,930**	**2,532,338**	**17,293**	**80**	**18,673**
Entities of Getin Holding S.A Group	5,782,759	184,929	119,012	125,223	17,235	55	18,175
Entities of LC Corp B.V. Group	6,524	31,943	169,918	2,405,362	-	25	486
Other entities	-	-	-	1,753	58	-	12
Members of the Management Board and the Supervisory Board of Getin Noble Bank S.A.	**1,495**	**-**	**25**	**13,399**	**-**	**2**	**1,601**

31.12.2016	Statement of financial position						Off-balance sheet
	Assets – loans and purchased receivables PLN thousand	Assets – financial instruments PLN thousand	Assets – other receivables PLN thousand	Liabilities – deposits PLN thousand	Liabilities – other PLN thousand	Impairment allowances PLN thousand	Financial liabilities and guarantees granted PLN thousand
Associates	**-**	**79,981**	**28,510**	**17,037**	**429**	**9**	**-**
Entities related by the parent:	**5,589,724**	**108,931**	**294,154**	**3,579,190**	**395**	**105**	**38,085**
Entities of Getin Leasing S.A. Group	5,354,817	75,357	866	37,857	168	10	7,131
Entities of Getin Holding S.A Group	24,868	8,559	142,612	30,631	220	10	4,625
Entities of LC Corp B.V. and LC Corp S.A. Group	210,036	25,015	150,673	3,506,275	7	85	26,320
Other entities	3	-	3	4,427	-	-	9
Members of the Management Board and the Supervisory Board of Getin Noble Bank S.A.	**1,661**	**-**	**-**	**7,276**	**1**	**2**	**1,602**

01.01.2017-31.12.2017	Income statement				
	Interest and commission income PLN thousand	Interest and commission expense PLN thousand	Other purchases PLN thousand	Other sale PLN thousand	Dividend income PLN thousand
Associates	**18,808**	**25,970**	**1,286**	**1,299**	**4,227**
Entities related by the parent:	**332,047**	**408,952**	**37,379**	**16,088**	**1,225**
Entities of Getin Holding S.A Group	233,967	38,374	10,336	10,295	-
Entities of LC Corp B.V. Group	98,062	370,559	23,409	5,789	1,225
Other entities	18	19	3,634	4	-
Members of the Management Board and the Supervisory Board of Getin Noble Bank S.A.	**27**	**198**	**-**	**277**	**-**

01.01.2016-31.12.2016	Income statement				
	Interest and commission income PLN thousand	Interest and commission expense PLN thousand	Other purchases PLN thousand	Other sale PLN thousand	Dividend income PLN thousand
Associates	**5,713**	**34,646**	**1,367**	**22,498**	**-**
Entities related by the parent:	**243,119**	**170,717**	**31,033**	**238,276**	**38,040**
Entities of Getin Leasing S.A. Group	219,339	34,283	6,043	5,421	38,040
Entities of Getin Holding S.A Group	13,268	541	1,070	1,711	-
Entities of LC Corp B.V. and LC Corp S.A. Group	10,481	135,873	20,448	210,071	-
Other entities	31	20	3,472	21,073	-
Members of the Management Board and the Supervisory Board of Getin Noble Bank S.A.	**32**	**182**	**-**	**480**	**-**

Remuneration of the Management Board and the Supervisory Board of the Bank

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Management Board of the Bank	**12,140**	**10,435**
Short-term employee benefits	11,008	9,392
Share-based payments	1,132	1,043
Supervisory Board of the Bank	**2,848**	**1,243**
Short-term employee benefits	2,848	1,243
Total remuneration of the Management Board and the Supervisory Board of the Bank	**14,988**	**11,678**

Short-term employee benefits include salaries, bonuses and other benefits, also provisions for employee benefits, that are expense during financial year and are to be settled within 12 months from the end of the period, as well as variable components of remuneration resulting from the remuneration policy for the Bank's management described below, which are to be paid in the following year.

Share-based payments include valuation of rights to shares and deferred remuneration component awarded in the form of financial instrument, i.e. the phantom shares, according to the principles described below. Reported amounts include surcharges on remuneration related to social security liabilities, etc.

In 2017 and 2016 no post-employment benefits or termination benefits were paid.

Benefits for the management of the Bank resulting from variable components of remuneration

The variable components of remuneration of members of the Management Board of Getin Noble Bank S.A. are accounted in a manner ensuring effective realization of adopted policy of the variable components of remuneration. The amount of the variable components of remuneration is determined based on the appraisal of work in 3-years horizon and the financial results of the Bank. To evaluate the work performance, financial and non-financial criteria are used.

The results of the Bank used in determining the variable components of remuneration embrace the cost of the Bank risk, cost of capital and liquidity risk in long-term perspective. The maximum ratio of variable remuneration to fixed remuneration cannot exceed 100% of the total fixed remuneration received in the Bank and in its subsidiaries.

The amount of bonus granted and paid reflects financial situation of the Bank and appropriate level of risk ratios, cost of capital and liquidity risk in long term, and may be subject to adjustments in this respect. If implementation of objectives differs from 100% of the assumed, the amount of variable components of remuneration is decreased proportionally. Moreover, deferred variable components of remuneration are conditional. It is conditioned, among other things, by the lack of a significant deterioration of the Bank's situation as a result of activities falling within the responsibilities of a given Manager, exceeding the risk, capital and liquidity risk ratios that exposed the Bank to significant losses.

Payment of the variable components of remuneration granted for particular year is paid in accordance with the following principles:

- payment up to the amount of 30% of annual basic remuneration and no more than PLN 100 thousand is paid in cash;
- of the excess of variable components of remuneration over the above value, at least of 50% of each component of variable remuneration is financial instrument, which are phantom shares, and at least 40% of variable remuneration is deferred in accordance with principles regarding way and payment date, including 3-year appraisal period, adopted by the Bank;
- 40% of variable components of remuneration for particular year are paid in arrears in equal instalments in cash and financial instruments, in equal proportion of 50% in following 3 or 5 years, including 3-year appraisal period.

The variable remuneration is paid in the form of financial instruments – phantom shares, i. e. in the form of a cash payment, the amount of which depends on the price of the shares of the Bank, i. e. the average of closing prices of the Bank's shares on the Warsaw Stock Exchange of 90 calendar days prior to the payment of a particular tranche.

47. Remuneration of the auditor

The table below presents remuneration of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. paid or due for the year ended 31 December 2017 and of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. paid or due for the year ended 31 December 2016 split into types of services in net values:

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Statutory audit of the annual financial statements	658	386
Other certifying services, including the review of the financial statements	568	440
Other services	18	-
Total remuneration of the auditor	**1,244**	**826**

The remuneration does not include the statutory audits of standalone financial statements of the Bank's subsidiaries.

48. Employment

The number of employees in the Group as at 31 December 2017 and 2016 was as follows:

	31.12.2017	31.12.2016
Employment in persons	5,338	5,221
Employment in full-time equivalents	5,310.9	5,150.2

49. Subsequent events

On 26 January 2018 the Management Board of Getin Noble Bank S.A. adopted a resolution on the increase of the Bank's share capital within the authorized capital by private subscription for series C shares. Pursuant to the resolution, the Bank's Management Board decided to increase the share capital from PLN 2,461,630,421.25 to PLN 2,651,630,416.89, i.e. by the amount of PLN 189,999,995.64, by issuing 69,597,068 ordinary bearer series C shares with a nominal value of PLN 2.73 per share.

On 23 February 2018 the General Meeting of the Bank adopted a resolution on the exclusion of the pre-emptive right to series C shares. The subscription for series C shares was in the form of a private subscription and the take-up of series C shares took place until 31 March 2018 by concluding relevant agreements for the subscription of series C shares (submitting bids by the Bank and their acceptance by designated addressees related by capital or by person with Mr. Leszek Czarnecki).

On 11 April 2018 the Bank received from the Polish Financial Supervision Authority a decision regarding the consent to amend the Bank's Articles of Association, which will come into force on the day of its entry in the Register of Entrepreneurs of the National Court Register, in accordance with art. 430 §1 of the Code of Commercial Companies.

On 22 March 2018 the Management Board of Getin Noble Bank S.A. adopted a resolution to commence activities aimed at preparing and conducting the process of merging BPI Bank Polskich Inwestycji S.A. with GNB by transferring all assets of the acquired company (BPI) to the acquiring company (GNB) pursuant to art. 492 §1 point 1) of the Code of Commercial Companies. Due to the fact that the Bank holds 100% of BPI shares, the merger will be carried out in the simplified mode referred to in Art. 516 § 6 of the Commercial Companies Code. As at the date of preparation of these financial statements, the Bank started and conducts preliminary works in the area of identifying areas in which integrating measures will have to be taken. The above is to allow identification of risks and problems that could affect the course of the merger process, as well as to enable setting the time frame for performing the necessary operational activities.

After 31 December 2017 there were no other events which were not disclosed in these financial statements which may significantly impact the future financial results of the Getin Noble Bank S.A. Capital Group.

III. FINANCIAL RISK MANAGEMENT IN THE GROUP

Risk management is one of the key elements of the management of the Bank and entities of the Capital Group. Getin Noble Bank S.A. Capital Group is exposed primarily to the risks typical for the operations of universal banks. Therefore, credit risk, liquidity risk, market risk and operational risk management are of key importance in the Group's operations. The compliance risk management also becomes more and more important.

The goal of risk management in the long-term is stabilization of the Group's financial result, and in the short-term to maintain the assumed values of asset quality parameters and the desired balance sheet and off-balance sheet structure, as well as the quality of operating processes in order to achieve the assumed income to risk ratio.

Historically, as a result of the credit policy and liberal rules governing the credit process in Getin Noble Bank S.A. before 2010, the ratio was unfavourable, which was reflected primarily in the increased profile of credit risk and the accumulation of impairment losses on loan portfolios. Since then, the risk management method in the Bank has been subject to gradual changes and improvement. Nevertheless, the pace of these changes was not adjusted to the pace of deterioration of the old loan portfolio, nor to the needs resulting from the reconstruction of the Bank's operation in the direction towards relational model. As a consequence of this situation, the previously mentioned income to risk ratio in 2017 was at unacceptable level. In connection with this, a number of measures have been taken to change the way the Bank is managed, including the decision to introduce in the risk management necessary changes to modernize this management area. The fourth quarter of 2017 was devoted to:

- preparation of organizational changes in the risk management division, that will strengthen the role of the division in managing the Bank, streamlining of the risk management processes and adapting them to changes in the activity on the sales side (some organizational changes have already been implemented),
- review of the loan portfolio based on a more conservative approach to assessing the likelihood of recovery of non-performing exposures;
- completing the necessary changes in the methodology of the loan portfolio valuation as part of the new IFRS 9 regime.

These activities were accompanied by the intention to build a solid base for gradual recovery by the Bank of the assumed level of profitability and capital adequacy ratios and their stabilization in the long term at the expected level.

In line with the law obligations, supervisory requirements and good market practice, the Bank's Management Board is responsible for risk management at the strategic level. Assumptions in this respect are included in "Strategy and credit exposures risk management policy of Getin Noble Bank S.A.". At the operational level, risk management committees have been established, that are responsible for recommendations and decisions as well as monitoring of certain types of risk. These are:

- Credit Committee,
- Asset and Liability Committee,
- Operating Risk Committee.

In addition to the aforementioned tasks related to risk level monitoring, the committees make decisions that change risk management policies on an ongoing basis, internal exposure limits for particular types of risk. These tasks are carried out as part of the strategies adopted by the Bank's Management Board, taking into account regulatory requirements, including supervisory limits.

Corporate governance in the field of risk management policy is exercised by the Supervisory Board of the Bank.

Other Group entities in the field of market risk management take into account the regulations of the markets on which they operate and the requirements of relevant supervisory institutions, especially the Polish Financial Supervision Authority. Corporate governance regarding financial risk management policies is exercised by supervisory boards established in the Group's companies.

1. Credit risk

Credit risk results from the potential failure or untimely performance by the client of his financial liabilities resulting from transactions concluded, in particular loans and financial instruments.

Credit risk management at Getin Noble Bank S.A. aims to build and maintain credit portfolios with expected by the Bank level of risk expressed by risk costs averaged for individual portfolios, understood as the relation of loan impairment losses recognised in a given analytical period to the average balance of credit exposures. To reach this goal, the Bank manages credit risk at all stages of the life of loan portfolios/ transactions, i.e.:

- customer acquisition and lending process,
- monitoring the credit exposures and the financial situation of clients,
- monitoring the risk parameters of individual loan portfolios,
- restructuring and recovery of credit exposures.

Risk management tools are credit policies, including industry-specific ones, acceptance rules, scoring and rating models for transaction selection and creditworthiness assessment, scoring models for the use of recovery paths, credit process organization, including rules and decision-making competences included in operational procedures, etc. As mentioned earlier, in 2017 significant changes were made in the credit and acceptance policy, and from the fourth quarter of 2017 began the restructuring of the credit risk management function, which will be continued and completed in 2018. The previous organizational structure was characterized by the dominance of the product approach, and the organizational division followed the division of functions within the credit process. The organizational changes implemented are based, on the one hand, on reflecting the transition of sales model of the Bank from a product model towards a relational model, based on a customer approach, and on the other hand, a permanent modification of the quality of credit risk management, which should provide primarily:

- improved ability to day-to-day management of credit portfolios by enabling a faster response to changes in the quality of loan portfolios and events in the Bank's environment, including the economic situation,
- enabling early identification of endangered exposures,
- increased efficiency of recovery of receivables as part of restructuring and debt collection activities.

In other subsidiaries of the Group, credit risk does not exist or it is at a very low level due to the fact that these entities do not conduct lending activities, but only participate in the process of acquiring customers and selling the Bank's credit products. The Group in the field of financial intermediation cooperates with financial institutions that do not have liquidity problems and regularly pay their debts.

Structure and organization of credit risk management process

The main participants of the system of credit risk management in the Bank are:

<u>Supervisory Board of the Bank</u>

The role of the Supervisory Board is to approve credit risk management strategy and credit policy, periodic assessment of realization by the Management Board of the Bank’s credit strategy and policy, supervising the control function of credit risk management system and assessment of its adequacy and efficiency. The Supervisory Board, at the request of the Bank's Management Board, issues recommendations referring to the largest loan exposures.

Management Board of the Bank

The Bank's Management Board is responsible for the development, implementation and updates of strategy and procedures in the credit risk management system as well as the credit policy, periodical reporting to the Supervisory Board on the effects of realization of credit policy and on functioning of credit risk management system, maintaining communication with the supervisory authorities and reporting to these authorities as well as making available to these authorities of all required by law information on credit risk. The Management Board of the Bank is also responsible for the development of credit risk management system and for supervising the management function over credit risk in all areas of the Bank's business. Pursuant to the Management Board's decision, there are the Credit Committee and the Credit Risk and Concentration Risk Committee in the Bank. The Bank's Management Board makes credit decisions regarding exposures in accordance with given decision levels (expressed by the amount of exposure).

Credit Committee of the Bank

The Bank's Credit Committee role is to support the Bank's Management Board by fulfilling its opinion-making and advisory functions in the process of taking credit decisions and making decisions on its own as part of the rights granted by the Management Board. It is also responsible for recommending to the Bank's Management Board system solutions relating to the determination of internal limits of exposure to issuers of securities and to other banks. The Credit Committee of the Bank takes the majority of loan decisions and accepts recommendations regarding credit exposures reserved by its size to the decision of the Bank's Management Board.

Credit Risk and Concentration Risk Committee

The Credit Risk and Concentration Risk Committee acts as a consultative and advisory body in the credit risk management process in the Bank and in the concentration risk management process. His tasks include: assessing the level of credit risk occurring in the Bank, including concentration risk, counterparty risk, product and credit risk occurring in the Bank's subsidiaries, recommending the level of "risk appetite" for a given calendar year and adopting reports from its implementation during the year, assessment of the results of stress tests and possible recommendation to take specific actions, consideration of reports, simulations, information about credit risk and/ or debt collection processes and supervision over comprehensive approach to concentration risk, recommending a specific proceeding in the case related to concentration risk, analyzing and reviewing periodic reports related to concentration risk.

At the end of 2017 the structure of the risk management division was still under transformation. The changes introduced were aimed at creating two legible credit risk management centers for retail and non-retail customers, integrating the entire risk management process of these two customer groups, i.e. credit policy, acceptance policy, credit decisions, monitoring of portfolio and individual exposures. Only debt collection will be a separate area combining recovery of receivables from all customer groups within the scope of its tasks. The target structure of the credit risk management division will cover three areas:

- credit risk of retail clients,
- credit risk of corporate clients,
- debt recovery.

At the end of the year it additionally included the area of credit decisions, the tasks of which will be separated from May 2018 to credit risk areas, of retail and corporate clients respectively. Also, from May 2018, tasks related to the valuation of loan portfolios will be transferred to the newly created Financial Risk Department.

Credit Risk Area of Retail Customers

Within the separated Credit Risk Area of Retail Customers, there are the following organizational units:

- Retail Credit Risk Management Department, which is responsible for managing the loan portfolio and credit risk at every stage of the credit process at the Bank,
- Credit Risk System Analysis Department, which performs tasks related to credit risk reporting in the Bank's operations. The department's tasks also include determining the level of impairment write-offs and calculating capital requirements for credit risk,
- Statistical Analysis Department, which key task is the development of credit risk models with particular emphasis on acceptance models (scoring, rating). Ultimately, in this organizational unit all functions related to the construction and development of statistical models for all types of credit risk will be centralized,
- Fraud Risk Management Department, which task is to define the policy of counteracting extortion in the field of credit products as well as transactional aspects, development and maintenance of tools supporting the anti-fraud process.

Credit Risk Area of Corporate Customers

In the organizational structure of the Bank, a new Credit Risk Area of Corporate Customers has been created, in which operate the following organizational units:

- Corporate Credit Risk Management Department responsible for defining credit policy, including industry policies, optimization of the credit process and credit regulations. The department's tasks also include setting concentration limits in the area of enterprises,
- Real Estate Management Office, which carries out tasks in the field of real estate management, administration and maintenance of the proper technical condition and sale of real estate taken over by the Bank through debt collection.

Debt Collection Area

In the organizational structure of the Bank, the Debt Collection Area is identified, in which the following organizational units are located:

- Difficult Loans Department responsible for individualized monitoring and restructuring processes for clients with individual exposure from a single contract > = PLN 400 thousand,
- Telephone Collection Department, whose main task is mass monitoring and collection processes for customers with individual exposure from a single contract below PLN 400 thousand,
- Local Debt Collection Department, which implements monitoring and debt collection processes through direct contacts with clients in the area of the Bank's irregular portfolio,
- Department of Judicial and Enforcement Proceedings, responsible for court and enforcement actions to recover debts to the Bank through forced means,
- External Debt Collection Department, responsible for cooperation with external entities (outsourcing) and sales of the Bank's portfolios,
- Debt Collection Services Support Office – unit responsible for supporting processes for monitoring and recovery activities (written recovery processes, archiving, projects and initiatives) and valuation of significant individual transactions,
- Office of Analyzes and Statistical Projects – the main task of the unit is to provide reporting, setting goals for employees of individual units of the Debt Collection Area and preparing internal analyzes,
- Legal Advisors' Team – responsible for the legal service of cases carried out by the debt collection area.

Internal audit unit

The role of the internal audit unit is to control and assess the quality of credit risk management system and to conduct periodic reviews of the credit risk management process in the Bank. The aim of the internal audit unit is to identify any irregularities in executing roles and tasks by credit risk management system participants.

Credit risk management strategies and processes

The Bank conducts its lending activities in the following five areas:

- mortgage loans,
- private banking,
- financing of car purchases,
- other retail loans (cash loans, credit cards, debt limits in a current account),
- servicing small and medium-sized enterprises and local government units.

The credit strategy for all areas is included in the documents, primarily in the "Strategy and Credit Risk Management Policy in Getin Noble Bank S.A.", which set out the principles, guidelines and recommendations regarding issues related to lending activities.

The credit risk policy is subject to reviews and adjustments to external regulations (KNF resolutions), as well as to macroeconomic factors that may, in the Bank's opinion, have an impact on the credit risk increase.

In 2017 the Bank settled issues related to concentration risk resulting from the amended Recommendation C. The Bank undertook significant actions limiting the credit risk of retail loans, the effect of which is visible in reducing the risk of unsecured retail loans granted in 2017.

Credit risk management in the Bank is performed on the basis of internal procedures concerning risk identification, measurement, monitoring and control. The Bank applies credit risk identification and measurement models related to its operations, expressed in specific credit risk assessment ratios, which are adopted to risk profile, scale and complexity, however, the Bank intends to accelerate changes in the applied models consistently implementing risk management approach based on estimating the expected loss (EL).

Within the above mentioned business areas, there are procedures for particular credit products. In order to ensure the objectivity of credit risk assessment, within the structure of commercial divisions, the sale process (gaining customers) has been separated from the evaluation and acceptance of customer’s credit risk. The employees of the risk management department who are specialized for this task are responsible for the assessment and acceptance of individual credit applications and the preparation of recommendations for higher-level decision bodies.

The procedure of making credit decisions is approved by the Bank’s Management Board. Credit authorization limits are granted to the Bank’s staff on an individual basis, depending on their skills, experience as well as the functions fulfilled. Credit decisions which exceed the authorization limits granted to the Bank’s individual employees are made by the Credit Committees, operating in the acceptance centres. The Bank’s Credit Committee located in the Bank’s headquarters is responsible for credit decisions exceeding the authorization limits granted to the Credit Committees in the acceptance centres. Credit decisions of the highest rank are made by the Bank’s Management Board. Any changes to the decision making procedure must be approved by the Bank’s Management Board.

In line with the model of relational bank, the gradual further changes will be applied to the methods used in the area of loan acceptance, aiming at consistent models based on managing the customer's credit profile instead of the product approach.

Scope and type of the risk reporting and measurement systems

The Bank monitors and assesses the quality of loan portfolio on the basis of an internal procedure which includes monitoring of the Bank's entire loan portfolio, both by individual units within the trading divisions and by credit risk management units. The results of analyses performed by the above units are presented in periodic reports (monthly, quarterly and half-yearly). The conclusions are used for the purpose of current management of the Bank's credit risk.

The applied risk monitoring system includes individual risk monitoring (related to particular client) and overall monitoring of the Bank's entire loan portfolio.

As part of the overall monitoring of individual risk, the Bank performs periodic assessments of the borrower's financial and economic standing, timeliness of payments to the Bank as well as the value and condition of accepted collateral. Both the scope and the frequency of the above reviews are in line with external regulations and depend in particular on the type of the borrower, the amount of the loan exposure and the form of the collateral.

As part of the overall monitoring of the loan portfolio, credit risk management units perform a number of analyses and activities, including:

- monitor the quality of the Bank's loan portfolio, including large exposures,,
- perform periodic assessments of exposure concentration risk including: industry risk (to determine maximum exposure concentration limits for particular industries), exposure concentration risk to individual entity and groups of related entities (to monitor so-called large exposures),
- perform an assessment of the financial standing of banks-counterparties, determine maximum concentration limits for particular banks,
- perform stress tests for selected product groups,
- submit periodic management reports to the Supervisory and the Management Board.

In procedures and internal regulations of the Bank, within concentration risk management regulations, were described the limits of exposure concentration. The Bank limits the concentration of exposure to individual clients and capital groups. The Management Board of the Bank established the concentration limit at more restrictive level that the one required by the CRR Regulation, i.e. 5% of the Bank's own funds, however the sum of all large exposures (large exposure limit) cannot be higher than 400% of the Bank's own funds. As at 31 December 2017 (except the exposure to National Bank of Poland and governments, including State Treasury) only exposure to the group of entities related to the Bank by the parent and the exposure to GNB Leasing Plan Ltd. (own securitization exposure) exceeds 10% of the Bank's own funds.

Risk management on currency and currency indexed loans

Getin Noble Bank S.A. systematically analyses the effect of changes in foreign exchange rates and interest rates on credit risk incurred in the area of car, mortgage and retail loans. The impact of the currency risk on the quality of foreign currency and indexed loans is analysed, and for mortgage loan portfolio the Bank analyses also the impact of foreign exchange rates on the value of collaterals.

The Bank conducts stress tests twice a year for mortgage loans, and once a year for car loans and retail loans. These tests are conducted based on the scenario that the value of Polish zloty will depreciate by 50% compared to other currencies or the scenario of the maximum annual change of the PLN course of the last 5 years (if greater than 50%), and under the assumption that the depreciation in the exchange rate will continue for the period of 12 months.

The Bank analyses the effect of changes in interest rates on credit risk incurred by the Bank. Stress tests concerning the effect of fluctuations in interest rates on the quality of loan portfolio are conducted on the assumption that interest rates will increase by 1,000 b.p.) and under the assumption that the increase in interest rate will continue for the period of 12 months. The Bank also analyses the influence of changes of unemployment rate on credit risk in the above mentioned portfolios.

At present retail loans and mortgage loans are granted by the Bank exclusively in Polish currency. For corporate loans, on business financing, loans in foreign currencies are granted exclusively to customers who receives its income in particular currency or hedge against exchange rate risk. Foreign currency loans, primarily occur also in the case of financing revenue real estate, which results from the specificity of this market, where the reference currency is still EUR.

Principles for using collateral and policies of risk reduction

In order to limit credit risk, the Bank accepts various legally acceptable collateral types, which are selected appropriately to product type and business area. Detailed procedures for collateral selection and establishment have been described in internal regulations and product procedures for individual trading areas. The adopted legal collateral should ensure that the Bank will satisfy itself in case of the borrower's default. In selecting loan collateral, the Bank considers the type and amount of loan, loan term, legal status and financial standing of borrower as well as risk of the Bank and other risks. The Bank prefers collateral in the most liquid forms i.e. in the forms that guarantee fast and full recovery of debt under recovery proceedings. Below are presented typical collaterals required by the Bank:

For mortgage loans the main collateral constitutes mortgage established on property with priority of satisfaction, as well as assignment of rights from the insurance policy in the case of fire or other accidental losses, property value decrease insurance policy, loss of job insurance policy and company bankruptcy insurance policy and insurance policy of low own contribution.

During car loans granting process the Bank requires registered pledge on the vehicle, partial or total assignment of vehicle property right as well as personal collaterals (blank promissory note, guarantee of a third party in the form of own promissory note or civil warranty) and insurance policies (i.e. death insurance policy or insurance policy against total disability of the borrower and assignment of rights from the insurance policy or indicating the Bank as the beneficiary of the policy).

Collaterals for consumer loans are: insurance policy and personal collateral (e.g. guarantee of a third party in the form of own promissory note or civil warranty).

Collaterals such as: mortgage established on the property with priority of satisfaction, registered pledge (on the property of the enterprise or total assignment of the enterprise property right of the borrower or registered pledge on the personal property of the borrower or the company's management) or cash deposit or pledge on funds on the trust account are one of corporate loans collaterals. Last but not least personal collaterals are important (guarantee of a third party in the form of own promissory note or civil warranty) and assignment of receivables.

Restructuring practices (forbearance)

The aim of the loan restructuring by the Bank is to maximize the efficiency of difficult debt management, i.e. to obtain the highest recoveries while minimizing the incurred costs related to the recovery of debts, ultimately aggravating the debtor.

The restructuring involves changing the terms of the loan repayment, which are individually set to each contract. Restructured exposures are exposures, which have been granted facilities in the form of a settlement with the debtor, who is experiencing or soon will be experiencing difficulties in meeting their financial obligations.

Restructuring of loan exposure is a renegotiation or amendment of the conditions of the loan agreement, receivables or investments held to maturity, resulting from the financial difficulties of the debtor or issuer.

Restructuring of loan exposure includes activities such as:

- capitalization of due receivables and determination a new instalments repayment schedule,

- renewal of repayment terms of debt both as regards the principal amount and interest (grace period in terms of principal and/or interest),
- postponement (extension) of principal and interest repayment dates differently in relation to the current repayment schedule (individual repayment schedule),
- withdrawal from charging interest for a certain time of the whole or part of the debt,
- periodic accumulation of interest,
- change in the financial conditions of transaction (in particular, changing the interest rate, extending the term of the loan),
- cancellation of a part of the outstanding principal,
- redemption or cancellation of debt recovery of all or a part of an unpaid interest, due until the date of signing the agreement,
- resignation from charging and collecting of all or a part of the interest due on debt, starting from the date of signing the agreement (contract), if repayment of the debt will be within the period specified in the contract,
- change of payment order provided for in the agreement (payments first for the repayment of principal),
- providing debtor in specific cases with new banking products that will support the implementation of the restructuring program, only if there is an evidence of the validity of this,
- conversion of all or a part of debt into shares or interests in property of the debtor, acquisition of the debtor's assets in exchange for the release of all or a part of the debt,
- release / sale of collateral,
- refinancing of debt (meaning the use of debt contracts to provide total or partial repayment of other debt agreements, of which the debtor is not able to deliver on past conditions).

The Bank renegotiates contracts with debtors who find themselves in financial difficulty and are unable to meet the original terms of the loan agreement. Part of the restructuring process is to assess the ability of the debtor to meet the conditions referred to in the restructuring annex (debt repayment on fixed dates). The Bank providing facilities to the customer (restructuring) make appropriate entries in the system, which enables the identification of restructured receivables portfolio. Restructured exposures are covered by the monitoring process. The debt after at least two years of quarantine period, in which at least half of the period it was regularly serviced, loses the status of restructured exposure and is known to be healed exposure/ timely settled.

For the purposes of the calculation of impairment allowances in accordance with IAS 39 and IAS 37 the Bank also introduced a definition of restructured exposure as the exposure that has been restructured and that is during a probable restructuring. The exposure is considered to be restructured until a probable restructuring, which is a minimum 12 months from the date of restructuring. If the exposure is not being repaid in a timely manner, a probable restructuring period is extended. Each time through a process of restructuring the Bank performs an impairment test to assess whether there has been a loss of cash flows associated with the restructuring. If this test indicates a significant impairment loss, the exposure is treated as impaired exposure.

Each restructured exposure is tested for impairment resulting from restructuring, as well as for the occurrence of other defined indications of impairment. In case of individually significant exposures, this test is carried out as an individual assessment and in case of a loss of value recognition, an impairment allowance is calculated using a method of estimating cash flows for individually significant exposures. Exposures individually insignificant are subject to collective assessment and in case of a loss of value recognition, an impairment allowance is calculated using statistical methods. If for the individually significant or individually insignificant contract no impairment indicators have been recognised, an allowance for incurred but not reported losses (IBNR) is calculated, however, the exposures during the probable restructuring are treated as exposures with increased risk, and for these exposures higher levels of impairment are calculated than for other contracts, for which an IBNR allowance has been recognised.

The following are data for the restructured exposures recognised in the calculation of impairment allowances in accordance with IAS 39:

Forborne exposures 31.12.2017	Gross value of unimpaired loans PLN thousand	Gross value of impaired loans PLN thousand	Allowances for unimpaired loans PLN thousand	Allowances for impaired loans PLN thousand	Total net value PLN thousand
Loans and advances:					
individually assessed	186,996	905,447	(266)	(444,705)	647,472
collectively assessed	422,993	1,966,169,	(14,692)	(824,392)	1,550,078
Total	**609,989**	**2,871,616**	**(14,958)**	**(1,269,097)**	**2,197,550**

Forborne exposures 31.12.2016	Gross value of unimpaired loans PLN thousand	Gross value of impaired loans PLN thousand	Allowances for unimpaired loans PLN thousand	Allowances for impaired loans PLN thousand	Total net value PLN thousand
Loans and advances:					
individually assessed	175,450	1,113,383	(156)	(335,625)	953,052
collectively assessed	415,157	2,077,323	(14,831)	(760,622)	1,717,027
Total	**590,607**	**3,190,706**	**(14,987)**	**(1,096,247)**	**2,670,079**

Forborne exposures – by geographical segments	31.12.2017			31.12.2016		
	Gross value PLN thousand	Allowances, including IBNR PLN thousand	Total net value PLN thousand	Gross value PLN thousand	Allowances, including IBNR PLN thousand	Total net value PLN thousand
Poland	3,412,915	(1,266,013)	**2,146,902**	3,721,331	(1,093,697)	**2,627,634**
Ireland	15,914	(4,707)	**11,207**	19,173	(6,463)	**12,710**
Great Britain	29,806	(8,414)	**21,392**	19,080	(7,214)	**11,866**
Other countries	22,970	(4,921)	**18,049**	21,729	(3,860)	**17,869**
Total	**3,481,605**	**(1,284,055)**	**2,197,550**	**3,781,313**	**(1,111,234)**	**2,670,079**

Forborne exposures – by type of debtor	31.12.2017			31.12.2016		
	Gross value PLN thousand	Allowances, including IBNR PLN thousand	Total net value PLN thousand	Gross value PLN thousand	Allowances, including IBNR PLN thousand	Total net value PLN thousand
Loans and advances to:						
financial institutions other than banks	10,400	(6,027)	**4,373**	12,085	(5,064)	**7,021**
non-financial institutions other than natural persons	555,443	(252,565)	**302,878**	600,387	(217,360)	**383,027**
natural persons	2,915,762	(1,025,463)	**1,890,299**	3,168,841	(888,810)	**2,280,031**
local government units	-	-	**-**	-	-	**-**
Total	**3,481,605**	**(1,284,055)**	**2,197,550**	**3,781,313**	**(1,111,234)**	**2,670,079**

Forborne exposures – by type of debt	31.12.2017 Gross value PLN thousand	31.12.2017 Allowances, including IBNR PLN thousand	31.12.2017 Total net value PLN thousand	31.12.2016 Gross value PLN thousand	31.12.2016 Allowances, including IBNR PLN thousand	31.12.2016 Total net value PLN thousand
corporate loans	282,279	(131,454)	**150,825**	269,756	(76,264)	**193,492**
car loans	117,172	(80,538)	**36,634**	133,340	(79,419)	**53,921**
mortgage loans	2,764,350	(944,780)	**1,819,570**	3,029,507	(801,836)	**2,227,671**
retail loans	317,804	(127,283)	**190,521**	348,710	(153,715)	**194,995**
Total	**3,481,605**	**(1,284,055)**	**2,197,550**	**3,781,313**	**(1,111,234)**	**2,670,079**

Forborne exposures – by due dates	31.12.2017 Gross value PLN thousand	31.12.2017 Allowances, including IBNR PLN thousand	31.12.2017 Total net value PLN thousand	31.12.2016 Gross value PLN thousand	31.12.2016 Allowances, including IBNR PLN thousand	31.12.2016 Total net value PLN thousand
not overdue and overdue up to 30 days	1,179,872	(113,358)	1,066,514	1,502,824	(117,096)	1,385,728
overdue over 30 days to 90 days	307,214	(77,251)	229,963	338,594	(53,292)	285,302
overdue over 90 days	1,994,519	(1,093,446)	901,073	1,939,895	(940,846)	999,049
Total	**3,481,605**	**(1,284,055)**	**2,197,550**	**3,781,313**	**(1,111,234)**	**2,670,079**

Forborne exposures	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Value of collateral	2,162,141	2,603,444

Forborne exposures – change in balance	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Balance as at beginning of the period	**2,670,079**	**3,044,451**
Value of exposures recognized in the period	733,840	817,113
Value of exposures derecognized in the period	(826,230)	(1,015,991)
Repayments /other changes	(207,317)	(104,511)
Revaluation of impairment allowances	(172,822)	(70,983)
Balance as at end of the period	**2,197,550**	**2,670,079**

Structure of the loan portfolio

The structure of the Group's loan portfolio by type of a loan, geographical segments and economy sector is presented in the following tables. Percentage share in loan portfolio presented in the tables below is calculated based on nominal values.

	% share in portfolio 31.12.2017	% share in portfolio 31.12.2016
Loans granted to natural persons:	73.63	75.36
car loans	2.38	1.88
instalment loans	0.31	0.41
housing, construction and mortgage loans	59.92	62.97
other loans	11.02	10.10
Corporate loans	26.37	24.64
Total	**100.00**	**100.00**

	% share in portfolio	
	31.12.2017	31.12.2016
Dolnośląskie	11.05	10.86
Kujawsko-Pomorskie	4.06	4.04
Lubelskie	2.92	2.91
Lubuskie	2.43	2.43
Łódzkie	5.04	5.14
Małopolskie	6.78	6.70
Mazowieckie	24.84	25.04
Opolskie	1.83	1.86
Podkarpackie	2.38	2.37
Podlaskie	1.43	1.34
Pomorskie	7.98	8.05
Śląskie	10.88	10.93
Świętokrzyskie	1.34	1.35
Warmińsko-Mazurskie	3.17	3.13
Wielkopolskie	8.09	7.94
Zachodniopomorskie	4.80	4.82
Resident of a foreign country	0.98	1.09
Total	**100.00**	**100.00**

	% share in portfolio	
	31.12.2017	31.12.2016
Agriculture and hunting	0.32	0.30
Mining	0.05	0.05
Manufacturing	1.91	1.89
Electricity and gas industry	0.04	0.04
Construction	3.47	2.93
Wholesale and retail	5.12	4.81
Transport, warehouse management and communication	3.56	3.63
Financial brokerage	1.34	0.67
Real estate management	3.31	3.41
Public administration	1.78	1.76
Other sections	5.47	5.15
Natural persons	73.63	75.36
Total	**100.00**	**100.00**

Maximum exposure of the Group to credit risk without taking into account accepted collaterals and other factors improving loan quality is presented below:

Maximum exposure to credit risk	31.12.2017 PLN thousand	31.12.2016 (restated) PLN thousand
Financial assets:		
Cash and balances with the Central Bank (except for cash)	3,131,201	2,972,730
Amounts due from banks and financial institutions	656,216	1,178,205
Financial assets held for trading	8,000	12,966
Financial assets at fair value through profit or loss	158,491	171,972
Derivative financial instruments	,584,178	102,136
Loans and advances to customers and finance lease receivables	42,711,803	46,633,758
Available-for-sale financial assets	8,181,036	12,006,283
Held-to-maturity financial assets	1,674,493	202,641
Other financial assets	505,100	595,237
Total financial assets	**57,610,518**	**63,875,928**

Guarantee liabilities	169,036	164,387
Contingent liabilities	1,944,322	2,123,989
Total off-balance sheet liabilities	**2,113,358**	**2,288,376**
Total exposure to credit risk	**59,722,832**	**66,196,339**

For capital adequacy purposes, as part of the policy concerning application and valuation of loan collateral and collateral management, the Bank uses the most liquid collaterals such as bank deposits or debt securities issued by the NBP or the Polish government. As part of risk reduction techniques, the Bank uses the most liquid collaterals, valued on a monthly basis using the effective interest rate method, and in the context of unfunded credit protection guarantees provided by selected institutions and Bank Gospodarstwa Krajowego; in connection with the use of instruments of unfunded protection, the Bank analyses the concentration risk to suppliers of those collaterals.

Gross value of impaired loans and advances assessed individually is presented below:

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Corporate loans	326,275	320,690
Mortgage loans	1,479,144	1,675,276
Retail loans	21,365	24,884
Total impaired loans and advances assessed individually	**1,826,784**	**2,020,850**

Value of collateral used for calculating impairment allowance for loans individually significant as at 31 December 2017 amounted to PLN 0.78 billion (PLN 0.83 billion as at 31 December 2016).

Value of assets possessed in exchange for debts in 2017 amounted to PLN 49.9 million (PLN 80.3 million in 2016).

Credit quality of financial assets as at 31 December 2017 and 2016 is presented below.

31.12.2017	Current and not impaired	Overdue and not impaired			Overdue and impaired	Interest	Impairment allowances (including IBNR)	Total
		less than 1 month	from 1 to 2 months	over 2 months				
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Amounts due from banks and financial institutions	650,696	-	-	-	-	5,682	(162)	**656,216**
Financial assets held for trading	8,000	-	-	-	-	-	-	**8,000**
Financial assets at fair value through profit or loss	158,491	-	-	-	-	-	-	**158,491**
Loans and advances to customers, of which:	35,382,680	2,390,292	588,131	211,657	7,222,207	112,930	(3,196,094)	**42,711,803**
corporate loans	7,812,598	1,688,723	318,200	62,615	815,658	15,650	(378,251)	**10,335,193**
car loans	1,424,576	83,649	12,294	4,663	340,497	4,381	(207,018)	**1,663,042**
mortgage loans	22,819,055	458,736	220,822	125,806	4,672,705	70,431	(1,861,629)	**26,505,926**
retail loans	3,326,451	159,184	36,815	18,573	1,393,347	22,468	(749,196)	**4,207,642**
Available-for-sale financial assets, of which:	8,212,066	-	-	-	10,199	-	(41,229)	**8,181,036**
issued by central banks	799,785	-	-	-	-	-	-	**799,785**
issued by banks and other financial institutions	488,812	-	-	-	-	-	-	**488,812**
issued by non-financial institutions	30,903,	-	-	-	10,199	-	(9,235)	**31,867**
issued by the State Treasury	6,612,960	-	-	-	-	-	-	**6,612,960**
portfolio of receivables	279,606	-	-	-	-	-	(31,994)	**247,612**
Held-to-maturity financial assets, of which:	1,674,493	-	-	-	-	-	-	**1,674,493**
issued by the State Treasury	1,461,145	-	-	-	-	-	-	**1,461,145**
issued by local government units	173,233	-	-	-	-	-	-	**173,233**
issued by non-financial institutions	40,115	-	-	-	-	-	-	**40,115**
Total financial assets	**46,086,426**	**2,390,292**	**588,131**	**211,657**	**7,232,406**	**118,612**	**(3,237,485)**	**53,390,039**

31.12.2016 (restated)	Current and not impaired	Overdue and not impaired			Overdue and impaired	Interest	Impairment allowances (including IBNR)	Total
		less than 1 month	from 1 to 2 months	over 2 months				
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Amounts due from banks and financial institutions	1,173,038	-	-	-	-	5,792	(625)	**1,178,205**
Financial assets held for trading	12,966	-	-	-	-	-	-	**12,966**
Financial assets at fair value through profit or loss	171,972	-	-	-	-	-	-	**171,972**
Loans and advances to customers, of which:	39,086,766	2,043,226	464,856	284,941	7,222,557	226,649	(2,695,237)	**46,633,758**
corporate loans	7,845,943	1,261,329	173,362	101,225	822,535	13,907	(340,921)	**9,877,380**
car loans	1,669,968	108,095	17,235	6,992	334,939	5,809	(187,302)	**1,955,736**
mortgage loans	26,154,723	535,746	235,005	156,066	4,759,052	183,651	(1,484,743)	**30,539,500**
retail loans	3,416,132	138,056	39,254	20,658	1,306,031	23,282	(682,271)	**4,261,142**
Available-for-sale financial assets, of which:	12,005,442	-	-	-	11,045	-	(10,204)	**12,006,283**
issued by central banks	824,780	-	-	-	-	-	-	**824,780**
issued by banks and other financial institutions	394,561	-	-	-	-	-	-	**394,561**
issued by non-financial institutions	69,386	-	-	-	11,045	-	(10,204)	**70,227**
issued by the State Treasury	10,716,715	-	-	-	-	-	-	**10,716,715**
Held-to-maturity financial assets, of which:	202,641	-	-	-	-	-	-	**202,641**
issued by local government units	160,347	-	-	-	-	-	-	**160,347**
issued by non-financial institutions	42,294	-	-	-	-	-	-	**42,294**
Total financial assets	**52,652,825**	**2,043,226**	**464,856**	**284,941**	**7,233,602**	**232,441**	**(2,706,066)**	**60,205,825**

2. Operational risk

Definition and purpose of operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal procedures, human and system errors or from external events, including legal risk. The operational risk category does not include strategic risk and reputation risk.

The strategic goal of operational risk management is to optimize internal business and non-business processes, allowing limiting costs and losses as well as increasing operational security and limiting reputational risk. Operational risk management is targeted to prevent threats, effective decision making, set priorities and resources allocation, ensuring better understanding of potential risk and possible undesirable consequences.

The main operational goal of operational risk management is to complete identification of operational risk and possibly most precise measurement of its size and assessment of its profile. For this purpose, solutions within measurement and operational risk management model are improved, enabling in the future the application of advanced measurement methods, sensitive to operational risk, considering factor and parameters of operational risk specific for the Group, in particular for the Bank, i.e. strictly related to its operating profile.

Structure and organization of the operational risk management unit

The process of operational risk management is actively contributed by:

- all units and organizational units of the Bank's headquarter, operational units (constituting local organizational Bank units);
- related entities – Bank's subsidiaries;
- third parties – franchise units and agencies.

Organizational units of operational risk management include:

- system units – also called as technical system units – responsible for systemic operational risk management, establishing internal regulations and developing solutions, which are used to current operational risk management, performing also tasks relating to current operational risk management;
- operational units – dealing with current operational risk management in their everyday activities.

In all divisions and at all levels of the Bank's organizational structure, the following groups of units, persons and functions, which are executed at three following levels are to be distinguished:

- basic level – units and staff dealing with operational risk management in their everyday activities;
- supervisory level – staff holding managerial positions, performing functional control;
- superior level – functioning in centralized form, which main function is operational risk management. It is realized by people fulfilling tasks of separated operational risk management unit, which is part of Operational Risk Management Office and Operational Risk Committee.

Due to the scale and type of business of Getin Noble Bank S.A., the leading role in operational risk management in the Group is fulfilled by the Bank's Supervisory Board and Management Board. The activities of the Bank's Management Board, at the operational level, are carried out by the Operational Risk Committee – its task is to monitor operational risk, provide opinions on regulations relating to operational risk management and recommend risk measures and standards.

The main, superior role in operational risk management in the Bank is performed by designated employees of an independent operational risk management unit - Operational Risk Management Office, which is part of the risk management division.

Strategies and processes of operational risk management and scope and types of operational risk reporting and measurement systems

Operational risk management is a process including activities towards identification, measurement, limiting, monitoring and reporting of risk. It includes all processes and systems, with particular emphasis on those connected with performing activities providing clients with financial services.

The Bank manages operational risk in accordance with "Operational risk management strategy" established by the Management Board of the Bank and approved by the Supervisory Board of the Bank:

- including cautious regulations resulting from the banking law and appropriate resolutions and recommendations of banking supervision;
- including characteristics of rules already applied in the Bank as well as being in the development phase and planned in the future.

The existing operational risk reporting and measurement system is supported by an IT system that allows the recording of operational risk events, and the record of the effects of their occurrence. At the same time, it is the base and environment for cross-sectional analysis of operational risk, providing the basis for risk measurement and for the operational risk reporting system, which includes reports for internal - management and external - supervisory purposes.

The management and supervisory reporting is based on assumptions resulting from:

- the guidelines included in the M Recommendation,
- supervisory regulations concerning the rules and methods for announcing qualitative and quantitative information on capital adequacy.

Operational risk measurement includes among others the following calculations:

- required own funds to cover operational risk;
- ratios for the level of Bank's exposure to operational risk, also called the Bank's sensitivity to operational risk;
- aggregated volume of actual losses.

Policies and strategies related to mitigation of operational risk

Depending on the magnitude and profile of operational risk, proper adjusting and preventive activities are applied, which are adequate to the diagnosed risk and ensure the selection and implementation of effective measures to modify the risk. In particular, the following methods are used to protect against operational risk:

- development and implementation of business continuity plans (including contingency plans) to ensure the organization's ability to continue operations at a defined level;
- insurance against the effects of errors or operational events which are not easily predictable and may give rise to significant financial consequences;
- outsourcing of activities.

Moreover, in order to secure all processes requiring transfer of cash, operational risk is eliminated mainly by implementation of the rule of second-hand check.

Key business processes have been described in appropriate documents – Policies and Procedures. The correctness of business operations is subject to permanent monitoring, and reports are submitted directly to the Management Board.

The efficiency of the security measures and methods used by the Bank to mitigate operational risk is monitored by continuous monitoring, collection and analysing of operational events and operational risk profile observations as well as control of qualitative and quantitative changes in operational risk.

3. Liquidity risk

Liquidity risk is defined as the potential inability of the Bank to fail to meet its current and future financial obligations in accordance with contractual deadlines. Liquidity management is an obvious, key element of the Bank's risk management as well as other entities in the Capital Group. The objective of liquidity risk management is to ensure the possibility of meeting obligations in the day horizon, the ability to maintain liquidity in the short, medium and long term both under normal conditions and in the event of crisis events.

The main source of the Group's liquidity risk is Getin Noble Bank S.A. Monitoring the level of risk within the Group is carried out by periodic measurements of risk for the Group on a consolidated basis.

In order to effectively manage liquidity, the Bank appropriately shapes the structure of assets and liabilities through deposit and credit policies, product price structure, etc. In this activity, the Bank is guided, on the one hand, by current short-term liquidity needs, as well as a long-term strategy to build a Bank's liquidity profile based on growing stable sources of financing. This was reflected in the Bank's reconstruction strategy, the important element of which is the implementation of the relational model, which will, inter alia, ensure the growth of stable sources of financing in the form of deposits on current accounts and saving accounts of retail clients and the segment of small and medium enterprises, reducing the importance of term deposits in the Bank's financing.

The strategy of liquidity risk management is defined in the Strategy of the Bank, and the Bank's approach to risk management is defined in the Policy of liquidity risk management. The referenced documents define the level of risk appetite understood as the expected level of risk exposure and the scope of tolerance, i.e. the maximum, impassable risk levels.

The Bank's activities in the area of liquidity risk management are compliant with the recommendations and prudential regulations of the Polish Financial Supervision Authority and the National Bank of Poland, but also with EU regulations. The Bank's liquidity risk management process, both at the strategic and operational level, is adapted to the requirements of Recommendation P.

Maintaining of current, short-, medium- and long-term liquidity is based on the realization by the Bank of the following objectives:

- maintaining of desired balance sheet structure,
- financing of loans granted by the Bank with own funds and stable sources,
- use of volatile liabilities as a source of financing of easily marketable assets,
- providing quick and easy access to external sources of financing.

Medium- and long-term liquidity risk management belongs to the competence of the Management Board, whereas current and short-term liquidity risk management is the responsibility of the Treasury Department. The consulting role in process of liquidity risk management is performed by the Assets and Liabilities Committee, which monitors the level of liquidity risk based on reports prepared by the Market Risk and Valuation Office.

The Bank's regulations cover also aspects of the management of intraday liquidity.

The following analyses are used to perform an assessment of liquidity risk:

- supervisory liquidity norms, including LCR (Liquidity coverage ratio) and NSFR (Net stable funding ratio) ratios,
- internally determined measures of maturity mismatch of assets, balance sheet structure indices and measures of stability of financing sources,
- results of stress tests taking into account crisis scenarios referring to internal factors as well as factors relating to the situation on the financial markets.

Basic measures, key liquidity measures and the level of utilization of liquidity limits (including compliance with the supervisory liquidity standards and LCR ratio) are subject to daily monitoring and reporting to the Bank's Management Board.

To ensure the required level of liquidity, the Bank creates the structure of assets and liabilities in line with the accepted internal limits and the recommendations of NBP and KNF, for this purpose the Bank:

- maintains liquidity reserves in safe and liquid financial assets,
- has a possibility of using the additional sources of financing such as lombard loan and technical loan with the National Bank of Poland,
- lending is financed mainly by own funds and a stable deposit base,
- is operationally ready to apply to the NBP for refinancing loan,

The effectiveness of liquidity risk management (including its hedging) is evaluated on the basis of the level of use of the adopted limits on exposure to risk, including supervisory limits.

The Bank carries out simulations on the strength of the Bank in case of increased cash outflows (stress tests). The analyses are an important element in the process of asset and liability management. The Bank has a procedure to be followed in a situation threatening the significant increase in the liquidity risk, the so-called "The procedure for the emergency plan for maintaining liquidity in Getin Noble Bank S.A. in crisis situations". The procedure sets out, among others, signs of deterioration in the liquidity position of the Bank, the so-called warning and crisis states, which is meant to indicate in advance of potential threats. Their monitoring is done on a daily basis. In the event of a situation threatening the liquidity of the Bank, the Management Board and the Assets and Liabilities Committee are informed of the hazard occurrence.

In 2017 the Bank complied with the requirement to maintain a LCR ratio at an adequate level.

During the reporting period the Bank kept supervisory liquidity measures on the level required by the Polish Financial Supervision Authority. Supervisory liquidity measures of Getin Noble Bank S.A. are presented below:

	Supervisory liquidity measures	Minimum value	Value as at 31.12.2017	Value as at 31.12.2016
M1	Short-term liquidity gap (in PLN million)	0.00	4,573	5,647
M2	Short-term liquidity factor	1.00	1.68	1.96
M3	Ratio of coverage of non-liquidity assets with own funds	1.00	2.10	2.56
M4	Coverage ratio of non- liquid assets and limited liquidity assets with own funds and stable external funds	1.00	1.21	1.24

The analysis of undiscounted financial liabilities by contractual maturity dates is presented below:

31.12.2017	Up to 1 month PLN thousand	Over 1 month to 3 months PLN thousand	Over 3 months to 1 year PLN thousand	Over 1 year to 5 years PLN thousand	Over 5 years PLN thousand	Total PLN thousand
Amounts due to banks and financial institutions	300,024	470,517	531,155	494,186	86,214	**1,882,096**
Derivative financial instruments	25,921	35,313	733	184,162	1,951	**248,080**
Amounts due to customers	21,439,532	11,851,571	12,450,473	3,261,672	289,004	**49,292,252**
Debt securities issued	17,113	441,088	489,149	1,600,112	2,417,019	**4,964,481**
Total financial liabilities	**21,782,590**	**12,798,489**	**13,471,510**	**5,540,132**	**2,794,188**	**56,386,909**

31.12.2016	Up to 1 month PLN thousand	Over 1 month to 3 months PLN thousand	Over 3 months to 1 year PLN thousand	Over 1 year to 5 years PLN thousand	Over 5 years PLN thousand	Total PLN thousand
Amounts due to banks and financial institutions	73,135	76,970	908,238	1,503,560	100,838	**2,662,741**
Derivative financial instruments	16,369	76,436	271,154	1,298,039	2,441	**1,664,439**
Amounts due to customers	18,939,519	13,840,807	15,379,323	4,389,260	1,434,261	**53,983,170**
Debt securities issued	6,961	21,006	307,524	3,213,699	365,050	**3,914,240**
Total financial liabilities	**19,035,984**	**14,015,219**	**16,866,239**	**10,404,558**	**1,902,590**	**62,224,590**

Customer deposits are the main source of financing lending activities of the Bank; the net loans to amounts due to customers ratio amounts to 88%. Retail deposits predominate within the stable sources of funding, while stable deposits of corporate customers are in addition to general base of the stable sources of funding.

4. Market risk

Market risk consists in the possibility of incurring losses as a result of volatility of market factors, primarily interest rates, foreign exchange rates and prices of securities and other, including derivative financial instruments. Through the applied policy of assets and liabilities management and the system of market risk limits, the Group aims to optimize the income to risk ratio. The main source of currency risk in the Group is items of Getin Noble Bank S.A.

The Asset and Liability Committee is responsible for market risk management at the Bank. Its role is to create a policy of assets and liabilities management, setting risk limits and monitoring their use. Operationally the Treasury Department is responsible for market risk management, performing ongoing monitoring of risk positions and shaping their size by entering into transactions on the interbank market and by defining exchange rates and transfer rates for transactions concluded with clients. The Market Risks and Valuations Office located in the risk management division is responsible for controlling market risk management. Its key tasks include monitoring of key market risk measures, developing risk measurement methods and recommending internal limits and prudential standards in this respect. The Market Risks and Valuation Office submits information on market risk management to the Assets and Liabilities Committee on a monthly basis. Monitoring of the level of risk in the Group is carried out by periodic measurements of risk on a consolidated basis.

4.1. Currency risk

Currency risk is regarded as negative impact of foreign exchange rates change on financial results. The main objective of currency risk management is to manage the structure of foreign currency assets and liabilities as well as off-balance sheet items within the generally accepted prudence norms set forth by the banking law and the adopted internal limits. The Bank's currency position results from transactions concluded with the Bank's clients. The Bank does not conduct trading positions related to currency risk.

The Treasury Department monitors the level of the open currency position on an on-going basis and regulates its volume through currency transactions concluded on the interbank market. These are predominantly spot transactions. Apart from them, the Bank makes derivative transactions with limited internal limits. A separate issue is the management of currency risk resulting from the existing portfolio of mortgage loans indexed to CHF and EUR. In this respect, the volatility of cash flows of these portfolios is hedged through the portfolio of CIRS transactions. The effect of this hedge is reflected in the Bank's accounting books with the application of hedge accounting, preserving the necessary cash flow adjustment regime and their valuation.

The analysis of the Bank's exposure to currency risk takes place on the basis of market-based methods based on estimation of the impact of volatility on the financial result and on the use of the Bank's own funds. The basic methods in this area include:

- measurement of the Value of Risk (VaR),
- (stress tests,
- analysis of the size of the currency position in relation to own funds and calculation of the capital requirement for covering foreign exchange risk.

The Bank's exposure to currency risk and the calculation of the capital requirement necessary to cover foreign exchange risk is implemented on a daily basis and is part of the daily set of management information provided to the Bank's management, including the Management Board. The Market Risks and Valuation Office provides complete information on the foreign exchange risk to the Assets and Liabilities Committee. The report contains, among other things, information on the size of the Bank's currency positions in particular currencies, the size of risk measures and the degree of use of limits on open currency positions.

The process of managing and measuring the currency risk, its control and monitoring is supported by a number of IT tools whose key element is the Market Analysis and Liquidity Risk System (SARRP).

Sensitivity analysis for currency risk

Getin Noble Bank S.A. prepares on a daily basis sensitivity analysis for the currency risk in the Bank and quarterly analysis of the sensitivity of the Group's currency risk.

VAR (1D, 99.9%)	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Currency risk	821	805

This method is based on the value-at-risk (VaR) model and consists in examining, with 99.9% probability, the amount of the maximum loss that the Bank/ Group may incur in one day from the valuation of a currency position (as a result of changes in exchange rates), assuming normal market conditions. The volatility used in the model is calculated using exponentially weighted moving average (EWMA) daily relative changes in exchange rates over the last 251 business days. A time series of the same length has been used to determine the correlation matrix between particular exchange rates. The VaR measure does not express the absolute maximum loss to which the Bank/ Group is exposed. VaR is a measure that determines the level of risk at a given moment in time, reflecting the positions for a specific moment, which do not have to reflect the risk of the Bank/ Group's position at another time and is a tool for the current management of the currency position.

As at 31 December 2017 the share of total currency position (sum of long positions or net short positions in individual currencies – depending on which of these sums is higher) in the regulatory own funds of the Group amounted to 0.88% (0.65% as at 31 December 2016). During the reporting period, the currency risk of the Group was on the level which did not require maintaining capital for its coverage.

The tables below show the currency exposure of the Group as at 31 December 2017 and 2016, by individual classes of assets, liabilities and off-balance sheet liabilities:

31.12.2017	CURRENCY							Total
	PLN PLN thousand	EUR PLN thousand	CHF PLN thousand	USD PLN thousand	GBP PLN thousand	JPY PLN thousand	Other PLN thousand	PLN thousand
Cash and balances with the Central Bank	1,990,582	1,308,952	8,222	28,171	5,666	-	-	**3,341,593**
Amounts due from banks and financial institutions	385,498	236,333	5,803	3,642	6,933	14,760	3,247	**656,216**
Loans and advances to customers	31,682,818	749,053	10,007,787	43,069	3	229,072	1	**42,711,803**
Other assets	11,868,011	1,086,757	8,701	162,434	10	11	-	**13,125,924**
Total assets	**45,926,909**	**3,381,095**	**10,030,513**	**237,316**	**12,612**	**243,843**	**3,248**	**59,835,536**
Amounts due to banks and financial institutions	1,487,626	360,470	56	14	-	-	-	**1,848,166**
Amounts due to customers	45,766,797	1,745,625	177,390	876,300	45,324	651	1,480	**48,613,567**
Other liabilities	5,052,719	5,510	71	-	-	-	-	**5,058,300**
Total liabilities	**52,307,142**	**2,111,605**	**177,517**	**876,314**	**45,324**	**651**	**1,480**	**55,520,033**
Total equity	**4,315,503**	**-**	**-**	**-**	**-**	**-**	**-**	**4,315,503**
Total liabilities and equity	**56,622,645**	**2,111,605**	**177,517**	**876,314**	**45,324**	**651**	**1,480**	**59,835,536**
NET EXPOSURE	**(10,695,736)**	**1,269,490**	**9,852,996**	**(638,998)**	**(32,712)**	**243,192**	**1,768**	**-**
OFF-BALANCE SHEET ITEMS								
Assets	15,173,740	447,046	1,449,778	1,531,928	40,765	65,525	2,416	**18,711,198**
Liabilities	4,143,332	1,714,115	11,348,366	894,216	6,022	311,625	3,429	**18,421,105**
GAP	**334,672**	**2,421**	**(45,592)**	**(1,286)**	**2,031**	**(2,908)**	**755**	**290,093**

31.12.2016 (restated)	CURRENCY PLN PLN thousand	EUR PLN thousand	CHF PLN thousand	USD PLN thousand	GBP PLN thousand	JPY PLN thousand	Other PLN thousand	Total PLN thousand
Cash and balances with the Central Bank	2,142,650	970,423	8,329	25,853	4,940	-	-	**3,152,195**
Amounts due from banks and financial institutions	230,083	925,775	5,276	4,702	3,935	3,628	4,806	**1,178,205**
Loans and advances to customers	32,462,844	985,693	12,801,731	64,729	2	318,758	1	**46,633,758**
Other assets	13,782,018	1,210,542	10,323	192,761	3	3	-	**15,195,650**
Total assets	**48,617,595**	**4,092,433**	**12,825,659**	**288,045**	**8,880**	**322,389**	**4,807**	**66,159,808**
Amounts due to banks and financial institutions	2,591,614	3,732	64	17	-	-	-	**2,595,427**
Amounts due to customers	49,861,087	1,865,218	246,778	1,029,950	34,244	310	3,541	**53,041,128**
Other liabilities	5,760,889	3,942	204	1,053	25	-	42	**5,766,155**
Total liabilities	**58,213,590**	**1,872,892**	**247,046**	**1,031,020**	**34,269**	**310**	**3,583**	**61,402,710**
Total equity	**4,757,098**	**-**	**-**	**-**	**-**	**-**	**-**	**4,757,098**
Total liabilities and equity	**62,970,688**	**1,872,892**	**247,046**	**1,031,020**	**34,269**	**310**	**3,583**	**66,159,808**
NET EXPOSURE	**(14,353,093)**	**2,219,541**	**12,578,613**	**(742,975)**	**(25,389)**	**322,079**	**1,224**	**-**
OFF-BALANCE SHEET ITEMS								
Assets	17,618,653	1,022,624	2,224,191	1,230,389	28,483	73,021	2,265	**22,199,626**
Liabilities	4,839,310	3,225,725	14,790,420	484,508	1,959	387,926	7,742	**23,737,590**
GAP	**(1,573,750)**	**16,440**	**12,384**	**2,906**	**1,135**	**7,174**	**(4,253)**	**(1,537,964)**

4.2. Interest rate risk

The Group's interest risk results from the negative effects of changes in market interest rates that are negative for the financial results. Its size is determined by the size of open balance sheet and off-balance items sensitive to changes in market interest rates. The Treasury Department of Getin Noble Bank S.A. monitors the term structure of assets and liabilities on an ongoing basis by making adjustments in accordance with the established policy of interest rate risk management, maintaining within internally determined prudential norms. The basic tools in this regard are transactions in securities and derivatives.

The Bank applies the market risk methods for measuring interest rate risk. The basic methods for measuring this risk are:

- analysis of the mismatch of the repricing dates of assets and liabilities and positions by currencies,
- analysis of basis risk, profitability curve risk and customer option risk,
- analysis of interest income exposed to risk (Earnings-at-Risk method),
- analysis of value at risk of the Group's portfolio related to market valuation (VaR method),
- stress tests showing the susceptibility of the Bank to losses in case of unfavourable market conditions or in case the key assumptions of the Bank become invalid.

The Bank complies with the EBA Guidelines on interest rate risk management resulting from activities included in the non-trading portfolio published on 5 October 2015.

The Market Risks and Valuation Office monitors the interest rate risk parameters and provides complete information on the interest rate risk to the Assets and Liabilities Committee. The report contains, among other things, information on the size of risk measures and the degree of use of individual internal limits.

The process of managing and measuring the interest rate risk, its control and monitoring is supported by a number of IT tools whose key element is the Market Risk Analysis and Liquidity System (SARRP).

Sensitivity analysis for interest rate risk

Sensitivity analysis for interest rate risk is made daily for the exposure of the Bank and quarterly for the exposure of the Group:

	31.12.2017		31.12.2016	
	EaR (+/- 25 pb) PLN thousand	VAR (1D, 99.9%) PLN thousand	EaR (+/- 25 pb) PLN thousand	VAR (1D, 99.9%) PLN thousand
Interest rate risk	7,717	5,689	14,094	20,405

The method of analyzing interest income at risk (EaR) is based on estimating the potential change in the Bank/ Group interest result (sensitivity of financial result) in the perspective of the next 12 months in the case of changes in interest rates by 25 basis points (parallel shift of the yield curve). The method is based on the theoretical assumption of constancy of the portfolio throughout the analytical period, i.e. the Bank/ Group's failure to carry out any adjusting activities. So it is the image of the wallet at a given moment in time.

The Value at Risk (VaR) method is based on estimating with 99.9% probability, the amount of the maximum loss that the Bank/ Group may incur one day from portfolio valuation (due to changes in interest rates), assuming normal market conditions. This measure does not express the absolute maximum loss to which the Bank/ Group is exposed. VaR is a measure that determines the level of risk at a given moment in time and is a tool for current interest risk management. In order to supplement information on the possible loss of the Bank/ Group due to unfavourable changes in interest rates, stress tests are also conducted on a simulation of the impact of fundamental changes in market interest rates and the structure and balances of assets and liabilities and off-balance sheet items on the level of interest rate risk borne by the Bank/ Group in terms of net interest income and valuation of the portfolio of receivables/ liabilities sensitive to interest rate risk.

The Bank tests changes in the structure of assets and liabilities by taking into account the risk of the client options and potential changes in the Bank's income and changes in the economic value of the portfolio assuming a "shocking" changes of interest rates, for the revised structure of the portfolio. For assumptions about interest rates, the Bank adopts the following options:

- parallel shift of interest rate curves by +/- 200 basis points (the so-called standard supervisory shock),
- parallel shifts in the yield curve based on other values (internal scenarios),
- changes in the shape of the yield curve (internal scenarios).

The table below shows assets and liabilities and off-balance sheet items of the Group classified as of 31 December 2017 and 2016 in accordance to the criterion of the interest rate exposure. The carrying amount of financial instruments with fixed interest has been split into division to groups of instruments held to maturity date of these instruments. The carrying amount of instruments with variable interest rate is presented according to contractual dates of repricing. The Group measuring its interest rate risk exposure considers the impact of the assumptions for deposits with undefined maturity date, i.e. deposits which contractual maturity is short but real maturity long (‘sediment’ is kept on these accounts) and the sensitivity on interest rates fluctuations of those deposits is very limited – in practice these are positions with an administered interest rate, i.e. managed by the Group. The maturity/ revaluation date of such items is subject to modelling in accordance with the rules adopted by the Group. Other assets and liabilities are presented as non-interest bearing assets/liabilities.

31.12.2017	up to 1 month PLN thousand	over 1 month to 3 months PLN thousand	over 3 months to 1 year PLN thousand	over 1 year to 5 years PLN thousand	over 5 years PLN thousand	non-interest bearing assets/ liabilities PLN thousand	Total PLN thousand
BALANCE SHEET ITEMS							
Cash and balances with the Central Bank	3,131,203	-	-	-	-	210,390	**3,341,593**
Amounts due from banks and financial institutions	656,216	-	-	-	-	-	**656,216**
Loans and advances to customers	21,929,146	18,213,408	1,481,233	826,810	261,206	-	**42,711,803**
Financial assets held for trading and at fair value through profit or loss	-	-	-	-	-	166,491	**166,491**
Financial instruments: available-for-sale and held-to-maturity	3,489,709	401,643	2,499,655	2,506,280	827,078	131,164	**9,855,529**
Other assets	-	-	-	-	-	3,103,904	**3,103,904**
Total assets	**29,206,274**	**18,615,051**	**3,980,888**	**3,333,090**	**1,088,284**	**3,611,949**	**59,835,536**
Amounts due to banks and financial institutions	345,075	1,498,586	4,505	-	-	-	**1,848,166**
Amounts due to customers	21,760,940	11,057,682	10,769,812	4,834,675	190,458	-	**48,613,567**
Debt securities issued	2,015,119	1,151,570	1,262,167	14,318	-	-	**4,443,174**
Other liabilities	-	-	-	-	-	615,126	**615,126**
Total liabilities	**24,121,134**	**13,707,838**	**12,036,484**	**4,848,993**	**190,458**	**615,126**	**55,520,033**
Equity	**-**	**-**	**-**	**-**	**-**	**4,315,503**	**4,315,503**
Total liabilities and equity	**24,121,134**	**13,707,838**	**12,036,484**	**4,848,993**	**190,458**	**4,930,629**	**59,835,536**
BALANCE SHEET GAP	**5,085,140**	**4,907,213**	**(8,055,596)**	**(1,515,903)**	**897,826**	**(1,318,680)**	**-**
OFF-BALANCE SHEET ITEMS							
Interest rate transactions:							
Receivables	4,640,285	7,319,507	1,915,471	380,600	85,423	4,369,912	**18,711,198**
Liabilities	4,624,755	7,080,826	1,829,676	321,602	57,931	4,506,315	**18,421,105**
OFF-BALANCE SHEET GAP	**15,530**	**238,681**	**85,795**	**58,998**	**27,492**	**(136,403)**	**290,093**
TOTAL GAP	**5,100,670**	**5,145,894**	**(7,969,801)**	**(1,456,905)**	**925,318**	**(1,455,083)**	**290,093**

31.12.2016 (restated)	up to 1 month PLN thousand	over 1 month to 3 months PLN thousand	over 3 months to 1 year PLN thousand	over 1 year to 5 years PLN thousand	over 5 years PLN thousand	non-interest bearing assets/ liabilities PLN thousand	Total PLN thousand
BALANCE SHEET ITEMS							
Cash and balances with the Central Bank	2,972,721	-	-	-	-	179,474	**3,152,195**
Amounts due from banks and financial institutions	1,178,205	-	-	-	-	-	**1,178,205**
Loans and advances to customers	25,092,572	19,774,017	1,392,271	302,505	72,393	-	**46,633,758**
Financial assets held for trading and at fair value through profit or loss	-	-	-	-	-	184,938	**184,938**
Financial instruments: available-for-sale and held-to-maturity	4,748,101	258,769	1,501,339	4,859,643	711,927	129,145	**12,208,924**
Other assets	-	-	-	-	-	2,801,788	**2,801,788**
Total assets	**33,991,599**	**20,032,786**	**2,893,610**	**5,162,148**	**784,320**	**3,295,345**	**66,159,808**
Amounts due to banks and financial institutions	179,695	2,376,657	39,075	-	-	-	**2,595,427**
Amounts due to customers	20,690,440	12,777,029	13,306,116	5,370,286	897,257	-	**53,041,128**
Debt securities issued	1,427,841	1,175,770	1,199,432	16,550	-	-	**3,819,593**
Other liabilities	-	-	-	-	-	1,946,562	**1,946,562**
Total liabilities	**22,297,976**	**16,329,456**	**14,544,623**	**5,386,836**	**897,257**	**1,946,562**	**61,402,710**
Equity	**-**	**-**	**-**	**-**	**-**	**4,757,098**	**4,757,098**
Total liabilities and equity	**22,297,976**	**16,329,456**	**14,544,623**	**5,386,836**	**897,257**	**6,703,660**	**66,159,808**
BALANCE SHEET GAP	**11,693,623**	**3,703,330**	**(11,651,013)**	**(224,688)**	**(112,937)**	**(3,408,315)**	**-**
OFF-BALANCE SHEET ITEMS							
Interest rate transactions:							
Receivables	4,634,583	8,078,387	1,825,951	1,234,802	153,283	6,272,620	**22,199,626**
Liabilities	5,379,107	9,005,702	1,850,957	1,259,827	46,844	6,195,153	**23,737,590**
OFF-BALANCE SHEET GAP	**(744,524)**	**(927,315)**	**(25,006)**	**(25,025)**	**106,439**	**77,467**	**(1,537,964)**
TOTAL GAP	**10,949,099**	**2,776,015**	**(11,676,019)**	**(249,713)**	**(6,498)**	**(3,330,848)**	**(1,537,964)**

5. Risk related to derivatives

Basic types of risk related to derivative financial instruments are market risk and credit risk. At initial recognition derivative financial instruments usually are of zero or low market value. This is due to the fact, that no initial net investment or proportionally low investment is required in comparison to other sorts of agreements with similar reactions on changes of market conditions.

Derivative financial instruments gain positive or negative value with changes of specific interest rate, price of securities, commodity price, exchange rate, credit classification, credit index or other market parameter. As a result, held derivatives become more or less profitable to instruments with the same residual maturity date, which are available on the market.

Credit risk related to derivatives is the potential cost of signing new contract on the original terms, in case that the other part of agreement does not fulfil its obligation. To estimate the potential value of replacement the Bank uses the same methods, as in case of incurred market risk. To control the level of taken credit risk, the Bank evaluates the other part of agreements, using the same methods as those for credit decision making.

The Group entities conclude transactions related to derivative financial instruments with domestic and foreign banks. Transactions are concluded within the credit limits allocated to particular institutions. On the basis of adopted procedure of bank's financial status evaluation, the Group entities determine the limits of maximal exposure for banks. The percentage limits of particular types of transactions are determined within these limits.

6. Hedge accounting

In the Group only Getin Noble Bank S.A. applies the hedge accounting and hedges against changes in cash flows for mortgage loan portfolio denominated in CHF and EUR with separated portfolio explicitly determined CIRS float-to-fixed CHF/PLN and EUR/PLN hedging transactions and cash flow hedge of PLN deposits portfolio with separated from real CIRS transactions explicitly determined portfolio of IRS fixed-to-float hedging transactions. During the hedge period the Bank assesses the effectiveness of hedge relationship. The change of fair value of hedging instruments is recognised in revaluation reserve in the amount of effective part of hedge. Ineffective part of hedge is recognised in the income statement.

Effective part recognised in revaluation reserve after the date of redesignation of hedge relationship is subject to gradual reclassification (amortization in profit or loss account), in accordance with the schedule developed by the Bank, until the maturity term of initial portfolio. The value of effective change in fair value of hedging instruments, presented in revaluation reserve as at 31 December 2017, amounts to PLN -64 820 thousand. Cash flows relating to hedged transactions will be realised from 1 January 2018 to 22 November 2021, i.e. to maturity date of the longest CIRS transaction.

The maturity dates of CIRS hedging transactions (in nominal value) are as follows:

	31.12.2017	
	Receivables PLN thousand	Liabilities PLN thousand
Maturity dates of CIRS hedging transactions:		
up to 1 month	352,635	356,720
over 1 month to 3 months	856,170	891,800
over 3 months to 1 year	954,750	886,313
over 1 year to 5 years	9,739,681	9,417,408
Total CIRS hedging transactions	**11,903,236**	**11,552,241**

	31.12.2016	
	Receivables PLN thousand	Liabilities PLN thousand
Maturity dates of CIRS hedging transactions:		
over 1 month to 3 months	319,596	391,144
over 3 months to 1 year	2,562,105	2,799,764
over 1 year to 5 years	10,511,971	11,811,400
Total CIRS hedging transactions	**13,393,672**	**15,002,308**

The fair value of cash flow hedging instruments is presented below. As the fair value of the hedging instrument its carrying value is given.

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
CIRS - positive valuation	473,381	2,348
CIRS - negative valuation	(223,636)	(1,598,926)

The change in fair value of cash flow hedge recognised in revaluation reserve is presented below:

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Accumulated comprehensive income at the beginning of the period (gross)	**(116,805)**	**(131,549)**
Gains/(losses) on hedging instrument	2,011,838	(274,881)
Amount transferred from other comprehensive income to income statement, of which:	(1,975,058)	289,625
interest income	(247,986)	(242,979)
gains/(losses) on foreign exchange	(1,727,072)	532,604
Accumulated comprehensive income/ (loss) at the end of the period (gross)	**(80,025)**	**(116,805)**
Tax effect	15,205	22,194
Accumulated comprehensive income/ (loss) at the end of the period (net)	**(64,820)**	**(94,611)**
Ineffective cash flow hedges recognised through profit and loss	**(8,076)**	**(6,736)**
Effect on other comprehensive income in the period (gross)	**36,780**	**14,744**
Deferred tax on cash flow hedge	(6,988)	(2,801)
Effect on other comprehensive income in the period (net)	**29,792**	**11,943**

Getin Noble Bank S.A. applies fair value hedge accounting. The Bank uses hedge of fair value of the PLN deposits portfolio based on a fixed rate against changes in fair value due to the risk of changes in a benchmark interest rate WIBOR. Hedging instrument is a part or all of the cash flows arising from IRS transactions concluded by the Bank. The Bank designates hedging relationships based on sensitivity analysis of the fair value of the hedged portfolio of deposits and portfolio of hedging instruments to the risk of changes in a benchmark interest rate WIBOR. This analysis is based on a measure of "BPV" and "duration". The effectiveness of the hedging relationship is measured on a monthly basis.

Fair value of IRS transactions designated as hedging instruments under fair value hedge of PLN fixed-rate deposits against interest rate risk is presented in the following table:

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Fair value of IRS transactions constituting accounting hedges under the fair value hedge of retail customer deposits against interest rate risk	8,929	10,552

During the reporting period, the Bank recognised the following amounts arising from changes in the fair value of the hedging instrument and the hedged item:

	01.01.2017 - 31.12.2017		01.01.2016 - 31.12.2016	
	Of the hedging instrument	Of the hedged item	Of the hedging instrument	Of the hedged item
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Gains	-	-	-	696
Losses	1,622	394	2,660	-
Total	**1,622**	**394**	**2,660**	**696**

From 1 January to 31 December 2017 the Group recognized amortization of changes in the fair value of the hedged item in the amount of PLN 456 thousand (PLN 1,391 thousand for the period from 1 January to 31 December 2016).

7. Capital management

The primary objective of capital management strategy in the Getin Noble Bank S.A. Group is to have an adequate level of capital hedging the taken risk. The capital is managed at the level of individual entities of the Group and management control is exercised by the functions of the supervisory boards of these entities.

Total capital ratio is a measure of the capital adequacy, which expresses the ratio of own funds (after mandatory reductions) to the sum of assets and off-balance sheet items weighted by risk. The capital ratio assigns the percentage weights to assets and off-balance sheet items according to the degree of credit risk, market risk, currency risk or interest rate risk.

Regarding the preferred capital structure, Getin Noble Bank S.A. assumes having a structure with the majority share of basic funds (Tier1), which is important in meeting the requirements set out in the Regulation of the European Parliament and Council (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR).
The capital requirements applicable to banks are determined by the following components:

- minimum values of capital ratios at the regulatory level of Pillar I, i.e. for the total capital ratio (TCR) level of 8%, for Tier1 capital ratio (T1) 6% and for the Common Equity Tier1 (CET1) ratio of 4.5%,
- additional capital domains, so-called add-on that apply to Filar II,
- the requirement of a combined buffer – defined in the Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial system.

As at 31 December 2017 the applicable for Getin Noble Bank S.A. capital ratios for the Group were the following:

- Tier 1 Capital ratio (CET 1): 8.78%,
- Total capital ratio (TCR): 11.21%.

The capital ratios required at the end of 2017 take into account:

- individual additional capital requirements for the Bank's own funds to cover the risk associated with the portfolio of foreign currency mortgage loans for households; on the basis of an individual KNF recommendation for Getin Noble Bank S.A. from November 2017, the Group is required to maintain an additional capital requirement at 1.71 p.p. over the value of the total capital ratio and 1.28 p.p. over the Tier1 capital ratio,
- safety buffer at the level of 1.25 pp in terms of the capital ratio based on Tier1 capital (CET1) and total capital ratio (TCR) – resulting from the provisions of the Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial system,

(data in PLN thousand)

- the buffer of other systemically important institution in the amount of 0.25% of the total risk exposure amount calculated in accordance with art. 92 par. 3 of the CRR Regulation – the Polish Financial Supervision Authority based on the assessment carried out in accordance with art. 39 par. 1 of the Act of 5 August 2015 on macro-prudential supervision over the financial system and crisis management in the financial system, imposed on Getin Noble Bank S.A. on an individual and consolidated level.

The Getin Noble Bank S.A. Group at the end of 2017 obtained the capital adequacy ratios meeting the minimum specified above.

CAPITAL RATIOS GROUP	31.12.2017		Surplus above the requirement pp.
	Requirement of a combined buffer	Actual	
Tier 1 Capital ratio	8.78%	9.56%	0.78
Total capital ratio	11.21%	12.58%	1.37

After taking into account additional recommendations of the Polish Financial Supervision Authority regarding the maintenance until 31 December 2017 of the so-called "dividend buffer" in the amount of 3% (Tier1) and 4% (TCR) respectively, the recommended level of capital ratios as at 31 December 2017 was for the Group:

- Tier 1 Capital ratio (CET 1): 11.78%,
- Total capital ratio (TCR): 15.21%.

As at 31 December 2017 the Group did not meet the requirements recommended by the KNF, which was caused by the implementation in the IV quarter of 2017 the regulatory changes related to:

- the entry into force of the Ordinance of the Minister of Development and Finance of 25 May 2017 regarding higher 150% risk weights for exposures secured by mortgages on real estate,
- recommendation of the Polish Financial Supervision Authority of 24 October 2017 in respect of subordinated bonds issued, so that the minimum nominal value of one subordinated bond was at least PLN 400 thousand.

The Bank pursuant to Art. 60 par. 1 of the Act of 5 August 2015 on macro-prudential supervision over the financial system and crisis management in the financial system, prepared and applied to the KNF for approval of the Capital Protection Plan.

The Plan sets out additional activities in relation to the ones indicated in the PPN that the Bank intends to take to increase its own funds to the level ensuring coverage of the requirements of the combined capital buffer; they are based on two key assumptions consistent with the concept adopted in PPN, i.e.: optimization of current financial results, while minimizing the period of non-compliance with capital requirements and concentration on building a capital base based on the highest quality funds (Tier 1). The Capital Protection Plan assumes achieving the minimum levels of the combined capital buffer by the end of 2019.

The capital management, in accordance with regulatory requirements is in place also on the subsidiary level in Noble Securities S.A.

Noble Securities S.A., as a brokerage house, is obliged to maintain capital requirements in accordance with the Act of 29 July 2005 on financial instrument trading and the CRR Regulation on prudential requirements for credit institutions and investment firms. The company controls financial liquidity and capital adequacy ratios. On a regular basis all significant financial information, including information regarding to financial liquidity and capital adequacy, is submitted to the Supervisory Board of Noble Securities S.A. Information regarding to level of supervised capital is submitted, in form of report to the Polish Financial Supervision Authority. As at 31 December 2017 the company had equity and Tier 1 capital amounting to PLN 69,169 thousand. Statutory minimal registered capital of Noble Securities S.A. amounts to PLN 3,045 thousand.

Moreover, as at 31 December 2017 the company has set the total risk exposure in the amount of PLN 325,384 thousand, calculated total capital requirement (requirement due to so-called II Pillar) amounting to PLN 31,753 thousand. As at 31 December 2017 the company had not any additional Tier 1 capital and Tier 2 capital. The level of own funds of Noble Securities S.A. as at 31 December 2017 was higher than internal capital, Tier 1 core capital ratio was higher than 4.5%, Tier 1 capital ratio was higher than 6%, total capital ratio was higher than 8%, which means that the company complied with requirements regarding to capital adequacy.

8. Capital ratio

As at 31 December 2017 and 2016 the capital ratio was calculated in accordance with the *Regulation of the European Parliament and of the Council (EU) No 575/2013 of 26 June 2013 on prudential requirements and investment firms* (CRR).

	31.12.2017 PLN thousand	31.12.2016 (restated) PLN thousand
Tier 1 capital	4,196,859	4,661,062
Tier 2 capital	1,329,687	1,363,985
TOTAL OWN FUNDS	**5,526,546**	**6,025,047**
TOTAL CAPITAL REQUIREMENTS	**3,513,264**	**3,204,597**
CAPITAL RATIOS		
Tier 1 capital ratio	9.6%	11.6%
Total capital ratio	12.6%	15.0%

In 2017 the Bank received the approval of the Polish Financial Supervision Authority to include in the own funds cash in the amount of PLN 349 million acquired by Getin Noble Bank S.A. from the issue of subordinated bonds, as well as PLN 50 million from the Bank's share capital increase.

As at 31 December 2017 and 2016 the portfolio of the Group did not contain any receivables that could be qualified as exceeding the concentration limits, therefore the Group estimates the concentration risk to be not significant.

9. Compliance risk

The risk of compliance is understood as the risk of adverse effects as a result of non-compliance with the laws of the Group companies (in particular laws, regulations, resolutions), internal regulations, or internally adopted standards, policies or codes of conduct.

In 2017 the Bank took steps to adapt to the new compliance principles set out in the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed method of estimating internal capital in banks (Dz. U.2017.637) and KNF H Recommendation regarding the internal control system in banks (Dz.Urz.KNF.2017.7.7).

The compliance risk management includes risk identification, assessment, monitoring and controlling, as well as reporting.

In the process of compliance risk identification Getin Noble Bank S.A. performs current analyses of law provisions in force, cautionary regulations, internal rules and regulations, as well as Banks conduct standards. It also gathers information on the cases of non-conformity and their reasons. Performance of risk assessment allows the Bank to specify the character and the potential range of financial losses, or potential legal sanctions. Monitoring of compliance risk involves the systematic observation and tracking changes of the compliance risk profile, as well as the effectiveness of applied methods of compliance risk reduction. The process of compliance risk control and reduction includes activities to prevent the occurrence of non-compliance and violations, elimination of identified non-compliance incidents and minimize the impact of their occurrence and covers following aspects: preventive (i.e. allowing risk reduction through implementation of procedures and solutions ensuring conformity) and mitigating (i.e. risk management upon identification of compliance and aimed at alleviating the possible negative outcomes of risks). The preventive risk reduction takes place especially due to the implementation and development of new business models, as well as introduction of new products. Reporting includes the identification process results as well as compliance risk assessment, information concerning compliance cases, and the most crucial changes within the regulatory environment. The recipients of reports are the Operating Risk, Quality and Processes Committee, President of the Management Board, the Management Board, Audit Committee and the Supervisory Board of the Bank.

In the process of compliance risk management the Bank takes into account risks resulting from activities performed by entities of the Capital Group.

Signatures of the Getin Noble Bank S.A. Management Board Members:

Artur Klimczak
President of the Management Board

Jerzy Pruski
Vice President of the Management Board

Karol Karolkiewicz
Member of the Management Board

Maciej Kleczkiewicz
Member of the Management Board

Marcin Kuksinowicz
Member of the Management Board

Marcin Romanowski
Member of the Management Board

Maciej Szczechura
Member of the Management Board

Signature of the person responsible for the accounting books:

Beata Kisielewska
Director of Accounting Department

Warsaw, 23 April 2018