Consolidated financial statements for the year 2015

RAIFFEISEN BANK POLSKA S.A. GROUP

The Management Board presents the consolidated financial statements of Raiffeisen Bank Polska S.A. Group for the year ended 31 December 2015

Piotr Czarnecki	President of the Management Board	....
name and surname	*position/function*	
Maciej Bardan	First Vice-President of the Management Board	....
name and surname	*position/function*	
Jan Czeremcha	Vice-President of the Management Board	....
name and surname	*position/function*	
Ryszard Drużyński	Vice-President of the Management Board	....
name and surname	*position/function*	
Łukasz Januszewski	Member of the Management Board	....
name and surname	*position/function*	
Marek Patuła	Member of the Management Board	....
name and surname	*position/function*	
Piotr Konieczny	Member of the Management Board	....
name and surname	*position/function*	
Patrycja Zenik-Rychlik	Head of Financial Accounting and Tax Department	....
name and surname	*position/function*	

Warsaw, 8 March 2016

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Consolidated statement of profit or loss

	Note	For the financial year ended 31 December 2015	For the financial year ended 31 December 2014
Interest income		1 917 818	2 148 490
Interest expense		-836 571	-924 161
Net interest income	5	**1 081 247**	**1 224 329**
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items	6	-186 796	-106 555
including Proceeds from sale of receivables and other		35 060	261 712
Fee and commission income		707 718	706 231
Fee and commission expense		-94 199	-93 470
Net fee and commission income	7	**613 519**	**612 761**
Net income from financial instruments measured at fair value and net foreign exchange result	8	39 592	58 478
General administrative expenses	9	-1 359 427	-1 349 363
Other operating income	10	90 309	67 418
Other operating expenses	10	-25 095	-61 505
Profit before tax		**253 349**	**445 562**
Income tax expense	11	-67 171	-108 623
Net profit		**186 178**	**336 939**
Profit attributable to non-controlling interest		**0**	**-741**
Profit attributable to the equity holders of the Parent Entity		**186 178**	**337 680**
Weighted average number of ordinary shares (in units)	12	248 260	243 335
Profit attributable to the Parent Entity equity holders per one ordinary share (in PLN)	12	750	1 388
Weighted average number of diluted shares (in units)	12	248 260	243 335
Profit attributable to the Parent Entity equity holders per one diluted share (in PLN)	12	750	1 388

Notes presented on pages 12- 169 are an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

	For the financial year ended 31 December 2015	For the financial year ended 31 December 2014
Net profit	**186 178**	**336 939**
Other taxable income that may be reclassified to profit or loss, including:	51 590	-37 264
Valuation of cash-flow hedge derivatives, gross	10 585	-52 419
Income tax on cash-flow hedge derivatives	-2 011	9 960
Valuation of available for sale financial assets, gross	53 106	6 415
Income tax on available for sale financial assets	-10 090	-1 219
Total comprehensive income for the period	**237 768**	**299 676**
Total income attributable to non-controlling interest	**0**	**-741**
Total income attributable to the Parent Entity shareholders	**237 768**	**300 417**

Notes presented on pages 12- 169 are an integral part of the consolidated financial statements.

Consolidated statement of financial position

Assets	**Note**	**As at 31 December 2015**	**As at 31 December 2014**
Cash and balances with Central Bank	13	2 703 510	2 683 875
Amounts due from banks	14	1 326 350	654 891
Financial assets held for trading	17	12 570 410	361 623
Derivative financial instruments	15	562 046	900 712
Investment securities	18	3 841 655	12 529 109
Loans and advances to customers	19	39 206 125	39 819 298
Intangible assets	20	551 659	589 399
Property, plant and equipment	21	276 229	302 996
Deferred tax assets	11	559 285	487 800
Current tax receivables		2 173	27 937
Other assets	22	305 501	290 725
Total assets		**61 904 943**	**58 648 365**

Liabilities and equity	**Nota**	**As at 31 December 2015**	**As at 31 December 2014**
Amounts due to banks and other monetary institutions	23	13 088 797	16 389 675
Derivative financial instruments	15	1 478 611	1 124 302
Amounts due to customers	24	37 762 146	32 878 290
Subordinated liabilities	25	724 789	320 006
Liabilities from debt securities issued	26	1 758 677	1 136 394
Other liabilities	27	430 018	380 974
Current tax liabilities		110 267	47 053
Provisions	30	162 323	220 096
Total liabilities		**55 515 628**	**52 496 791**
Equity attributable to owners of the Parent Entity		**6 389 315**	**6 151 515**
Share capital	31	2 256 683	2 256 683
Supplementary capital		2 370 746	2 357 406
Other capital and reserves	31	1 018 927	947 287
Retained earnings	31	742 959	590 139
Non-controlling interests		**0**	**59**
Total equity		**6 389 315**	**6 151 574**
Total liabilities and equity		**61 904 943**	**58 648 365**

Notes presented on pages 12- 169 are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

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

Notes presented on pages 12- 169 are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity (cont.)

	Note	Share capital	Supplementary capital	Other capital and reserves	Retained earnings: Prior years result	Retained earnings: Net profit/(loss) for the year	Total equity attributable to owners of the Parent Entity	Non-controlling interests	Total equity
As at 1 January 2014		**2 207 461**	**2 366 229**	**944 550**	**155 443**	**147 412**	**5 821 095**	**297 557**	**6 118 652**
Valuation of available for sale financial assets, net		0	0	5 196	0	0	5 196	0	5 196
Valuation of cash-flow hedge derivatives, net		0	0	-42 460	0	0	-42 460	0	-42 460
Net profit for the current period		0	0	0	0	337 680	337 680	-741	336 939
Total comprehensive income		**0**	**0**	**-37 264**	**0**	**337 680**	**300 417**	**-741**	**299 676**
Shares issue		49 222	73 774	0	0	0	122 996	0	122 996
Transfer of net result to retained earnings		0	0	0	147 412	-147 412	0	0	0
Acquisition of shares fromnon-controlling interests		0	-99 519	0	-2 924	0	-102 443	-277 557	-380 000
Dividends paid		0	0	0	0	0	0	-20 000	-20 000
Other connected with consolidation		0	1 341	0	8 109	0	9 450	800	10 250
Transactions with owners		**49 222**	**89 355**	**40 000**	**-55 581**	**0**	**122 996**	**0**	**122 996**
Transfer of net result to general banking risk reserve		0	0	40 000	-40 000	0	0	0	0
Transfer of net result to statutory supplementary capital		0	15 581	0	-15 581	0	0	0	0
As at 31 December 2014	*31*	**2 256 683**	**2 357 406**	**947 287**	**252 459**	**337 680**	**6 151 515**	**59**	**6 151 574**

Notes presented on pages 12- 169 are an integral part of the consolidated financial statements.

Consolidated statement of cash flows

Operating activities	***Note***	**For the financial year ended 31 December 2015**	**For the financial year ended 31 December 2014**
Profit before tax		**253 349**	**445 562**
Adjustments:		**564 944**	**768 427**
Depreciation and amortization	*20, 21*	161 319	177 403
Unrealized foreign exchange differences		210 463	316 668
(Gains)/loss on sale of investments and fixed assets		-2 791	15 742
Transfer of interest and dividend from investing and financing activities		227 496	319 473
Remaining adjustments		-31 543	-60 860
Changes in operating assets and liabilities		**-10 271 892**	**11 597 232**
Interbank placements, loans and advances to other banks	*36*	-611 919	-360 664
Financial assets held for trading	*36*	-12 387 979	8 171 823
Investment securities		0	2 347
Derivative financial instruments	*36*	502 397	147 329
Loans and advances to customers	*36*	-775 381	-3 782 707
Other assets		8 742	35 996
Amounts due to banks and other monetary institutions	*36*	-2 766 332	2 479 619
Amounts due to customers	*36*	4 999 566	3 561 195
Other liabilities		53 522	-60 182
Provisions		-57 736	-630
Income tax paid/received		-87 711	31 364
Interest received		1 797 488	2 019 242
Interests paid		-946 549	-647 500
Net cash flow from operating activities		**-9 453 599**	**12 811 221**

Notes presented on pages 12- 169 are an integral part of the consolidated financial statements

Consolidated statement of cash flows (cont.)

Investing activities	***Note***	**For the financial year ended 31 December 2015**	**For the financial year ended 31 December 2014**
Proceeds from sale of investment securities		16 258 264	1 429 174
Proceeds from sale of property, plant and equipment and intangible fixed assets		9 721	3 530
Cash acquired due to change in consolidation group		0	38 399
Purchase of investment securities		-7 447 638	-12 157 658
Purchase of investments in subsidiaries		-29	-380 000
Purchase of property, plant and equipment and intangible fixed assets		-78 626	-100 434
Net cash flow from investing activities		**8 741 692**	**-11 166 990**
Financing activities			
Inflows from subordinated liabilities and long-term bank loans		4 982 691	3 462 598
Outflows from repayment of subordinated liabilities and long-term bank loans		-4 759 481	-6 101 825
Inflows from issued debt securities		617 700	1 134 434
Outflows from payment of interest on debt securities issued		-29 354	0
Inflows from share issue		0	122 996
Dividends paid		0	-20 000
Net cash flow from financing activities		**811 555**	**-1 401 797**
Net increase in cash and cash equivalents		**99 648**	**242 434**
Cash and cash equivalents at beginning of the period	36	2 813 558	2 571 124
Cash and cash equivalents at the end of the period	**36**	**2 913 206**	**2 813 558**

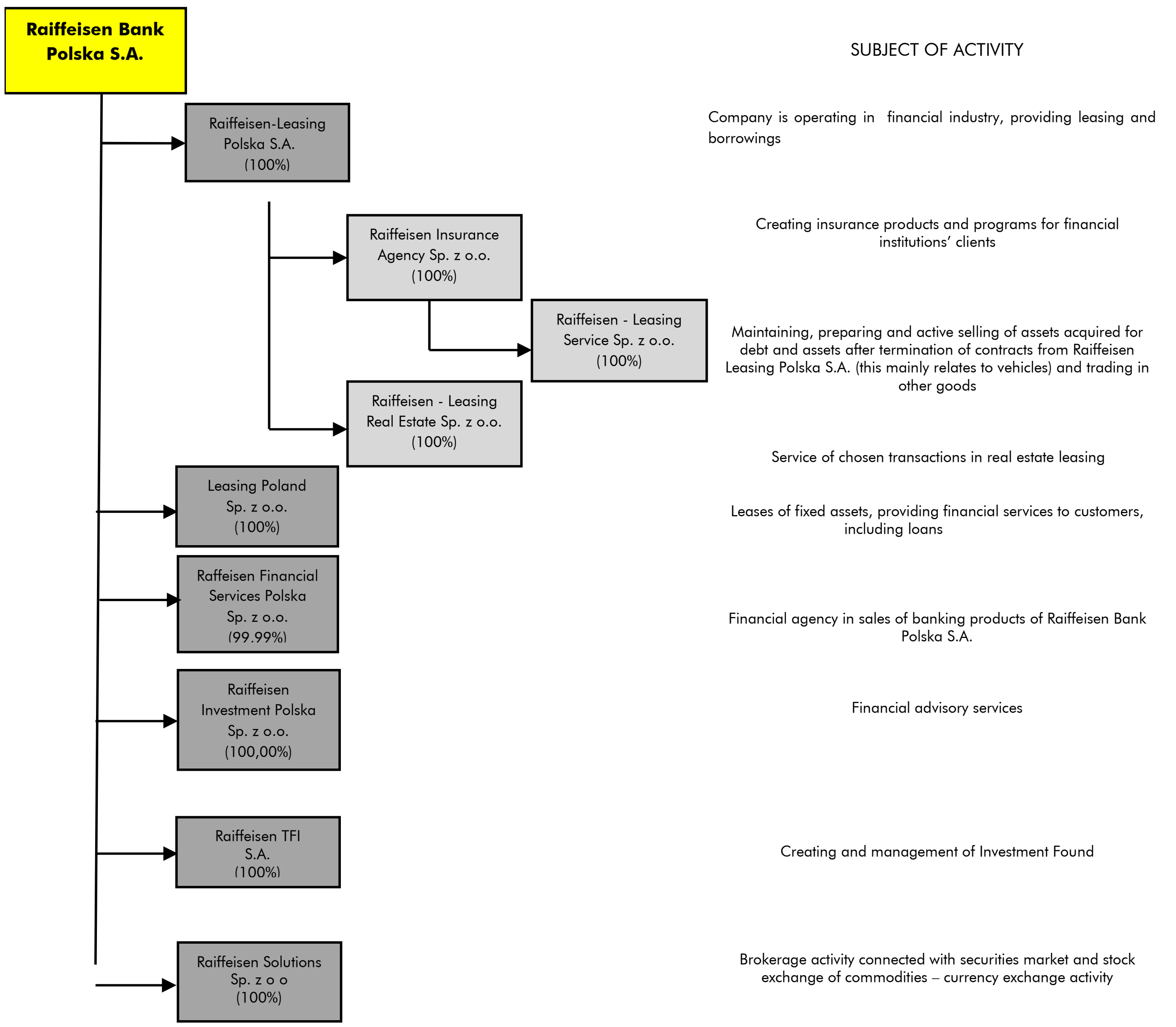
Notes presented on pages 12- 169 are an integral part of the consolidated financial statements

Notes to the consolidated financial statements

1. General information

The financial statements have been prepared by **Raiffeisen Bank Polska S.A.** with its registered office in Warsaw, 00-549, Piękna 20 Street, registered in the National Court Register as a joint-stock company under the reference number KRS 0000014540.

The Raiffeisen Bank Polska S.A. Group is composed of the following entities:



Notes to the consolidated financial statements (cont.)

Subsidiaries consolidated on the full consolidation basis:

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

In addition the Group consolidates special purpose entities Compass Variety Funding LTD and ROOF Poland 2014 LTD, both located in Ireland, using which the Group concluded securitization of leasing debts. These entities were consolidated because according to IFRS 10 the Parent Entity controls them, despite Parent Entity does not hold any capital exposure in those entities (that is why these entities were not included in the above diagram of capital Group).

Securitization of leasing debts concluded with the usage of special purpose entity Compass Variety Funding LTD was closed on 02 April 2015, the entity was included in the consolidation until the date the securitization program was closed.

Securitized leasing debts are presented in the Group's assets as they do not fulfill the balance sheet exemption conditions relating to assets described in IAS 39 point 19, particularly the condition of immediate obligation to transfer cash flow from an asset.

The company Leasing Poland Sp. z o.o. was not consolidated due to this insignificance.

The Group operates in retail banking, corporate banking and investment banking as well as in leasing and factoring area in Poland and employed 6 051 people as at the end of 2015 and 6 267 people as at the end of 2014.

The terms used in these consolidated financial statements shall mean, respectively:

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

Subsidiaries – Raiffeisen-Leasing Polska S.A., Raiffeisen Insurance Agency Sp. z o.o., Raiffeisen Financial Services Polska Sp. z o.o., Raiffeisen-Leasing Service Sp. z o.o., Raiffeisen Leasing Real Estate Sp. z o.o.,

Notes to the consolidated financial statements (cont.)

Leasing Poland Sp. z o.o., Raiffeisen Investment Polska Sp. z o.o., Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A., Raiffeisen Solutions Sp. z o.o..

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

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

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

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

Approval of these consolidated financial statements

The Parent Entity's Management Board approved of these consolidated financial statements on 8 March 2016.

Shareholders of the Parent Entity

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

Significant changes within the Group structure in the current reporting period

The following significant changes within the Group structure took place in the current reporting period:

- The liquidation process of TELPOL3 in liquidation was finalized. On 30 June 2015 the company was removed from National Court Register.
- The Parent Company bought 50,01% shares in Raiffeisen Investment Polska Sp. z o.o. and in consequence owns 100% shares in this company. Notarial deed concerning purchase of shares was signed on 24 June 2015.
- The liquidation process of RI Inwestycje was finalized. On 21 December 2015 the company was removed from National Court Register.
- On October 2015 the Parent Company established company Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A., which form of operation will be creating and managing of investment funds. Currently the company is waiting for required permission from Polish Financial Supervision Authority.
- On September 2015 the special purpose entity Compass Variety Funding LTD was liquidated.

Notes to the consolidated financial statements (cont.)

As at 31 December 2015 the Parent Entity's Management Board consisted of:

Piotr Czarnecki	– President of the Management Board
Maciej Bardan	– First Vice-President of the Management Board
Jan Czeremcha	– Vice-President of the Management Board
Ryszard Drużyński	– Vice-President of the Management Board
Łukasz Januszewski	– Member of the Management Board
Piotr Konieczny	– Member of the Management Board
Marek Patuła	– Member of the Management Board

As at 31 December 2015, the Parent Entity's Supervisory Board consisted of:

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

Changes in the Supervisory Board in the year ended 31 December 2015:

- on 31 March 2015 Aris Bogdaneris resigned from the position of the Supervisory Board Member,

- on 8 September 2015 Andreas Gschwenter was appointed for the position of the Supervisory Board Member of the Parent Entity.

Notes to the consolidated financial statements (cont.)

2. Significant accounting policies

2.1. Basis of preparation of the financial statements

The consolidated financial statements of the Group have been prepared for the period from 1 January 2015 to 31 December 2015. Comparative figures have been presented for the period from 1 January 2014 to 31 December 2014. The consolidated financial statements have been prepared in Polish zloty (PLN), and all amounts are presented in PLN thousand, unless indicated otherwise.

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

The consolidated financial statements of the Group consider the requirements of all the International Financial Reporting Standards and International Accounting Standards approved by the European Union and related interpretations ("IFRS EU"). Changes in published standards and interpretations, which became effective from 1 January 2015 and their impact on the consolidated financial statements of the Group have been presented in note 2.24.1. to the consolidated financial statements.

The consolidated financial statements does not take into consideration changes in interpretations and amendments to Standards, pending approval by the European Union or approved by the European Union but came into force or shall come into force after the balance sheet date (Note 2.24.2. to the consolidated financial statements).

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

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

- at fair value for: derivatives, financial assets and liabilities held for trading, financial assets designated upon initial recognition as at fair value through profit or loss and available-for-sale financial assets, except for those for which the fair value cannot be reliably measured,
- at amortized cost for other financial assets, including loans and advances and other financial liabilities,
- at historical cost for non-financial assets and liabilities,
- non-current assets (or disposal groups) classified as held for sale are measured at the lower of the carrying amount or the fair value less costs to sell.

Notes to the consolidated financial statements (cont.)

2.2. Statement of compliance

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

2.3. Items in foreign currencies

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

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

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

2.4. Consolidation

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

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

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

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

In 2015 the Parent Entity has consolidated Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A. In the period covered by these consolidated financial statements no contract provisions requiring from the Group to financially support the consolidated special purpose entities took place, including events or circumstances exposing the Group to potential losses.

Notes to the consolidated financial statements (cont.)

According to contract provisions Raiffeisen Leasing Polska S.A. granted loans to the acquirers of securitized leasing receivables in the following value which includes accrued non-paid interest: PLN 253 049 thousand as at 31 December 2015 (ROOF Poland 2014 LTD). As at 31 December 2014: PLN 333 352 thousand (ROOF Poland 2014 LTD) and PLN 77 563 thousand (Compass Variety Funding LTD).

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

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

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

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

The sum of:

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

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

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

Notes to the consolidated financial statements (cont.)

2.5. Determining the financial result

2.5.1. Interest income and expense

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

Interest income and expense arising from financial instruments measured at amortized cost using the effective interest rate method, financial assets measured at fair value through profit or loss and assets available for sale are recognized in profit or loss statement. Interest income and expense also include interest related to derivatives that are designated as hedging items in hedge accounting applied by the Group.

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

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

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

2.5.2. Fee and commission income and expense

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

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

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

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

Notes to the consolidated financial statements (cont.)

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

2.5.2.1. Fee and commission income and expense regarding insurance

Income from bancassurance

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

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

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

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

a) the level of combined product sales, i.e. percentage of financial instruments with insurance in all agreements concerning financial instruments in the Group's portfolio,
b) average effective annual interest rate for specific financial instruments in the Group's portfolio divided into instruments with insurance (by financial instruments according to the Group's product offer, insurance product and insurance groups) and with no insurance (by financial instruments according to the Group's product offer),
c) the ability to join the insurance cover without financial instrument,
d) if there is no requirement of the Group for a client to conclude an insurance agreement with purchasing a financial instrument – the number of insurance agreements for which the terms and the rules are similar and which were concluded in other insurance companies than the company which products are offered by the Group together with financial instrument,

Notes to the consolidated financial statements (cont.)

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

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

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

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

Insurance products not linked to financial instruments

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

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

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

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

Insurance products linked to financial instruments

Notes to the consolidated financial statements (cont.)

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements (cont.)

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

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

2.5.5. Other operating income and expenses

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

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

2.5.6. Other profit / (loss) components

2.5.6.1. Employee benefits

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

2.5.6.2. Dividend income

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

2.6. Presentation and valuation of financial assets and liabilities

All financial instruments are recognized using settlement date accounting.

Offsetting of financial assets and liabilities is performed when the Group has a valid and legally enforceable right to set-off that is not contingent on a future event. Additional requirement is that the Group and its counterparties have intention to compensate or to process receivables and payables in a single settlement process or cycle with total elimination or significant decrease of credit or liquidity risk (refer to Note 39 to the consolidated financial statements).

Notes to the consolidated financial statements (cont.)

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

2.7. Financial assets

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

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

This category comprises three sub-categories: financial assets held for trading, financial instruments designated upon initial recognition as at fair value through profit or loss and derivative financial instruments.

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

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

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

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

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

Notes to the consolidated financial statements (cont.)

2.7.2. Available for sale financial assets

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

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

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

2.7.3. Financial assets held to maturity

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

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

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

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

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

Notes to the consolidated financial statements (cont.)

2.7.4. Loans and receivables

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

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

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

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

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

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

2.8. Reclassification of financial assets

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

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

Notes to the consolidated financial statements (cont.)

amortized over the remaining life of the financial asset using the effective interest method, similarly as when amortizing a premium or discount.

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

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

2.9. Impairment of financial assets

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

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

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

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

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

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

Notes to the consolidated financial statements (cont.)

- significant financial difficulties of the borrower,
- limit blockage for renewable products.

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

- significant financial difficulties of the client based on negative assessment of client's financial situation,
- failing to meet terms of the agreement,
- changes in the agreement with concession towards clients, due to economic or legal reasons resulting from client's financial difficulties, concession which in other case would not be granted. As concession is treated each change in agreement with client facing financial difficulties,
- high probability of bankruptcy or other financial reorganization of the client,
- no active market for particular balance sheet exposure due to client's financial difficulties,
- information about opened bankruptcy or liquidation processes,
- agreement termination,
- significant decrease of rating analysis,
- questioning of the balance sheet exposure by the client in court,
- Bank's request to initiate enforcement proceedings towards client,
- unknown client's place of residence or assets
- decrease of the client's rating by known and commonly accepted external agency assessing credibility (rating agency),
- there are macroeconomic signals negatively impacting operating risk of the client,
- there are other negative news about client, other signals, which could negatively influence operating risk of the client,
- significant change in value or quality of significant collateral,
- decrease in cash turnover of accounts in Group,
- for Financial Institutions – loss of license,
- for governments and central banks – payment moratorium.

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

Notes to the consolidated financial statements (cont.)

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

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

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

2.9.1. Assets measured at amortized cost

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

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

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

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

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

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

Notes to the consolidated financial statements (cont.)

2.9.1.1. Individual impairment assessment

a) Non-retail exposures

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

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

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

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

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

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

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

b) Retail exposures

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

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

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

Notes to the consolidated financial statements (cont.)

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

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

2.9.1.2. Collective impairment assessment

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

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

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

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

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

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

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

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

- PD and LIP parameter – retail exposures:

The PD parameter estimation is performed using the latest available history at the time of estimation. The PD parameter is estimated as the average of six indicators reflecting percentage of exposures for which an

Notes to the consolidated financial statements (cont.)

impairment trigger occurs in the period corresponding to LIP (the average is weighted by the number of exposures from the date of observation). The PD parameters are updated monthly.

The LIP parameter for retail exposures overdue but without impairment identified was established based on average time from the moment of overdue to identification of debtor's impairment. For other detail exposures it was established based on performed analysis aimed at defining moment of the occurrence of an event preceding a debtor's impairment. As at 31 December 2015 the LIP amounted to appropriately 9 months for mortgage loans and 6 months for other retail exposures.

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

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

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

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

For other non-retail exposures, including investment projects, insurance companies, public sector entities, due to the fact that there is no representative sample of clients for which historically an impairment has been recognized, the PD parameter is determined based on assumptions of internal rating systems and experts' expectations regarding the level of expected loss ratio.

- the LGD parameter – retail exposures:

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

As far as unsecured exposures are concerned, the LGD parameter is calculated based on historically observed recoveries, decreased by the costs incurred by the Parent Entity to recover its receivables, including the percentage of clients who have settled the outstanding balance due to the Parent Entity in a period of 12 months after the impairment identification. The estimation is performed on the portfolio of accounts for

Notes to the consolidated financial statements (cont.)

which the Parent Entity has recognized the impairment. The criteria for defining homogeneous groups of clients are established at the level of the product portfolio and the number of months from the impairment identification for the specific account. As the result, for a given product segment the LGD parameter is a curve that increases over time from the moment of the impairment identification. As far as the credit portfolio for which no impairment triggers have been identified is concerned, there is a parameter assigned, which aggregates information about recoveries occurring over the entire recovery period. Moreover, the recoveries are adjusted with historically observed results of selling of impaired loans portfolio and the prices obtained by the Parent Entity from these sales.

- LGD parameter – non-retail exposures:

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

b) Exposures for which an impairment triggers have been identified

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

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

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

Notes to the consolidated financial statements (cont.)

c) Exposures with identified triggers, without impairment

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

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

2.9.2. Impairment of assets available for sale

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

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

In respect of impairment of a financial asset classified as available for sale which had been previously remeasured to fair value and the positive revaluation was recognized in equity, the impairment loss first decreases equity and then – if the amount of previously recognized positive revaluation is insufficient to cover the impairment loss – the difference is recognized in consolidated the profit or loss statement, in "Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items".

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

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

Notes to the consolidated financial statements (cont.)

2.10. Repo and reverse repo transactions

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

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

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

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

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

2.11. Derivative financial instruments

2.11.1. Recognition and measurement

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

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

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

Notes to the consolidated financial statements (cont.)

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

2.11.2. Embedded derivatives

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

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

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

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

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

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

In this category the Group includes instruments embedded in structured instruments. In embedded instruments the Parent Entity also includes its convertible bonds which are measured at cost taking into consideration potential impairment.

2.11.3. Hedge accounting

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

Notes to the consolidated financial statements (cont.)

2.11.3.1. Criteria

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

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

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

2.11.3.2. Fair value hedge

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

Notes to the consolidated financial statements (cont.)

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

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

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

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

2.11.3.3. Cash flow hedges

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

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

2.11.3.4. Discontinuing hedge accounting

The Group discontinues hedge accounting, when:

- the hedging instrument expires, is sold, released or exercised – in such an instance accumulated gains or losses related to the cash flow hedging instrument which were recognized directly in other comprehensive income over the period in which the hedge was effective are recognized in a separate item in other comprehensive income until the planned transaction is executed,
- the hedging instrument ceases to meet the criteria for hedge accounting – in such an instance accumulated gains or losses related to the cash flow hedging instrument, which were recognized directly in other comprehensive income over the period in which the hedge was effective, are

Notes to the consolidated financial statements (cont.)

recognized in a separate item in other comprehensive income until the planned transaction is executed,

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

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

2.12. Financial liabilities

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

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

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

Liabilities other than those measured at fair value through financial result including mainly amounts due to banks and customers and subordinated liabilities are classified to other financial liabilities. Financial liabilities are initially recognized at fair value plus or minus transaction costs related directly to the issuance of a given financial liability.

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

Notes to the consolidated financial statements (cont.)

2.13. Contingent liabilities

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

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

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

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

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

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

Notes to the consolidated financial statements (cont.)

2.14. Method of determining the fair value and amortized cost

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

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

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

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

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

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

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

2.15. Derecognizing financial instruments from the statement of financial position

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

Notes to the consolidated financial statements (cont.)

from the asset or when the Group retains the contractual rights to the cash flows from the financial asset, but accepts the contractual obligation to transfer those flows to an entity outside the Group.

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

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

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

2.16. Intangible assets

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

The Group includes in Intangible assets specifically:

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

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

Notes to the consolidated financial statements (cont.)

- the purchase price of license or copyright laws due to the supplier net of rebates and discounts granted plus import customs and excise duty and non-recoverable VAT,
- all other directly attributable expenses or costs related to adapting acquired software for use or its proprietary development, in accordance with the purpose planned by the Group, accrued as of the date of purchase or commencement of production to the date of commissioning for use.

Direct expenses or costs comprise specifically:

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements (cont.)

2.16.1. Costs of completed development projects

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

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

In 2015 the Group did not produce computer software for its own needs.

2.16.2. Other intangible assets

Intangible assets include mainly:

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

Amortization of intangible assets is calculated using the straight-line method to allocate the cost over the estimated useful life (usually 5 to 10 years).

2.17. Property, plant and equipment

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

Assets are depreciated during their estimated useful life.

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

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

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

Subsequent expenses are included in the carrying amount of the property, plant and equipment item or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits

Notes to the consolidated financial statements (cont.)

associated with the item will flow to the Group and the purchase price or cost of production of the item can be measured reliably.

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

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

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

Leasehold improvements (in buildings or apartments)	12 years or in the term of the lease contract, depending which period is longer
Plant and machinery	3 – 12 years
Vehicles	5 - 10 years
Computers	3 – 8 years
Other tangible fixed assets	3 – 12 years

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

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

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

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

2.18. Leases

2.18.1. Group as a lessee

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

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

Notes to the consolidated financial statements (cont.)

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

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

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

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

2.18.2. Group as a lessor

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

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

For finance leases the leased asset is no longer recognized in the consolidated statement of financial position, whereas in finance lease receivables and loans and advances to customers is recognized the amount of receivables equaled net lease investment. Net lease investment is the gross lease investment discounted by the lease interest rate.

The initial direct costs are included in the lease interest rate.

Lease income is recognized through the lease period using the net investment method (prior taxation). They are recognized as interest income.

Initial direct costs incurred in negotiating and arranging a finance lease are deferred at the initial value of financial lease receivables and are recognized in the profit or loss statement through the lease period.

Those lease agreements under which the entire risk and benefits resulting from possession of asset are not, in principle, transferred on the lessee are classified as operating lease agreements.

Notes to the consolidated financial statements (cont.)

In respect of operating leases concluded by the Group as lessor, the leased asset is recognized in the consolidated statement of financial position of the Group, because there was no transfer of substantially all the risks and rewards incidental to ownership of an asset to the lessee. Assets under operating lease are presented in the balance sheet in accordance with the nature of these assets.

Revenues from operating lease are recognized as revenue using the straight line method for the period of the lease agreement's term. Costs including amortization, incurred in order to achieve revenue from lease, are recognized as costs in the profit or loss.

Initial direct costs incurred in connection with negotiations and activities intended to lead to the conclusion of an operating lease agreement increase the balance-sheet value of the leased asset and are recognized as costs over the lease period on the same basis as revenues from lease.

The Group amortizes operating lease assets in accordance with the standards for amortization adopted by the Group in reference to similar assets, taking into account the duration of the operating lease agreement.

2.19. Cash and cash equivalents

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

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

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

2.20. Provisions

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

Provisions are recognized especially against the following:

Notes to the consolidated financial statements (cont.)

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

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

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

- the Group has a detailed and formal restructuring plan (which at least specifies the area or part of the area to which the plan relates, base locations covered by the plan, place of employment, functions and estimated number of employees to receive severance payments, the amount of expenditure to be incurred and the period when the plan will be implemented), and
- the Group started implementing the plan or announced the key elements of the plan to the parties involved (thus arousing expectations of the parties to which the plan relates as to the planned restructuring actions).

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

2.21. Equity

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

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

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

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

Notes to the consolidated financial statements (cont.)

- the revaluation reserve from revaluation of financial instruments classified as available for sale,
- the effective portion of cash flow hedges.

2.22. Income tax expense

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

Current tax is calculated based on the accounting profit before tax adjusted by revenues which in accordance with the tax regulations are not included in taxable income, taxable income which is not income for accounting purpose, costs not considered to be tax-deductible costs according to tax regulations and tax-deductible costs which are not considered to be costs for accounting purposes. Moreover, for tax purposes, the accounting profit before tax is adjusted by prior years' income and expenses realized for tax purposes in a given reporting period, and by income deductions.

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

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

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

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

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

Notes to the consolidated financial statements (cont.)

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

2.23. Other

The "Other assets" include mainly:

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

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

Assets repossessed for debts are measured at fair value.

The „Other liabilities" comprise mainly:

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

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

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

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

Notes to the consolidated financial statements (cont.)

2.24. New standards, interpretations and revisions to published standards

2.24.1. Standards and Interpretations which have been published and applied by the Group as of 1 January 2015, to the extend relating to the Group

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
IFRIC Interpretation 21 *Levies*	November 2013	Financial year starting on or after 17 June 2014	Yes	The Interpretation provides guidance as to the identification of the obligating event giving rise to a liability, and to the timing of recognising a liability to pay a levy imposed by government. In accordance with the Interpretation, the obligating event is the activity that triggers the payment of that levy, as identified in the relevant legislation and as a consequence, the liability for paying the levy is recognised when this event occurs. The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time. If the obligating event is reaching of a minimum activity threshold, the corresponding liability is recognised when that minimum activity threshold is reached. The Interpretation sets out that an entity cannot have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period. The IFRIC 21 did not have a material impact on the financial statements of the Group upon initial adoption.

Notes to the consolidated financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Improvements to IFRS (2011-2013)	December 2013	Financial year starting on or after 1 January 2015	Yes	Yearly changes to IFRS 2011-2013 contain 4 modifications to standards, including consequential changes to other standards and interpretations. These changes did not have a significant impact on the financial statements of the Group.

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

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

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
IFRS 9 Financial instruments (2014)	July 2014	Financial year starting on or after 1 January 2018	No	The new standard replaces the guidance included in IAS 39 *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets, including a model for calculating impairment. IFRS 9 eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables used to classify financial assets. Under the new standard, financial assets are to be classified on initial recognition into one of three categories: • financial assets measured at amortized cost; • financial assets measured at fair value through profit or loss; or • financial assets measured at fair value through other comprehensive income (OCI). A financial asset is classified as being subsequently measured at amortized cost if the following two conditions are met: • the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and • its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

Notes to the consolidated financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
				Otherwise, e.g. in the case of equity instruments of other entities, a financial asset will be measured at fair value. Gains and losses on remeasurement of financial assets measured at fair value are recognised in profit or loss, other than assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets – such remeasurement gains and losses are recognized in OCI. In addition, at initial recognition of an equity investment that is not held for trading, an entity may irrevocably elect to present all fair value changes from the investment in OCI. The election is available on an individual share-by-share basis. No amount recognised in OCI in relation to the above-described remeasurement is ever reclassified to profit or loss at a later date. The new standard retains almost all of the existing requirements in IAS 39 on the classification and measurement of financial liabilities and on derecognition of financial assets and financial liabilities. However, IFRS 9 requires that the portion of the gain or loss on a financial liability designated at initial recognition as fair value through profit or loss that is attributable to changes in its credit risk be presented in OCI, with only the remaining amount of the total gain or loss included in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, or if the financial liability is a loan commitment or a financial guarantee contract, the entire fair value change is presented in profit or loss. In respect of the financial assets impairment requirements, IFRS 9 replaces the “incurred loss” impairment model in IAS 39 with an “expected credit loss” model. Under the new approach, which aims to address concerns about “too little, too late” provisioning for impairment losses, it will no longer be necessary for a loss event to occur before an impairment allowance is recognized. In short, the expected credit loss model uses a dual measurement approach, under which the loss allowance is measured as either: • 12-month expected credit losses, or • lifetime expected credit losses.

Notes to the consolidated financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
				The measurement basis generally depends on whether there has been a significant increase in credit risk since initial recognition. If the credit risk of a financial asset has not increased significantly since initial recognition, the financial asset will attract a loss allowance equal to 12-month expected credit loss. If, however, its credit risk has increased significantly, it will attract an allowance equal to lifetime expected credit losses, thereby increasing the amount of impairment recognized. The standard contains a rebuttable presumption that the condition for recognizing lifetime expected credit losses is met when payments are more than 30 days past due. As at the date of preparation of the financial statements possible outcome of the first time application of the standard was not estimated by the Group.
Amendments to IAS 19 *Employee Benefits* entitled *Defined Benefit Plans: Employee Contributions*	December 2013	Financial year starting on or after 1 February 2015	Yes	The Amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the Amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. It is expected that the Amendments, when initially applied, will not have any material impact on the Group's financial statements. The Group does not have any contributions to defined benefit plans.
Improvements to IFRS (2010-2012)	December 2013	Financial year starting on or after 1 February 2015	Yes	Yearly changes to IFRS 2010-2012 contain 8 modifications to 7 standards, including consequential changes to other standards and interpretations. Most of these changes are not expected to have a significant impact on the financial statements of the Group.
IFRS 14 Regulatory deferral accounts	January 2014	Financial year starting on or after 1 January 2016	No	This interim standard: - permits first time adopters of IFRS to continue to use its previous GAAP to account for regulatory deferral account balances both on initial adoption of IFRS and in subsequent financial statements

Notes to the consolidated financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
				- requires entities to present regulatory deferral account balances and movements therein as separate line items on the face of the financial statements - requires specific disclosures to identify clearly the nature of, and risks associated with, the rate regulation that has resulted in the recognition of regulatory deferral account balances in accordance with this interim Standard. Due to nature of Group's activity IFRS 14 does not apply.
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11 *Joint Arrangements*)	May 2014	Financial year starting on or after 1 January 2016	Yes	The Amendments provide guidance on the accounting for the acquisition of an interest in a joint operation that constitutes a business. The acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 *Business Combinations*, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except for those principles that conflict with the guidance in IFRS 11. In addition, the acquirer shall disclose the information required by IFRS 3 and other IFRSs for business combinations. The Group does not expect the Amendments to have significant impact on the financial statements.
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*)	May 2014	Financial year starting on or after 1 January 2016	Yes	The Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The Group does not expect the Amendments to have significant impact on the financial statements.

Notes to the consolidated financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
IFRS 15 *Revenue from Contracts with Customers*	May 2014	Financial year starting on or after 1 January 2018	No	The Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Specifically, it replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under the new standard, entities will apply a five-step model to determine when to recognize revenue, and at what amount. The model specifies that revenue should be recognized when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognized: - Over time, in a manner that depicts the entity's performance; or - At a point in time, when control of the goods or services is transferred to the customer. Included in the Standard are new qualitative and quantitative disclosure requirements to enable financial statements users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. As at the date of the financial statements reliable estimation of the standard impact was not prepared by the Group.
Agriculture: Bearer Plants (Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture*)	June 2014	Financial year starting on or after 1 January 2016	Yes	The Amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. IAS 41 *Agriculture* currently requires all biological assets related to agricultural activity to be measured at fair value less cost to sell. Under the new requirements, bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16, because their operation is similar to that of manufacturing. Consequently, the Amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. Due to nature of the Group's activity the above mentioned Amendments do not apply.

Notes to the consolidated financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Equity Method in Separate Financial Statements (Amendments to IAS 27 *Separate Financial Statements)*	August 2014	Financial year starting on or after 1 January 2016	Yes	The Amendments introduce an option for the entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements, in addition to the existing cost and fair value options. The Group does not expect that the above mentioned Amendments will have a significant impact on the financial statements.
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates*)	September 2014	Financial year starting on or after 1 January 2016	No	The Amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. While IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint venture, IFRS 10 requires full profit or loss recognition on the loss of control of subsidiary. The Amendments require a full gain or loss to be recognised when the assets transferred meet the definition of a business under IFRS 3 *Business Combinations* (whether it is housed in a subsidiary or not). A partial gain or loss (only to the extent of unrelated investors' interests) shall be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The Group does not expect the Amendments to have a material impact on its financial statements once applied.
Improvements to IFRS (2012-2014)	September 2014	Financial year starting on or after 1 January	Yes	The *Improvements to IFRSs (2012-2014)* contains 4 Amendments to standards, with consequential Amendments to other standards and interpretations. The main changes were to:

Notes to the consolidated financial statements (cont.)

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

Notes to the consolidated financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Investment Entities: Applying the Consolidation Exception **(**Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures***)**	December 2014	Financial year starting on or after 1 January 2016	No	The Amendments, related to financial reporting of investment entities, address the following matters: • Consolidation of intermediate investment entities Before the Amendments, it was unclear how to account for an investment entity subsidiary that provides investment-related services. As a result of the changes, intermediate investment entities are not permitted to be consolidated. The Amendments also clarify that entities conducting "investment-related services" are those whose main purpose and activities are to provide services that relate to the investment entity parent's activities. • Consolidated financial statements exemption for intermediate parents owned by investment entities Intermediate holding entities have a long-standing exemption from preparing consolidated financial statements when they are themselves consolidated by a higher-level parent (and when other relevant criteria are met). The Amendments make this exemption available to an intermediate held by an investment entity, even though the investment entity does not consolidate the intermediate. • Policy choice to equity account for interests in investment entities The Amendments provide an accounting policy choice to a non-investment entity in relation to its stake in an investment entity that it is required to equity account. The non-investment entity's equity accounting can either pick up the investment entity's fair value accounting for its subsidiaries or, alternatively, it can pick up figures as if the investment entity had consolidated all of its subsidiaries. The Group does not expect the Amendments to have a material impact on its financial statements once applied.

Notes to the consolidated financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Disclosure initiative (Ammendments to IAS 1 *Presentation of Financial Statements*)	December 2014	Financial year starting on or after 1 January 2016	Yes	Key clarifications resulting from the Amendments include the following: · An emphasis on materiality. Specific single disclosures that are not material do not have to be presented – even if they are a minimum requirement of a standard. · The order of notes to the financial statements is not prescribed. Instead, companies can choose their own order, and can also combine, for example, accounting policies with notes on related subjects. · It had been made explicit that companies: • should disaggregate line items in the statement of financial position and in the statement of profit or loss and other comprehensive income (OCI) if this provides helpful information to users; and • can aggregate line items in the statement of financial position if the line items specified by IAS 1 are immaterial. · Specific criteria are provided for presenting subtotals in the statement of financial position and in the statement of profit or loss and OCI, with additional reconciliation requirements for the statement of profit or loss and OCI. The presentation in the statement of OCI of items of OCI arising from joint ventures and associates accounted for using the equity method follows the standard's approach of splitting items that may, or that will never, be reclassified to profit or loss. It is expected that the Amendments, when initially applied, will not have a significant impact on the Group's financial statements.
IFRS 16 Leases	January 2016	Financial year starting on or	No	IFRS16 replaces IAS17 Leases and connected with this standard interpretations. In relation to lessees new Standard eliminates existing currently division for finance and

Notes to the consolidated financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
		after 1 January 2019		operating leases. Accounting for operating leases in the statements of financial position would result in recognition of new asset – right to use leased item – and new liability – liability to pay for the leasing. Rights to use assets under leasing would be amortized and from liabilities interest accruals would be calculated. It would result in recognition of higher expenses in the initial phase of the leasing, even when parties agreed on constant yearly payments. Lessors accounting for leasing in majority of cases would not change as division for operating and finance leasing would be valid. At the initial application impact of the Standard would depend on specific facts and circumstances relating to leasing agreements conducted by the Group. At the date of these consolidated financial statements presentation Bank did not assess impact of the Standard on the financial statements.
Recognition of deferred tax assets connected to unrealized losses (Changes to IAS 12 Income taxes)	January 2016	Financial year starting on or after 1 January 2017	No	Changes explain, among others, that unrealized changes connected with debt instruments recognized as fair value in financial statements, for which tax value is their initial cost, can result in recognition of negative temporary tax differences. The above described changes are not expected to have significant impact on Group's financial statements.
Disclosure initiative (Changes to IAS 7 Statements of Cash flows)	January 2016	Financial year starting on or after 1 January 2017	No	Changes come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes resulting from cash flows and non-cash transactions. One of the ways to meet above requirements is to present opening and closing balances resulting from financing activities. The above described changes are not expected to have significant impact on Group's financial statements.

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

Notes to the consolidated financial statements (cont.)

3. Significant estimates

The preparation of financial statements in accordance with the IFRS EU requires the Management Board of the Parent Entity to make judgments, estimates and assumptions which affect the adopted accounting policies and the amounts presented in the consolidated financial statements and in the additional notes and explanations, in particular the amounts which cannot be clearly established based on other sources. The estimates and assumptions are made as at the balance sheet date based on the historical data available, information on the situation at the moment of making the estimates and other factors considered appropriate in a given circumstances, including the expectations as to future events, which seem justified in a given situation. In spite of the fact that the estimates are based on the best knowledge concerning the circumstances and actions undertaken by the Group, the actual results may differ from the estimates. The estimates and assumptions are subject to a regular review. Adjustments in estimates are recognized in the period in which the change of estimate was made, provided that the adjustment only relates to that period, or in the period in which the change was made and in future periods if the adjustment affects both the current and the future periods.

The main judgements, estimates and assumptions adopted by the Group are described below.

3.1. Impairment of financial assets

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

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

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

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

Notes to the consolidated financial statements (cont.)

3.2. Impairment of the loan portfolio

The monitoring of customers in the corporate portfolio is performed based on periodic individual analysis of this portfolio exposures. An individual counterparty/borrower is treated as one exposure. Impairment allowances are estimated on a one-by-one basis. In calculating impairment allowances, the Parent Entity uses assessments under which indicators of impairment are identified, and estimates future cash flows discounted using the effective interest rate, taking into account of the estimated value of collateral. When estimating the impairment allowances, the Parent Entity uses internal and external sources of information. The Parent Entity applies the following, depending on the customer segment (corporate customers, SME, project financing, financial institutions, local and regional authorities, public sector entities, governments and central banks): the internal rating system of the Parent Entity or the subsidiaries, or values estimated based on the Parent Entity or subsidiaries' employees professional judgment.

The information on the sensitivity analysis in respect of impairment allowances for amounts due from customers with recognized impairment losses is presented in the table below. The estimate has been performed for the portfolio of loans and advances in which impairment allowance is recognized based on an individual analysis of future cash flows relating to repayment and recovery from collaterals. The base value of the allowances calculated under the individual assessment model for balance and off balance sheet exposures is PLN 726 885 thousand, (PLN 832 204 thousand as at 31 December 2014), and the base value of discounted recoveries from collaterals and cash repayments is PLN 1 173 739 thousand (PLN 1 097 118 thousand as at 31 December 2014).

Estimated movement in the allowance for the portfolio of loans and advances analysed case by case based on future cash flows expected from repayment and recovery from collateral	No change in repayment	Repayment by customers up by 10%	Repayment by customers down by 10%
As at 31 December 2015			
No change in inflows from collateral	726 885	713 877	744 179
Inflows from collateral up by 10%	700 527	687 565	0
Inflows from collateral down by 10%	758 509	0	778 686
As at 31 December 2014			
No change in inflows from collateral	832 204	815 699	854 797
Inflows from collateral up by 10%	794 368	778 180	0
Inflows from collateral down by 10%	880 386	0	906 369

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

Notes to the consolidated financial statements (cont.)

and the risk scale. The impairment allowance is calculated based on the allocation to the particular groups using the arithmetical model.

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

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

The methodology, statistical models and their assumptions are based on historical observations and professional judgments of the experts and are applied for the exposures with similar credit risk. The models and their assumptions are subject to periodic validation to minimize the differences between the estimated and actual loan losses.

As an additional information regarding the lease receivables, the Group assesses the impact of changes in the parameters adopted for the calculation of impairment allowances on lease receivables on the net result, where PD is the probability of debtor's default calculated for the six-month period, LIP - loss identification period, LGD – loss ratio due to default.

Information on the sensitivity analysis with respect to the lease receivables is presented in the table below. Base value of IBNR allowance for lease receivables without impairment triggers equals PLN 33 888 thousand (PLN 32 289 thousand as at 31 December 2014).

Estimated change in value of the impairment allowance on lease receivables portfolio resulting from changes in PD and LGD, assuming the current value of the portfolio as at a date.	**Increase in PD by 10%**		**Increase in LGD by 10%**		**Increase in LGD by 20%**	
	Estimated change of impairment allowance		Estimated change of impairment allowance		Estimated change of impairment allowance	
	quantitative	percentage	quantitative	percentage	quantitative	percentage
As at 31 December 2015						
IBNR for Micro customers	1 324	10%	1 324	10%	2 648	20%
IBNR for corporate, SME and project finance customers	907	20%	785	9%	1 569	17%
As at 31 December 2014						
IBNR for Micro customers	1 195	10%	1 195	10%	2 390	20%
IBNR for corporate, SME and project finance customers	868	10%	723	8%	1 446	17%

3.3. Financial instruments valuation methods

The valuation of financial instruments at fair value for which there is an active market is performed based on the market value. When the value of the instrument is not directly available, a theoretical valuation based on the existing, approved by the Group model can be made. In respect of instruments where the risk

Notes to the consolidated financial statements (cont.)

factor is the interest rate, the valuation takes into account the yield curve composed of interbank deposits market quotations, FRA rates, IRS quotes and swap points, as applicable to the instrument.

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

Additionally, the valuation of derivatives includes counterparty risk factor, which estimation is based on an internal rating model of the Group, including PD, LGD and exposure’s tenor.

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

3.4. Provisions calculation

Provisions for liabilities to employees related to employment comprise of provisions for actuarial benefits. The calculation of this provision was performed by an external independent actuary, who used the individual method, separately for each employee. The provisions were calculated as a sum of discounted future payments, for each of the currently employed and based on their remuneration, as at the day of calculation taking into consideration additional assumptions regarding staff turnover. A significant factor affecting the amount of the provision is the adopted discount rate which is based on the return on risk-free securities (Treasury bonds) denominated in the currency in which the employee benefits are paid out and the redemption date of which is similar to the estimated date of realization the liabilities in respect of employee benefits – mobility, salary increase rates, mortality. A change in the discount rate by +/- 0.5 p.p. would result in a decrease/increase of the provision of ca. PLN 278 ths and PLN 295 ths respectively (as at 31 December 2014 a decrease/increase in the provision of ca. PLN 1 775 ths and PLN 1 930 ths, respectively, including the “Raif’fajne Lata” program which in the IV quarter of 2015 the Management Board of the Parent Entity decided to discontinue, details are presented in Note 30).

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

Notes to the consolidated financial statements (cont.)

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

As at 31 December 2015 Bank performed impairment test of the intangible assets recognized as a result of a business combination, i.e. the brand "Polbank", goodwill and customer relationships.

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

Key assumptions used in calculation of value in use

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

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

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

Impairment test - goodwill

As at 31 December 2015 the value in use of the segment was established as the current value of future cash flows from further use of the asset which were assumed in Management Board's financial forecasts. Value in use estimation was based on the Dividend Discount Model, which is appropriate for banks and financial institutions.

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

The discount rate was estimated at the level of 7.02% nominal. The Capital Asset Pricing Model, risk-free interest rate, beta-indicator for the Banking sector and premium for the capital risk were used for the calculation.

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

After the comparison of value in use of the goodwill and its book value the Bank did not identify any impairment.

Notes to the consolidated financial statements (cont.)

Impairment test - brand "Polbank"

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

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

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

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

As a result of the impairment test the Bank did not identify any impairment of the brand "Polbank".

Impairment test – customer relationships

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

Discounted cash flows of net interest income or savings arising from difference between analyzed products and alternative products constitute value in use of customer relationships from granted loans and received deposits.

The Bank applied discount rate equal to interest rate of comparable products used in the analysis.

Estimated discounted cash flows of net interest income and additional savings were compared with book value of the asset. As a result of the impairment test the Group did not identify impairment of the customer relationships.

Notes to the consolidated financial statements (cont.)

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

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

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

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

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

Notes to the consolidated statement of profit or loss

4. Segment information

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

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

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

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

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

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

• intercompany eliminations on the Group's consolidated subsidiaries.

The segmentation reflects the principles of classification of customers to specific segments in accordance with the Group's business model, which is based on subjective and financial criteria (such as turnover or net assets). This customer classification used in the segment reporting is different with respect to the classification of customers, which was used in the preparation of the other notes to the financial consolidated statements (in particular, note 19. Loans and advances to customers and 24. Amounts due to customers).

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

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

• **Raiffeisen-Leasing Poland S.A.** and **Raiffeisen Insurance Agency Sp. z o.o.** - Retail Banking, Corporate Banking and Asset and Liability Management and Other Activities in accordance with the classification of clients serviced by the subsidiaries,

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

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

• **Raiffeisen-Leasing Service Sp. z o.o.** and **Raiffeisen-Leasing Real Estate Sp. z o.o.** and special purpose entities **Compass Variety Funding LTD and ROOF Poland 2014 LTD.** - Assets and Liabilities Management and Other Activities.

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

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

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

According to the MIS principles within the Group to the result of each segment are allocated also: interest income from the refinancing of equity and subordinated debt and the cost of depreciation of property, plant and equipment and intangible assets. Balance sheet items, with the exception of equity, based on which the above components of P&L were calculated, are recognized in full in the Assets and Liabilities Management and Other Activities segment.

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

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

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

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

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

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

• financial assets held for trading and investment securities portfolios which are classified as investment portfolios and liquidity of the Group,

• classified as related to the activities of ALM: liabilities to banks and other entities in respect of long-term funding, including subordinated debt,

• the remaining balance of cash including cash in the central bank.

Assets and liabilities unallocated consist of:

• property, plant and equipment or intangible assets,

• assets and liabilities in respect of income tax,

• other assets and liabilities.

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

For the financial year ended 31 December 2015	Corporate Banking	Retail Banking	Financial Institutions & Capital Markets	Asasets & Liabilities Management & Other Activities	Total
Interest Income	672 279	765 342	52 983	427 214	1 917 818
Interest Expense	-156 996	-342 829	-106 669	-230 077	-836 571
Interest Income (external)	**515 283**	**422 513**	**-53 686**	**197 137**	**1 081 247**
Interest Income (internal)	-35 508	91 663	88 205	-144 360	0
Net Interest Income	**479 775**	**514 176**	**34 519**	**52 777**	**1 081 247**
Non-interest revenues	343 911	234 276	110 826	-35 902	653 111
Operating Income	**823 686**	**748 452**	**145 345**	**16 875**	**1 734 358**
General administrative expenses	-373 785	-780 217	-60 884	-144 541	-1 359 427
there of: Depreciation	-55 593	-93 564	-6 169	-5 993	-161 319
Provisioning for impairment losses	-105 386	-79 498	462	-2 374	-186 796
Other operating result	36 309	28 169	2 161	-1 425	65 214
Profit before tax	**380 824**	**-83 094**	**87 084**	**-131 465**	**253 349**
Taxes					-67 171
Net profit					**186 178**
Loss attributable to non-controlling interest					0
Profit attributable to the equity holders of the Bank					**186 178**
Allocated assets	15 955 647	23 914 660	3 256 651	17 083 137	60 210 095
Unallocated assets					1 694 848
Total assets	**15 955 647**	**23 914 660**	**3 256 651**	**17 083 137**	**61 904 943**
Allocated liabilities	14 866 793	19 399 561	4 994 107	15 552 559	54 813 020
Unallocated liabilities					702 608
Total liabilities	**14 866 793**	**19 399 561**	**4 994 107**	**15 552 559**	**55 515 628**

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

For the financial year ended 31 December 2014	Corporate Banking	Retail Banking	Financial Institutions & Capital Markets	Asasets & Liabilities Management & Other Activities	Total
Interest Income	727 634	953 221	66 701	400 934	2 148 490
Interest Expense	-213 107	-304 303	-130 552	-276 199	-924 161
Interest Income (external)	**514 527**	**648 918**	**-63 851**	**124 735**	**1 224 329**
Interest Income (internal)	-11 668	-25 319	99 145	-62 158	0
Net Interest Income	**502 859**	**623 599**	**35 294**	**62 577**	**1 224 329**
Non-interest revenues	318 782	262 070	108 861	-18 474	671 239
Operating Income	**821 641**	**885 669**	**144 155**	**44 102**	**1 895 567**
General administrative expenses	-356 089	-899 950	-54 718	-38 606	-1 349 363
there of: Depreciation	-53 195	-112 830	-4 920	-6 458	-177 403
Provisioning for impairment losses	-154 568	49 633	121	-1 741	-106 555
Other operating result	38 996	28 409	9	-61 501	5 913
Profit/(loss) before tax	349 980	63 761	89 567	-57 746	445 562
Taxes					-108 623
Net profit					**336 939**
Profit attributable to non-controlling interest					-741
Profit attributable to the equity holders of the Bank					337 680
Allocated assets	16 410 434	22 082 714	5 299 055	13 142 702	56 934 905
Unallocated assets					1 713 460
Total assets	**16 410 434**	**22 082 714**	**5 299 055**	**13 142 702**	**58 648 365**
Allocated liabilities	14 589 454	15 442 358	7 620 153	14 196 702	51 848 666
Unallocated liabilities					648 124
Total liabilities	**14 589 454**	**15 442 358**	**7 620 153**	**14 196 702**	**52 496 791**

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

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

The Group operates only on the domestic market.

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

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

Main products for Retail customers:

- mortgage loans,
- consumer credit including credit cards and overdraft limits in current accounts,
- financing for micro-companies,
- leasing services,
- deposit products including term deposits and savings accounts,
- brokerage services, investment and insurance products,

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

• personal accounts and transaction services including cash deposits and withdrawals, transfers, payment terminals service, foreign exchange transactions.

Main products for Corporate clients include:

• credit products, including corporate loans, credit cards, project finance, trade finance and factoring,

• leasing services

• deposit products,

• accounts and transaction services, including cash deposits and withdrawals, transfers, account management, cash management,

• treasury products, including foreign exchange transactions, derivatives, debt securities issuance services.

Main products for Financial Institutions are:

• credit products,

• deposit products, accounts, transactional and custody services,

• treasury products including foreign exchange transactions, derivatives, debt securities issuance services.

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

5. Interest income and expense

Interest income	For the financial year ended 31 December 2015	For the financial year ended 31 December 2014
Loans and advances to banks	21 005	29 650
Loans and advances to customers	1 419 836	1 668 803
Financial assets held for trading	176 757	241 414
Derivative hedging instruments	212 292	116 075
Reverse repo instruments	17 445	23 515
Investment securities	70 483	69 034
Total	**1 917 818**	**2 148 490**

Interest expense		
Deposits from banks	-11 563	-23 557
Deposits from customers	-559 373	-596 019
Derivative hedging instruments	-4 916	-6 715
Repo intruments	-10 285	-6 670
Loans and advances received (including subordinated loans)	-216 419	-288 525
Debt securities issued	-34 015	-2 675
Total	**-836 571**	**-924 161**

Net interest income (including):	1 081 247	1 224 329
Total interest income from financial assets other than designated at fair value through profit or loss	1 528 769	1 791 001
Total interest expense related to financial assets other than designated at fair value through profit or loss	-831 655	-917 446

Interest income from financial assets with impairment in 2015 equalled to PLN 57 915 thousand (in 2014 PLN 50 793 thousand, presented in "Income from loans and advances to customers").

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

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

For the financial year ended 31 December 2015	Impairment allowances and provisions at the beginning of the year	Increases		Decreases					Impairment allowances and provisions at the end of the year	Proceeds from sale of receivables and other	Impact on the result for the year
		Impairment allowance recorded during the year	Foreign exchange differences	Impairment allowance reversal	Write-off of assets	Sale of receivables	Reclassification	Foreign exchange differences			
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items valued with individual method											
Amounts due from individuals	17 810	37 291	2 597	-35 007	0	-1 172	-48	0	21 471	0	**-2 284**
Amounts due from micro customers	128 824	86 336	2 849	-60 635	-19 547	0	-14 889	92	123 030	0	**-25 701**
Amounts due from large enterprises	844 236	358 488	7 423	-290 456	-32 788	-97 607	-18 036	303	771 563	16 076	**-51 955**
Amounts due from SME	82 623	31 618	0	-8 099	-6 327	-25 796	0	37	74 056	559	**-22 959**
Off-balance sheet items	26 631	37 969	121	-23 493	0	0	0	0	41 228	0	**-14 476**
Total	**1 100 124**	**551 701**	**12 990**	**-417 690**	**-58 662**	**-124 574**	**-32 973**	**432**	**1 031 348**	**16 635**	**-117 376**
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items valued with group method (including IBNR)											
Amounts due from banks	302	121	0	-257	0	0	0	-1	165	0	**136**
Amounts due from individuals	607 997	291 338	28 338	-242 074	0	-87 802	-2	0	597 795	15 804	**-33 460**
Amounts due from micro customers	338 800	110 540	3 679	-92 053	0	-34 270	14 939	27	341 662	2 621	**-15 866**
Amounts due from large enterprises	66 409	48 930	251	-30 830	0	0	18 036	11	102 807	0	**-18 100**
Amounts due from SME	9 187	7 022	6	-5 563	0	0	0	18	10 670	0	**-1 459**
Amounts due from the public sector	135	155	0	-194	0	0	0	0	96	0	**39**
Off-balance sheet items	8 319	5 524	17	-4 814	0	0	0	0	9 046	0	**-710**
Total	**1 031 149**	**463 630**	**32 291**	**-375 785**	**0**	**-122 072**	**32 973**	**55**	**1 062 241**	**18 425**	**-69 420**
Total allowances and provisions	**2 131 273**	**1 015 332**	**45 281**	**-793 476**	**-58 662**	**-246 646**	**0**	**487**	**2 093 589**	**35 060**	**-186 796**

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

For the financial year ended 31 December 2014	Impairment allowances and provisions at the beginning of the year	Increases		Decreases					Impairment allowances and provisions at the end of the yaer	Proceeds from sale of receivables	Impact on the result for the year restated*
		Impairment allowance recorded during the year	Foreign exchange differences	Impairment allowance reversal	Write-off of assets	Sale of receivables	Reclassification	Foreign exchange differences			
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items valued with individual method											
Amounts due from individuals	10 489	21 622	279	-14 373	0	-207	0	0	17 810	49	**-7 200**
Amounts due from micro customers	102 342	71 654	0	-42 683	-2 221	-268	0	0	128 824	63	**-28 908**
Amounts due from large enterprises	770 211	296 469	11 657	-181 328	-27 860	-24 992	79	0	844 236	428	**-114 713**
Amounts due from SME	83 506	30 119	189	-14 505	-4 385	-12 222	-79	0	82 623	209	**-15 405**
Off-balance sheet items	14 306	31 067	654	-19 396	0	0	0	0	26 631	0	**-11 671**
Total	**980 854**	**450 931**	**12 779**	**-272 285**	**-34 466**	**-37 689**	**0**	**0**	**1 100 124**	**749**	**-177 897**
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items valued with group method (including IBNR)											
Amounts due from banks	205	295	2	-200	0	0	0	0	302	0	**-95**
Amounts due from individuals	1 299 779	392 660	0	-287 234	0	-773 617	278	-23 869	607 997	181 732	**76 306**
Amounts due from micro customers	603 485	223 703	30	-150 900	0	-337 267	-251	0	338 800	79 228	**6 425**
Amounts due from large enterprises	55 013	36 499	700	-25 803	0	0	0	0	66 409	0	**-10 696**
Amounts due from SME	7 516	4 764	9	-2 926	0	-149	-26	0	9 187	3	**-1 835**
Amounts due from the public sector	133	19	0	-17	0	0	0	0	135	0	**-2**
Off-balance sheet items	9 447	5 100	111	-6 339	0	0	0	0	8 319	0	**1 239**
Total	**1 975 578**	**663 039**	**852**	**-473 419**	**0**	**-1 111 033**	**0**	**-23 869**	**1 031 149**	**260 963**	**71 343**
Total allowances and provisions	**2 956 432**	**1 113 970**	**13 631**	**-745 703**	**-34 466**	**-1 148 722**	**0**	**-23 869**	**2 131 273**	**261 712**	**-106 555**

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

7. Fee and commission income and expense

Fee and commission income	For the financial year ended 31 December 2015	For the financial year ended 31 December 2014
Transaction margin on client's foreign exchange deals	288 470	282 542
Proceeds from card transactions	75 144	89 690
Handling and maintaining of bank accounts	42 647	53 180
Transfers and other payment transactions	52 084	52 510
Insurance intermediary	62 084	59 736
Custody activities	32 836	26 527
Lending activities	34 921	25 293
Handling of cash	21 353	23 062
Guarantee-related commitments	21 841	20 700
For preparing documents on clients' behalf	12 853	18 044
Cash receipts	14 130	17 588
From distribution of Open Investment Funds	18 873	10 086
Handling of letters of credit and documentary collection	7 384	8 680
Other	23 098	18 593
Total	**707 718**	**706 231**
Fee and commission expense		
Expenses on card transactions	-14 933	-23 529
Handling of banknote transactions	-20 767	-20 193
Paid to clearing institutions	-18 861	-16 309
Expenses on printing and mailing account statements	-5 480	-6 929
Expenses on brokerage fees (including custody)	-5 551	-4 407
Expenses on service and POS maintenance	-2 085	-3 583
Expenses on BIK services and systems	-3 614	-3 543
Expenses relating to retail clients' accounts	-8 452	-5 132
Transaction margin on client's foreign exchange deals	-5 043	-4 545
Paid to agents	-3 532	-1 092
Paid for loro accounts service	-3 231	-2 948
Other	-2 650	-1 260
Total	**-94 199**	**-93 470**
Net fee and commission income (including):	**613 519**	**612 761**
Total commission income related to financial assets other than designated at fair value through profit or loss	386 412	397 162
Total commission expense related to financial assets other than designated at fair value through profit or loss	-88 648	-89 063

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

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

Net income from financial instruments measured at fair value	For the financial year ended 31 December 2015	For the financial year ended 31 December 2014
Net income realized and unrealized (without the currency component) on currency derivatives	-48 525	-71 338
Net income realized and unrealized (without the currency component) on interest rate based derivatives	34 028	37 421
Net income realized and unrealized on debt instruments	454	-1 275
Total net income from financial instruments measured at fair value	**-14 043**	**-35 192**

Net income from financial instruments in hedge accounting	For the financial year ended 31 December 2015	For the financial year ended 31 December 2014
Fair value hedge	**526**	**257**
Changes in fair value of the hedged instrument	-3 514	7 897
Changes in fair value of the hedging instrument	4 040	-7 640
Cash flow hedge	**-1 010**	**1 787**
Ineffective part of changes in fair value of hedging insturments included in profit or loss	-1 010	1 787
Total net income from financial instruments in hedge accounting	**-484**	**2 044**

Net foreign exchange result	For the financial year ended 31 December 2015	For the financial year ended 31 December 2014
Realized and unrealized foreign exchange differences arising from the currency component of the valuation of derivatives	-739 598	-267 172
Realized and unrealized foreign exchange gains/losses on the valuation of other assets and liabilities	793 717	358 798
Total net foreign exchange result	**54 119**	**91 626**

Total net income from financial instruments measured at fair value and net foreign exchange result	**39 592**	**58 478**

"Net income realized and unrealized (without the currency component) on currency derivatives" contains gains and losses on swaps, forwards and options, except for the separated currency component which constitutes foreign exchange differences. "Net income realized and unrealized (without the currency component) on interest rate based derivatives" contains gains and losses on IRS – interest rate swaps, CIRS, FRA and OIS contracts except for the separated currency component which constitutes foreign exchange differences. More details on derivatives are provided in Note 15 to the consolidated financial statement.

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

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

Additional information on hedged and hedging financial instruments is presented in Note 16 to the consolidated financial statement.

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

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

9. General administrative expenses

9.1. Salaries, wages and other employee benefits

Salaries, wages and other employee benefits	For the financial year ended 31 December 2015	For the financial year ended 31 December 2014
Salaries and wages	-480 521	-516 763
Social insurance costs	-80 508	-79 288
Costs of jubilee programs	-135	-6 302
Other employee benefits	-17 029	-17 692
Total	**-578 193**	**-620 044**

9.2. Other administrative expenses

Other administrative expenses	For the financial year ended 31 December 2015	For the financial year ended 31 December 2014
Maintenance and rental of buildings	-142 958	-155 690
including lease installments	-109 721	-119 086
IT and telecommunication costs	-107 774	-135 513
Contribution and payments to Bank Guarantee Fund	-164 767	-52 763
Consulting services	-14 644	-43 404
Marketing costs	-35 972	-43 847
Training costs	-15 701	-20 380
Costs of other lease installments	-5 082	-3 309
Costs of Borrowers' Support Fund	-39 280	0
Other sundry costs	-93 739	-97 009
Depreciation cost including:	-161 319	-177 403
depreciation cost on property, plant and equipment	-76 595	-76 797
depreciation cost on intangible assets	-84 723	-100 606
Total	**-781 234**	**-729 319**

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

10. Other operating income and expense

Other operating income	**For the financial year ended 31 December 2015**	**For the financial year ended 31 December 2014**
Revenue from non-banking activities	45 898	38 364
Release of other provisions	5 690	8 143
Income on disposal of property, plant and equipment and intangible assets	11 025	1 143
Reversal of impairment allowance on other assets	122	3 652
Reversal of other asset write offs	338	1 165
Other operating income - other	27 237	14 950
Total	**90 310**	**67 418**

The Parent Entity sold its pre-emption right to new headquarters in return for the amount of PLN 8 492 thousand, which is presented in "Other operating income - other".

Other operating expense	**For the financial year ended 31 December 2015**	**For the financial year ended 31 December 2014**
Expenses on non-banking activities	-68	-255
Expenses on allocation to other provisions	-3 351	-15 468
Impairment of fixed assets	-326	-4 507
Costs of sale and disposal of property,plant and equipment and intangible assets	-6 711	-12 634
Debt collection costs	-7 261	-13 604
Other operating expenses - other	-7 379	-15 038
Total	**-25 096**	**-61 505**

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

11. Income tax expense

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

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

CHANGES OF TEMPORARY DIFFERENCES DURING FINANCIAL YEAR ENDED 31 DECEMBER 2014	AS AT THE BEGINNING OF THE YEAR	CHANGES			AS AT THE END OF THE YEAR
		Other relating to consolidation	Profit or loss statement	Other comprehensive income	
Deferred income tax asset					
Interest accrued, payable (cost), including:	40 443	0	29 366	0	**69 809**
Interest on deposits	38 716	0	30 191	0	**68 907**
Interest on securities and derivatives	1 727	0	-825	0	**902**
Fair value of derivatives (without the currency component) and securities	42 456	0	-10 245	8 777	**40 988**
Negative foreign exchange differences	71	0	7 937	0	**8 008**
Commission settled using effective interest rate	31 921	0	4 307	0	**36 228**
Impairment allowance not recognized as tax-deductible costs	346 425	300	-174 204	0	**172 521**
Lease agreements valuation differences	241 169	0	91 834	0	**333 003**
Other (including impairment on other assets)	833	312	234	0	**1 379**
Deferred costs	58 288	102	-15 068	0	**43 322**
Other	21 054	20	-854	0	**20 220**
Tax loss	0	482	37 578	0	**38 060**
Deferred tax asset, gross	**782 661**	**1 216**	**-29 115**	**8 777**	**763 539**
Deferred tax provision					
Interest accrued, receivable (income), including:	83 557	0	21 098	0	**104 655**
Interest on loans	78 177	0	13 448	0	**91 625**
Interest on securities and derivatives	5 355	0	6 965	0	**12 320**
Discount on securities	25	0	685	0	**710**
Bonds valuation	20 412	0	-10 250	0	**10 162**
Fair value of derivatives (without the currency component) and securities	47 243	0	-16 465	37	**30 815**
Commission settled using effective interest rate	52 439	0	-2 789	0	**49 650**
Difference between depreciation for tax and accounting purposes	27 005	0	-1 598	0	**25 407**
Positive foreign exchange differences	0	0	798	0	**798**
Other	51 292	0	2 959	0	**54 251**
Deferred tax provision, gross	**281 949**	**0**	**-6 247**	**37**	**275 739**
Deferred tax charge	**500 713**	**1 216**	**-22 868**	**8 740**	**487 800**
Deferred tax asset, net	**500 713**	**1 216**	**-22 868**	**8 740**	**487 800**

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

Calculation of effective tax rate	**For the financial year ended 31 December 2015**	**For the financial year ended 31 December 2014**
Profit before tax	253 349	445 562
Current income tax at the local tax rate on profit before tax (19%)	-48 136	-84 657
Tax effect of non-deductible expenses	-19 667	-19 222
Tax effect of non-taxable income	633	-4 744
Total income tax charge	**-67 171**	**-108 623**

Reconciliation of tax referred to income statement	**For the financial year ended 31 December 2015**	**For the financial year ended 31 December 2014**
Current income tax	-149 364	-82 198
Correction of current income tax regarding previous years	-1 393	-3 556
Deferred tax	**83 586**	**-22 868**
Total income tax charge	**-67 171**	**-108 623**

12. Earnings per share

12.1. Profit per share

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

	For the financial year ended 31 December 2015	**For the financial year ended 31 December 2014**
Net profit attributable to the equity holders of the Bank (in PLN thous.)	186 178	337 680
Weighted average number of ordinary shares in the period (in units)	248 260	243 335
Profit per one share	**750**	**1 388**

12.2. Diluted profit per share

In 2015 and in 2014 there were no diluting events relating to profit per share. The Group did not issue bonds convertible to shares or options for shares. Consequently, the diluted profit per share is equal profit per share.

Diluted earnings per share	**For the financial year ended 31 December 2015**	**For the financial year ended 31 December 2014**
Net profit attributable to the equity holders of the Bank (in PLN thous.)	186 178	337 680
Weighted average number of ordinary shares in the period (in units)	248 260	243 335
Diluted profit per one share	**750**	**1 388**

Notes to the consolidated statement of financial position

13. Cash and balances with Central Bank

	31 December 2015	31 December 2014
Cash at hand	1 067 024	1 757 367
Balances with the Central Bank	1 636 486	926 508
Total	**2 703 510**	**2 683 875**

Intraday, the Group is allowed to use cash deposited on the mandatory reserve accounts for current settlements based on orders sent to the National Bank of Poland. However, the Group must ensure maintaining an average monthly balance on this account in an appropriate amount as stated in the mandatory reserve declaration. The declared mandatory reserve to be held in December 2015 amounted to PLN 1 418 802 thousand and PLN 1 151 717 thousand in December 2014. These funds bear interest of 0.9 of referencing rate of NBP. As at 31 December 2015 the interest rate amounted to 1.35 % (as at 31 December 2014 1.8 %).

14. Amounts due from bank

	31 December 2015	31 December 2014
Collateral deposits	1 051 393	496 249
Cash on current accounts	169 296	40 889
Loans and advances to banks	57 389	28 832
Deposits with other banks	48 437	89 223
Gross amounts due from banks	**1 326 515**	**655 193**
Impairment allowance	-165	-302
Net amounts due from banks	**1 326 350**	**654 891**

As at 31 December 2015 and as at 31 December 2014 Loans and advances to banks consisted entirely of floating rate receivables and Deposits with other banks comprised of fixed rate receivables. The average interest rate of deposits with other banks and loans and advances to banks in 2015 amounted to 2.02 % (2.96 % as at 31 December 2014). Long term amounts due from banks as at 31 December 2015 amounted to PLN 42 656 thousand (PLN 16 926 thousand as at 31 December 2014).

The principles for recording of repo transactions are presented in Note 2.10. Repo and reverse repo transactions. There were no „buy sell back" transactions with other banks as at the end of both 2015 and 2014.

Collateral deposits are collaterals for open derivatives with negative valuation, presented in liabilities in "Derivative financial instruments".

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

15. Derivative financial instruments and embedded instruments

15.1. Derivative financial instruments

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

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

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

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

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

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

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

Fair values of derivative financial instruments are presented below:

	31 December 2015			31 December 2014		
	Nominal value of instruments	Fair values		Nominal value of instruments	Fair values	
		Assets	Liabilities		Assets	Liabilities
Derivative financial instruments in the trading portfolio						
Currency swaps and forwards (fx swap and fx forward)	50 048 441	390 363	390 121	34 958 540	668 717	591 600
Options acquired or sold OTC	2 295 927	14 831	14 843	2 430 436	23 848	21 226
Currency interest rate swaps (CIRS)	0	0	0	1 167 268	0	53 575
Total foreign exchange derivatives	**52 344 368**	**405 194**	**404 963**	**38 556 244**	**692 565**	**666 400**
Interest rate swaps (IRS)	12 822 009	145 236	92 798	8 902 128	193 723	136 464
Forward Rate Agreement (FRA)	3 550 000	3 059	6 103	13 300 000	13 104	20 857
Total interest rate derivatives	16 372 009	148 295	98 901	22 202 128	206 827	157 321
Total	**68 716 377**	**553 489**	**503 864**	**60 758 372**	**899 392**	**823 721**
Derivative financial instruments in cash flow hedges						
FX swaps	1 859 368	4 207	43 265	4 278 758	1 320	50 325
Currency interest rate swaps (CIRS)	6 983 603	4 350	910 946	5 642 898	0	225 680
Total	**8 842 970**	**8 557**	**954 211**	**9 921 656**	**1 320**	**276 005**
Derivative financial instruments in fair value hedges						
Interest rate swaps (IRS)	123 822	0	20 536	130 585	0	24 576
Total	**123 822**	**0**	**20 536**	**130 585**	**0**	**24 576**
Total derivatives financial instruments	**77 683 169**	**562 046**	**1 478 611**	**70 810 613**	**900 712**	**1 124 302**

Notes to the statement of financial position (cont.)

16. Hedge accounting

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

At the end of December 2005, the Parent Entity granted a fixed interest rate loan for a period of 15 years with a nominal value of EUR 45 million and hedged it with an interest rate swap with a nominal value of EUR 44.9 million. The change in the valuation of the loan and of the hedging transaction as at 31 December 2015 and 2014 is presented in the tables below. The information on the ineffective portion of the hedge transferred to the income statement is presented in Note 8.

	For the financial year ended 31 December 2015	For the financial year ended 31 December 2014
Result on change in fair value of hedging instrument	4 040	-7 640
Result on change in fair value of hedged instrument	-3 514	7 897
Result on fair value hedge accounting	526	257
Interest result on derivative hedge instrument	-4 916	-4 905
	For the financial year ended 31 December 2015	**For the financial year ended 31 December 2014**
Nominal value of hedging instrument	123 822	130 585
Nominal value of hedged instrument	123 822	130 603

The Group applies hedge accounting in cash flow hedges to hedge both interest rate risk and currency risk arising from floating rate mortgage loans granted in CHF and EUR and floating interest rate deposits taken in PLN. The Group uses:

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

- forward transaction to sell CHF,

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

Nominal and fair values of hedging derivatives are presented in Note 15.

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

Notes to the statement of financial position (cont.)

	For the financial year ended 31 December 2015	For the financial year ended 31 December 2014
Revaluation reserves (deferred changes in fair value of hedging instruments recognized as an effective hedge - gross)	10 585	-52 419
Net interest income on hedging derivatives	212 292	114 263
Ineffective change in fair value of hedging transactions presented in the profit or loss statement	-1 010	1 787

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

	For the financial year ended 31 December 2015	For the financial year ended 31 December 2014
Revaluation reserves (deferred changes in fair value of hedging instruments recognized as an effective hedge - gross) at the beginning of the year	**-57 443**	**-5 025**
Revaluation reserves (revaluation with interests realized within the year)	-600 204	-210 891
Interest result on derivative financial instruments in cash flow hedges	-212 292	-114 253
Result on revaluation of derivative financial instruments in cash flow hedges	822 071	274 514
Ineffective change in fair value of hedging transactions presented in the profit or loss statement	1 010	-1 787
Revaluation reserves (deferred changes in fair value of hedging instruments recognized as an effective hedge - gross) at the end of the year	**-46 858**	**-57 443**

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

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

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

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

31 December 2014	Maturity					Total
	within 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	
Derivative financial instruments in cash flow hedges						
FX swaps	2 731 151	1 547 607	0	0	0	4 278 758
Currency interest rate swaps (CIRS)	0	0	0	3 605 330	2 037 568	5 642 898
Total	**2 731 151**	**1 547 607**	**0**	**3 605 330**	**2 037 568**	**9 921 656**
Derivative financial instruments in fair value hedges						
Interest rate swaps (IRS)	0	0	0	0	130 585	130 585
Total	**0**	**0**	**0**	**0**	**130 585**	**130 585**

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

17. Financial assets held for trading

Financial assets held for trading	31 December 2015	31 December 2014
Bonds and bills issued by the State Treasury	332 392	196 511
Bonds convertible to shares	0	63 808
NBP bills	12 146 112	0
Corporate bonds	74 316	78 962
Mortgage bonds	17 590	22 343
Total	**12 570 410**	**361 623**

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

Convertible bonds were compound financial instruments, the derivative financial instrument embedded in a bond was based on an unquoted equity instrument, fair value of which could not be reliably estimated either. In view of the above, the entire instrument was classified as held for trading and measured at amortized cost less impairment. In 2015 the convertible bonds were fully redeemed.

Non-current receivables arising from financial instruments measured at fair value at the end of 2015 amounted to PLN 384 798 thousand (PLN 345 780 thousand at the end of 2014).

18. Investment securities

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

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

For the financial year ended 31 December 2014	At the beginning of the year	Increases	Decreases (sale, redemption and other)	Change of accrued interests, discount and valuation	Foreign exchange differences	Impairment	At the end of the year
Investment securities held to maturity							
Treasury bonds	1 248 498	495 876	0	7 179	0	0	**1 751 553**
NBP bills	0	9 699 462	0	0	0	0	**9 699 462**
Total held to maturity	1 248 498	10 195 337	0	7 179	0	0	**11 451 014**
Investment securities available for sale							
Equity investments	69 768	2 724	-28 047	0	6	-2 348	**42 104**
Financial instruments blocked for BFG	189 975	1 352 813	-1 370 000	7 978	0	0	**180 766**
Corporate bonds	294 169	109 404	-59 174	6 954	0	0	**351 353**
Treasury bonds	0	497 750	0	6 122	0	0	**503 872**
Total available for sale	553 912	1 962 691	-1 457 221	21 054	6	-2 348	**1 078 095**
Total	**1 802 410**	**12 158 028**	**-1 457 221**	**28 233**	**6**	**-2 348**	**12 529 109**

Information on fair value of financial investment is presented in Note 38. As at 31 December 2015 and 31 December 2014 impairment allowance on equity investment amounted to PLN 14 548 thousand.

Non-current receivables from investment securities as at the end of 2015 amounted to PLN 3 622 192 thousand (PLN 2 274 245 thousand as at the end of 2014).

In December 2015 the Bank received a letter concerning settlement of purchase of 100% of shares of Visa Europe Limited („Visa Europe") by Visa Inc. Subject to regulatory approvals, the transaction is due to close in the second calendar quarter of 2016. According to the received information the Bank will be eligible to receipt of EUR 12 604 thousand in cash and EUR 4 325 thousand in Visa Inc. preferred stock. These figures are not final and can be amended as a consequence of transaction costs and any successful other member appeals. There is the potential for an additional earn-out which shall be payable in cash following the end of the 16th financial quarter post-closing under the condition the Bank will continue to be a principal member (or equivalent) of Visa during the earn-out period. Credible valuation of the payment as at the reporting day is not possible.

As at 31 December 2015 the Bank performed reappraisal of the value of the possessed share in Visa Europe to fair value determined as value of the cash payment equal EUR 12 604 thousand, equivalent PLN 53 712 thousand. The result of reappraisal was presented in Revaluation reserves of assets available for sale. The Bank did not include a part of settlement regarding distribution of Visa Inc. shares due to lack of possibility of credible valuation of these shares as at the reporting day.

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

19. Loans and advances to customers

Clients' segmentation used in the notes below is based on risk classes attributed to the particular clients according to the Group's internal principles and is distinct to the classification of clients presented in Note 4 "Information on activity segments", which is based on business model of the Group.

Loans and advances to customers by borrower segment	31 December 2015			31 December 2014		
	Gross amount	Impairment allowance	Net amount	Gross amount	Impairment allowance	Net amount
Individual customers	19 923 568	619 266	19 304 302	18 758 999	625 807	18 133 192
Micro customers	5 871 098	464 692	5 406 406	5 428 491	467 624	4 960 867
Large enterprises	13 322 786	874 370	12 448 416	15 919 169	910 645	15 008 524
including buy sell back	40 429	0	40 429	1 651 297	0	1 651 297
SME	2 110 144	84 726	2 025 418	1 778 881	91 810	1 687 071
Public sector	21 679	96	21 583	29 779	135	29 644
Total	**41 249 275**	**2 043 150**	**39 206 125**	**41 915 319**	**2 096 021**	**39 819 298**

The total balance of loans and advances to customers includes also receivables from finance leases.

Non-current receivables from loans and advances to customers as at the end of 2015 amounted to PLN 29 602 843 thousand (PLN 28 672 534 thousand as at the end of 2014).
Information on the net provisioning for impairment losses on financial assets and provisions for off-balance sheet items is presented in Note 6.

The value of repurchase transaction (buy sell back) with clients as at 31 December 2015 amounted to PLN 40 429 thousand (PLN 1 651 297 thousand as at 31 December 2014), fair value of securities bought in these transactions amounted to PLN 40 209 thousand as at 31 December 2015 (PLN 1 631 976 thousand as at 31 December 2014).

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

Loans and advances to customers by quality

31 December 2015	Loans and advances to customers -without impairment trigger and not impaired	Group impairment allowance IBNR	Loans and advances to customers -with impairment trigger but not impaired	Group impairment allowance IBNR	Loans and advances valued with individual method	Individual allowance	Loans and advances to customers valued with group method	Group impairment allowance	Net amount
Individual customers	18 983 226	64 273	2 122	0	45 534	21 468	892 686	533 525	**19 304 302**
Micro customers	5 021 442	32 625	4 397	0	162 636	123 033	682 623	309 034	**5 406 406**
Large enterprises	11 379 179	56 777	560 895	23 698	1 234 867	771 561	147 845	22 334	**12 448 416**
including buy sell back transaction	40 429	0	0	0	0	0	0	0	**40 429**
SME	1 990 194	8 924	25 430	1 744	94 520	74 058	0	0	**2 025 418**
Public sector	21 679	96	0	0	0	0	0	0	**21 583**
Total	**37 395 720**	**162 695**	**592 844**	**25 442**	**1 537 557**	**990 120**	**1 723 154**	**864 893**	**39 206 125**

Loans and advances to customers by quality

31 December 2014	Loans and advances to customers -without impairment trigger and not impaired	Group impairment allowance IBNR	Loans and advances to customers -with impairment trigger but not impaired	Group impairment allowance IBNR	Loans and advances valued with individual method	Individual allowance	Loans and advances to customers valued with group method	Group impairment allowance	Net amount
Individual customers	17 866 825	84 570	0	0	36 398	17 806	855 776	523 431	**18 133 192**
Micro customers	4 602 437	52 847	0	0	197 413	128 825	628 641	285 952	**4 960 867**
Large enterprises	13 880 739	45 730	496 215	20 679	1 542 215	844 236	0	0	**15 008 524**
including buy sell back transaction	1 651 297	0	0	0	0	0	0	0	**1 651 297**
SME	1 647 328	7 887	19 890	1 297	111 663	82 626	0	0	**1 687 071**
Public sector	29 779	135	0	0	0	0	0	0	**29 644**
Total	**38 027 108**	**191 169**	**516 105**	**21 976**	**1 887 689**	**1 073 493**	**1 484 417**	**809 383**	**39 819 298**

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

Finance lease receivables

	31 December 2015	31 December 2014
Gross finance lease receivables maturing within:	**5 397 440**	**5 049 692**
Up to 1 year	2 142 987	1 928 916
1 to 5 years	3 031 711	2 800 879
More than 5 years	222 742	319 897
Unrealized future finance income from finance leases:	**418 571**	**443 306**
Up to 1 year	187 936	184 810
1 to 5 years	209 648	221 474
More than 5 years	20 987	37 022
Present value of future finance lease installments	**4 978 869**	**4 606 386**
Present value of future finance lease installments maturing within:	**4 978 869**	**4 606 386**
Up to 1 year	1 955 051	1 744 106
1 to 5 years	2 822 063	2 579 405
More than 5 years	201 755	282 875

Portfolio characteristics

The structure of the leasing portfolio (net value), broken down by types of leased assets:

	31 December 2015	%	31 December 2014	%
Lease of vehicles	3 488 436	73%	3 482 559	80%
Lease of real estate	455 515	10%	410 002	9%
Lease of machinery and equipment	811 020	17%	474 668	11%
Total	**4 754 971**	**100%**	**4 367 229**	**100%**

There is no non-guaranteed residual value of leased assets in the finance lease transactions. Leaseholders acquire the leased assets at the end of the contract at a price lower than current market value. Occasionally there is a third party guarantee to purchase the leased asset at the end of the lease.

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

Lease portfolio characteristics for the contracts concluded during the year:

Summary of the lease portfolio for agreements concluded during the year	**31 December 2015**	**31 December 2014**
Machinery and equipment		
Purchase price	561 712	456 693
Financed value	479 791	395 750
Average duration of agreement (in months)	50	50
Number of agreements	6 150	4 339
Vehicles		
Purchase price	2 327 084	2 163 056
Financed value	1 932 492	1 782 530
Average duration of agreement (in months)	43	44
Number of agreements	18 376	16 857
Real estate		
Purchase price	35 953	141 790
Financed value	28 644	105 829
Average duration of agreement (in months)	120	120
Number of agreements	9	11
Total		
Purchase price	2 924 749	2 761 539
Financed value	2 440 927	2 284 109
Average duration of agreement (in months)	45	48
Number of agreements	24 535	21 207

Unrealized interest income	**Agreements concluded in 2015 – as at 31 December 2015**	**Agreements concluded in 2014 – as at 31 December 2014**
1-3 months	24 488	25 063
3 months - 1 year	62 546	64 785
1-5 years	106 912	120 101
More than 5 years	2 255	10 283
Total	**196 201**	**220 232**

Sum of minimal lease payments	**Agreements concluded in 2015 – as at 31 December 2015**	**Agreements concluded in 2014 – as at 31 December 2014**
1-3 months	171 331	132 400
3 months - 1 year	512 579	402 782
1-5 years	1 609 844	1 396 026
More than 5 years	22 173	72 242
Total	**2 315 927**	**2 003 450**

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

20. Intangible assets

For the financial year ended 31 December 2015	Goodwill	"Polbank" brand	Customer relation-ships	Computer software	Computer software under development	Advances for intangible assets	Total
GROSS AMOUNT							
As st 1 January 2015	**32 966**	**200 000**	**70 400**	**677 336**	**35 885**	**10 977**	**1 027 564**
Additions during the year, including:	0	0	0	53 280	788	0	54 068
Direct additions during the year	0	0	0	8 763	45 796	0	54 559
Internal development	0	0	0	44 517	-45 007	0	-491
Disposals during the year	0	0	0	-18 424	-2 284	-2 149	-22 858
As at 31 December 2015	**32 966**	**200 000**	**70 400**	**712 191**	**34 389**	**8 828**	**1 058 774**
ACCUMULATED DEPRECIATION							
As st 1 January 2015	**0**	**0**	**29 884**	**407 623**	**0**	**0**	**437 507**
Depreciation charge for the year	0	0	13 951	70 773	0	0	84 724
Disposals during the year	0	0	0	-15 773	0	0	-15 773
As at 31 December 2015	**0**	**0**	**43 835**	**462 622**	**0**	**0**	**506 457**
IMPAIRMENT							
As st 1 January 2015	**0**	**0**	**0**	**9**	**649**	**0**	**658**
Additions	0	0	0	0	0	0	0
Decreases	0	0	0	0	0	0	0
As at 31 December 2015	**0**	**0**	**0**	**9**	**649**	**0**	**658**
NET AMOUNT							
As st 1 January 2015	**32 966**	**200 000**	**40 516**	**269 704**	**35 236**	**10 977**	**589 399**
As at 31 December 2015	**32 966**	**200 000**	**26 565**	**249 560**	**33 740**	**8 828**	**551 659**

In 2015 and 2014, there were no restrictions as to the legal title to intangible assets and intangible assets are not pledged as collateral in borrowing transactions.

The amount of contractual commitments for the acquisition of intangible assets as of 31 December 2015 equaled to PLN 1 431 thousand (PLN 2 869 thousand as of 31 December 2014). The agreements will be executed within one year.

The Group's intangible assets include goodwill, the "Polbank" brand and customer relationships which were recognized as a result of acquisition of Polbank - EFG S.A.

Goodwill and "Polbank" brand have indefinite useful lives, therefore they are not amortized but are subject to annual impairment tests. As at 31 December 2015, the Parent Entity performed an impairment test of goodwill and "Polbank" brand. The test did not reveal a necessity to record an impairment allowance.

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

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

The impairment test of the "Polbank" brand and goodwill has been described in Note 3.5 to the financial statements.

As of 31 December 2015 the Group recognized impairment on computer software under development due to decisions not to continue selected projects.

For the financial year ended 31 December 2014	Goodwill	"Polbank" brand	Customer relation-ships	Computer software	Computer software under development	Advances for intangible assets	Total
GROSS AMOUNT							
As st 1 January 2014	**32 966**	**200 000**	**70 400**	**624 852**	**81 769**	**14 853**	**1 024 840**
Additions during the year, including:	0	0	0	120 064	-43 638	0	76 425
Direct additions during the year	0	0	0	9 898	66 528	0	76 426
Internal development or reclassification	0	0	0	110 166	-110 166	0	0
Disposals during the year	0	0	0	-67 579	-2 246	-3 876	-73 701
As at 31 December 2014	**32 966**	**200 000**	**70 400**	**677 336**	**35 885**	**10 977**	**1 027 564**
ACCUMULATED DEPRECIATION							
As st 1 January 2014	**0**	**0**	**11 745**	**380 753**	**0**	**0**	**392 498**
Depreciation charge for the year	0	0	18 139	82 469	0	0	100 607
Disposals during the year	0	0	0	-55 598	0	0	-55 598
As at 31 December 2014	**0**	**0**	**29 884**	**407 623**	**0**	**0**	**437 507**
IMPAIRMENT							
As st 1 January 2014	**0**	**0**	**0**	**2 051**	**1 550**	**0**	**3 601**
Additions	0	0	0	40	0	0	40
Decreases	0	0	0	-2 082	-901	0	-2 983
As at 31 December 2014	**0**	**0**	**0**	**9**	**649**	**0**	**658**
NET AMOUNT							
As st 1 January 2014	**32 966**	**200 000**	**58 655**	**242 048**	**80 219**	**14 853**	**628 741**
As at 31 December 2014	**32 966**	**200 000**	**40 516**	**269 704**	**35 236**	**10 977**	**589 399**

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

21. Property, plant and equipment

For the financial year ended 31 December 2015	Buildings, apartments and leasehold improvements	Technical equipment and machinery	Vehicles	Other tangible assets	Assets under construction	Advances for property, plant and equipment	Total
GROSS AMOUNT							
As st 1 January 2015	**240 590**	**336 428**	**187 929**	**42 926**	**9 441**	**2 369**	**819 683**
Additions during the year, including:	2 119	20 285	59 395	1 913	-354	515	83 873
Direct additions during the year	648	12 631	59 395	822	9 363	515	83 373
Internal development	1 471	7 654	0	1 090	-9 717	0	499
Disposals during the year	-9 756	-17 124	-57 210	-3 223	-240	0	-87 554
As at 31 December 2015	**232 953**	**339 589**	**190 114**	**41 616**	**8 846**	**2 884**	**816 002**
ACCUMULATED DEPRECIATION	**0**	**0**	**0**	**0**	**0**	**0**	**0**
As st 1 January 2015	**171 849**	**248 958**	**51 126**	**34 579**	**0**	**0**	**506 512**
Depreciation charge for the year	15 784	31 230	27 242	2 340	0	0	76 595
Disposals during the year	-6 039	-16 520	-29 274	-3 108	0	0	-54 941
Reclassification and other	0	-4	0	4	0	0	0
As at 31 December 2015	**181 593**	**263 664**	**49 094**	**33 814**	**0**	**0**	**528 166**
IMPAIRMENT	0	0	0	0	0	0	0
As st 1 January 2015	**396**	**4 262**	**3 782**	**32**	**1 703**	**0**	**10 175**
Additions	3 188	802	375	62	0	0	4 427
Decreases	-2 524	-409	0	-62	0	0	-2 994
As at 31 December 2015	**1 060**	**4 655**	**4 157**	**32**	**1 703**	**0**	**11 608**
NET AMOUNT	0	0	0	0	0	0	0
As st 1 January 2015	**68 346**	**83 208**	**133 021**	**8 315**	**7 738**	**2 369**	**302 996**
As at 31 December 2015	**50 299**	**71 269**	**136 863**	**7 769**	**7 143**	**2 884**	**276 229**

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

For the financial year ended 31 December 2014	Buildings, apartments and leasehold improvements	Technical equipment and machinery	Vehicles	Other tangible assets	Assets under construction	Advances for property, plant and equipment	Total
GROSS AMOUNT							
As st 1 January 2014	**235 943**	**337 800**	**157 622**	**45 393**	**6 732**	**3 624**	**787 114**
Additions during the year, including:	13 312	10 699	84 639	896	3 309	0	**112 856**
Direct additions during the year	11 341	5 073	84 639	450	11 352	0	**112 856**
Internal development or reclassification	1 971	5 626	0	446	-8 043	0	**0**
Disposals during the year	-8 665	-12 071	-54 332	-3 363	-601	-1 255	**-80 287**
As at 31 December 2014	**240 590**	**336 428**	**187 929**	**42 926**	**9 441**	**2 369**	**819 683**
ACCUMULATED DEPRECIATION							
As st 1 January 2014	**154 889**	**225 138**	**55 069**	**34 248**	**0**	**0**	**469 344**
Depreciation charge for the year	15 181	33 793	24 778	3 024	0	0	**76 776**
Disposals during the year	0	-9 964	-28 721	-2 697	0	0	**-41 383**
Reclassification	1 779	-8	0	4	0	0	**1 775**
As at 31 December 2014	**171 849**	**248 958**	**51 126**	**34 579**	**0**	**0**	**506 512**
IMPAIRMENT							
As st 1 January 2014	**8 123**	**1 483**	**3 299**	**471**	**2 284**	**0**	**15 660**
Additions	736	4 205	710	30	0	0	**5 681**
Decreases	-8 464	-1 426	-227	-469	-581	0	**-11 166**
As at 31 December 2014	**396**	**4 262**	**3 782**	**32**	**1 703**	**0**	**10 175**
NET AMOUNT							
As st 1 January 2014	**72 931**	**111 179**	**99 254**	**10 674**	**4 448**	**3 624**	**302 110**
As at 31 December 2014	**68 346**	**83 208**	**133 021**	**8 315**	**7 738**	**2 369**	**302 996**

In 2015 and 2014, there were no restrictions as to the legal title to property, plant and equipment and intangible assets are not pledged as collateral in borrowing transactions.

The amount of contractual commitments for the acquisition of property, plant and equipment as of 31 December 2015 equaled to PLN 3 860 thousand (PLN 47 thousand as of 31 December 2014). The agreements will be executed within one year.

As at 31 December 2015 and 31 December 2014, the Group did not use any other property, plant and equipment in financial leases.

As at 31 December 2015 the Group recognized impairment of property, plant and equipment due to decisions not to continue the development of selected assets or decisions not to further use selected assets.

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

22. Other assets

Other assets	31 December 2015	31 December 2014
Financial assets gross, including:		
Collection of bills and cheques	368	526
Sundry debtors	100 717	56 437
Settlements with brokerage offices – receivables	5 225	4 414
Settlements of payment cards transactions - receivables	76 052	76 725
Total financial assets, gross	**182 362**	**138 101**
Impairment allowance	-4 925	-3 637
Total financial assets, net	**177 438**	**134 464**
Non-financial assets gross, including:		
Accruals and prepayments	50 249	45 200
Income receivable	3 787	1 032
Assets acquired for debt	9 125	21 706
Other	10 432	13 517
Public (law) settlements	57 680	78 335
Total non-financial assets, gross	**131 273**	**159 790**
Impairment allowance	-3 209	-3 529
Total non-financial assets, net	**128 063**	**156 261**
Total	**305 501**	**290 725**

Non-current receivables as at the end of 2015 amounted to PLN 22 766 thousand (PLN 22 119 thousand at the end of 2014).

Legal dispute of the Parent Entity with the Tax Authority regarding income tax liabilities.

Public (law) settlements primarily include the amount of disputed claims for overpaid income tax. In 2009 the Parent Entity was subject to two tax inspections concerning the correctness of corporate income tax settlements in 2004 and 2007. In 2012 there was another examination of corporate income tax settlement for 2006. As a result, the tax authorities expressed an opinion different to the one of the Management of the Parent Entity as to the tax treatment of the result on investments made in 2004, 2006 and 2007. Having maintained its stance on the correctness of tax settlement the Parent Entity has paid the tax liabilities with interests and recognized at the same time receivables from the Tax Authority. Tax inspections regarding income tax settlements was finalized with decisions of Director of the Tax Chamber. Parent Entity made and appeal against this decision to Voivodeship Administrative Court.

The Voivodeship Administrative Court overruled the decisions issued by the Director of the Tax Chamber for years 2004, 2006 and 2007. The tax authority appealed for years 2004, 2006 and 2007 to Supreme Administrative Court. On 24 November, 2015 Supreme Administrative Court overruled the appealed judgments and passed the cases for renewed recognition by the Voivodeship Administrative Court. The

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

amount of disputed claim amounted to PLN 79 920 thousand, including the main claim of PLN 57 188 thousand and paid penalty interests amounting to PLN 22 732 thousand.

Legal dispute of a subsidiary with the Tax Authority regarding income tax liabilities.

In 2008 a subsidiary – Raiffeisen Leasing Polska S.A. was subject to a tax inspection concerning the correctness of corporate income tax settlements in 2006. As a result the tax authorities expressed an opinion different than the Management of the Subsidiary as to the tax treatment of the result on investments made in 2006. Having maintained its stance on the correctness of tax settlement the Subsidiary has paid the tax liabilities and recognized at the same time receivables from the Tax Authority. As at 31 December 2015 the total balance of tax receivables amounted to PLN 14 176 thousand (PLN 14 176 thousand as at 31 December 2014).

Supreme Administrative Court in Warsaw in 17 November 2015 in reply to the appeal made by the Director of the Tax Chamber in Warsaw overruled the decision of the court of the first instance and forwarded the case to be analyzed again by the Voivodeship Administrative Court in Warsaw. On 12 February 2016 the Voivodeship Administrative Court in Warsaw overruled the appeal made by the Subsidiary and kept in force decisions made by the Director of Tax Chamber in Warsaw. To the date of the approval of these consolidated financial statements by the Management of the Parent Entity the ruling of the Voivodeship Administrative Court in Warsaw did not come into force. The Subsidiary is going to appeal to the Supreme Administrative Court in Warsaw.

Risk assessment of the above mentioned dispute made by the Management of the Parent Entity

Polish tax regulations are subject to interpretations and changes, therefore as shown above, it is theoretically possible that interpretation of these regulations by tax authorities may differ from the one applied by the Group, which may result in tax authorities striving to assess a different amount of tax than that actually paid by the Group.

Nevertheless, as at the date of signing the consolidated financial statements, the Management of the Parent Entity maintains its stance regarding the correctness of income tax settlements of the Parent Entity and subsidiary Raiffeisen-Leasing Polska S.A. In Parent Entity Management Board opinion and in opinion of the Group the standing of the Tax Authority resulting from the inspection is unfounded and expected to be solved positively and as a result the Tax Authority would return to the Group paid tax receivables with interests.

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

Change in impairment allowance on other receivables	For the financial year ended 31 December 2015	For the financial year ended 31 December 2014
At the beginning of the period	**7 166**	**17 705**
Consolidated for the first time	0	1 708
Reclasification	0	-3 502
Impairment allowance recorded	4 887	4 434
Use of impairment allowance	-785	-5 815
Reversal of impairment allowance	-3 134	-7 363
As at the end of the period	**8 134**	**7 166**

23. Amounts due to banks and other monetary institutions

	31 December 2015	31 December 2014
Current accounts	251 817	958 183
Term deposits	226 973	858 558
Loans received	12 610 007	13 158 967
Repo transactions	0	1 413 968
Total	**13 088 797**	**16 389 675**

Non-current amounts due to banks and other monetary financial institutions equaled PLN 6 536 310 thousand at the end of 2015 (PLN 8 617 744 thousand at the end of 2014).

As at 31 December 2015 value of repurchase agreements (sell buy back) with banks and other monetary institutions equaled zero. As at 31 December 2014 value of repurchase agreements (sell buy back) with banks and other monetary institutions amounted to PLN 1 413 968 thousand, fair value of securities sold under those transactions amounted to PLN 1 397 146 thousand.

24. Amounts due to customers

	31 December 2015	31 December 2014
Amounts due to individuals	17 512 927	14 011 513
Amounts due to micro customers	1 978 426	1 751 903
Amounts due to large enterprises	14 608 143	14 284 659
Amounts due to SME	3 662 650	2 830 216
Total	**37 762 146**	**32 878 290**

Non-current amounts due to customers amounted to PLN 67 935 thousand at the end of 2015 (PLN 318 385 thousand at the end of 2014).

The value of repurchase agreements (sell buy back) with clients as at 31 December 2015 amounted to zero. As at 31 December 2014 value of repurchase agreements (sell buy back) with clients amounted to

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

PLN 208 678 thousand, fair value of securities sold under those transactions amounted to PLN 206 327 thousand.

25. Subordinated liabilities

	31 December 2015	31 December 2014
A loan of EUR 25 million due in 2017	106 812	106 870
A loan of EUR 50 million due in 2024	213 095	213 136
A loan of EUR 95 million due in 2022	404 882	0
Total	**724 789**	**320 006**

Subordinated loans will be repaid by the Parent Entity on the date of their maturity. In both 2015 and 2014 the Parent Entity did not record any delays in repayment schedules nor violated any other contractual terms concerning its liabilities. The loans are not additionally secured. All loans were granted by Raiffeisen Bank International.

In accordance with the decisions of the Polish Financial Supervision Authority (PFSA), the Group can classify subordinated liabilities as its own funds, except for the loan of EUR 95 million due in 2022, Group requested PFSA for the approval to classify this loan as own funds and waits for the PFSA decision. For the purpose of calculating the Group's own funds, the amounts constituting subordinated loans classified as own funds are gradually amortized in accordance with the regulations of the Polish Financial Supervision Authority.

The whole balance of subordinated as at the end of 2015 consist of non-current liabilities similarly as at 31 December 2014.

26. Liabilities from debt securities issued

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

For the financial year ended 31 December 2015	The beginning of the year	Increases from issue	Decreases from payment of interest	Change of accrued interests, discount and valuation	The end of the year
Liabilities from debt securities issued by Parent Entity	0	500 000	1 960	0	501 960
Liabilities from debt securities issued by securitization entity	0	633 719	715	0	634 434
Total	**0**	**1 133 719**	**2 675**	**0**	**1 136 394**

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

At 19 November 2014 the Parent Entity issued "Series A bearer bonds of Raiffeisen Bank Polska S.A." amounting to PLN 500 million. These bonds are not secured, non – subordinated, denominated in PLN maturing at 19 November 2017. The bonds' interest rate is based on Wibor 6M increase by 1,3% interest margin. The interests are paid in semi – annual periods. The issue of "Series A bearer bonds of Raiffeisen Bank Polska S.A." is the first part of Bank's corporate bonds issuance plan in total amount of PLN 2 billion.

In December 2014 the special purpose entity ROOF Poland 2014 Ltd. issued collateralized bonds of PLN 636 million with primary repayment period up to the year 2028. In December 2015 in connection to changes in the program bonds of PLN 618 million were issued and new maximum repayment period was agreed for all issued bonds up to the year 2025. The collateral of the bonds are lease receivables under securitization. The interest rate of the bonds is variable, the interests are paid on quarterly basis.

27. Other liabilities

	31 December 2015	31 December 2014
Financial liabilities, including:		
Interbank settlements	58 209	87 558
Settlements with brokerage offices	1 475	1 878
Sundry creditors	222 019	150 456
Settlements related to payment cards	31 025	20 764
Total financial liabilities gross	**312 728**	**260 656**
Non-financial liabilities, including:		
Deferred income	68 672	66 716
Social and legal settlements	28 727	19 192
Other	19 890	34 409
Total non-financial liabilities gross	**117 289**	**120 317**
Total	**430 018**	**380 974**

Non-current liabilities as at 31 December 2015 amounted to PLN 37 212 thousand (PLN 26 874 thousand as at 31 December 2014).

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

28. The Group as a lessee

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

	31 December 2015	31 December 2014
Up to 1 year	122 819	183 932
1 to 5 years	257 082	300 902
More than 5 years	148 767	131 010
Total	**528 668**	**615 844**

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

29. The Group as a lessor

The value of property, plant and equipment in operating leases is presented in the table below:

As at 31 December 2015	Buildings, apartments and leasehold improvements	Machinery and equipment	Vehicles	Total
Gross amount				
At the beginning of the year	**11 177**	**0**	**173 906**	**185 083**
Additions during the year, including:	0	575	56 645	57 220
Direct additions during the year	0	575	56 645	57 220
Disposals during the year	0	0	-53 650	-53 650
At the end of the year	**11 177**	**575**	**176 901**	**188 653**
Accumulated depreciation				
At the beginning of the year	**209**	**0**	**48 711**	**48 920**
Depreciation for the year	428	1	24 890	25 319
Disposals during the year	0	0	-28 281	-28 281
At the end of the year	**637**	**1**	**45 320**	**45 958**
Impairment				
At the beginning of the year	**0**	**0**	**3 597**	**3 597**
Additions	0	0	273	273
At the end of the year	**0**	**0**	**3 870**	**3 870**
Net amount				
At the beginning of the year	**10 968**	**0**	**121 598**	**132 566**
At the end of the year	**10 540**	**574**	**127 711**	**138 825**

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

As at 31 December 2015			
Sum of minimum future payments from operating leases after the balance sheet	**Income from entities related with Parent Company**	**Income from other entities**	**Total**
Up to 1 year	4 410	22 852	27 262
1 to 5 years	14 536	25 217	39 753
More than 5 years	0	504	504
Total	**18 946**	**48 069**	**67 015**

As at 31 December 2014	**Buildings, apartments and leasehold improvements**	**Vehicles**	**Total**
Gross amount			
At the beginning of the year	**474**	**148 713**	**149 187**
Additions during the year, including:	10 703	72 093	82 796
Direct additions during the year	10 703	72 093	82 796
Disposals during the year	0	-46 900	-46 900
At the end of the year	**11 177**	**173 906**	**185 083**
Accumulated depreciation			
At the beginning of the year	**111**	**51 805**	**51 916**
Depreciation for the year	98	22 535	22 633
Disposals during the year	0	-25 629	-25 629
At the end of the year	**209**	**48 711**	**48 920**
Impairment			
At the beginning of the year	**0**	**2 887**	**2 887**
Additions	0	710	710
At the end of the year	**0**	**3 597**	**3 597**
Net amount			
At the beginning of the year	**363**	**94 021**	**94 384**
At the end of the year	**10 968**	**121 598**	**132 566**

As at 31 December 2014			
Sum of minimal future lease payments from operating leases after the balance sheet	**Income from entities related to Parent Company**	**Income from other entities**	**Total**
Up to 1 year	4 639	22 570	27 209
1 to 5 years	6 658	26 659	33 317
Total	**11 297**	**49 229**	**60 526**

Operating lease receivables of the Group amounted to PLN 5 201 thousand as at the end of 2015 (PLN 8 209 thousand as at the end of 2014) and were presented in Loans and advances to customers.

Operating lease agreements are concluded for periods shorter than 75% of the useful life of an asset. In operating lease agreements, the present value of the sum of minimal lease payments as at the day of a

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

lease agreement is generally lower than the fair value of the leased asset. Additionally, they do not guarantee the lessee any possibility of shortening or prolonging the contract period as well as do not oblige to any conditional payments.

30. Provisions

Changes during the financial year ended 31 December 2015	At the beginning of the year	Provisions or impairment allowance recorded	Provisions or impairment allowance reversed	Provisions or impairment alllowance utilized	Foreign exchange differences	At the end of the year
Impairment provisions for off-balance sheet commitments assessed individually	26 630	37 969	-23 493	0	121	41 227
Impairment provisions for off-balance sheet commitments assessed collectively IBNR	8 320	5 524	-4 814	0	17	9 047
Total impairment provisions	**34 951**	**43 493**	**-28 307**	**0**	**138**	**50 275**
Provisions for disputes and claims	21 514	257	-2 998	-871	0	17 902
Provision for jubilee bonuses	38 742	8	-37 411	-1 339	0	0
Provision for employee bonuses	56 851	114 126	-36 260	-77 855	-1	56 861
Provision for unused holidays	26 613	1 129	-2	-3 857	0	23 884
Provision for pension benefits	3 565	34	-41	-16	0	3 543
Restructuring provision	37 821	206	-937	-27 342	0	9 748
Other provisions	39	109	0	-38	0	110
Total provisions	**185 146**	**115 869**	**-77 648**	**-111 318**	**-1**	**112 048**
Total	**220 096**	**159 362**	**-105 955**	**-111 318**	**137**	**162 323**

Changes during the financial year ended 31 December 2014	At the beginning of the year	Provisions or impairment allowance recorded	Provisions or impairment allowance reversed	Provisions or impairment alllowance utilized	Foreign exchange differences	At the end of the year
Impairment provisions for off-balance sheet commitments assessed individually	14 305	31 067	-19 396	0	654	26 630
Impairment provisions for off-balance sheet commitments assessed collectively IBNR	9 448	5 100	-6 339	0	111	8 320
Total impairment provisions	**23 753**	**36 167**	**-25 734**	**0**	**765**	**34 951**
Provisions for disputes and claims	15 162	11 739	-4 630	-756	0	21 514
Provision for jubilee bonuses	31 665	7 285	-6	-202	0	38 742
Provision for employee bonuses	93 578	92 985	-50 611	-79 102	0	56 851
Provision for unused holidays	19 120	13 505	0	-6 011	0	26 613
Provision for pension benefits	2 004	1 609	-57	9	0	3 565
Restructuring provision	34 004	29 206	0	-25 389	0	37 821
Other provisions	525	64	-550	0	0	39
Total provisions	**196 058**	**156 393**	**-55 854**	**-111 451**	**0**	**185 146**
Total	**219 707**	**192 559**	**-81 588**	**-111 451**	**765**	**220 096**

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

Provisions for legal disputes comprised, among others:

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

- provision relating to the penalty imposed on the Parent Entity by the Office of Competition and Consumer Protection (OCCP) in October 2014 for the practices of concluding the agreements relating to joining the group insurance for life and endowment called "Program Pomnażania Oszczędności Kumulatus". The penalty amounted to PLN 21 122 thousand. The decision is not final. The Group appealed from the judgment. The Group created provision for this penalty in the amount of PLN 10 561 thousand, because in the Group's opinion, possible outflow would not exceed this amount,

- provision in the amount of PLN 5 486 thousand for potential claims resulting from disputes with former Polbank's franchisee partners.

The amount of long term provisions as at 31 December 2015 equaled PLN 6 394 thousand (PLN 6 443 thousand as at 31 December 2014) and referred to retirement, pension and death benefits as well as Share Incentive Program designed for the Board Members of the Bank.

The restructuring provision as at 31 December 2015, in the amount of PLN 9 748 thousand (PLN 37 821 thousand as at 31 December 2014) has been created mainly for the purpose of severance payments resulting from the restructuring programs, as well as costs associated with the liquidation of the Bank's branches. The change of the provision with reference to the previous reporting period resulted mainly from realization of employment optimalization program.

In 2015 the Group decided to liquidate "Raif'fajne Lata" program what resulted with reversal of provision equal to PLN 37 411 thousand.

31. Equity

	Par value of shares held		**Number of shares (in units)**	
Registered share capital	**31 December 2015**	**31 December 2014**	**31 December 2015**	**31 December 2014**
At the beginning of the year	2 256 683	2 207 461	248 260	242 845
Issue of shares	0	49 222	0	5 415
At the end of the year	**2 256 683**	**2 256 683**	**248 260**	**248 260**

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

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

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

Other capital and reserves	31 December 2015	31 December 2014
General banking risk reserve	970 019	950 019
Settlement of the purchase of the organized part of entity	-3 883	-3 883
Valuation of avaiable for sale financial assets	43 175	159
Valuation of derivatives in cash flow hedges	-37 955	-46 529
Brokerage activities reserve	1 000	1 000
Other reserves	46 522	46 522
Transactions with non-controlling interests	50	0
At the end of the year	**1 018 927**	**947 287**

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

Retained earnings	For the financial period ended 31 December 2015	For the financial period ended 31 December 2014
At the beginning of the period	590 139	302 855
Transfer of net profit to retained earnings	186 178	337 680
Transfer of net profit to general banking risk reserve	-20 000	-40 000
Transfer of net profit to supplementary capital	-13 340	-15 581
Other associated with consolidation	0	8 109
Transactions with non-controlling interests	-18	-2 924
As at 31 December	**742 959**	**590 139**

Dividends

Based on recommendations of the Management Board and the Supervisory Board the Parent Entity did not pay dividend from 2014 profit. The Management Board of the Parent Entity would not recommend dividend payment from 2015 profit.

Other explanatory notes to the consolidated financial statements (cont.)

32. Contingent liabilities

The table below presents given and received items off balance sheet:

	31 December 2015	31 December 2014
Guarantees issued		
Bank guarantees	1 667 352	1 768 148
Letters of credit and bank acceptances	215 575	253 759
Total guarantees issued	1 882 927	2 021 907
Financial liabilities granted		
Granted loan commitments:	8 123 826	4 478 751
With initial maturity up to 1 year	3 720 595	1 994 061
With initial maturity above 1 year	4 403 231	2 484 690
Total financial liabilities granted	8 123 826	4 478 751
Total	**10 006 753**	**6 500 658**

	31 December 2015	31 December 2014
Guarantees received	6 724 186	6 953 110
Total	**6 724 186**	**6 953 110**

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

Legal disputes

The total disputed amount in litigations against the Group equaled PLN 75 017 thousand as at 31 December 2015 (PLN 68 053 thousand as at 31 December 2014). The Group created provisions for cases in which probability of economic outflow was higher than 50%. For the remaining part of litigations against the Group the risk of economic outflow is estimated as possible (below 50%). As at 31 December 2015 the total value of provisions for litigations against the Group and other legal disputes amounted to PLN 17 902 thousand (including provisions for claims of former franchisee partners of the Parent Entity, PLN 21 514 thousand as at 31 December 2014), see Note 30 of the financial statements.

The above information does not concern (similarly to 2014), due to their character, the cases with the Consumer and Competition Protection Court. The value of provisions for these cases equaled PLN 10 561 thousand as at 31 December 2015 (PLN 12 383 thousand as at 31 December 2014).

Legal disputes with Tax Authorities comprise separate group of litigations. They were described in Note 22.

Other explanatory notes to the consolidated financial statements (cont.)

33. Pledged assets and of limited disposability

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

	Note	31 December 2015	31 December 2014
Cash and balances with Central Bank	13		
Mandatory reserves with the Central Bank		1 418 802	926 508
Amounts due from banks	14		
Collateral deposits and other		1 051 393	520 623
Investment securities	18		
Treasury bonds serving as collateral for received loans		447 393	0
Financial instruments blocked for BFG		228 816	180 766
Loans and advances to customers	19		
Receivables serving as collateral for loans received		106 538	106 558
Receivables under securitization of finance leasing receivables		1 144 097	690 842
Collateral deposits for currency transaction- receivables		5 553	0
Amounts due to banks and other monetary institutions	23		
Repurchase transactions (sell buy back) - carrying value of liabilities		0	1 413 968
Repurchase transactions (sell buy back) -fair value of sold securities		0	1 397 146
Amounts due to customers	24		
Repurchase transactions (sell buy back) - carrying value of liabilities		0	208 678
Repurchase transactions (sell buy back) -fair value of sold securities		0	206 327

All securities sold in repurchase transactions (sell buy back) presented in the table above were purchased by the Group in reverse repurchase transactions (buy sell back).

The value of property, plant and equipment in operating leases, is presented in Note 29. to the consolidated financial statements.

34. Securitization and sale of Group's receivables

34.1. Synthetic securitization of Parent Entity's corporate loan portfolio.

In 2006, the Parent Entity has conducted a synthetic securitization of the portfolio of loans granted to corporate customers. The securitization transaction involved concluding an off-balance loan transaction between the Parent Entity and KfW (Kreditanstalt für Wiederaufbau) in order to transfer all credit risks associated with the loans in the securitized portfolio. The original value of securitized assets and liabilities amounted to ca. EUR 250 million. Transactions renewal period lasted for five years, during which the debt that had been repaid was replaced. In August 2013 the agreement was terminated and from this date only previously reported and not settled credit events collected remained under the securitization cover. The

Other explanatory notes to the consolidated financial statements (cont.)

main benefit arising from the transaction for the Parent Entity has been the transfer of credit risk (guarantee received), which resulted in a reduction of the regulatory capital requirement and no impairment recognized on the assets within the portfolio. In the year 2015 the above described securitization program was terminated and payment received from settlements of the securitization of PLN 9 660 thousand were presented in note 6 in column Proceeds from sale of receivables and other.

34.2. Securitization of lease receivables

The third program of securitization of the Group's finance lease receivables has begun in December 2014. Within three years from concluding transaction the Group could sell undue debts on the date of sale, resulting from lease agreements of the amount PLN 950 million. The acquirer of the securitized lease debts is ROOF Poland Leasing 2014 Ltd., special purpose entity located in Ireland. In connection to securitization transaction the Group granted special purpose entity the loan, which decreases securitization liabilities in consolidated statement of financial position. As at 31 December 2015 loan value including unpaid interest amounted to PLN 253 049 thousand (as at 31 December 2014 PLN 333 352 thousand). In December 2015 the program was modified, the limit was increased to PLN 1 475 million. The main advantage of the subject transaction was acquisition of long-term financing sources and their diversification. On the reporting date the value of securitized assets within the scope of this program equaled to PLN 1 397 146 thousand (in 2014 PLN 948 545 thousand).

The securitized lease receivables continue to be recognized as Group's assets based on the fact, that the requirements for transfer of assets stemming from IAS 39 paragraph 19 were not met. In particular, the Group does not have an obligation to make payment to the final recipients, until the Group does not receive relating amounts from lessees. Additionally, the obligation to immediately remit any cash flows it collects from assets under securitization is not met.

The balance and fair values of assets under the securitization cover were presented in the table below:

	Value of transaction		Risk remaining within the group	
	31 December 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**
Carrying amount of assets	1 397 146	1 101 757	1 397 146	1 101 757
Carrying amount of liabilities	1 141 751	688 766	1 141 751	688 766
Net position	**255 395**	**412 991**	**255 395**	**412 991**

34.3. Sale of receivables

In 2015, the Parent Entity sold impaired loans and advances to customers with total capital value of PLN 257 412 thousand (in 2014 of PLN 1 255 777 thousand). Portfolios consisted of receivables granted to individuals, micro-entrepreneurs, and corporations. Receivables were in significant part covered by impairment allowance or fully written off from Parent Entity balance sheet. Total result from transactions of

Other explanatory notes to the consolidated financial statements (cont.)

sale of these receivables amounted to PLN 24 954 thousand (in 2014 of PLN 261 712 thousand) and was presented in line 'Net provision for impairment losses on financial assets and provisions for off-balance sheet items'. The buyers of the portfolios were non-standardized closed-end securitization and investment funds unrelated to the Parent Entity. All risks and rewards from sold portfolios were transferred to the buyers.

35. Custody activities

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

As at 31 December 2015 the Custody Unit maintained 537 securities accounts for customers (564 accounts as at 31 December 2014). The fair value of financial instruments of Custody Unit's clients amounted to PLN 22 452 798 thousand as at 31 December 2015 (PLN 17 100 643 thousand as at 31 December 2014).

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

Other explanatory notes to the consolidated financial statements (cont.)

36. Supplementary information to statement of cash flows

Cash and cash equivalents	31 December 2015	31 December 2014
Cash in hand at the Bank	1 067 024	1 757 367
Cash on the current account with the Central Bank	1 636 486	926 508
Cash on Nostro accounts with other banks	171 296	40 889
Deposits with other banks (due within 3 months)	38 400	88 794
Cash and cash equivalents presented in the cash flow statement	**2 913 206**	**2 813 558**

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

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

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

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

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

Other explanatory notes to the consolidated financial statements (cont.)

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

For the year ended 31 December 2014	changes: in statement of financial position	changes: in statement of cash flows	difference of which:	1	2	3	4a	4b	4c
Interbank placements, loans and advances to other banks	-287 254	-360 664	73 410	53 202	20 208	0	0	0	0
Financial assets held for trading	8 409 183	8 171 823	237 360	237 360	0	0	0	0	0
Derivative financial instruments	303 875	147 329	156 546	104 127	0	52 419	0	0	0
assets	-366 483	-529 719	163 236	110 817	0	52 419	0	0	0
liabilities	670 357	677 048	-6 691	-6 691	0	0	0	0	0
Loans and advances to customers	-2 165 308	-3 782 707	1 617 399	1 617 399	0	0	0	0	0
Amounts due to banks and other monetary institutions	668 469	2 479 619	-1 811 150	-33 781	0	0	338 891	-2 432 806	316 545
Amounts due to customers	2 748 515	3 561 195	-812 680	-606 426	0	0	0	-206 254	0

Other explanatory notes to the consolidated financial statements (cont.)

37. Net income from financial instruments

Net income from loans and advances granted to customers and banks

	For the year ended 31 December 2015	For the year ended 31 December 2014
Interest income, including:	1 440 841	1 698 453
from loans and advances granted to banks	21 005	29 650
from loans and advances granted to customers	1 419 836	1 668 803
Commission income – fees and commissions on lending activity	34 921	25 293
Costs related to intermediation in the sale of credit products	-3 944	-1 929
Costs related to securitization of loan receivables	-218	-535
Total	**1 471 600**	**1 723 211**

Net income on investment securities

	For the year ended 31 December 2015	For the year ended 31 December 2014
Discount income	5 994	4 203
Interest income	64 489	64 831
Total	**70 483**	**69 034**

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

Net result from financial liabilities measured at amortized cost

	For the year ended 31 December 2015	For the year ended 31 December 2014
Interest expenses – total cost of interest on financial liabilities not measured at the fair value through profit or loss	-831 655	-917 446
Commission expenses – fees and commissions on loans received	-5 480	-6 929
Total	**-837 135**	**-924 375**

38. Fair value of assets and liabilities

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

- fair value of loans and advances to banks, granted on the interbank market to manage Group's liquidity, was estimated as the present value of future cash flows discounted with current interbank interest rate for currency in which the loan had been granted,
- fair value of loans to customers was estimated with a model based on present value of future cash flows discounted with current interest rate including current risk margin and adjusted repayment dates resulting from loan agreements. The current margins were selected depending on both currency and major product groups, i.e. fixed term loans, consumer loans and mortgage loans, based on transactions from the period of 12 months. Currency mortgage loans value does not include risk of currency conversion,

Other explanatory notes to the consolidated financial statements (cont.)

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

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

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

Other explanatory notes to the consolidated financial statements (cont.)

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

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

- credit spread estimated for the day of issue of a security. Credit spread for financial instruments categorized within Level III measured between 30 and 600 base points;
- probability of default indicator (PD). As at the day of consolidated financial statements the PD indicator for financial instruments categorized within Level III measured between 3.02% and 100%, while 100% applied to contracts of three customers with recognized impairment;
- loss given default indicator (LGD) measured between 37% and 61%.
- parameter of recovery rate (RR) measured between 39% and 63%.

The effect of estimated parameters on fair value calculation of financial instruments within Level III, which are measured to fair value in the statement of financial position as at 31 December 2015, was negligible. For debt securities being exposed to credit spread risk the estimated exposure vulnerability to credit spread fluctuation of +/- 100 bps amounted to + 250/ - 258 PLN thousand impact on financial result from profit and loss account and + 1 267/ - 1 297 PLN thousand impact on equity. For derivative financial instruments being subject to credit risk the estimated exposure vulnerability to probability of default fluctuation of +/- 100 bps amounted to +/- PLN 9 thousand change in profit or loss. No impact on equity.

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

Other explanatory notes to the consolidated financial statements (cont.)

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

Other explanatory notes to the consolidated financial statements (cont.)

Changes during the financial year ended 31 December 2014	**Financial assets held for trading**	**Derivative financial instruments - assets**	**Investment securities available for sale - debt securities**	**Derivative financial instruments - liabilities**
Balance at the begining of the period	**67 995**	**14 979**	**48 300**	**37**
Increases, including:	101 449	844	341 979	86
Purchase	101 449	0	107 927	0
Derivatives opened during period	0	631	0	86
Income from financial instruments, included in:	0	30	14	0
Net income from financial instruments measured at fair value	0	30	14	0
Revaluation reserves	0	0	0	0
Reclassification	0	183	234 038	0
Decreases, including:	-4 187	-15 009	-38 844	-10
Settlement/ redemption	0	-9 537	0	-22
Sale	0	0	-38 080	0
Loss from financial instruments, included in:	-4 187	0	-764	27
Net interest income	0	0	-18	0
Net income from financial instruments measured at fair value	-4 187	0	-746	27
Reclassification	0	-5 471	0	-15
Balance at the period end	**165 257**	**814**	**351 435**	**113**
Unrealized result on financial instruments held in the portfolio at the end of the period, included in statement of comprehensive income in:	**-3 422**	**-13 501**	**2 729**	**59**
Net interest income	765	1	3 461	0
Net income from financial instruments measured at fair value	-4 187	-13 502	0	59
Revaluation reserves	0	0	-732	0

Level III comprises fair value of capital shares in Visa Europe which were classified as securities available for sale. The details concerning calculation of these shares fair value are presented in Note 18 to the consolidated financial statements.

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

Other explanatory notes to the consolidated financial statements (cont.)

Postition description	31 December 2015					31 December 2014				
	Book value	Fair value	Level I	Level II	Level III	Book value	Fair value	Level I	Level II	Level III
Financia assets										
Cash and balances with Central Bank	2 703 510	2 703 510	0	0	2 703 510	2 683 875	2 683 875	0	0	2 683 875
Amounts due from banks	1 326 350	1 326 438	0	0	1 326 438	654 891	654 659	0	0	654 659
Financial assets held for trading	12 570 410	12 570 410	332 391	12 146 112	91 907	361 623	361 623	196 366	0	165 257
Derivative financial instruments, including:	562 046	562 047	0	552 188	9 859	900 712	900 815	0	900 001	814
Derivative financial instruments held for trading	553 489	553 489	0	543 631	9 859	899 392	899 494	0	898 680	814
Derivative financial instruments in cash flow hedges	8 557	8 557	0	8 557	0	1 320	1 320	0	1 320	0
Investment securities, including:	3 841 655	3 810 755	3 395 290	0	415 465	12 529 109	12 528 627	2 435 627	9 699 462	393 539
Investment securities held to maturity	1 964 957	1 934 056	1 934 056	0	0	11 451 014	11 450 532	1 751 071	9 699 462	0
Investment securities available for sale, including:	1 876 698	1 876 697	1 461 232	0	415 465	1 078 095	1 078 095	684 556	0	393 539
Equity interests	95 495	95 495	0	0	95 495	42 104	42 104	0	0	42 104
Debt securities	1 781 203	1 781 202	1 461 232	0	319 970	1 035 991	1 035 991	684 556	0	351 435
Loans and advances to customers, including:	39 206 125	36 894 102	0	0	36 894 102	39 819 298	39 177 167	0	0	39 177 167
Individual customers	19 304 302	16 981 941	0	0	16 981 941	18 133 192	16 296 259	0	0	16 296 259
Micro customers	5 406 406	5 283 754	0	0	5 283 754	4 960 867	5 125 948	0	0	5 125 948
Large enterprises	12 448 416	12 570 192	0	0	12 570 192	15 008 524	15 978 605	0	0	15 978 605
SME	2 025 418	2 036 527	0	0	2 036 527	1 687 071	1 746 682	0	0	1 746 682
Public sector	21 583	21 689	0	0	21 689	29 644	29 673	0	0	29 673
Other financial assets	177 438	177 438	0	0	177 438	134 464	134 464	0	0	134 464
Total financial assets	**60 387 534**	**58 044 699**	**3 727 681**	**12 698 300**	**41 618 718**	**57 083 972**	**56 441 230**	**2 631 993**	**10 599 462**	**43 209 776**

Other explanatory notes to the consolidated financial statements (cont.)

Position description	31 December 2015					31 December 2014				
	Book value	Fair value	Level I	Level II	Level III	Book value	Fair value	Level I	Level II	Level III
Financial liabilities										
Amounts due to banks and other monetary institutions	13 088 797	13 033 377	0	0	13 033 377	16 389 675	16 164 323	0	0	16 164 323
Derivative financial instruments, including:	1 478 611	1 478 611	0	1 478 604	7	1 124 302	1 124 405	0	1 124 292	113
Derivative financial instruments held for trading	503 864	503 864	0	503 857	7	823 721	823 824	0	823 711	113
Derivative financial instruments in cash flow hedges	954 211	954 211	0	954 211	0	276 005	276 005	0	276 005	0
Derivative financial instruments in fair value hedges	20 536	20 536	0	20 536	0	24 576	24 576	0	24 576	0
Amounts due to customers, including:	37 762 146	38 188 259	0	0	38 188 259	32 878 290	33 608 303	0	0	33 608 303
Amounts due to individuals	17 512 927	17 657 546	0	0	17 657 546	14 011 513	13 942 773	0	0	13 942 773
Amounts due to micro customers	1 978 426	1 982 993	0	0	1 982 993	1 751 903	1 748 248	0	0	1 748 248
Amounts due to large enterprises	14 608 143	14 866 621	0	0	14 866 621	14 284 659	15 096 530	0	0	15 096 530
Amounts due to small and medium enterprises	3 662 650	3 681 099	0	0	3 681 099	2 830 216	2 820 752	0	0	2 820 752
Subordinated liabilities	724 789	519 133	0	0	519 133	320 006	308 651	0	0	308 651
Liabilities from debt securities issued	1 758 677	1 758 744	0	0	1 758 744	1 136 394	1 136 394	0	0	1 136 394
Other financial liabilities	312 728	312 728	0	0	312 728	260 656	260 656	0	0	260 656
Total financial liabilities	**55 125 748**	**55 290 851**	**0**	**1 478 604**	**53 812 247**	**52 109 324**	**52 602 732**	**0**	**1 124 292**	**51 478 440**

Other explanatory notes to the consolidated financial statements (cont.)

39. Offsetting of financial assets and liabilities

In 2015 and 2014 offsetting criteria were fulfilled for subsidiary Raiffeisen Leasing Polska S.A., therefore financial assets and liabilities offsetting took place on the balance sheet dates.

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

Master netting arrangements concluded by the Group contain:

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

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

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

Other explanatory notes to the consolidated financial statements (cont.)

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

31 December 2014	Gross amount of recognised financial assets	Amount offset	Net amount of financial assets presented in the statement of financial position	Related amount not offset in the statement of financial position		Net amount*
				Financial instruments	Cash collateral received	
FiNANCIAL ASSETS						
Derivative financial instruments	900 712	0	900 712	530 091	44 590	334 005
Reverse repurchase securities agreements	1 651 297	0	1 651 297	1 631 976	0	19 321
Bonds - Financial assets held to maturity	900 963	900 963	0	0	0	0
Lease receivables - Loans and advances to customers	312 363	57 411	254 952	0	0	254 952
Loans granted to acquirers of securitized leaase debts - Loans and advances to customers	410 915	410 915	0	0	0	0
Total	**4 176 250**	**1 369 289**	**2 806 961**	**2 162 067**	**44 590**	**608 278**

Other explanatory notes to the consolidated financial statements (cont.)

31 December 2014	Gross amount of financial recognised liabilities	Amount offset	Net amount of financial liabilities presented in the statement of financial position	Related amount not offset in the statement of financial position		Net amount*
				Financial instruments	Cash collaterals pledged	
FINANCIAL LIABILITIES						
Derivative financial instruments	1 124 302	0	1 124 302	530 091	496 249	97 962
Repurchase securities agreements	1 622 646	0	1 622 646	1 603 473	0	19 173
Bonds - Amounts due to banks and other monetary institutions	900 963	900 963	0	0	0	0
Loans granted to acquirers of securitized leaase debts - Amounts due to customers	1 099 681	410 915	688 766	0	0	688 766
Guarantee deposit - Other liabilities	57 411	57 411	0	0	0	0
Total	**4 805 003**	**1 369 289**	**3 435 714**	**2 133 564**	**496 249**	**805 901**

**based on calculation per contract*

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

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

Other explanatory notes to the consolidated financial statements (cont.)

31 December 2014	Net carrying amount	Item from the statement of financial position	Carrying amount of financial statement position	Carrying amount of items not subject of disclosure in offsetting note
FINANCIAL ASSETS				
Derivative financial instruments	900 712	Assets from derivative financial instruments	900 712	**0**
Bonds - Financial assets held to maturity	0	Investment securities	12 529 109	**12 529 109**
Reverse repurchase securities agreements	1 651 297	Loans and advances to customers	39 819 298	**37 913 049**
Lease receivables - Loans and advances to customers	254 952			
FINANCIAL LIABILITIES				
Derivative financial instruments	1 124 302	Liabilities from derivative financial instruments	1 124 302	**0**
Repurchase securities agreements	1 413 968	Amounts due to banks and other monetary institutions	16 389 675	**14 975 707**
Bonds	0			
Repurchase securities agreements	208 678	Amounts due to customers	32 878 290	**31 980 846**
Loans granted to acquirers of securitized leaase debts	688 766			
Guarantee deposit	0	Other liabilities	380 974	**380 974**

Other explanatory notes to the consolidated financial statements (cont.)

40. Transactions with related parties

The Parent Entity identifies the following related entities:

- Parent entities of the Parent Entity:
    - ultimate parent entity – Raiffeisen Zentralbank Österreich AG (RZB).
    - parent entity – Raiffeisen Bank International AG (RBI).
- The Parent Entity's consolidated subsidiaries – Raiffeisen-Leasing Polska S.A., Raiffeisen Insurance Agency Sp. z o.o., Raiffeisen-Leasing Service Sp. z o.o., Raiffeisen Financial Services Polska Sp. z o.o., Raiffeisen Solutions Sp. z o.o, Raiffeisen-Leasing Real Estate Sp. z o.o, Raiffeisen Investment Polska Sp. z o.o., Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A. Related party not consolidated - Leasing Poland Sp. z o.o,
- Members of the Parent Entity's key personnel and the key personnel of the parent entities,
- Other entities - other related entities – entities controlled by the parent entities and subsidiaries and entities having significant influence on Raiffeisen Zentralbank Österreich AG,

As a part of ordinary operations, a number of transactions was concluded with members of the Parent Entity's key personnel. The Parent Entity's key personnel includes members of Bank's Management Board and members of the Parent Entity's Supervisory Board, listed in Note 1 to the financial statements. Transactions with members of the Parent Entity's key personnel can comprise mainly loans, deposits and foreign currency transactions. In 2015 and 2014 no transactions were concluded with members of the key personnel of the Parent Entity's parent entities or with persons related to the members of the Raiffeisen Bank Polska Capital Group's key personnel.

Other explanatory notes to the consolidated financial statements (cont.)

Statement of financial position items	Parent Companies		Members of the Group's and the Parent Entities' key personnel		Other related entities	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Amounts due from banks	1 032 207	476 997	0	0	9 398	59 203
Derivative financial instruments - assets	370 841	587 477	0	0	401	166
Loans and advances to customers	0	0	2 300	3 253	0	0
Other assets	97	101	0	0	522	6
Amounts due to banks and other monetary institutions	8 134 370	9 820 422	0	0	1 962 116	805 812
Derivative financial instruments - liabilities	1 400 241	976 124	0	0	99	471
Amounts due to customers	0	0	4 574	7 312	15 482	6 019
Subordinated liabilities	724 789	320 006	0	0	0	0
Other liabilities	1 804	16 643	0	0	326	18
Provision for liabilities and charges	2 433	1 798	4 000	0	0	0

Statement of comprehensive profit and loss items	Parent Companies		Members of the Group's and the Parent Entities' key personnel		Other related entities	
	For the financial year ended 31 December 2015	For the financial year ended 31 December 2014	For the financial year ended 31 December 2015	For the financial year ended 31 December 2014	For the financial year ended 31 December 2015	For the financial year ended 31 December 2014
Interest income	25 299	112 970	49	227	803	1 107
Interest expense	-146 767	-221 715	-19	-15	-21 360	-5 106
Fee and commission income	1 658	2 294	2	0	4 199	2 011
Fee and commission expenses	-1 463	-1 223	0	0	-2 121	-723
Net income from financial assets measured at fair value through profit or loss and net foreign exchange result	147 047	-36 245	6	0	-606	-181
General administrative expenses	-19 017	-42 290	16 003	13 140	-7 489	-8 052
Other operating income	445	9 671	4	0	180	180
Other operating expenses	0	-211	0	0	-212	0

Contingent liabilities	Parent Companies		Members of the Group's and the Parent Entities' key personnel		Other related entities	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Guarantees and letters of credit	154 779	1 243 776	0	0	22 172	20 373
Guarantees received	1 286 821	196 808	0	0	73 086	54 461

Other explanatory notes to the consolidated financial statements (cont.)

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

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

As at the date of these consolidated financial statements preparation, variable remuneration for the Management Board of the Parent Entity was not paid or awarded. Provision expenses for this purpose are presented in line provisions for employee bonuses. Before the Supervisory Board's decision it is not possible to accurately present variable remuneration for the Parent Entity Management Board, that is why the amount presented in the above table in line Provisions for liabilities and charges to Members of the Group's and Parent Entities' key personnel is only an estimation of the provision expense for the Parent Entity Management Board, according to terms defined in managerial contracts between Parent Entity and its Management Board in force for the year 2015.

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

Remuneration of members of the Group's key personnel	**For the financial year ended 31 December 2015**	**For the financial year ended 31 December 2014**
Remuneration of the Management Board (salary)*	13 735	10 787
Remuneration of the Supervisory Board	2 268	2 353
Remuneration connected with employment termination **	213	1 700
Variable remuneration of the Management Board paid in the current reporting period ***	5 068	6 832
Costs for other long-term benefits for members of the key personnel of the Group	0	538
Total	**21 284**	**22 210**

* concerns Members of the Management Board who hold the function actively
** including remuneration of Members of the Management Board for the period after release from active holding the of the function and unused holiday payment
*** variable remuneration for the period before current reporting period

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

Other explanatory notes to the consolidated financial statements (cont.)

41. Events after the reporting date

The Act on tax on certain financial institutions

The Act on tax on certain financial institutions was announced on 15 January 2016. As far as the Parent Entity is concerned the basis of taxation will be the excess of sum of assets above the amount PLN 4 billion decreased by among others equity and assets in the form of Treasury securities as at the last month's day. The tax will equal 0,0366% of taxation basis per month. The Act has come into force on 1 February 2016, the first period for which the Parent Entity will pay the tax is February 2016. The Parent Entity preliminarily estimated, based on data as at 31 December 2015, that the monthly burden resulting from the tax will equal PLN 15,6 million.

Polish president's draft bill presenting methods to restore equality between the parties of certain loan agreements

In January 2016 the Polish president put forward a draft bill presenting methods to restore equality between parties to certain loan agreements, i.e. support for borrowers with currency mortgage loans. The proposal is undergoing consultations, and may be subject to major changes.

The analysis of the draft impact on the consolidated financial statements of the Group in following periods require, among others information on final solutions defined in the draft bill, which is not available before consultation phase on the draft is closed. Due to the above fact presented above, an analysis, the impact of the draft bill on the Group's consolidated financial statements could not be finalized at the moment of publication of these consolidated financial statements.

If the draft bill comes into force in the proposed form, it could have a significant negative impacts on Bank's or Group's capital standing, taking into account Group's significant portfolio of mortgage CHF loans.

The Act on Macro-Prudential Supervision over the Financial System

As of the beginning of 2016, under the Act on Macro-Prudential Supervision over the Financial System, the Group is required to maintain a capital conservation buffer amounting to 1.25 percentage points of its total risk exposure. Starting from 1 January 2016 the Group is required to maintain a total capital ratio at 15.33%, the Group by the approval date of these consolidated financial statements did not maintain required total capital ratio.

The Group has undertaken the actions in order to increase the total capital ratio of the Group in 2016.

Other explanatory notes to the consolidated financial statements (cont.)

Plans to sell 100% of shares in subsidiary

In 2016, the Management Board of the Parent Entity undertook and conducts negotiations with Raiffeisen Bank International AG relating to sale of 100% shares of Raiffeisen-Leasing Polska S.A. ("RLPL"). The Parent Entity expects to finalize the shares sale by the end of March 2016. Assuming the transaction is finalized, the Parent Entity would lose control over RLPL and other companies of RLPL Group, i.e. Raiffeisen Insurance Agency Sp. z o.o., Raiffeisen-Leasing Services Sp. z o.o., Raiffeisen-Leasing Real Estate Sp. z o.o. and special purpose entity ROOF Poland 2014 Ltd.

Risk management

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

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

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

Organizational structure

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

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

Risk management (cont.)

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

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

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

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

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

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

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

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

Risk management (cont.)

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

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

Capital management process

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

Regulatory requirements in respect of capital adequacy is total capital ratio defined in article 92 par. 1 point c of Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013. Moreover since October 2015 the Group was obliged by Financial Supervision Authority to maintain an additional capital adequacy to cover risk resulting from portfolio of currency mortgage loans equal to 2.08 p.p. Therefore the total capital ratio should be maintained at the level not lower than 14.08%.

The Group calculated the capital adequacy ratios based on the regulation mentioned above.

The minimal level of total capital ratio of the Parent Entity was stated in the Capital Plan for year 2015 and determined on the level of 12.59%, which was maintained throughout the entire year.

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

	Method of calculating the requirement	**31 December 2015**	**31 December 2014**
Credit and counterparty risk	Standard	3 068 983	3 021 533
Market risk	Standard	40 291	65 128
Operational risk	Standard	315 915	329 532
Regulatory capital requirement		**3 425 189**	**3 416 193**
Own funds		**5 827 115**	**5 494 652**
Total capital ratio (%)		**13,61**	**12,87**

The main source of own funds to cover the capital requirements is Tier I capital (core capital), which is supplemented with subordinated liabilities (Tier II capital). Tier I capital amounted to PLN 5 578 275 thousand at the end of 2015 (PLN 5 224 465 thousand as at the end of 2014), and Tier II capital amounted to PLN 248 840 thousand (PLN 270 187 thousand as at the end of 2014). The only major change in the amount of own funds during the year 2015 was: including in the own funds result from the year 2014 in the amount of PLN 337 680 thousand.

Risk management (cont.)

In 2015 the Group complied with the regulatory requirements according to CRR in respect of the total capital ratio. However, starting from October 2015 the Group does not comply with the requirement of the minimal total capital ratio resulting from supervisory recommendation (taking into account additional capital requirement to cover risk resulting from currency mortgage loans). The Group has undertaken actions to keep capital ratio in the year 2016 at the level not lower than 15.33% (taking into account capital conservation buffer amounting to 1.25 percentage points, binding as of the beginning of 2016).

Economic capital calculation

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

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

Economic capital is calculated based on the main types of risk the Group is exposed to, namely: credit risk, operational risk, liquidity risk, interest rate risk and currency risk. For the remaining identified types of risk, which are considered material, the Group periodically evaluates the risk levels and acts upon results to control the risk. Additionally, based on an internal model for risks difficult to measure, the Parent Entity calculates a capital buffer added to the total of economic capital.

Aggregation of the results of the individual models is based on the Gaussian copula. Economic capital is calculated as a difference between value at risk (assuming a confidence level of 99.95% and a period of one year) and the reserves held for risks included in the calculation.

43. Credit risk

Credit risk is the possibility to incur a loss due to a debtor not meeting the terms of the agreement with the Parent Entity.

The aim of credit risk management is to increase the safety of the Group's lending activity by ensuring the highest quality of credit risk assessments and effectiveness of the decision-making process, as well as an effective credit exposure monitoring with regard to the individual customers and the Group's loan portfolio.

With respect to individual customers, the Group monitors their economic and financial situation, loan history, collateral provided and capital and organizational relations. The procedures implemented and

Risk management (cont.)

modified in this area are aimed at identifying exposures and taking actions that are adequate to changes in the risk levels.

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

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

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

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

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

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

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

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

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

Risk management (cont.)

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

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

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

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

The Group accepts the following collaterals in its credit process:

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

Risk management (cont.)

Discounted value of recoveries from collateral for the portfolio of loans and advances in which impairment allowance is recognized based on an individual analysis of future cash flows relating to repayment and recovery from collaterals amounted to PLN 884 065 thousand as at 31 December 2015 (PLN 957 688 thousand as at 31 December 2014).

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

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

Valuation techniques used by the Group for derivative financial instruments are usually based on maximum use of input data originating from active markets, including: interest rates, foreign exchange rates and implicit volatilities. In the absence of appropriate input from an active market, the Group usually utilizes its own estimations of parameters necessary for pricing purposes based on Group's best knowledge and experience.

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

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

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

Risk management (cont.)

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

Risk management (cont.)

As at 31 December 2014	Financial assets presented in the statement of financial position							
Classes of exposure with instrument types assigned to them	amounts due from banks	cash and balances with the Central Bank	trading assets	derivatives	investment securities	loans and advances	other	**Total**
Cash and cash equivalents	**0**	**1 757 367**	**0**	**0**	**0**	**0**	**0**	**1 757 367**
Exposures to governments and central banks	**0**	**926 508**	**196 511**	**0**	**12 135 652**	**0**	**0**	**13 258 671**
Cash and balances with the Central Bank	0	926 508	0	0	0	0	0	926 508
Treasury bonds and bills	0	0	196 511	0	2 436 191	0	0	2 632 702
NBP bills	0	0	0	0	9 699 462	0	0	9 699 462
Exposures to banks	**654 891**	**0**	**69 411**	**708 833**	**0**	**0**	**0**	**1 433 135**
Cash on current and term accounts with other banks	626 361	0	0	0	0	0	0	626 361
Loans and advances granted to other banks	28 530	0	0	0	0	0	0	28 530
Derivative financial instruments	0	0	0	708 833	0	0	0	708 833
Corporate bonds	0	0	47 069	0	0	0	0	47 069
Mortgage backed bonds	0	0	22 343	0	0	0	0	22 343
Exposures to customers	**0**	**0**	**95 700**	**191 879**	**393 457**	**39 819 298**	**0**	**40 500 334**
Loans and advances granted to individuals	0	0	0	0	0	18 133 192	0	18 133 192
Loans and advances granted to micro customers	0	0	0	0	0	4 960 867	0	4 960 867
Loans and advances granted to large enterprises	0	0	0	0	0	15 008 524	0	15 008 524
Loans and advances granted to small and medium enterprises	0	0	0	0	0	1 687 071	0	1 687 071
Loans and advances granted to public sector entities	0	0	0	0	0	29 644	0	29 644
Equity investments available for sale	0	0	0	0	42 104	0	0	42 104
Derivative financial instruments	0	0	0	191 879	0	0	0	191 879
Corporate bonds	0	0	31 893	0	351 353	0	0	383 246
Bonds convertible to shares	0	0	63 808	0	0	0	0	63 808
Other financial assets	**0**	**0**	**0**	**0**	**0**	**0**	**134 464**	**134 464**
Total	**654 891**	**2 683 875**	**361 623**	**900 712**	**12 529 109**	**39 819 298**	**134 464**	**57 083 972**

Maximum exposure to credit risk for off-balance sheet amounted to:	**31 December 2015**	**31 December 2014**
Guarantees	1 882 927	2 021 907
Granted loan commitments	8 123 825	4 478 751
Total	**10 006 752**	**6 500 658**

Risk management (cont.)

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

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

Risk management (cont.)

As at 31 December 2014	Exposure amount			Value of collateral reducing the maximum exposure to credit risk
	analysed on an individual basis	analysed on a group basis	Total	
Not overdue receivables without identified impairment	**132 731**	**37 453 790**	**37 586 521**	**18 198 014**
Amounts due from Central Bank and other banks	0	1 581 701	1 581 701	16 123
Individual customers	0	16 202 556	16 202 556	9 033 075
Micro customers	0	3 901 741	3 901 741	3 110 128
Large enterprises	0	14 146 189	14 146 189	5 216 058
Small and medium enterprises	0	1 597 564	1 597 564	822 630
Public sector	0	24 039	24 039	0
Other financial assets	132 731	0	132 731	0
Overdue receivables without identified impairment	**1 683**	**2 671 124**	**2 672 807**	**1 546 999**
Individual customers	0	1 664 269	1 664 269	786 940
Micro customers	0	700 696	700 696	514 947
Large enterprises	0	230 765	230 765	199 888
Small and medium enterprises	0	69 654	69 654	45 224
Public sector	0	5 740	5 740	0
Other financial assets	1 683	0	1 683	0
Receivables with identified impairment	**1 891 376**	**1 484 417**	**3 375 793**	**1 445 774**
Individual customers	36 398	855 776	892 174	326 894
Micro customers	197 413	628 641	826 054	405 214
Large enterprises	1 542 215	0	1 542 215	683 796
Small and medium enterprises	111 663	0	111 663	29 870
Other financial assets	3 687	0	3 687	0
Total other financial assets, gross	**2 025 790**	**41 609 331**	**43 635 121**	**21 190 787**
Impairment allowances on amounts due from Central Bank and other banks	**0**	**302**	**302**	**0**
Impairment allowances on loans and advances	**1 073 494**	**1 022 527**	**2 096 021**	**0**
Impairment allowances on other financial assets	**3 637**	**0**	**3 637**	**0**
Total other financial assets, net	**948 659**	**40 586 502**	**41 535 161**	**21 190 787**

Risk management (cont.)

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

31 December 2015	Past due for					
Past due financial receivables without identified impairment	Less than 30 days	Between 30 and 90 days	Between 90 and 180 days	Between 180 days and 1 year	More than 1 year	**Total**
Gross loans and advances - past due but not impaired	**1 937 608**	**557 055**	**2 211**	**3 139**	**48 696**	**2 548 709**
Amounts due from Central Bank and other banks	0	2	0	0	12	**14**
Individual customers	1 192 833	340 282	1 403	1 731	2 523	**1 538 772**
Micro customers	551 113	151 744	9	55	110	**703 031**
Large enterprises	98 279	56 624	42	354	42 010	**197 309**
Small and medium enterprises	95 383	8 403	757	999	4 041	**109 583**
Other gross financial assets – past due but not impaired	**81**	**0**	**0**	**0**	**0**	**81**
Total	**1 937 689**	**557 055**	**2 211**	**3 139**	**48 696**	**2 548 790**

31 December 2014	Past due for					
Past due financial receivables without identified impairment	Less than 30 days	Between 30 and 90 days	Between 90 and 180 days	Between 180 days and 1 year	More than 1 year	**Total**
Gross loans and advances - past due but not impaired	**2 059 216**	**493 577**	**18 957**	**21 687**	**77 687**	**2 671 124**
Individual customers	1 364 497	294 940	2 963	1 800	69	1 664 269
Micro customers	516 433	184 186	7	35	35	700 696
Large enterprises	121 944	2 488	14 507	19 091	72 735	230 765
Small and medium enterprises	56 342	6 223	1 480	761	4 848	69 654
Public sector	0	5 740	0	0	0	5 740
Other gross financial assets – past due but not impaired	**1 660**	**23**	**0**	**0**	**0**	1 683
Total	**2 060 876**	**493 600**	**18 957**	**21 687**	**77 687**	**2 672 807**

Risk management (cont.)

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

- exposures to National Bank of Poland were assigned a rating equal to that of Poland (rating A).
- for banks, branches of foreign credit institutions, financial sector institutions and the public sector with ratings on a ten grade scale ranging from A1 to D (where an A rating means minimal credit risk, and a D rating means impairment)

Credit quality of financial assets neither past due nor impaired, gross	31 December 2015				31 December 2014			
	to governments and central banks	to banks	to the public sector	Total	to governments and central banks	to banks	to the public sector	Total
A	1 636 486	4 056	0	1 640 542	926 508	0	0	926 508
A3	0	25 590	0	25 590	0	527 820	0	527 820
B1	0	1 120 115	0	1 120 115	0	35 122	0	35 122
B2	0	15 351	10 953	26 304	0	9 023	10 970	19 993
B3	0	7 369	3 976	11 345	0	1 347	4 819	6 166
B4	0	397	6 750	7 147	0	5 634	6 488	12 122
B5	0	0	0	0	0	15 586	1 762	17 348
C	0	36 857	0	36 857	0	3 091	0	3 091
Non-rated exposures	0	116 766	0	116 766	0	57 570	0	57 570
Total	**1 636 486**	**1 326 501**	**21 679**	**2 984 666**	**926 508**	**655 193**	**24 039**	**1 605 740**

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

Risk management (cont.)

Credit quality of financial assets neither past due nor impaired gross	31 December 2015			31 December 2014		
	to individuals	to micro customers	Total	to individuals	to micro customers	Total
0.5	8 437 720	15 174	8 452 894	11 538 287	8 356	11 546 643
1.0	1 387 976	97 041	1 485 017	1 338 914	48 158	1 387 072
1.5	1 267 535	483 192	1 750 727	702 856	252 480	955 336
2.0	3 449 444	912 747	4 362 191	881 430	616 407	1 497 837
2.5	1 134 170	918 644	2 052 814	557 295	976 336	1 533 631
2.5.1	8 562	980 863	989 425	32	774 687	774 719
3.0	616 271	320 082	936 353	349 571	374 382	723 953
3.0.1	1 677	184 704	186 381	224	258 762	258 986
3.5	573 947	169 758	743 705	215 172	227 773	442 945
4.0	166 875	73 439	240 314	65 526	112 813	178 339
4.5	70 347	26 801	97 148	27 510	130 618	158 128
4.5.1	19	0	19	1 827	0	1 827
Non-rated exposures	332 033	140 363	472 396	523 912	120 969	644 881
Total	**17 446 576**	**4 322 808**	**21 769 384**	**16 202 556**	**3 901 741**	**20 104 297**

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

Risk management (cont.)

Credit quality of financial assets neither past due nor impaired gross	31 December 2015			31 December 2014		
	large enterprises	small and medium enterprises	Total	large enterprises	small and medium enterprises	Total
6.1	495 309	0	495 309	427 941	0	427 941
6.2	1 482 276	0	1 482 276	1 496 942	0	1 496 942
6.3	819 546	0	819 546	1 522 714	0	1 522 714
6.4	374 453	0	374 453	205 177	0	205 177
6.5	34 036	0	34 036	2 912	0	2 912
1C	3	0	3	4	0	4
2A	68	0	68	0	0	0
2B	0	0	0	1 504	0	1 504
2C	4 761	0	4 761	3 357	0	3 357
3A	2 142	0	2 142	2 033	0	2 033
3B	91 358	0	91 358	2 617	0	2 617
3C	66 821	0	66 821	86 252	0	86 253
4A	43 465	0	43 465	274 955	0	274 955
4B	139 228	373 748	512 976	205 429	175 247	380 677
4C	510 918	0	510 918	380 558	0	380 558
5A	385 614	3	385 617	647 192	0	647 192
5B	703 186	352 873	1 056 059	649 607	266 190	915 797
5C	950 345	0	950 345	1 406 451	0	1 406 450
6A	1 530 052	115 650	1 645 702	1 391 951	104 749	1 496 700
6B	1 237 464	143 057	1 380 521	987 647	148 975	1 136 622
6C	1 127 006	198 042	1 325 048	1 048 063	122 186	1 170 249
7A	684 214	179 582	863 796	716 972	208 723	925 695
7B	325 330	166 937	492 267	249 715	186 675	436 389
7C	233 376	114 580	347 956	327 339	152 224	479 563
8A	137 167	124 662	261 829	98 775	95 402	194 177
8B	51 705	37 022	88 727	53 876	48 267	102 143
8C	21 842	31 635	53 477	25 974	27 993	53 966
9A	18 565	0	18 565	33 648	0	33 648
9B	19 584	34 954	54 538	20 079	51 086	71 164
9C	45 980	0	45 980	26 517	0	26 517
10	0	0	0	3 012	1 930	4 942
1.0	0	3 016	3 016	0	0	0
1.5	3 372	0	3 372	0	0	0
2.0	2 678	0	2 678	0	0	0
2.5	124	0	124	82	0	82
3.0	0	0	0	51 203	0	51 203
3.5	2	0	2	5 370	0	5 370
4.5	46 513	0	46 513	56 909	0	56 909
C3	40 429	0	40 429	0	0	0
C4	0	0	0	209	0	209
C5	0	0	0	26 079	0	26 079
C6	0	0	0	701 734	0	701 734
C7	0	0	0	403 253	0	403 253
C8	0	0	0	462 710	0	462 710
Non-rated exposures	113 833	30 280	144 113	139 427	7 917	147 344
Total	**11 742 765**	**1 906 041**	**13 648 806**	**14 146 189**	**1 597 564**	**15 743 753**

Risk management (cont.)

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

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

	31 December 2015			31 December 2014		
	to governments and central banks	to banks	Total	to governments and central banks	to banks	Total
A	15 908 337	0	15 908 337	12 332 163	0	12 332 163
A2	0	0	0	0	51	51
A3	0	775	775	0	587 361	587 361
B1	0	387 788	387 788	0	84 580	84 580
B2	0	51 606	51 606	0	63 399	63 399
B3	0	0	0	0	1	1
B4	0	3 944	3 944	0	24 604	24 604
B5	0	16 265	16 265	0	785	785
C	0	288	288	0	574	574
Non-rated exposures	0	18 785	18 785	0	16 287	16 287
Total	**15 908 337**	**479 451**	**16 387 788**	**12 332 163**	**777 642**	**13 109 806**

Risk management (cont.)

	31 December 2015 large enterprises	31 December 2015 small and medium enterprises	31 December 2015 Total	31 December 2014 large enterprises	31 December 2014 small and medium enterprises	31 December 2014 Total
1.5	0	0	0	14 250	0	14 250
2.0	15 443	0	15 443	0	0	0
4.5	3	0	3	0	0	0
6.1	4 372	0	4 372	10 840	0	10 840
6.2	35 091	0	35 091	54 367	0	54 367
6.3	20 925	0	20 925	40 039	0	40 039
6.4	9 699	0	9 699	7 173	0	7 173
6.5	246	0	246	0	0	0
2A	314	0	314	0	0	0
2B	0	0	0	550	0	550
3A	0	0	0	750	0	750
3B	11	0	11	0	0	0
4A	3 817	0	3 817	2 265	0	2 265
4B	385	2 720	3 105	660	1 214	1 874
4C	5 494	0	5 494	3 949	0	3 949
5A	4 714	0	4 714	9 137	0	9 137
5B	6 184	1 264	7 448	19 900	1 714	21 614
5C	16 093	0	16 093	41 200	0	41 200
6A	24 204	517	24 722	61 885	347	62 232
6B	243 008	409	243 417	7 380	295	7 675
6C	40 805	453	41 258	341 490	429	341 919
7A	8 467	57	8 524	9 078	884	9 962
7B	23 590	485	24 075	34 756	106	34 862
7C	427	112	539	2 042	19	2 061
8A	0	63	63	561	111	672
8B	59	59	118	1 936	0	1 936
8C	3	7	10	0	46	46
9A	0	0	0	4	0	4
9B	0	6	6	0	60	60
9C	0	0	0	4	0	4
10A	0	0	0	0	25	25
A3	0	0	0	2 657	0	2 657
B3	0	0	0	505	0	505
C2	25	0	25	368	0	368
C3	559	0	559	983	0	983
C4	804	0	804	4 376	0	4 376
C5	1 004	0	1 004	1 244	0	1 244
C6	320	0	320	264	0	264
C7	10	0	10	186	0	186
C8	178	0	178	50	0	50
C9	28	0	28	0	0	0
Non-rated exposures	111 098	1 326	112 424	503	628	1 131
Total	**577 381**	**7 479**	**584 861**	**675 354**	**5 878**	**681 232**

Risk management (cont.)

The following table provides information on concentration of credit risk by industry in case of exposures from the Central Bank, other banks and the Parent Entities clients.

Structure of gross exposures by industrial sectors				
	31 December 2015		31 December 2014	
Name of the industry	Gross amount of exposures	%	Gross amount of exposures	%
Households	19 909 764	45,0%	18 776 108	43,2%
Wholesale and retail trade; repair of motor vehicles, motorcycles,	5 148 633	11,7%	5 410 884	12,4%
Manufacturing	4 685 669	10,7%	4 568 084	10,5%
Financial and insurance activities	3 407 422	7,7%	1 420 380	3,3%
Activities related to real estate	3 374 734	7,6%	3 903 678	9,0%
Transport and warehouse	1 651 452	3,7%	1 488 809	3,4%
Construction	1 269 961	2,9%	1 422 979	3,3%
Production and supply of electricity, gas, steam and air conditioning supply	1 030 700	2,3%	1 161 922	2,7%
Professional, scientific and technical activities	757 651	1,7%	564 893	1,3%
Administration activities and supporting activities	615 068	1,4%	474 300	1,1%
Information and communication	580 996	1,3%	2 868 573	6,6%
Hotels and restaurants	489 311	1,1%	307 659	0,7%
Other	1 290 914	2,9%	1 128 752	2,6%
Total	**44 212 276**	**100%**	**43 497 020**	**100%**

Risk management (cont.)

Practices „Forbearance"

With reference to document 2012/853 issued by European Securities and Markets Authority (ESMA) and instruction from European Banking Authority in relation to disclosures concern the "forborne" exposure Group implemented following practices for classification of those exposures .

The exposures flagged as "forborne" are loan agreements with reference to which concession agreement with debtors, who experience or will experience the difficulties in meeting their financial commitments, was made. The concession agreement applies one of the following actions:

- changes in current agreement conditions, as a result of which – as it is presumed – the debtors could not meet due to the financial difficulties ("at risk"), leading to insufficient ability to service the debt, which would not take place if debtor did not face financial difficulties;
- full or partial refinancing of debt agreement at risk, which would not take place if debtor did not face financial difficulties.

Exposures are not reported as forborne, when all of the below conditions are met:

- the agreement is no longer considered at risk, including situations when it was removed from agreement at risk category after analysis of debtor's financial situation, which proved the agreement does not fulfill conditions required to consider it as at risk,
- from the date the exposure was assessed as not at risk at least two-year probation period passed,
- the regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period,
- none of the exposures to the debtor is more than 30 days past-due at the end of the probation period.

When the concession agreement leads to significant change in conditions or future expected cash flows, compared to market conditions or expected future cash flows from current financial assets, current financial asset is derecognized from the statement of financial position, and new financial assets is recognized in the statement of financial position, at the recognition date, in value net of impairment loss due to credit risk applicable for the new financial asset. The difference between impairment losses due to credit risk are recognized in profit or loss. This recognition is not related to the change or lack of change in legal form of the transaction and is based on its economic substance.

With reference to non-retail exposures the forbearance agreement, changing the conditions of agreement due to the debtor financial difficulties is treated as one of the triggers to perform individual impairment loss test and results in requirement to perform analysis whether to recognize an impairment loss on the exposure.

Risk management (cont.)

The retail exposures flagged as „forborne" for which impairment trigger was identified are covered by collective model of impairment . The retail exposures flagged as forborne for which impairment trigger was not identified are covered by IBNR model.

The details of the impairment loss calculation for loans exposures are presented in Note 2.9. to the Consolidated Financial Statements.

The below table presents the value of „forborne" exposures:

Forborne exposures				
31 December 2015	**Gross value**	**Impairment allowance**	**Net value**	**Value of received collateral**
Not impaired exposures	**953 733**	**28 478**	**925 255**	**590 092**
Non past due	**645 091**	**13 989**	**631 101**	**398 119**
Individual customers	242 071	2 152	239 919	119 837
Micro customers	137 912	678	137 234	119 307
Large enterprises	255 430	10 664	244 766	153 744
Small and medium enterprises	9 677	496	9 182	5 231
Past due	**308 643**	**14 489**	**294 154**	**191 972**
Individual customers	169 774	7 190	162 584	81 761
Micro customers	71 953	2 729	69 224	52 312
Large enterprises	63 302	4 328	58 974	55 580
Small and medium enterprises	3 614	242	3 372	2 320
Impaired exposuers	**1 009 117**	**491 992**	**517 125**	**465 662**
Group method	**276 839**	**127 992**	**148 847**	**159 859**
Individual customers	132 592	70 169	62 423	62 377
Micro customers	143 357	57 342	86 015	97 170
Large enterprises	890	481	409	312
Individual method	**732 277**	**364 000**	**368 278**	**305 803**
Individual customers	22 634	12 328	10 306	8 868
Micro customers	30 674	18 166	12 508	11 743
Large enterprises	659 210	318 736	340 474	280 228
Small and medium enterprises	19 760	14 770	4 990	4 965
Total	**1 962 850**	**520 470**	**1 442 380**	**1 055 754**

Risk management (cont.)

Forborne exposures				
31 December 2014	**Gross value**	**Impairment allowance**	**Net value**	**Value of received collateral**
Not impaired exposures	**1 398 400**	**40 569**	**1 357 831**	**849 590**
Non past due	**1 093 096**	**18 590**	**1 074 505**	**673 203**
Individual customers	144 189	2 653	141 536	57 477
Micro customers	142 462	2 335	140 126	79 047
Large enterprises	793 019	13 074	779 945	528 287
Small and medium enterprises	13 426	528	12 898	8 391
Past due	**305 304**	**21 978**	**283 326**	**176 387**
Individual customers	147 883	9 813	138 070	62 319
Micro customers	86 811	7 615	79 195	45 396
Large enterprises	66 041	4 304	61 737	65 366
Small and medium enterprises	4 569	246	4 323	3 307
Impaired exposuers	**1 110 493**	**518 452**	**592 042**	**428 438**
Group method	**257 814**	**119 382**	**138 432**	**132 176**
Individual customers	120 934	65 795	55 139	51 515
Micro customers	134 532	53 137	81 395	78 842
Large enterprises	2 348	451	1 897	1 820
Individual method	**852 679**	**399 069**	**453 610**	**296 261**
Individual customers	14 040	4 468	9 573	0
Micro customers	19 180	13 505	5 675	944
Large enterprises	794 074	363 533	430 541	290 666
Small and medium enterprises	25 385	17 563	7 821	4 652
Total	**2 508 893**	**559 020**	**1 949 873**	**1 278 028**

In "Not impaired exposures" category loan exposures with impairment trigger identified, but no impairment loss recognized are presented, of gross value PLN 330 996 thousand (in 2014 PLN 275 381 thousand), and impairment loss (IBNR) of PLN 15 657 thousand (in 2014 PLN 12 205 thousand).

In the table below forborne exposures to loans share is presented:

Net amount exposures				
31 December 2015	**Forborne**	**Loans and advances to customers by borrower segment**	**% share**	**Under probation***
Individual customers	475 233	19 304 302	**2%**	287 811
Micro customers	304 981	5 406 406	**6%**	141 202
Large enterprises	644 623	12 448 416	**5%**	263 849
Small and medium enterprises	17 543	2 025 418	**1%**	4 570
Public sector	0	21 583	**0%**	0
Total	**1 442 380**	**39 206 125**	**4%**	**697 432**

Risk management (cont.)

Net amount exposures				
31 December 2014	**Forborne**	**Loans and advances to customers by borrower segment**	**% share**	**Under probation***
Individual customers	344 318	18 133 192	**2%**	146 504
Micro customers	306 391	4 960 867	**6%**	90 390
Large enterprises	1 274 120	15 008 524	**8%**	643 634
Small and medium enterprises	25 043	1 687 071	**1%**	8 705
Public sector	0	29 644	**0%**	0
Total	**1 949 873**	**39 819 298**	**5%**	**889 232**

** the Group classifies to the category "Under probation" the exposures towards which previously concessions were granted and which are currently under observation before the full recovery*

In the table below forborne exposures are presented by days past due:

Forborne exposures - gross		**Past due**					
31 December 2015	Not past due	Less than 30 days	Between 30 and 90 days	Between 90 and 180 days	Between 180 days and 1 year	More than 1 year	**Total**
Not impaired exposures	**645 090**	**151 470**	**134 540**	**617**	**865**	**21 152**	**953 733**
Individual customers	242 071	95 548	74 169	0	0	56	411 845
Micro customers	137 912	42 229	29 725	0	0	0	209 866
Large enterprises	255 429	13 302	30 206	0	278	19 516	318 731
Small and medium enterprises	9 677	391	440	617	587	1 580	13 291
Impaired exposuers	**407 573**	**28 698**	**41 723**	**60 107**	**16 265**	**454 751**	**1 009 117**
Individual customers	15 604	11 636	23 671	12 785	3 232	88 300	155 227
Micro customers	9 055	16 149	13 175	8 601	5 578	121 471	174 030
Large enterprises	375 044	162	4 877	34 471	6 807	238 738	660 099
Small and medium enterprises	7 869	751	0	4 250	648	6 242	19 761
Total	**1 052 662**	**180 168**	**176 263**	**60 724**	**17 131**	**475 903**	**1 962 850**

Forborne exposures - gross		**Past due**					
31 December 2014	Not past due	Less than 30 days	Between 30 and 90 days	Between 90 and 180 days	Between 180 days and 1 year	More than 1 year	**Total**
Not impaired exposures	**1 093 095**	**143 878**	**90 615**	**5 500**	**4 549**	**60 763**	**1 398 400**
Individual customers	144 189	95 782	50 290	1 664	147	0	292 072
Micro customers	142 461	46 771	40 040	0	0	0	229 272
Large enterprises	793 019	74	1	3 107	4 212	58 647	859 060
Small and medium enterprises	13 426	1 250	284	729	189	2 116	17 996
Impaired exposuers	**390 879**	**25 041**	**60 824**	**56 943**	**52 345**	**524 461**	**1 110 493**
Individual customers	7 314	9 502	17 625	23 825	3 763	72 945	134 974
Micro customers	10 103	13 016	11 461	11 283	11 014	96 835	153 712
Large enterprises	362 345	2 096	31 575	19 694	35 563	345 149	796 422
Small and medium enterprises	11 117	427	164	2 141	2 004	9 532	25 385
Total	**1 483 974**	**168 919**	**151 439**	**62 443**	**56 894**	**585 225**	**2 508 893**

Risk management (cont.)

Changes in carrying amount of "forborne" loans and advances to customers during the year ended 31 December 2015 are presented below:

	For the financial year ended 31 December 2015
Net carrying amount at the beginning of period	**1 848 130**
Impairment allowances	102 971
Amount of exposures with the flag removed in the year	-1 117 183
Amount of exposures flagged in the year	720 719
Other changes/repayments	-112 257
Net carrying amount at the end of period	**1 442 380**

Concentration limits

In order to diversify the credit risk, the Parent Entity implemented internal concentration limits relevant to the scale of activity and complexity of exposure reducing the size of the portfolios. Limits were implemented for internal control purposes and management of the exposure through regular monitoring.

Credit risk limits are determined in internal policies and accepted by the Management Board of the Parent Entity.

The Parent Entity monitors in compliance with the article 395 of Regulation (UE) No 575/2013 of the European Parliament and of the Council of 26 June 2013 the utilization of concentration limits for individual clients and groups of clients within the same capital or organizational group.

The amounts of acceptable credit concentration limit for a single client or a group of related clients were as follows:

Acceptable concentration limit	31 December 2015	31 December 2014
Bank exposure concentration limit (25%)	1 456 779	1 373 663

The Group had no exposures exceeding the above mentioned concentration limit.

Exposure to a single borrower is subject to further limitations in the form of specific limits concerning exposure to risk and daily supply risk limits applicable to items such as foreign exchange forward contracts. The actual risk exposure is compared with the acceptable limits on a daily basis.

Customer exposures exceeding 10% of Group's equity are presented below (PLN 582 711 thousand). They are presented based on exposure to a single customer or a capital group without taking into account any deductions resulting from the use of credit risk reduction techniques or exemptions defined in article 395 of Regulation (UE) No 575/2013 of the European Parliament and of the Council of 26 June 2013 of the Resolution on exposure concentration limits. Exposures to governments, central banks and other banks were also included.

Risk management (cont.)

31 December 2015				
Customer No.	**Borrower name**	**Exposure**	**Entity / Group**	**% share**
1	Borrower 1	12 146 112	Entity	208%
2	Borrower 2	4 140 150	Group	71%
3	Borrower 3	3 993 673	Entity	69%
4	Borrower 4	703 792	Group	12%

31 December 2014				
Customer No.	**Borrower name**	**Exposure**	**Entity / Group**	**% share**
1	Borrower 1	9 699 462	Podmiot	177%
2	Borrower 2	6 222 699	Grupa	113%
3	Borrower 3	6 037 693	Podmiot	110%
4	Borrower 4	705 512	Grupa	13%

As at 31 December 2015 exposures to borrowers: 1, 2 and 3 relate to the National Bank of Poland and the State Treasury and are not subject to total exposure limit of 25% of equity (resulting from article 400 of Regulation (UE) No 575/2013 of the European Parliament and of the Council of 26 June 2013). After applying exceptions set out in article 400 of Regulation (UE) , exposure to those borrowers is below the permissible credit concentration limit which is below 25%.

Retail mortgage loans denominated in foreign currencies

CHF mortgage loans portfolio is a significant subject of credit risk management due to its value and share in the total loans portfolio of the Parent Entity. Share of the loans denominated in CHF was equal 65.55% of all mortgage loans of the Parent Entity as at the end of 2015, out of which 63.09% concerned individual clients and 2.46% micro-enterprises. The below table presents value of mortgage loans portfolio of the Parent Entity divided by currencies and by segments to individual clients and micro-enterprises as at 31 December 2015 and 31 December 2014.

Risk management (cont.)

Mortgage loans divided by currencies	As at 31 December 2015, CHF/PLN fx=3,9		As at 31 December 2014, CHF/PLNfx=3,5	
	Gross balance sheet exposure	Share in mortgage portfolio	Gross balance sheet exposure	Share in mortgage portfolio
		Individual customers		
PLN	1 708 456	9,27%	1 266 279	7,19%
EUR	3 754 023	20,36%	3 996 779	22,68%
CHF	11 629 234	63,09%	11 022 433	62,55%
USD	5 572	0,03%	4 077	0,02%
Total	**17 097 285**	**92,75%**	**16 289 569**	**92,45%**
		Micro customers		
PLN	787 747	4,27%	718 664	4,08%
EUR	95 002	0,52%	119 907	0,68%
CHF	454 018	2,46%	492 356	2,79%
Total	**1 336 767**	**7,25%**	**1 330 927**	**7,55%**
		Total		
PLN	2 496 204	13,54%	1 984 943	11,26%
EUR	3 849 025	20,88%	4 116 687	23,36%
CHF	12 083 252	65,55%	11 514 788	65,35%
USD	5 572	0,03%	4 077	0,02%
Total	**18 434 051**	**100,00%**	**17 620 496**	**100,00%**

The Parent Entity does not offer mortgage loans in CHF and the increase of mortgage loans value was an outcome of the exchange rate rise, although some increase of PLN loans sale was observed.

Average LTV on mortgage loans denominated in foreign currencies amounted to 125.69% as at 31 December 2015 (as at 31 December 2014 amounted to 117.96%).

The below table presents quality of mortgage loans portfolio granted to individual clients by days past due (DPD).

Currency	not overdue	Past due (DPD)			Total
		<1 - 90>	<91 - 180>	above180	
PLN	1 149 707	92 357	6 812	459 580	1 708 456
CHF	10 423 555	1 054 312	48 982	102 385	11 629 234
EUR	3 582 608	158 602	8 908	3 906	3 754 023
USD	5 572	0	0	0	5 572
Total	**15 161 442**	**1 305 271**	**64 702**	**565 871**	**17 097 285**

The picture of past due structure divided by currencies is distorted by the process of currency conversion to PLN of loans in foreign currency at the moment of termination of the agreement (due to, among others, lack of payments).

Risk management (cont.)

Proposals of system solutions connected with currency risk of portfolios denominated in CHF, presented by different state and supervisory agencies, might have negative influence on financial results and equity of the Parent Entity.

44. Liquidity risk

The main purpose of the liquidity risk management process is to develop a structure of financial statement position in Group that allows the Group to achieve profit targets defined in the financial plan and, at the same time, to maintain Group's ability to timely settle its liabilities and comply with both internal and external (regulatory) liquidity risk limits.

The Department of Asset and Liability Management is responsible for managing of both current and inter-day liquidity.

The level of mid-term and long-term liquidity risk incurred by the Group is assessed based on liquidity reports.

The liquidity reports show the liquidity gap level (static analysis of the liquidity gap), i.e. a gap between the maturities of assets and liabilities in particular time periods, based on the level of liquidity ratios achieved, which show the ratio of accumulated inflows to accumulated outflows in any given period.

The reports are prepared for balance sheet and off-balance sheet items in PLN and in base foreign currencies, i.e. EUR, USD, CHF, JPY,GBP as well as other foreign currencies cumulatively. The reports take into account the elements of modeling the behavior of the financial market and that of Group's customers (e.g. renewal of deposits, core deposits on current accounts, the probability of realization of off-balance sheet liabilities, the mandatory reserve and adjustment of receivables due to identified impairment).

In the Group, mid-term and long-term liquidity risk is managed by the Asset – Liability Committee (ALCO), which determines the desired structure of Group's balance sheet using a system of limits covering e.g. the liquidity gap amount, the level of deposit concentration, the ratio of loan portfolio value to the value of deposits.

The Department of Asset and Liability Management operates on the financial market to achieve an appropriate structure of the portfolio of assets and liabilities, so that the required liquidity risk limits are complied with. The Group's pricing and product policy, as an instrument that affects the structure of the Group's consolidated statement of financial position, is another tool used to manage liquidity risk.

The Parent Entity also calculates on a daily basis regulatory liquidity ratios in accordance with the requirements of Resolution No. 386/2008 of the Polish Financial Supervision Authority as amended. These are:

Risk management (cont.)

- measures of short-term liquidity,
- measures of long-term liquidity.

The following table presents an ageing analysis of financial liabilities in the form of undiscounted cash flows.

31 December 2015							
			Contractual cash flows				
Type of liability	**Nominal amount**	**Book value**	within 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	**Total**
Liabilities in respect of derivative financial instruments	**1 540 544**	**1 478 611**	**200 365**	**169 544**	**949 396**	**10 027**	**1 329 332**
Inflows	30 934 565	0	22 298 619	2 701 376	6 227 346	11 747	**31 239 088**
Outflows	32 475 109	0	22 498 984	2 870 920	7 176 742	21 774	**32 568 419**
Financial liabilities	**53 550 160**	**53 647 138**	**35 892 979**	**9 989 394**	**8 096 496**	**943 890**	**54 922 759**
Amounts due to banks and other monetary institutions	13 083 000	13 088 797	2 753 474	4 064 115	6 642 775	263 536	**13 723 900**
including received loans	12 608 303	12 610 007	2 264 391	4 031 011	6 629 628	263 536	**13 188 567**
Amounts due to customers	37 676 274	37 762 146	32 680 607	5 381 280	70 598	295	**38 132 780**
Subordinated liabilities	724 455	724 789	9 526	28 577	247 728	679 666	**965 496**
Liabilities from issuance of debt securities	1 753 700	1 758 677	182 813	471 685	1 133 354	0	**1 787 852**
Other financial liabilities	312 731	312 729	266 559	43 738	2 042	392	**312 731**
Guarantee liabilities granted	**1 882 927**	**0**	**0**	**1 882 927**	**0**	**0**	**1 882 927**
Financial liabilities granted	**8 123 825**	**0**	**83 336**	**3 637 258**	**4 403 231**	**0**	**8 123 825**

Risk management (cont.)

31 December 2014			Contractual cash flows				
Type of liability	**Nominal amount**	**Book value**	within 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	**Total**
Liabilities in respect of derivative financial instruments	**953 441**	**1 124 302**	**509 515**	**340 428**	**202 052**	**114 435**	**1 166 430**
Inflows	27 313 337	-	17 541 511	4 093 644	3 699 251	2 039 408	**27 373 813**
Outflows	28 266 881	-	18 051 129	4 434 072	3 901 303	2 153 842	**28 540 346**
Financial liabilities	**50 900 092**	**50 665 016**	**33 326 595**	**11 366 414**	**6 190 437**	**1 009 461**	**51 892 907**
Amounts due to banks and other monetary institutions	16 381 762	16 069 669	3 581 486	7 040 169	5 326 817	638 521	**16 586 993**
including received loans	13 157 060	13 158 967	1 812 289	5 484 023	5 190 108	938 616	**13 425 036**
Amounts due to customers	32 803 567	32 878 290	29 397 599	3 933 835	81 316	1 256	**33 414 006**
Subordinated liabilities	319 673	320 006	3 755	11 265	68 169	351 487	**434 677**
Liabilities from issuance of debt securities	1 134 434	1 136 394	128 197	365 508	702 868	0	**1 196 574**
Other financial liabilities	260 657	260 657	215 558	15 636	11 266	18 197	**260 657**
Guarantee liabilities granted	**2 021 907**	**-**	**1 984**	**2 019 923**	**0**	**0**	**2 021 907**
Financial liabilities granted	**4 478 751**	**-**	**24 004**	**1 970 057**	**2 484 690**	**0**	**4 478 751**

The following table presents the cumulative liquidity gap of the Group including off-balance transactions (without credit lines).

	within 1 month	**1 - 3 months**	**3 - 12 months**	**1 - 2 years**	**2 - 3 years**	**up to 5 years**	**up to 20 years**
31 December 2015	-3 702 518	-11 000 766	-17 320 105	-18 291 576	-17 251 091	-12 370 669	209 470
31 December 2014	-2 705 121	-12 377 383	-14 218 396	-15 508 933	-14 778 638	-12 295 993	105 923

Amounts due to customers in current accounts are presented in liabilities „within 1 month”.

The Group’s activities are aimed at transforming the maturities of assets and liabilities to reflect the preferences of customers who place their deposits with the Group and receive loans from it, while maintaining the acceptable level of risk mitigated by mid-term and long-term financing obtained on the interbank market.

The structure of maturities of assets and liabilities and an ability to replace at acceptable cost interest-bearing liabilities upon their maturities, all are considered significant elements of Group’s liquidity assessment and its exposure to changes in interest rates and foreign exchange rates.

Risk management (cont.)

45. Other market risks

45.1. Market risk

Market risk is related to open positions on interest rate, foreign exchange and equity products exposed to changes in market values. For the purposes of determining risk limits, the Group uses simulation methods relying on the base point value and methods based on the net position value.

The market risk management process is subject to continuous assessment and evolution in order to adjust it to the changing market conditions.

The management process comprises:

- identification of risk factors;
- risk measurement;
- risk monitoring;
- risk reporting.

45.2. Currency risk

Currency risk is a risk of changes in value of individual financial instruments due to fluctuations in foreign exchange rates. In connection with its activity, the Group is exposed to the effect of fluctuations in foreign exchange rates on its financial position and cash flows.

Currency risk, understood as the probability of incurring a loss, depends on:

- foreign exchange rate fluctuations,
- non-matching receivables and liabilities in foreign currencies.

The main purpose of currency risk management is to identify areas prone to currency risk and take actions aimed at reducing the risk to levels acceptable by the Group.

For the purposes of currency risk management, the Group has developed a system of market risk levels. As part of the division of responsibilities in the risk management process the Group's Management Board determines in its Asset and Liability Management Policy the level of general currency risk appetite, taking into account budget assumptions and the effect of potential losses on the Group's equity.

The Group's currency risk management policy assumes having a foreign exchange position, which enables the Group to offer its customers competitive foreign exchange quotations. Currency risk is immaterial – the capital requirement in respect of foreign exchange risk is equal to PLN 766 thousand. The Group uses simulation methods in the management process, utilizing value at risk (VaR) method in calculation of currency risk exposure.

Detailed values of the individual limits are determined by the Asset – Liability Committee and cover:

Risk management (cont.)

- the maximum overnight open position levels for each currency,
- the maximum open position in Greek's ratios for each currency pair
- the total overnight and intraday open position levels for all currencies,
- the value at risk limit, determined for a 1-day position maintenance horizon and the confidence level of 99%. Value at risk is determined by the variance — covariance method,
- monthly, quarterly and annual maximum loss limits.

The amount of currency risk borne by the Bank, measured by VaR method according to the above described parameters is presented in the below table:

Value at risk limit	2015				2014
	Min.	Max.	Average	As at 31 December	As at 31 December
Currency risk	13	519	126	221	174

Moreover, for the purposes of calculating the requirement with respect to currency risk exposure, the so-called basic method is used, which determines the acceptable limits of exposure to the risk of unmatched currency receivables and liabilities (i.e. total position) with respect to the Group's own funds.

Daily reports on Group's currency position, comprising an analysis of foreign exchange operations in the context of both the compliance with prudential regulatory standards (limits) and the economic results, are presented to the directors of organizational units responsible for risk management and control and to the Members of the Management Board of the Parent Entity.

As at 31 December 2015 and 31 December 2014 the Group carried out an analysis of the impact of changes in foreign exchange rates on foreign exchange positions of the Group for three foreign currencies (EUR, CHF, USD), which have the largest open position. The results of this analysis are presented in the table below (in PLN thousand):

As at 31 December 2015	Base position	Exposure after rate change of -50 pts	Exposure after rate change of +50 pts	Impact on the profit/loss rate after change of -50 pts	Impact on the profit/loss after rate change of +50 pts
EUR	27 555	27 522	27 589	-33	33
USD	4 244	4 240	4 250	-5	5
CHF	16 982	16 960	17 004	-22	22
Total				**-60**	**60**

As at 31 December 2014	Base position	Exposure after rate change of -50 pts	Exposure after rate change of +50 pts	Impact on the profit/loss rate after change of -50 pts	Impact on the profit/loss after rate change of +50 pts
EUR	7 421	7 413	7 429	-8	8
USD	-13 325	-13 307	-13 344	18	-19
CHF	5 375	5 369	5 383	-7	8
Total				**3**	**-3**

Assuming that exchange rates fall at the same time by 50 base points, the net short currency position of the Group would fall by PLN 60 thousand, while with an increase in exchange rate by 50 base points net short

Risk management (cont.)

currency position of the Group would increase by PLN 60 thousand.

As at 31 December 2015, Group's net long currency position amounted to PLN 50 276 thousand, which constituted 0.86% of Group's own funds (31 December 2014 net currency position of the Group amounted to PLN 14 706 thousand, which was equal to 0.27 % of Group's own funds). The following table presents the Group's balance sheet and off-balance items by currency.

Assets, liabilities and off-balance items in foreign currencies and the Group's currency position					
As at 31 December 2015	**EUR**	**USD**	**CHF**	**Other**	**Total**
Components of currency position – assets	11 111 882	616 960	12 401 741	252 526	24 383 110
Components of currency position – liabilities	11 727 413	1 980 337	3 209 911	332 488	17 250 149
Off-balance components of currency position – amounts receivable	16 829 196	22 105 727	1 205 429	658 354	40 798 706
Off-balance components of currency position – amounts payable	16 186 110	20 738 106	10 380 277	576 899	47 881 392
Net long currency position (+)	**27 555**	**4 244**	**16 982**	**1 494**	**50 276**
Net short currency position (-)	**0**	**0**	**0**	**0**	**0**

Assets, liabilities and off-balance items in foreign currencies and the Group's currency position					
As at 31 December 2014	**EUR**	**USD**	**CHF**	**Other**	**Total**
Components of currency position – assets	11 670 543	841 111	11 782 222	364 344	24 658 221
Components of currency position – liabilities	10 835 238	1 899 302	3 885 127	337 390	16 957 057
Off-balance components of currency position – amounts receivable	11 662 245	14 274 956	2 029 349	423 686	28 390 237
Off-balance components of currency position – amounts payable	12 490 130	13 230 091	9 921 069	448 731	36 090 020
Net long currency position (+)	**7 421**	**0**	**5 375**	**1 909**	**14 706**
Net short currency position (-)	**0**	**13 325**	**0**	**0**	**13 325**

45.3. Interest rate risk for cash flows and fair value

Interest rate risk arise from the fact that the possible changes in market interest rates can affect future cash flows or the fair value of financial instruments held by the Group.

The main objectives of interest rate risk management include identification of the areas in which the Group is exposed to interest rate risk and shaping the structure of balance sheet, so that maximum net interest income can be achieved.

The Group's policy on interest rate risk management assumes the existence of a system of internal transfer prices in the Group, as part of which the business units, which do not incur interest rate risk on their own behalf, transfer the risk to the units responsible for its central management.

For the purpose of interest rate risk management in the Group, a system of market risk levels has been developed. As part of the division of responsibilities in the risk management process the Parent Entity's Management Board in its Assets and Liabilities Management Policy determines the level of general interest rate risk appetite, taking into account the budget assumptions and the effect of potential losses on Group's equity.

Risk management (cont.)

Subsequently, the detailed values of the individual limits are determined by the Asset – Liability Committee and cover:

- the maximum open interest rate position limits measured as the amount of change in the fair value resulting from a 1 base point increase in market interest rates. The limits are diversified with respect to the source of exposure (bank book and trading book), their currency and time period in accordance with the repricing date grid used in the Group,
- the value at risk limits, determined for the bank and trading books separately, assuming a 1-day position maintenance horizon and the confidence level of 99%. Value at risk is determined by the variance – covariance method. The Group does not have any open interest rate positions on instruments with non-linear risk profile,
- monthly, quarterly and annual maximum loss limits.

All limits associated with interest rate risk are monitored by the Risk Management Department. Risk is measured on a daily basis. Daily reports on the utilization of different risk limits are distributed in an electronic format to Group's business units and the Members of the Board supervising them.

The Asset – Liability Committee (ALCO) is responsible for periodical control of the interest rate risk management. During its monthly meetings ALCO evaluates the levels of risk to which the Group is exposed to and, if necessary, instructs the relevant units to take appropriate steps to mitigate it.

The Group maintains separate bank and trading portfolios. According to the Regulation of the Parent Entity's Management Board on detailed principles for separating the trading portfolio, it includes:

- transactions concluded with an intention to obtain financial gains in the short term as a result of changes in the market parameters, in particular foreign exchange rates and interest rates;
- all transactions hedging the risk on transactions included in the trading portfolio;
- internal hedging instruments, which mitigate bank portfolio risks.

Due to the fact that the risks on transactions concluded are not uniform, sub-portfolios within the trading portfolio had to be separated, which allows the Group to monitor positions and limits on individual types of transactions.

For the purposes of capital requirement calculation regarding the trading book exposure to interest rate risk, the Parent Entity uses the method of an average, updated period of return. Transactions not classified to the trading portfolio are included in the bank portfolio.

The following table presents the level of Parent Entity exposure to interest rate risk, for the bank book and the trading book separately, measured in terms of the amount of the change in the fair value resulting from a 1 base point increase in market interest rates. The values in different maturity brackets are presented as absolute values in order to present the general level of exposure to interest rate risk, irrespective of the direction of a given position.

Risk management (cont.)

	31 December 2015				31 December2014			
	Min.	Max.	Average	As at 31 December	Min.	Max.	Average	As at 31 December
Bank book								
<1Y	67	3 176	2 154	2 111	1	2 355	544	2 355
1 – 3Y	5	630	106	93	2	617	94	71
>3Y	4	643	66	92	28	153	100	142
Trading book								
<1Y	0	184	46	24	0	132	38	0
1 – 3Y	2	259	79	109	0	180	67	35
>3Y	1	201	70	58	0	149	40	69

The following table presents the level of Parent Entity exposure to interest rate risk, for the bank book and the trading book separately, measured using the value at risk, in accordance with the model parameters defined in the system of limits and described above.

	31 December 2015				31 December 2014
	Min.	Max.	Average	As at 31 December	As at 31 December
Banking book	1 762	6 530	3 818	4 849	5 836
Trading book	173	1 702	633	357	645

The Parent Entity also calculates the value of Earnings-at-Risk, which shows the sensitivity of net interest income in the year time horizon, assuming immediate and identical for all the currencies change in market interest rates by 100 basis points, continuing throughout the duration of the simulation. The result of the measurement as the end of 2015 showed the impact on interest result of PLN 169 059 thousand, which is 3 % of the own funds of the Parent Entity included in the calculation of the capital adequacy ratio compared to PLN 83 319 thousand for the previous year, representing 1.5 % of the funds.

The following table presents an analysis of asset, liabilities and off-balance sheet items sensitivity to changes in interest rates. The table presents the carrying amounts of the Group's assets and liabilities for the earlier of the two dates: change of the contractual interest rate date or due date.

Valuation of derivative financial instruments used mainly to reduce the Group's exposure to changes in interest rates are presented under Derivative financial instruments in liabilities in Assets and Liabilities.

Risk management (cont.)

Group's exposure to interest rate risk

As at 31 December 2015	Non-interest bearing	1M	3M	6M	12M	2Y	5Y	>5Y	Total
Assets									
Cash and balances with the Central Bank	1 067 024	1 636 486	0	0	0	0	0	0	**2 703 510**
Amounts due from banks	4 053	1 302 297	10 000	10 000	0	0	0	0	**1 326 350**
Financial assets held for trading	0	12 432 967	39 339	44 443	5 275	12 548	4 226	31 612	**12 570 410**
Derivative financial instruments	562 046	0	0	0	0	0	0	0	**562 046**
Investment securities	80 895	3 360 953	169 344	230 464	0	0	0	0	**3 841 655**
Loans and advances to customers	0	24 018 309	14 605 433	94 639	246 382	37 456	203 662	244	**39 206 125**
Other financial assets	171 990	5 447	0	0	0	0	0	0	**177 437**
Liabilities									
Amounts due to banks and other monetary institutions	0	6 216 521	6 437 394	246 444	178 005	0	10 432	0	**13 088 797**
Derivative financial instruments	1 478 611	0	0	0	0	0	0	0	**1 478 611**
Amounts due to customers	0	19 114 397	8 852 099	6 007 016	3 719 080	68 254	945	355	**37 762 146**
Subordinated liabilities	0	404 336	320 452	0	0	0	0	0	**724 789**
Liabilities from debt securities issued	0	0	1 256 852	501 825	0	0	0	0	**1 758 677**
Other financial liabilities	309 584	3 144	0	0	0	0	0	0	**312 728**
Contingent liabilities									
Guarantee liabilities granted	1 882 927	0	0	0	0	0	0	0	**1 882 927**
Financial liabilities granted	8 123 825	0	0	0	0	0	0	0	**8 123 825**

Risk management (cont.)

Group's exposure to interest rate risk

As at 31 December 2014	Non-interest bearing	1M	3M	6M	12M	2Y	5Y	>5Y	Total
Assets									
Cash and balances with the Central Bank	1 757 367	926 508	0	0	0	0	0	0	**2 683 875**
Amounts due from banks	3	589 888	65 000	0	0	0	0	0	**654 891**
Financial assets held for trading	0	157 063	96 283	6 711	72 238	12 572	6 488	10 268	**361 623**
Derivative financial instruments	900 213	499	0	0	0	0	0	0	**900 712**
Investment securities	42 104	10 384 100	2 102 906	0	0	0	0	0	**12 529 109**
Loans and receivables granted to customers	0	24 245 822	15 195 060	65 115	153 739	21 724	40 433	97 405	**39 819 298**
Other financial assets	134 464	0	0	0	0	0	0	0	**134 464**
Liabilities									
Amounts due to banks and other monetary institutions	0	8 115 996	8 206 216	30 863	8 600	28 000	0	0	**16 389 675**
Derivative financial instruments	1 124 285	17	0	0	0	0	0	0	**1 124 302**
Amounts due to customers	0	21 136 909	8 821 332	1 040 352	1 817 984	59 675	1 401	638	**32 878 290**
Subordinated liabilities	0	0	320 006	0	0	0	0	0	**320 006**
Liabilities from debt securities issued	0	0	634 434	501 960	0	0	0	0	**1 136 394**
Other financial liabilities	257 475	3 181	0	0	0	0	0	0	**260 656**
Contingent liabilities									
Guarantee liabilities granted	2 021 907	0	0	0	0	0	0	0	**2 021 907**
Financial liabilities granted	4 454 747	24 004	0	0	0	0	0	0	**4 478 751**

Risk management (cont.)

45.4. Operational risk

Operational risk is defined as a risk of incurring a loss due to unadjusted or unreliable processes, people or systems, or due to external events. This definition includes legal risk, but it does not include strategic risk or reputation risk.

For the purposes of calculating the capital requirement for operational risk, the Group uses the Standardized Approach method, which determines both the method for calculating the capital requirement and the operational risk management requirements.

The aim of the operational risk management is to increase safety of the Group's operations by implementing effective mechanisms for the identification, assessment and quantification, mitigation, monitoring and reporting operational risk.

The Group's operational risk management policy should reflect the Group's operational risk profile and ensure that adequate measures are taken to:

- control the risk at an acceptable level adequate to the Group's size and the nature of its operations;
- eliminate the reasons and the adverse effects of operational events;
- minimize losses incurred as a result of operational events;
- improve the effectiveness of processes;
- shape the awareness of operational risk.

Group's operational risk appetite is defined as:

- the value of internal capital allocated to operational risk
- the estimated value of operating losses from operational events identified in the Group within 12 months.

The main principles of operational risk management in the Group are as follows:

- the operational risk owners are the managers of business lines and the individual organizational units;
- the operational risk management process is supervised by the Operational Risk Steering Committee;
- there is an independent operational risk management function in place at the Risk Management Department;
- the internal audit function performs an independent review of the operational risk management procedures and process;
- operational risk data is collected regularly;
- exposures are estimated and operational risk is reported;
- actions are taken to reduce operational risk to an acceptable level.

Risk management (cont.)

In accordance with the Group's Operational Risk Management Policy, the following methods and tools for operational risk management are used in the Group:

- collecting information on operational events;
- monitoring of key risk indicators
- scenario analysis for events characterized by low frequency and high severity,
- assessment of operational risk for the key operational risk areas,
- operational risk reporting ensuring regular and timely flow of information to relevant decisive bodies.