Consolidated financial statements

GETIN NOBLE BANK S.A. CAPITAL GROUP

for the year ended 31 December 2019 together
with the independent auditor's report

Warsaw, March 2020

SELECTED FINANCIAL HIGHLIGHTS

	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 (restated) PLN '000	01.01.2019-31.12.2019 EUR '000	01.01.2018-31.12.2018 (restated) EUR '000
Net interest income	949,787	1,207,222	220,788	282,927
Net fee and commission income	76,999	125,010	17,899	29,298
Profit/ (loss) before tax	(693,442)	(358,531)	(161,198)	(84,026)
Net profit/ (loss)	(591,551)	(460,210)	(137,512)	(107,856)
Net profit/ (loss) attributable to equity holders of the parent	(591,551)	(460,210)	(137,512)	(107,856)
Comprehensive income/ (loss) for the period	(481,637)	(642,956)	(111,962)	(150,685)
Net cash flows	190,245	(1,391,638)	44,225	(326,147)

	31.12.2019 PLN '000	31.12.2018 (restated) PLN '000	31.12.2019 EUR '000	31.12.2018 (restated) EUR '000
Loans and advances to customers	37,126,889	40,334,259	8,718,302	9,380,060
Total assets	52,828,439	49,902,909	12,405,410	11,605,328
Amounts due to customers	46,169,373	37,074,895	10,841,698	8,622,069
Total equity	2,534,949	3,016,586	595,268	701,532
Tier 1 capital	3,216,844	3,854,209	755,394	896,328
Tier 2 capital	684,792	1,016,266	160,806	236,341
Total capital ratio	10.0%	11.3%	10.0%	11.3%
Number of shares	1,044,553,267	1,044,553,267	1,044,553,267	1,044,553,267

The selected financial highlights comprising the key items of the consolidated financial statements have been translated into euro in accordance with the following principles:

- the items of assets, liabilities and equity have been translated at the mid-exchange rates quoted by the National Bank of Poland for 31 December 2019, i.e. EUR 1 = PLN 4.2585 and for 31 December 2018, i.e. EUR 1 = PLN 4.3000;
- the items of the income statement and the items of the statement of cash flows have been translated at the average exchange rates based on the arithmetic mean of mid-rates quoted by the National Bank of Poland for the last day of each full month in the period of 12 months ended 31 December 2019 and 31 December 2018 (EUR 1 = PLN 4.3018 and EUR 1 = PLN 4.2669 respectively).

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I. CONSOLIDATED FINANCIAL STATEMENTS

1. Consolidated income statement

	Note	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 (restated) PLN '000
CONTINUING OPERATIONS			
Interest income, of which:	II.8	2,085,077	2,268,453
related to financial assets measured at amortised cost		1,679,079	1,866,034
related to financial assets measured at fair value through other comprehensive income		145,760	115,298
related to financial assets measured at fair value through profit or loss		195,721	221,623
related to financial liabilities		64,517	65,498
Interest expenses	II.8	(1,135,290)	(1,061,231)
Net interest income		**949,787**	**1,207,222**
Fee and commission income	II.9	204,689	242,021
Fee and commission expenses	II.9	(127,690)	(117,011)
Net fee and commission income		**76,999**	**125,010**
Dividend income	II.10	6,969	3,963
Gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income	II.11	(21,711)	32,603
Gain (loss) on derecognition of financial assets not measured at fair value through profit or loss	II.12	25,816	51,082
Other operating income	II.13	71,273	97,040
Other operating expenses	II.13	(201,657)	(144,267)
Net other operating income and expenses		**(130,384)**	**(47,227)**
Costs of legal risk of foreign currency loans	II.40	(158,160)	-
Administrative expenses	II.14	(945,515)	(950,384)
Gain (loss) on non-substantial modification	II.15	(5,510)	(3,408)
Net impairment losses on financial assets and off-balance sheet provisions	II.16	(442,666)	(741,721)
Net impairment losses on investments in associates	II.17	(49,218)	(22,485)
Operating profit/(loss)		**(693,593)**	**(345,345)**
Share of profit/(losses) of equity-accounted associates		151	(13,186)
Profit/ (loss) before tax		**(693,442)**	**(358,531)**
Income tax	II.18	101,891	(101,679)
Net profit/ (loss)		**(591,551)**	**(460,210)**
Attributable to:			
equity holders of the parent		(591,551)	(460,210)
non-controlling interests		-	-
Weighted average number of shares		*1,044,553,267*	*970,299,666*
Earnings per share in PLN:	II.19		
basic, for profit for the period attributable to equity holders of the parent		(0.57)	(0.47)
diluted, for profit for the period attributable to equity holders of the parent		(0.57)	(0.47)

No operations of the Group were discontinued in 2019 and 2018.

Notes to the consolidated financial statements presented on pages from 9 to 152 are an integral part of these financial statements.

2. Consolidated statement of comprehensive income

	Note	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 (restated) PLN '000
Net profit/ (loss) for the period		(591,551)	(460,210)
Items that may not be reclassified to profit or loss, of which:		**42,264**	**(195,952)**
Actuarial gains/ (losses)	II.40	428	170
Measurement of equity financial assets measured at fair value through other comprehensive income *		17,913	(206,972)
Income tax related to items that may not be reclassified to profit or loss	II.18	23,925	11,881
Share in other comprehensive income/ (losses) of associates		(2)	(1,031)
Items that may be reclassified to profit or loss, of which:		**67,650**	**13,206**
Measurement of debt financial instruments measured at fair value through other comprehensive income		46,948	(8,449)
Effect of cash flow hedges	III.6	36,570	24,753
Income tax related to items that may be reclassified to profit or loss	II.18	(15,868)	(3,098)
Net other comprehensive income/ (loss)		**109,914**	**(182,746)**
Comprehensive income/ (loss) for the period		**(481,637)**	**(642,956)**
Attributable to:			
equity holders of the parent		(481,637)	(642,956)
non-controlling interests		-	-

* Unrealized gains/(losses) from measurement of equity instruments at fair value relate mainly to two portfolios of shares of related entities held by the Group (Idea Bank S.A. and Getin Holding S.A.).

3. Consolidated statement of financial position

	Note	31.12.2019 PLN '000	31.12.2018 (restated) PLN '000
ASSETS			
Cash and balances with the Central Bank	II.20	1,837,847	1,512,503
Amounts due from banks and financial institutions	II.21	1,608,664	1,648,942
Financial assets held for trading	II.22	6,549	4,869
Financial assets measured at fair value through profit or loss	II.23	123,850	148,580
Derivative financial instruments	II.24	124,509	250,015
Loans and advances to customers	II.25	37,126,889	40,334,259
measured at amortised cost		36,985,466	40,196,715
mandatorily measured at fair value through profit or loss		141,423	137,544
Other financial instruments, of which:	II.26	9,716,588	3,592,629
measured at fair value through other comprehensive income		9,382,629	2,569,436
measured at amortised cost		333,959	1,023,193
Investments in associates	II.28	117,241	173,994
Intangible assets	II.29	292,501	266,794
Property, plant and equipment	II.30	353,118	254,110
Investment properties	II.31	150,338	167,287
Property obtained from foreclosures	II.32	354,478	396,322
Non-current assets held for sale	II.34	1,164	21,497
Income tax assets, of which:		650,450	532,223
receivables relating to current income tax		8,237	6,494
deferred tax assets	II.18	642,213	525,729
Other assets	II.35	364,253	598,885
TOTAL ASSETS		**52,828,439**	**49,902,909**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to banks and financial institutions	II.36	806,398	5,491,930
Derivative financial instruments	II.24	418,027	477,737
Amounts due to customers	II.37	46,169,373	37,074,895
Debt securities issued, of which:	II.38	2,071,855	3,374,908
subordinated liabilities		1,578,024	1,890,470
Other liabilities	II.39	581,214	427,793
Deferred tax liabilities	II.18	-	2
Provisions	II.40	246,623	39,058
Total liabilities		**50,293,490**	**46,886,323**
Equity attributable to equity holders of the parent		**2,534,944**	**3,016,581**
Share capital	II.41	2,851,630	2,751,630
Unregistered share capital		-	100,000
Retained earnings		(259,987)	(1,355,832)
Net profit/ (loss)		(591,551)	(460,210)
Other components of equity	II.42	534,852	1,980,993
Non-controlling interests		**5**	**5**
Total equity		**2,534,949**	**3,016,586**
TOTAL LIABILITIES AND EQUITY		**52,828,439**	**49,902,909**

Notes to the consolidated financial statements presented on pages from 9 to 152 are an integral part of these financial statements.

4. Consolidated statement of changes in equity

01.01.2019-31.12.2019	Note	Attributable to equity holders of the parent								Non-controlling interests	Total equity
		Share capital	Unregistered share capital	Retained earnings	Net profit/ (loss)	Other components of equity			Total		
						Supplementary capital	Revaluation reserve	Other reserves			
		PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
As at 01.01.2019		**2,751,630**	**100,000**	**(1,816,042)**	**-**	**1,938,855**	**(237,256)**	**279,394**	**3,016,581**	**5**	**3,016,586**
Comprehensive income/ (loss) for the period		-	-	(4)	(591,551)	-	109,918	-	(481,637)	-	**(481,637)**
Distribution of profit for the previous year		-	-	1,556,059	-	(1,556,059)	-	-	-	-	-
Increase in share capital of the parent (entered in the National Court Register on 10 January 2019)	II.41	100,000	(100,000)	-	-	-	-	-	-	-	-
As at 31.12.2019		2,851,630	-	(259,987)	(591,551)	382,796	(127,338)	279,394	2,534,944	5	2,534,949

01.01.2018-31.12.2018 (restated)	Note	Attributable to equity holders of the parent								Non-controlling interests	Total equity
		Share capital	Unregistered share capital	Retained earnings	Net profit/ (loss)	Other components of equity			Total		
						Supplementary capital	Revaluation reserve	Other reserves			
		PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
As at 01.01.2018		**2,461,630**	**-**	**(929,419)**	**-**	**2,581,962**	**(94,766)**	**279,394**	**4,298,801**	**5**	**4,298,806**
Effect of IFRS 9		-	-	(1,022,782)	-	-	40,256	-	(982,526)	-	(982,526)
Other changes		-	-	(43,361)	-	-	-	-	(43,361)	-	(43,361)
As at 01.01.2018 after adjustments		**2,461,630**	**-**	**(1,995,562)**	**-**	**2,581,962**	**(54,510)**	**279,394**	**3,272,914**	**5**	**3,272,919**
Comprehensive income/ (loss) for the period		-	-	-	(460,210)	-	(182,746)	-	(642,956)	-	(642,956)
Sale of equity instruments measured at fair value through other comprehensive income		-	-	(1,427)	-	-	-	-	(1,427)	-	(1,427)
Distribution of profit for the previous year		-	-	688,073	-	(688,073)	-	-	-	-	-
Accounting for business combination		-	-	(46,916)	-	46,916	-	-	-	-	-
Increase in share capital of the parent	II.41	290,000	100,000*	-	-	(1,950)	-	-	388,050	-	388,050
As at 31.12.2018		**2,751,630**	**100,000**	**(1,355,832)**	**(460,210)**	**1,938,855**	**(237,256)**	**279,394**	**3,016,581**	**5**	**3,016,586**

* On 10 January 2019, the District Court for the Capital City of Warsaw in Warsaw, 12rh Commercial Division of the National Court Register, registered the Bank's increase in share capital in the total amount of PLN 100,000,001.01 by way of issue of 36,630,037 series E ordinary bearer shares with a nominal value of PLN 2.73 per share.

5. Consolidated statement of cash flows

	Note	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 (restated) PLN '000
Cash flows from operating activities			
Net profit/ (loss)		(591,551)	(460,210)
Adjustments:		7,472,962	(3,805,462)
Amortisation and depreciation	II.14	160,696	88,836
Share of (profits)/ losses of associates		(151)	13,186
(Gains)/ losses on investing activities		77,818	35,714
Interest and dividends		179,506	186,468
Change in amounts due from banks and financial institutions	II.47	(94,821)	(556,494)
Change in financial assets held for trading		(1,680)	3,131
Change in financial assets measured at fair value through profit or loss		24,730	9,911
Change in derivative financial instruments (assets)	II.47	138,629	341,872
Change in loans and advances to customers		3,207,370	1,268,730
Change in financial instruments measured at fair value through other comprehensive income	II.47	(6,733,244)	5,026,764
Change in financial instruments measured at amortised cost	II.47	689,234	1,054,902
Change in other assets		234,632	(150,413)
Change in non-current assets held for sale		20,333	226,216
Change in amounts due to banks and financial institutions	II.47	413,538	(148,460)
Change in derivative financial instruments (liabilities)	II.47	(43,211)	237,734
Change in amounts due to customers		9,094,478	(11,592,462)
Change in debt securities issued	II.47	(5,768)	(9,625)
Change in other liabilities	II.47	14,281	82,338
Change in provisions		207,912	(10,099)
Other adjustments		6,909	5,058
Income tax paid		(8,244)	(11,032)
Income tax		(109,985)	92,263
Net cash from operating activities		**6,881,411**	**(4,265,672)**
Cash flows from investing activities			
Disposal of intangible assets and property, plant and equipment		56,864	60,864
Disposal of investment securities		-	4,038
Dividends received	II.10	6,969	3,963
Interest received on investment securities		3,525	7,577
Purchase of intangible assets and property, plant and equipment		(107,919)	(114,280)
Purchase of investment securities		-	(7,698)
Net cash used in investing activities		**(40,561)**	**(45,536)**
Cash flows from financing activities			
Proceeds from issue of shares		-	390,000
Redemption of issued debt securities	II.38	(1,297,285)	(1,058,641)
Proceeds from credit facilities		-	4,790,000
Repayment of credit facilities	II.36	(5,099,070)	(997,776)
Interest paid on credit facilities, leases and securities issued		(190,000)	(198,008)
Lease payments		(64,250)	(6,005)
Net cash used in financing activities		**(6,650,605)**	**2,919,570**
Net increase / (decrease) in cash and cash equivalents		190,245	(1,391,638)
including from exchange differences on cash and cash equivalents		*(291)*	*20,869*
Cash and cash equivalents at the beginning of the period		2,317,176	3,708,814
Cash and cash equivalents at the end of the period	**II.47**	**2,507,421**	**2,317,176**

(figures in PLN '000)

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information about the Bank

The parent of the Group is Getin Noble Bank S.A. ("the Bank", "the parent", "the Issuer", "GNB") with its registered office in Warsaw at ul. Przyokopowa 33, registered pursuant to the decision of the District Court of Warsaw, 12th Commercial Division of the National Court Register on 25 April 2008 under entry No KRS 0000304735. The parent was assigned a statistical ID No (REGON) 141334039. The legal basis for the Bank's activity is its Articles of Association drawn up in the form of a notarial deed of 5 March 2008 (as amended).

The share capital of the Bank amounts to PLN 2,851,630,418.91 and is divided into 883,381,106 series A shares, 18,315,019 series B shares,69,597,068 series C shares, 36,630,037 series D shares and 36,630,037 series E shares with a nominal value of PLN 2.73 each. The Bank's shares are ordinary bearer shares, each of which carries the right to one vote at the Bank's General Meeting. The shares are admitted to trading on the Warsaw Stock Exchange and are quoted under the abbreviated name of GETINOBLE, labelled with the code PLGETBK00012.

In accordance with information available to the Bank, the ownership structure of major holdings of the parent's shares as at 31 December 2019 was as follows:

	Number of shares held	Number of votes at GM	Ownership interest (%)	% of votes at GM
LC Corp B.V.	499,731,696	499,731,696	47.85%	47.85%
Leszek Czarnecki (directly)	88,208,870	88,208,870	8.44%	8.44%
Getin Holding S.A.	66,771,592	66,771,592	6.39%	6.39%
Other shareholders	389,841,109	389,841,109	37.32%	37.32%
Total	**1,044,553,267**	**1,044,553,267**	**100.00%**	**100.00%**

The parent of the Bank and the Capital Group is Mr Leszek Czarnecki who, directly and through his subsidiaries, holds a total of 62.78% of shares in Getin Noble Bank S.A. Data on the shares held by Mr Leszek Czarnecki and his subsidiaries is presented in the following table:

	Number of shares held	Number of votes at GM	Ownership interest (%)	% of votes at GM
LC Corp B.V.	499,731,696	499,731,696	47.85%	47.85%
Leszek Czarnecki (directly)	88,208,870	88,208,870	8.44%	8.44%
Getin Holding S.A.	66,771,592	66,771,592	6.39%	6.39%
Other	1,016,091	1,016,091	0.10%	0.10%
Total	**655,728,249**	**655,728,249**	**62.78%**	**62.78%**

(figures in PLN '000)

2. Composition of the Bank's Management Board and Supervisory Board

As at the date of signing these consolidated financial statements, the composition of the management and supervisory boards of Getin Noble Bank S.A. was as follows:

Management Board of Getin Noble Bank S.A.	
President of the Management Board	Artur Klimczak
Members of the Management Board	Karol Karolkiewicz
	Maciej Kleczkiewicz
	Tomasz Misiak
	Marcin Romanowski
	Maja Stankowska
	Wojciech Tomasik

Supervisory Board of Getin Noble Bank S.A.	
Chairman of the Supervisory Board	Leszek Czarnecki
Members of the Supervisory Board	Barbara Bakalarska
	Mariusz Grendowicz
	Tadeusz Hołyński
	Jacek Lisik

On 9 January 2019, Mr Remigiusz Baliński resigned from his position as Member of the Bank's Supervisory Board with effect as of 9 January 2019.

On 23 January 2020, Mr Krzysztof Bielecki resigned from his position as Member of the Bank's Supervisory Board with effect as of 23 January 2020.

In the twelve months ended 31 December 2019 and as at the date of preparation of these consolidated financial statements, there were no other changes in the composition of the Bank's Management Board and Supervisory Board.

3. Information about the Capital Group

Getin Noble Bank S.A. Capital Group ("the Capital Group", "the Group") consists of Getin Noble Bank S.A. as the parent, and its subsidiaries. The Bank also holds shares in associates.

Individual Group companies were established for an indefinite period.

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

The Bank carries on the retail banking business under the Getin Bank brand, which specialises in the deposit service for the Customers and the sale of retail loans. Getin Bank also offers a number of investment products and is an active player in the segment of financial services dedicated to customers conducting business activity, as well as local government units. Bank represents the private banking segment, which is dedicated to affluent customers.

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

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

	Proportion of ownership interest/ voting rights held by the Group	
	31.12.2019	31.12.2018
Noble Securities S.A.	100%	100%
Noble Concierge sp. z o.o.	100%	100%
Sax Development sp. z o.o.	100%	100%

(figures in PLN '000)

Property Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych [1]	100%	100%
ProEkspert sp. z o.o.	100%	100%
Debtor Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	100%	100%
Open Finance Wierzytelności Detalicznych Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	87.47%	86.57%
GNB Leasing Plan DAC [2]	0%	0%
GNB Auto Plan 2017 sp. z o.o. [2]	0%	0%

1) Property Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Non-public assets closed-end investment fund) holds 100% of shares in 9 special purpose vehicles.

2) Special purpose vehicle with which the Bank carried out a securitisation transaction; The Group does not hold any equity interest in this entity.

All subsidiaries are fully consolidated.

As at 31 December 2019 and 31 December 2018, the Group held 42.91% of the share capital of an associate, Open Finance S.A., and 36.39% of the share capital of an associate, Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A., both accounted for using the equity method.

Due to the nature of relations between Getin Noble Bank S.A. and special purpose vehicles – GNB Leasing Plan DAC and GNB Auto Plan 2017 sp. z o.o. – with whom the Bank carried out securitisation transactions concerning receivables, the companies were consolidated using the full method, despite the fact that the Group does not hold any equity interest in these entities.

As at 31 December 2019 and 31 December 2018, the Bank's share in total voting rights in subordinates was equal to its holdings in the share capital of those entities.

3.1. Changes in the Capital Group in 2019

Acquisition of investment certificates of Open Finance Wierzytelności Detalicznych NSFIZ

In 2019, the Bank acquired 17,382 investment certificates of the Fund and increased its share to 87.47% as at 31 December 2019.

Buyout/redemption of investment certificates of Debtor NSFIZ

On 5 June 2019, the Bank was notified by Noble Funds TFI of the redemption of 399,096 investment certificates of the closed-end investment fund Debtor NSFIZ. The total value of the certificates bought out amounted to PLN 172.8 million. The number of certificates remaining after the redemption is 26,565.

Termination of the agreement for the sale of shares in Noble Securities

On 28 May 2019, Getin Noble Bank S.A. signed a memorandum of understanding with Mercurius Dom Maklerski Sp. z o.o. concerning the termination of a conditional agreement on the order to sell registered shares of Dom Maklerski Noble Securities S.A. to Mr Leszek Czarnecki (the "Agreement"). Pursuant to the memorandum of understanding, the Agreement was terminated on 29 May 2019. The reasons for terminating the Agreement included, among others, analyses carried out by the Bank as a result of external factors and changes on the financial market, which resulted in the conclusion that further efforts to finalize and settle the sale of the block of shares in the Company were not justified from the economic point of view and would not bring the expected positive financial outcome from the recognition of the loss of control over the Company, as assumed in the Capital Conservation Plan.

Sale of an organised part of the enterprise

As of 22 November 2019, Noble Securities S.A. limited its operations by discontinuing brokerage services related to the execution of orders to buy or sell financial instruments outside the organized market (on the OTC market), including contracts for exchange rate differences (CFDs). The aforementioned operations were limited following the conclusion on 20 November 2019 by Noble Securities S.A. and Dom Maklerski TMS Brokers S.A. of a final agreement on the sale of an organized part of Noble Securities S.A.'s enterprise to TMS Brokers S.A. The agreement covered a set of tangible and intangible assets intended for the provision of brokerage services related to the execution of orders to buy or sell financial instruments outside the organised market (on the OTC market), including contracts for exchange rate differences (CFDs) and the sale of the aforementioned organised part of Noble Securities S.A.'s enterprise to TMS Brokers S.A. as of 23 November 2019.

4. Authorisation of the consolidated financial statements

These consolidated financial statements were authorised for publication by the parent's Management Board on 31 March 2020.

5. Significant accounting policies

5.1. Statement of compliance

These consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (“IFRSs”) as endorsed by the European Union and – in respect of matters not regulated by those standards – in accordance with the Accounting Act of 29 September 1994 as amended and secondary legislation thereto, as well with requirements relating to issuers of securities admitted or sought to be admitted to trading on the official stock-exchange market. The IFRSs comprise standards and interpretations issued by the International Accounting Standards Board.

5.2. Basis of preparation of the financial statements

In these consolidated financial statement a fair value model was adopted for financial instruments measured at fair value through profit or loss, including derivatives, financial instruments measured at fair value through other comprehensive income and investment properties. Investments in associates are accounted for using the equity method. Other items of financial assets and liabilities are recognised at amortised cost less impairment losses or at acquisition cost less impairment losses.

These consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future, i.e. for a period of at least 12 months from the reporting date.

In making this assessment, significant uncertainties were taken into account that could affect the Bank’s ability to continue as a going concern. Based on the analysis of all aspects of the Bank's operations and its current and forecast financial situation, the Management Board of the Bank decided that the application of the going concern assumption to prepare these financial statements is justified. Despite this, it identifies several areas of significant uncertainties and potential risks which, despite the measures taken by the Bank, may have an impact on the Bank's operations and, consequently, raise serious doubts as to the Bank's ability to continue as a going concern.

The basis for the opinion on the validity of the going concern assumption are the analyses and measures carried out for the purposes of the Recovery Plan which was developed in the fourth quarter of 2019 and approved by the Polish Financial Supervision Authority on 9 January 2020, updated to reflect events occurring after the date of preparation and approval of the Recovery Plan.

Below, the Bank's Management Board presents the identified areas of significant uncertainties and potential risk factors that may adversely affect the future financial standing of the Bank, including its ability to continue as a going concern. These relate in particular to the failure to meet capital, profitability and liquidity ratios. Eliminating the identified threats and restoring capital and profitability ratios requires the achievement of business objectives set out in the approved Recovery Plan. The Bank's Management Board highlights the risk related to the restructuring of the Bank and the Group and the growing uncertainty regarding the effects of the current COVID-19 coronavirus pandemic. As a result of the pandemic, negative macroeconomic factors have already emerged, affecting economic developments worldwide as well as, more specifically, in Poland. The dynamics of these developments affecting the economic and social environment does not yet allow to precisely identify and estimate their consequences for the future situation of the Bank. The Polish Government, the Polish Financial Supervision Authority, the National Bank of Poland and other institutions responsible for overseeing the financial market and the Polish economy are in the process of developing a package of protective solutions for the Poland's economy. One of the assumptions guiding these institutions is the expectation towards banks to introduce instruments supporting the maintenance of creditworthiness and liquidity of businesses and individuals who are customers of banks. This may have a material impact on the structures of balance sheets and income statements of individual financial institutions. Nevertheless, the Bank's Management Board believes that the proposed shielding mechanisms will help minimise the negative consequences of the pandemic for the economy and its negative impact on the Bank and the capital group.

1) <u>Financial condition</u>

Getin Noble Bank S.A. is in the process of implementing the Recovery Plan of Getin Noble Bank S.A. Group launched on 10 January 2020 and approved by the Financial Supervision Authority on 9 January 2020. It replaced the “Plan for a sustainable improvement in profitability of Getin Noble Bank S.A. for 2017-2021. Update of the Recovery Program for 2016–2019” (the “Recovery Programme”) implemented previously by the Bank. Recovery measures taken by the Bank within the Recovery Plan aim at the recovery of the financial effectiveness of the Bank through organic development and, consequently, return to earlier sustainable profitability path, and achievement of required levels of capital ratios within 5 years. The adopted action plan based on the accumulation of profits does not preclude taking steps to raise external capital in favourable market circumstances.

(figures in PLN '000)

As disclosed in financial statements for 2016, 2017 and 2018, the reason for launching the Recovery Programme was a negative financial result and loss of profitability of the business, leading to a failure to meet the minimum required level of the combined capital buffer starting from January 2018.

The Group's financial result for 2019 came in at PLN -592 million and was below the level provided for in the Recovery Programme. This outcome was determined by a number of negative events beyond the Bank's control, occurring both in 2018 and 2019.

The failure to implement the objectives set forth in the Recovery Programme was caused by the following events which had an extremely negative effect on the Bank, resulting in the failure to achieve the financial result set forth in the Recovery Programme:

- the liquidity crisis of the end of 2018, caused by the consequence of massive, unreliable media information about the Bank disseminated in November 2018,
- unexpected identification, during the process of searching for a strategic investor for both banks, i.e. Getin Noble Bank S.A. and Idea Bank S.A., of the deterioration of Idea Bank S.A.'s financial standing, which resulted in the violation of applicable capital standards by Idea Bank S.A,
- the ruling of the Court of Justice of the European Union relating to the effects of possible abusive provisions of a CHF-indexed loan agreement (a loan granted by Raiffeisen Bank Polska S.A.), which was a direct reason for the development of a new market practice of introducing a portfolio approach to legal risk assessment, taking into account the estimation of the results of future disputes with customers who have contracted CHF-indexed loans,
- the ruling of the Court of Justice of the European Union concerning the right of the consumer to reduce the total cost of the loan in the event of its repayment before the contractual repayment date,
- the disclosure of irregularities in the operation of GetBack S.A. which had consequences for the entire market of trade in non-performing debts, the capital market, and, as a consequence, the suppression of customer demand for investment products.

2) *Capital condition*

As at 31 December 2019, the Bank's and the Group's capital ratios were as follows:

Ratio	Combined Buffer Requirement *	Stand-alone level of the Bank		Consolidated level of the Group	
		Level achieved	Difference	Level achieved	Difference
TCR	14.82%	9.85%	-4.97%	9.98%	-4.84%
TIER 1	12.49%	8.09%	-4.40%	8.23%	-4.27%
CET 1	10.74%	8.09%	-2.65%	8.23%	-2.52%

** limit as at 31 December 2019, as of 19 March 2020, the system risk buffer of 3% was repealed by virtue of the Ordinance of the Minister of Finance of 18 March 2020.*

The decrease of the Bank's capital adequacy ratios below the combined buffer requirements has its historical origin in – on the one hand – the legal and regulatory factors that came into force in 2017, including in particular the Ordinance of the Minister of Development and Finance of 25 May 2017 regarding higher (150%) risk weights for exposures secured with mortgages on property, and – on the other hand – in the deteriorating financial performance of the Bank.

Under the Capital Conservation Plan implemented since 2018, the Bank focused on optimising current performance and building its capital base based on top quality funds (Tier 1). As a consequence, the Bank's share capital was increased by PLN 390 million and the merger with BPI Bank Polskich Inwestycji S.A. was completed, ensuring an increase in the Bank's equity by PLN 38 million.

Due to the negative effect on the Bank's financial performance of the aforementioned events, beyond the Bank's control, which took place in 2018 and 2019, resulting in the Bank's inability to achieve positive financial results, other measures provided for in the Capital Conservation Plan, such as issues of AT1 debt securities, issues of subordinated liabilities or the sale of a block of shares in DM Noble Securities S.A. became practically impossible to implement in the assumed formula and over the assumed time.

The process of merger with Idea Bank SA (the planned transaction was described in detail in Note II.5.2 to the consolidated financial statements of Getin Noble Bank S.A. Group for the year ended 31 December 2018) has failed due to the deterioration of Idea Bank SA's financial condition.

(figures in PLN '000)

The process of attracting a financial investor concluded without the capital injection expected by the Bank. Based on information received from the investment advisor representing the Bank and a representation of the main shareholder it was established that during talks with bidders, it was not possible to agree on the financial terms of the transaction aimed at recapitalising the Bank.

On 16 March 2020, as a result of a sudden decision of the United States Central Bank (Federal Reserve System - FED) to cut interest rates and the reaction of financial markets to the outbreak of the pandemic in Europe, there was a sharp drop in prices of financial instruments and a strong depreciation of the Polish zloty, in particular in relation to the Swiss franc. As a result of these events, the Bank reported a breach of the capital requirement referred to in Article 142(1)(1) of the Banking Law of 29 August 1997 (the "Act"), i.e. the level of the total capital ratio referred to in Article 92 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms ("CRR"), increased by an additional requirement in respect of own funds above the value resulting from the requirements calculated in accordance with the detailed principles set out in the CRR, as referred to in Article 138(1)(2a) of the Act. As estimated by the Bank, the level of the capital requirement referred to above, calculated as at 16 March 2020, was approximately 8.9%, i.e. about 0.4 p.p. below the mandatory level of 9.32%. This is a result of only external factors which are independent of the operating activities of the Bank and stem from the measures taken to minimise the effects of the spread of the COVID-19 pandemic. The current scale of this volatility is of such significance that in the near future it may be decisive in respect of the high variability of the level of the capital ratio of the Bank in relation to the statutory standard. It should be noted that both the revaluation of the Treasury bond portfolio and the increase in the capital requirement resulting from the depreciation of the zloty may be reversible.

The Bank notified the Polish Financial Supervision Authority and the Bank Guarantee Fund of the occurrence of a breach of the capital requirement, pursuant to Article 142(1) of the Act, immediately after receiving the information, i.e. on 17 March this year. At this point, it should be noted that pursuant to the provisions of the Act, the Polish Financial Supervision Authority has a number of supervisory powers related to the above situation, as described, inter alia, in Article 138(3), Article 142(3) and Article 144 of the Act. In the opinion of the Management Board, the measures taken by the supervisory authorities should be tailored to the nature and scale of the breach. The Bank's Management Board has not identified and does not expect to apply any supervisory measures that could have a negative impact on the going concern assumption made for the purpose of these financial statements.

Apart from the above, compliance with the capital requirement referred to in Article 142(1)(1) of the Act was also significantly adversely affected by the decision of the Bank's Management Board dated 24 March 2020 on the recognition of:

1. a portfolio provision for legal risk associated with mortgage and housing loan agreements indexed to CHF, in the amount of PLN 158.2 million, which decreased the Bank's result for Q4 of 2019 on a consolidated and stand-alone basis;
2. an additional provision for the costs related to the judgment of the Court of Justice of the European Union of 11 September 2019 in case C-383/18 concerning the right of the consumer to reduce the total cost of the loan in the event of its repayment before the time limit specified in the agreement, in the amount of PLN 101.6 million, which decreased the Bank's result for Q4 of 2019 on a consolidated and stand-alone basis;
3. an additional impairment loss on the Bank's investment in associates, in the amount of PLN 49.2 million, which decreased the Bank's result for Q4 of 2019 on a consolidated and stand-alone basis.

The Bank will take all necessary measures to improve capital ratios, in particular those contained in the Recovery Plan implemented since January 2020. At the same time, it should be mentioned that the factors affecting non-compliance with the minimum capital requirement have their origin in the crisis related to the COVID-19 pandemic, reaching beyond the Polish economy. In order to address the consequences of the aforementioned phenomenon, on 18 March 2020 the Polish Financial Supervision Authority developed and published a package of measures to strengthen the resilience of the banking sector and the financing capacity of the economy (the so-called Supervisory Stimulus Package for Security and Development"), in which, in the context of the exogenous nature of the current negative phenomena, it indicated, among others, a pragmatic approach to sanction measures related to temporary non-compliance with supervisory standards.

As at 27 March 2020, the estimated capital ratios are as follows:

Ratio	Combined Buffer Requirement */	CRR capital standard (Pillar 1 + Pillar 2)** /	Stand-alone level of the Bank	Consolidated level of the Group
TCR	11.82%	9.32%	8.6%	8.8%
TIER 1	9.49%	6.99%	7.0%	7.2%
CET 1	7.74%	5.24%	7.0%	7.2%

**/ pursuant to Article 55 of the Act of 5 August 2015 on Macroprudential Supervision over the Financial System and on Crisis Management in the Financial System*

***/ pursuant to Article 92 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms ("CRR"), increased by an additional requirement in respect of own funds above the* *value resulting from the requirements calculated in accordance with the detailed principles set out in the CRR, as referred to in Article 138(1)(2a) of the Banking Law*

(figures in PLN '000)

3) Financial liquidity of the Bank

In November 2018, as described in detail in the consolidated financial statements for 2018, the Bank experienced a serious liquidity crisis as a consequence of massed, unreliable media information causing uncertainty among customers.

This made it necessary for the Bank to take a number of measures aimed at restoring its liquidity position. The above events brought the Bank's liquidity ratios temporarily below the minimum levels set out in supervisory regulations. They reached lowest level on 3 December 2018 (when the LCR ratio stood at 21.3%). The M4 supervisory measure reached its lowest level at the turn of December 2018 and January 2019 (0.94).

At that time, the Bank launched emergency liquidity measures, as part of which it raised two refinancing facilities from the National Bank of Poland for a total of PLN 4.79 billion. In December 2018, the Bank took a number of procedural and legal measures aimed at improving the liquidity situation of the Bank, including the recovery of supervisory ratios. These measures have been included in the formal Liquidity Recovery Plan. The basic objective of the aforementioned plan was to raise financing from the retail market through an attractive offering of investment instruments, i.e. term deposits and savings accounts. This goal has been achieved. At the same time, the Bank's Management Board decided to scale down the lending activity in selected segments.

As a result of implementation of the Liquidity Recovery Plan, on 24 January 2019 the LCR ratio reached the required level of 100%. In February 2019, the Bank repaid in full its refinancing facilities received from the National Bank of Poland. The liquidity ratios were restored to levels that guarantee appropriate safety buffers.

The table below presents the development of supervisory measures of Getin Noble Bank S.A. as at, respectively, 31 December 2018 and 31 December 2019:

The table below presents the development of supervisory measures of Getin Noble Bank S.A. in the period from 31 December 2018 to 31 December 2019:

Supervisory liquidity measures		Minimum value	Value as at	
			31.12.2019	31.12.2018
LCR	Short-term liquidity ratio	100%	161.7%	52.3%
M4	Own funds and stable external funds to non-liquid and limited liquidity assets ratio	1.00	1.19	0.94

After the liquidity situation was stabilised, the Bank's activities focused on reducing the cost of financing. Since the exit from the financial crisis, liquidity ratios have been maintained above the minimum required levels.

4/ Foreign currency loan portfolio

The Bank continues to hold a significant portfolio of loans indexed to foreign currencies. The dominant currency of indexed loans is the Swiss franc. This portfolio is exposed to financial and legal risks. These risks were measured in accordance with IFRS 9 and IAS 37 respectively, as reflected in the impairment losses and provisions recognised as at 31 December 2019. For information on the current value of the Swiss franc-denominated loan portfolio, see Note II.21, and for information on the number and value of claims in court proceedings concerning agreements on loans indexed to foreign currencies, see Note II.40 to these consolidated financial statements.

On 3 October 2019, the Court of Justice of the EU issued a decision in connection with the questions referred for a preliminary ruling by the Polish court considering the case concerning the CHF-indexed loan, aimed at determining, among other things, the consequences of the abusive nature of individual provisions contained in the above-mentioned loan agreement, in particular, whether it is permissible to fill in gaps in the agreement resulting from removal of prohibited provisions based on national laws of general nature, stating that the effects of the legal action also include the consequences of the principles of equity or established customs.

In accordance with the decision of the Court of Justice of the EU, it is not permitted to fill in gaps in the agreement resulting from removal from it of any prohibited provisions with general national laws referring to the principles of equity or established customs. However, in the opinion of the Court of Justice, it is acceptable to supplement these gaps with a dispositive provision when the parties to the agreement so agree, but this possibility is limited to cases where the removal of such an unfair provision would oblige the court to cancel the agreement in its entirety, thus exposing the consumer to particularly harmful effects. However, the

CJEU left it for national courts to decide on the permissibility of further performance of the loan agreement in PLN, bearing interest at the LIBOR rate, while expressing the view that such a structure may give rise to doubts.

In the Bank's opinion, the above ruling will affect future decisions of Polish courts in cases related to CHF-indexed or CHF-denominated loan agreements whose clauses have been deemed abusive by these courts; however, it is currently difficult to fully predict the direction that judgments of Polish courts will take as regards loans granted by the Bank, especially in a situation where none of the clauses contained in the model agreements used by the Bank has been entered in the register of abusive clauses kept by the President of the Office for Competition and Consumer Protection. The current status of court rulings on loans indexed to or denominated in a foreign currency with respect to the development and possible changes of court rulings is monitored by the Bank on an ongoing basis.

In view of the aforementioned ruling of the Court of Justice of the European Union, the Bank assesses that cash flows from the portfolio of mortgage loans indexed to foreign currencies may not be fully recovered and a liability for cash outflow may arise on the part of the Bank, as a result of which, pursuant to IAS 37, it estimated and recognised a provision based on the portfolio approach for legal risk related to foreign exchange-linked mortgage loans in the amount of PLN 158 million. Including provisions for litigation related to this type of loans existing as at 31 December 2019, provisions recognised by the Bank as at 31 December 2019 amount to PLN 176 million.

The foreign currency financing of the portfolio of CHF-indexed loans is mainly provided through CIRSs and FX swaps. The term structure of these transactions is not fully aligned with the maturities of CHF-indexed loans which, in the environment of significant turbulence on financial markets, results in the emergence of risks related to the ability to renew contracts and, above all, an increase in the cost of renewing them.

5/ Effects of the spread of the COVID-19 coronavirus

The outbreak of the pandemic and concerns about the further spread of the COVID-19 coronavirus resulted in increased uncertainty in financial markets since January 2020, which was reflected in particular in March 2020 in significant fluctuations in exchange rates as well as in a strong slump in prices of shares and other financial market instruments. Market disturbances caused by the spread of the COVID-19 coronavirus generate destabilising factors affecting the entire banking sector both directly and indirectly, inter alia, as a consequence of support and stabilisation measures taken by the state authorities.

The pandemic poses a huge threat to economy around the world, including in Poland. At the moment, it is difficult to clearly indicate the consequences it will entail. It should be stressed, however, that they will be reflected both in deteriorating macroeconomic indicators, short- and medium-term exchange rate changes, but also in difficulties faced by individual sectors of our economy exposed to the sources of the crisis in different ways. It is evident that a reduction in the rate of economic growth or, in the extreme case, a recession is to be expected. Potentially declining growth rates (in extreme cases a decrease) of GDP will be associated with problems experienced by particular sectors of the economy and, consequently, a growing unemployment rate. Another very serious effect is the weakening of the Polish zloty against key currencies which may result from short-term reactions to interest rate cuts, but if sustained in the long run, it will be a problem for some import-dependent businesses, but also for banks with a significant share of foreign currencies in the balance sheet structure. Administrative restrictions, potential changes in consumer, employer and employee behaviour will have a different impact on particular industries and businesses. This will have a direct bearing on the financial situation of customers who have contracted loans with banks. At present, the actual impact of the pandemic cannot be estimated and, therefore, its effect on the Bank cannot be clearly demonstrated either. All the more so as state institutions introduce packages of anti-crisis measures. The final effects of the crisis will result from the duration and intensity of the negative factors and, to a large extent, the effectiveness of the anti-crisis measures taken. However, these developments are certainly a factor of uncertainty as to the Bank's and the Group's ability to achieve their intended business objectives.

5.3. Entity authorised to audit financial statements

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

5.4. Functional and reporting currency

The reporting currency of these consolidated financial statements is the Polish złoty (PLN), and all amounts are expressed in thousands of Polish złoty (PLN '000) unless stated otherwise. The Polish złoty is the functional currency of the parent and other companies covered by these consolidated financial statements and the reporting currency of these consolidated financial statements.

5.5. Changes in the applied standards and interpretations

Amendments to existing standards applied for the first time in *the Group's consolidated financial statements for 2019*

The accounting policies applied in preparing these consolidated financial statements are consistent with the policies applied in preparing the Group's consolidated financial statements for the year ended 31 December 2018, save for the effect of applying the following new standards, amendments to existing standards and interpretations effective for annual periods beginning on or after 1 January 2019:

- IFRS 16 *Leases* – endorsed by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 9 *Financial Instruments* – Prepayment features with negative compensation – endorsed by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019);
- IFRIC 23 *Uncertainty over Income Tax Treatments* – endorsed by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 28 *Investments in Associates and Joint Ventures* – Long-term interests in associates and joint ventures – endorsed by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 19 *Employee Benefits* – Plan amendment, curtailment or settlement – endorsed by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019);
- *Amendments to IFRS introduced as part of the 2015−2017 Improvements Cycle* – endorsed by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019).

IFRS 16 *Leases*

By way of Regulation No 2017/1986 of 31 October 2017, the European Commission approved the International Financial Reporting Standard 16 *Leases* (IFRS 16) in the version published by the International Accounting Standards Board on 13 January 2016, which superseded the previous IAS 17 *Leases.* IFRS 16 is effective for annual periods beginning on 1 January 2019.

The new standard has introduced revised principles for recognising leases. The main change for the lessee is the elimination of the classification of leases as either operating leases or finance leases and instead, the introduction of a single lessee accounting model. The application of the new standard affected the recognition, presentation, measurement and disclosure of underlying assets under operating leases and corresponding liabilities in the consolidated financial statements of the Group as a lessee.

The Group is a party to long-term leases of cars and leases of office space and premises, as well as holds perpetual usufruct rights to land.

The Group recognises a right-of-use asset together with a corresponding lease liability in the amount of discounted future payments over the lease term – as a component of "Property, plant and equipment" and "Other liabilities", respectively. In the consolidated income statement, the Group recognises the costs of depreciation of the right-of-use asset (under "Administrative expenses") and interest expense on the lease liability (under "Interest expense") (in accordance with IAS 17, lease payments related to the use of leased assets were recognized in "Administrative expenses" as lease and rental expenses). The measurement of the lease liability is periodically reconciled with the lease payments. Right-of-use assets are depreciated using the straight-line method, while liabilities under lease contracts are accounted for using the effective interest rate.

Lease liabilities resulting from leases of real estate denominated in foreign currencies are measured at each balance sheet date, and gains or losses on revaluation are recognised in the income statement under "Net foreign exchange income".

The Group used the simplified approach provided for in the standard for short-term leases (including leases whose remaining lease term as at 1 January 2019 is shorter than 12 months) and leases where the underlying asset has a low value. In the case of these leases, the Group accounts for lease payments as an expense on a straight-line basis over the lease term.

The Group used hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

Application of IFRS 16 required the Group to analyse data and make estimates and calculations that affect the measurement of lease liabilities and right-of-use assets. These include assessing whether a contract contains a lease in accordance with IFRS 16 and determining its term. The present value of the lease payments is determined using the lessee's incremental borrowing rate, taking into account the currencies in which the leases are denominated and the maturity of the contracts.

Interest rates applied as at 1 January 2019:
PLN: 3.33%–4.38% depending on the remaining leasing term
EUR: 1.50%–2.24% depending on the remaining leasing term

When determining the lease term, the Group took into account the extension option if it is included in the contract and the Group considers it probable that the option will be exercised. For contracts concluded for an indefinite term, the Group estimates the useful life of the leased asset with reasonable certainty. When determining the lease term, the Group assesses the materiality of broadly understood costs, i.e. apart from strictly contractual or financial issues, it takes into account all other significant economic factors discouraging termination of the lease (e.g. significant investments in the leased asset, availability of alternative solutions, relocation costs). For leases of branches concluded for an indefinite period of time, the Group assumed a period of 3 years taking into account the significance of the investment in third-party fixed assets, relocation costs, as well as the strategy of presence in a given location, ensuring business flexibility and efficiency and taking into account the changing expectations and preferences of customers.

The Group implemented IFRS 16 using the modified retrospective method, with the cumulative effect recognised as at 1 January 2019, without restating the comparative data. As at the date of initial application, the Group recognised a lease liability of PLN 139,140 thousand measured at the present value of the outstanding lease payments discounted at the Group's incremental borrowing rates and recognised a right-of-use asset measured at the same amount as the lease liability.

The effect of the initial application of IFRS 16 as at 1 January 2019 is presented below:

	31.12.2018 (restated) PLN '000	Effect of IFRS 16 PLN '000	01.01.2019 PLN '000
Property, plant and equipment	254,110	139,140	393,250
Other liabilities	427,793	139,140	566,933

The increase in assets resulting from the recognition of right-of-use assets relating to leases resulted in an increase in capital requirements as at 1 January 2019, which caused a decrease in the Tier 1 capital ratio and the total capital ratio by approx. 4 bps.

Reconciliation of differences between the amounts of future operating lease payments disclosed under IAS 17 as at 31 December 2018, discounted using the incremental borrowing rate as at the date of initial application, and lease liabilities recognised in the statement of financial position as at the date of initial application:

	31.12.2018/ 01.01.2019 PLN '000
Future minimum lease payments under irrevocable operating leases, in accordance with IAS 17	**119,605**
Recognition of perpetual usufruct rights	6,036
Recognition of contracts concluded for an indefinite term	21,729
Short-term contracts	(1,418)
Effect of discounting	(6,812)
Lease liabilities, in accordance with IFRS 16	**139,140**
Finance lease liabilities, in accordance with IAS 17 as at 31.12.2018	15,492
Total lease liabilities, in accordance with IFRS 16	154,632

The implementation of IFRS 16 resulted in a shift in items of expenses: recognition of higher depreciation expenses of right-of-use assets in the amount of PLN 56.2 million, accompanied by lower rental and lease costs.

Standards and interpretations published and endorsed by the EU, but not yet effective

- Amendments to *References to the Conceptual Framework in IFRS Standards* – effective for annual periods beginning on or after 1 January 2020;
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Materiality; effective for annual periods beginning on or after 1 January 1st 2020.
- Amendments to IFRS 9 *Financial Instruments,* IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* — reform of interest rate indicators; effective for annual periods beginning on or after 1 January 2020.

Amendments to IFRS 9 *Financial Instruments,* IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*

The amendment to IFRS 9, IAS 39 and IFRS 7 published on 16 January 2020 by the Commission Regulation (EU) concerns the impact of the reform of interest rate benchmarks on the principles of applying hedge accounting until the existing benchmarks are replaced by an alternative interest rate.

This amendment allows for temporary departures from specific requirements of hedge accounting by assuming that the interest rate benchmark on which the hedged cash flows or the hedged risk are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

The Group took advantage of the possibility to apply the above mentioned amendments earlier and did not take into account the uncertainty as regards the development of benchmark rates after the period of their replacement as a result of the reform, as part of the Group's hedge accounting.

The reform of LIBOR benchmark rates may affect the Bank's cash flow hedge accounting for CHF. All hedging instruments included in cash flow hedge accounting are CIRS CHF/PLN transactions where the interest flows on the CHF leg are based on 3M LIBOR CHF. Nominal amounts and fair values of CIRS hedging instruments in cash flow hedge accounting are presented in Note III.6.

New standards and amendments to existing standards issued by the International Accounting Standards Board (IASB), but not yet endorsed by the EU

There are no major differences between the IFRSs as endorsed by the EU and the regulations issued by the IASB, with the exception of the following new standards and amendments to existing standards, which were not yet endorsed by the EU as at 31 March 2020 (the following effective dates refer to the full versions of respective standards):

- IFRS 14 *Regulatory Deferral Accounts* – applicable to annual periods beginning on or after 1 January 2016; the European Commission has not endorsed this standard for application in the EU;
- IFRS 17 *Insurance Contracts* – effective for annual periods beginning on or after 1 January 2021;
- Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* – sale or contribution of assets between an investor and its associate or joint venture, and further amendments; work leading to the approval of the amendments was postponed by the EU for an indefinite period;
- Amendments to IFRS 3 *Business Combinations* − effective for annual periods beginning on or after 1 January 2020,

The effective dates are stated in relevant standards issued by the International Accounting Standards Board. The application dates of standards in the EU may differ from the effective dates stated in those standards and are announced upon their endorsement by the EU.

The Bank estimates that none of those new standards, amendments to the existing standards would have had a material impact on its financial statements had they been applied by the Bank as at the balance sheet date.

Restatement of comparative figures

Comparative figures for the period of 12 months ended 31 December 2018 presented in these consolidated financial statements have been restated to reflect the following changes introduced since the date of publication of the consolidated financial statements for the period ended 31 December 2018. In the Group's opinion, the changes introduced better reflect the nature of transactions from the point of view of the Bank's operations and will thus ensure more useful and reliable information for investors.

<u>Change in the presentation of commissions and fees, other operating expenses and administrative expenses</u>

In 2019, the Bank changed the manner of presentation of costs incurred in relation to the Credit Information Bureau ("BIK"), the National Clearing House ("KIR") and the costs of employee remuneration for the sale of term deposits by moving them from "Fee and commission expense" to "Administrative expenses" in the income statement.

In addition, the cost of promotions and customer rewards was transferred between "Other operating expenses" and "Fee and commission expenses".

In the Group's opinion, the changed presentation of the aforementioned costs better reflects the nature of these costs from the point of view of the Bank's operations and will thus ensure more useful and reliable information for investors.

In connection with the change, the comparative figures for the period of 12 months ended 31 December 2018 were restated. This change did not affect the net profit or loss in any of the reporting periods presented in these consolidated financial statements.

Change in the method of recognition of income from profit sharing

The Bank changed the method of recognition of income from profit sharing on account of sales of insurance contracts of a protective nature, determined by maintaining a specific loss ratio from the Bank's portfolio. Previously, the Bank treated consideration for profit sharing as a separate liability for the provision of services and recognized income on a one-off basis as commission income, taking into account the provision for potential returns of consideration. Having analysed the economic nature of the compensation, the Group adjusted the method of recognition of income from profit sharing as if the consideration was part of the total consideration for the sale of protective insurance and is accounted for in accordance with the formula used by the Group to account for insurance products related to a financial instrument. As at 1 January 2019, the Group recognised a relevant adjustment in equity in the amount of PLN -6.8 million and restated the comparative figures presented in the tables below:

Income statement for the period 01.01.2018-31.12.2018	Getin Noble Bank S.A. Group, published figures	Change in the method of recognition of income from profit sharing	Presentation changes	Restated comparative figures
	PLN '000	PLN '000	PLN '000	PLN '000
CONTINUING OPERATIONS				
Interest income, of which:	2,267,051	1,402	-	2,268,453
related to financial assets measured at amortised cost	1,864,632	1,402	-	1,866,034
related to financial assets measured at fair value through other comprehensive income	115,298	-	-	115,298
related to financial assets measured at fair value through profit or loss	221,623	-	-	221,623
related to financial liabilities	65,498	-	-	65,498
Interest expenses	(1,061,231)	-	-	(1,061,231)
Net interest income	**1,205,820**	**1,402**	**-**	**1,207,222**
Fee and commission income	251,842	(9,821)	-	242,021
Fee and commission expenses	(125,817)	-	8,806	(117,011)
Net fee and commission income	**126,025**	**(9,821)**	**8,806**	**125,010**
Dividend income	3,963	-	-	3,963
Gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income	32,603	-	-	32,603
Gain (loss) on other financial instruments	51,082	-	-	51,082
Other operating income	97,040	-	-	97,040
Other operating expenses	(144,267)	-	-	(144,267)
Net other operating income and expenses	**(47,227)**	**-**	**-**	**(47,227)**
Administrative expenses	(941,578)	-	(8,806)	(950,384)
Gain (loss) on modification	(3,408)	-	-	(3,408)
Net impairment losses on financial assets and off-balance sheet provisions	(741,721)	-	-	(741,721)
Net impairment losses on investments in associates	(22,485)	-	-	(22,485)
Operating profit/(loss)	**(336,926)**	**(8,419)**	**-**	**(345,345)**
Share of profits/ (losses) of associates	(13,186)	-	-	(13,186)
Profit/ (loss) before tax	**(350,112)**	**(8,419)**	**-**	**(358,531)**
Income tax	(103,279)	1,600	-	(101,679)
Net profit/ (loss)	**(453,391)**	**(6,819)**	**-**	**(460,210)**

Statement of financial position 31.12.2018	Getin Noble Bank S.A. Group, published figures	Change in the method of recognition of income from profit sharing	Restated comparative figures
	PLN '000	PLN '000	PLN '000
Assets			
Loans and advances to customers, of which:	40,343,210	(8,951)	40,334,259
measured at amortised cost	40,205,666	(8,951)	40,196,715
Income tax assets, of which:	530,623	1,600	532,223
deferred tax assets	524,129	1,600	525,729
TOTAL ASSETS	**49,910,260**	**(7,351)**	**49,902,909**
LIABILITIES AND EQUITY			
Liabilities			
Other liabilities	428,325	(532)	427,793
Total liabilities	**46,886,855**	**(532)**	**46,886,323**
Equity attributable to equity holders of the parent			
Net profit/ (loss)	(453,391)	(6,819)	(460,210)
Total equity	**3,023,405**	**(6,819)**	**3,016,586**
TOTAL LIABILITIES AND EQUITY	**49,910,260**	**(7,351)**	**49,902,909**

The effect of the above adjustment on the consolidated statement of cash flows is insignificant.
The adjustment does not affect the financial figures as at 1 January 2018.

5.6. Consolidation rules

These consolidated financial statements include the separate financial statements of Getin Noble Bank S.A. as the parent and the financial statements of its subsidiaries. The financial statements of the Bank and its subsidiaries used in the preparation of the consolidated financial statements have the same reporting date. The parent prepares consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances. If a member of the group uses accounting policies other than those adopted in the consolidated financial statements, appropriate adjustments are made to that group member's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

Subsidiaries

Irrespective of the nature of its involvement with an entity, the Bank determines if it is a parent by assessing whether it controls the investee. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
Therefore, the Bank controls an investee if, and only if, all of the following are true:

a) the Bank exercises power over the investee,
b) the Bank is exposed, or has rights, to variable returns from its involvement with the investee, and
c) the Bank is capable of using its power over the investee to affect the level of its own returns.

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

Consolidated financial statements:

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

The Bank allocates its profit or loss and each item of other comprehensive income to owners of the parent and non-controlling interests. The Bank presents non-controlling interests in the consolidated statement of financial position under equity, separately from equity of the owners of the parent. Changes in the parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. If the proportion of equity held by non-controlling interests changes, the Bank adjusts the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received are recognised directly in equity and attributed to the owners of the parent.

If the Bank loses control of a subsidiary, it:

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

Associates

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

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

For investments in associates, the Group applies the equity method whereby the investment is initially recognised at cost and thereafter adjusted for any post-acquisition changes in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income. If the entity's share of losses of an associate equals or exceeds its interest in the associate, the entity discontinues recognising its share of further losses.

Profits and losses resulting from "upstream" and "downstream" transactions between the Bank (including its subsidiaries) and an associate are recognised in the Bank's financial statements only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated.

At the end of each reporting period, the Group determines whether it is necessary to recognise any impairment loss on its net investment in each associate. If this is the case, the Group estimates the recoverable amount, i.e. the higher of the value in use or fair value less costs to sell. If the carrying amount of an asset exceeds its recoverable amount, the Group recognises an impairment loss in the statement of profit or loss.

5.7. Foreign currency translation

Transactions denominated in currencies other than the Polish złoty are translated into the złoty at the exchange rate effective for the transaction date. As at the reporting date, monetary assets and liabilities denominated in currencies other than the Polish złoty are translated into the złoty at the mid-exchange rate quoted by the National Bank of Poland for a given currency, effective at the end of the reporting period. Currency translation differences are disclosed in relevant items of the income statement. Non-monetary assets and liabilities recognised at historical cost and denominated in a foreign currency are disclosed at the historical exchange rate effective for the transaction date. Non-monetary assets and liabilities recognised at fair value in a foreign currency are translated at the exchange rate effective on the date of determining the fair value.

5.8. Financial assets and liabilities

Initial recognition

Any purchase or sale of financial assets is recognised at the transaction date (and not at the moment of inflow or outflow of cash) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.
When a financial asset or financial liability is recognised initially, an entity measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Classification and measurement (financial assets)

The classification of financial assets is determined at the time of initial recognition of an asset in the balance sheet and depends on:

- the business model for financial asset management, which is determined at the level reflecting the manner in which groups of financial assets are managed as a whole to achieve the specific business objective, and
- the nature of contractual cash flows, i.e. whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding (the "SPPI" criterion).

Depending on the business model as well as the characteristics of contractual cash flows, financial assets may be classified as:

- measured at amortised cost;
- measured at fair value through other comprehensive income;
- measured at fair value through profit or loss.

The business model does not depend on management's intentions for an individual instrument. The Group may have more than one business model for managing its financial instruments. The Group assesses its business model considering all relevant evidence that is available at the date of the assessment. Such information includes, among others:

- adopted policies and goals of portfolio management and their implementation in practice;
- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed;
- how managers of the financial assets are compensated;
- frequency, value of assets sold from the portfolio in earlier periods, reasons for those sales and expectations about future sales.

Debt financial assets can be purchased within the following business models:

- business model whose objective is to hold financial assets in order to collect contractual cash flows (hold-to-collect model),
- business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (hold to-collect and sell model),
- other business models.

Financial assets that are classified to a business model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. However, the Group need not hold all instruments under this business model to maturity. The objective of this business model is to hold financial assets even when sales of financial assets occur or are expected to occur in the future (e.g. when there is an increase in the assets' credit risk). Credit risk management activities that are aimed at minimising potential credit losses due to credit deterioration are integral to such a business model. The Group may sell financial assets to manage credit concentration risk.

In a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Group's key management personnel have made a decision that both collecting contractual cash flows and selling financial assets are integral to achieving the objective of the business model. Compared to the "hold-to-collect" model, this business model will typically involve greater frequency and value of sales. This is because selling financial assets is integral to achieving the business model's objective instead of being only incidental to it. However, there is no threshold for the frequency or value of sales that must occur in this business model. The Group holds financial instruments within this business model, among others, to manage everyday liquidity needs, to maintain a particular interest yield profile or to match the duration of the financial assets to the duration of the liabilities that those assets are funding.

If financial asset is not held within a "hold-to-collect" business model or within a "hold-to-collect and sell" business model, the Group classifies it within a "sell" business model whose objective is achieved by selling financial assets. The Group makes decisions based on the assets' fair values and manages the assets to realise those fair values. In this case, the Group's objective will typically result in active buying and selling, and the collection of contractual cash flows is only incidental to achieving the business model's objective.

If the financial asset is held within the "hold-to-collect" or "hold-to-collect and sell", the Group determines whether the asset's contractual cash flows are solely payments of principal and interest on the principal amount outstanding, and thus whether they are consistent with the basic lending arrangement (the SPPI test). In the basic lending arrangement, the interest comprises:

- consideration for the time value of money,
- consideration for credit risk,
- consideration for other basic lending risks (for example, liquidity risk),
- consideration for costs (for example, administrative costs) associated with holding the financial asset for a particular period of time,
- a profit margin.

If, based on a qualitative SPPI test, it is impossible to determine whether the contractual cash flows from the financial asset are solely payments of principal and interest on the principal amount outstanding, the Group performs a quantitative SPPI test (benchmark test). It involves the assessment of how the contractual (undiscounted) cash flows from the assessed financial asset would differ from the (undiscounted) benchmark cash flows.

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if both of the following conditions are met and the Group did not designate a financial asset as measured at fair value through profit or loss:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash

flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met and the Group did not designate a financial asset as measured at fair value through profit or loss:
- the financial asset is held in the 'hold to collect and sell' business model (business model whose objective is achieved by both collecting contractual cash flows and selling financial assets);
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at fair value through profit or loss

A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However, the Group may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

Financial assets are also measured at fair value through profit or loss if they are held within other business models than:
- a business model whose objective is to hold financial assets in order to collect contractual cash flows or
- a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

This category includes two sub-categories:
- financial assets held for trading, including derivative instruments and securities acquired for resale in the near term, and
- financial assets designated at initial recognition as measured at fair value through profit or loss.

Purchased or originated credit-impaired financial assets (POCI)

POCI concern financial instruments classified as measured at amortised cost or measured at fair value through other comprehensive income. In order for a financial asset to qualify as a POCI, two conditions must be met, i.e: a new financial asset has emerged (e.g. as a result of a significant modification or purchase) and a new asset is credit impaired (qualification to Stage 3 at the initial recognition). POCIs are measured using the effective interest rate method using the effective interest rate adjusted for credit risk. In this case, the Group allows the effective interest rate to be applied to the insignificant value of financial instruments identified as POCI.

Classification and measurement (financial liabilities)

A financial liability is any liability that is:

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

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

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

a) financial liabilities measured at fair value through profit or loss;
b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or is accounted for using the continuing involvement approach;
c) financial guarantees issued – after initial recognition, the issuer of such a contract subsequently measures it at the higher of:
   - the amount of allowance for expected credit losses and
   - the amount initially recognised less, if appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15;

d) commitments to provide a loan at a below-market interest rate – after initial recognition, the issuer of such a commitment measures it at the higher of:
   - the amount of allowance for expected credit losses and
   - the amount initially recognised less, if appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15;
e) contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies – the contingent consideration is subsequently measured at fair value, with any changes recognised in profit or loss.

Modifications of financial assets

Modification of a financial instrument is a change in cash flows related to a financial asset that does not lead to derecognition of the existing financial asset (non-substantial modification) as a result of renegotiations (including settlements signed with customers as a result of forbearance), resulting in an annex to a loan agreement with a customer. A change of contractual cash flows resulting from the implementation of contract terms is not a non-substantial modification. In the case of non-substantial modification, the Group recalculates the gross carrying amount of a financial asset as the present value of the renegotiated or modified financial asset that are discounted at the financial asset's original effective interest or most recent interest rate of the asset or the credit-adjusted effective interest rate for POCI assets. Any gain or loss identified as a result of recalculation of the gross carrying amount is recognised in profit or loss. The adjustment of the gross carrying amount of a financial asset due to modification is accounted for in net interest result using the effective interest rate method. Any costs or fees related to the modification (e.g. fee charged for signing an annex) adjust the carrying amount of the modified financial asset and are amortised over the remaining life of the modified financial asset.

A substantial modification is a change in contractual cash flows related to the financial asset, which leads to derecognition of an existing financial asset as a result of the renegotiation (including settlements signed with customers as part of the forbearance), resulting in the annex to the loan agreement with the customer. The gain or loss on a substantial modification is recognised in "Gain (loss) on derecognition of financial assets not measured at fair value through profit or loss". The modified financial instrument is treated as a new asset, initially recognised in the balance sheet at fair value. Where there are indications that the carrying amount of an asset determined at the moment of a substantial modification is not its fair value, it is necessary to adjust the exposure to fair value.

The Group adopted quantitative and valuable criteria for the identification of a substantial modification. The qualitative criteria for identifying a substantial modification include:
- currency conversion (with the exception of conversion resulting from applicable law and loan agreement),
- change of a debtor (main borrower, except for the debtor's death),
- change of a product (e.g. from a loan to a bond),
- introduction to a contract a new feature in violation of the SPPI Test criteria or removal of such feature.

The identification of at least one of the above-mentioned quality criteria leads to the recognition of a substantial modification of the financial asset. In the absence of identification of qualitative indicators, verification of the quantitative criterion is required.

The quantitative criteria for identifying a substantial modification is increasing of the exposure amount by at least 10%. The exposure amount is understood as the contractual value of the financial instrument as at the day preceding the event which is analysed for a substantial modification.

Derecognition of financial assets and liabilities

A financial asset is derecognised when the Group loses control over the contractual rights embodied in the financial instrument. This usually takes place when the instrument is sold or when all cash flows, risks and rewards attributable to the instrument are passed onto a third party.

In particular, the Group writes off credit receivables from the balance sheet against impairment losses when the receivables are uncollectible, i.e:
- the costs of further debt collection will exceed the proceeds from debt collection,
- ineffectiveness of debt collection has been identified by a relevant document of the competent enforcement proceedings or the Group has obtained a decision to terminate bankruptcy proceedings or dismiss the bankruptcy petition in connection with the lack of debtor's assets,
- it is not possible to determine the property of the debtor suitable for execution and the debtor's place of residence is unknown,

- claims have expired or discontinued.

The Group writes off (partially or in full) the gross carrying amount of financial assets measured at amortised cost if there is no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event. The Group performs a periodic analysis of the recoverability of a financial asset, in particular penalty and statutory interest by portfolio types based on historical data analysis in this respect, over the last 5 years. If the analysis of the recoverability of a financial asset, in particular penalty and statutory interest indicates that the historical recoverability did not exceed 5% of the gross carrying amount of a financial asset, the Group makes a full write-off of penalty and statutory interest. The financial asset that has been written off may still be the subject of a debt collection process conducted by the Group to recover amounts receivable.

The Group removes a financial liability (or a part of a financial liability) from its balance sheet when, and only when, it is extinguished — i.e. when the obligation specified in the contract is discharged or cancelled or expires or a substantial modification of contractual terms occurred.

5.9. Derivative financial instruments

A derivative is a financial instrument that meets all of the following three conditions:

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

Derivative financial instruments not subject to hedge accounting are recognized as at the date of the transaction and measured at fair value as at the end of the reporting period. The Group includes changes in fair value in, respectively gain (loss) on financial instruments measured at fair value through profit or loss or in net foreign exchange income (FX swaps, FX forwards, CIRSs), in correspondence with receivables/ liabilities arising from derivative financial instruments.

The result of the final settlement of derivative transactions is recognised in gain (loss) on financial instruments measured at fair value through profit or loss or – for currency derivatives (FX swaps, FX forwards and CIRSs) net foreign exchange income.

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

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

5.10. Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host—with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.
If a hybrid contract contains a host that is a financial asset, the Group applies the requirements set out in section 5.8 for the entire hybrid contract.
If a hybrid contract contains a host that is not a financial asset, an embedded derivative is separated from the host and accounted for as a derivative if, and only if:

a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
c) the hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial liability at fair value through profit or loss is not separated).

5.11. Hedge accounting

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

- a fair value hedge against changes in fair value of a recognised asset or liability, or
- a cash flow hedge against cash flow changes attributable to a particular type of risk related to a recognised asset, liability, or a forecast transaction, or
- a hedge of a net investment in a foreign operation.

A hedge against the currency risk related to a firm commitment is accounted for as a cash flow hedge.

At the inception of the hedge, the Group formally designates and documents the hedging relationship and the Group’s risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument’s effectiveness in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk. The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk. The hedge effectiveness is assessed on a monthly basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Fair value hedges

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

The Group applies portfolio fair value hedges for fixed-rate deposits in PLN against the risk of changes in the WIBOR benchmark interest rate. The hedging instrument in this type of portfolio hedges is all or part of the IRS derivatives portfolio. The Group designates hedging relationships based on the analysis of sensitivity of the fair value of the hedged portfolio of deposits and the portfolio of hedging instruments to the risk of changes in the WIBOR benchmark interest rate. This analysis is based on two measures: “BPV” and “duration”. The effectiveness of the hedging relationship is measured on a monthly basis.

In portfolio fair value hedges, interest expense on the hedged part of the deposit portfolio is adjusted by accrued interest income or interest expense on the hedging IRS transaction relating to a given reporting period. At the same time, a change in the fair value of derivatives designated as hedges in a given period is recognised in profit or loss as “Gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income” – in the same item as the change in the fair value of the hedged item resulting from the hedged risk type. A change in the fair value of a part of the PLN deposit portfolio designated as a hedged item in a given period adjusts “Amounts due to customers” in the statement of financial position. An adjustment to the carrying amount of the hedged deposit portfolio is amortised on a straight-line basis from the month following the month in which the adjustment was made over the remaining period until the maturity of the hedged cash flows. The amount of amortisation adjusts “Interest expense” in the income statement.

The main sources of ineffectiveness identified by the Group regarding the fair value hedge relationships:

- impact of counterparty credit risk and the Bank's own credit risk on the fair value of hedging instruments, i.e. interest rate swaps (IRSs), which is not reflected in the fair value of the hedged item;
- differences in the interest rate on hedged and hedging instruments;
- differences in the maturity dates of hedged and hedging instruments.

Cash flow hedges

As part of the cash flow hedge accounting for the portfolio of mortgage loans in CHF and the portfolio of term deposits in PLN, the Group established two separate hedging relationships. The actual CIRS float-to-float CHF/PLN transactions were split into two artificial transactions:

- the artificial CIRS float-to-fixed CHF/PLN transaction hedging currency risk and interest rate risk of the CHF-indexed mortgage loan portfolio – type A hedging relationship;
- the artificial IRS fixed-to-float PLN transaction hedging interest rate risk of the portfolio of term deposits in PLN – type B hedging relationship.

At the inception of the hedging relationship and during the term of the hedging relationship, the fair value of the artificial transactions is equal to the fair value of the actual transactions.

In order to reflect the cash flows on hedged transactions, hypothetical hedged transactions are created. As part of the type A hedging relationship – float-to-fixed CHF/PLN transactions are created; the notional amount in CHF corresponds to the notional amount of the actual hedging transaction in CHF, while the notional amount in PLN depends on the exchange rate as at the date of establishing the hedging relationship. The variable leg of a hypothetical transaction reflects cash flows from the CHF-indexed mortgage loan portfolio.

As part of the type B hedging relationship hedging interest rate risk of the portfolio of term deposits in PLN, a hypothetical IRS fixed-to-float PLN transaction was created with a notional amount determined in PLN and equal to the notional amount of the PLN leg of the actual CIRS float-to-float CHF/PLN transaction as at the date of establishing the hedging relationship.

Throughout the hedging period, the Group measures the effectiveness of the hedging relationship. A change in the fair value of hedging instruments is recognised in revaluation reserve in the amount of the effective portion of the hedge. The ineffective part of the hedge is recognised in the income statement under "Gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income". The effective portion accumulated in the revaluation reserve is gradually reclassified (amortised) in accordance with the schedule established by the Group to profit or loss in the period until the maturity date of the original portfolio (straight-eight amortisation, over time).

The Group discontinues hedge accounting when the hedging instrument expires, or is sold, terminated or exercised, when the hedge no longer meets the criteria of hedge accounting or when the Group terminates the hedging relationship.

The main sources of ineffectiveness identified by the Group regarding the cash flow hedge relationships:
- differences in the notional amount of the PLN leg of artificial and hypothetical CIRS transactions, resulting from the passage of time and exchange rate changes between the execution of a hedging transaction and its inclusion in the hedging relationship;
- differences in the interest rate on hedged and hedging instruments;
- differences in the timing of revaluation of hedging instruments, i.e. currency interest rate swaps (CIRSs) and hedged items.

5.12. Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. If such evidence is identified, the Group determines the amounts of impairment losses.

IFRS 9 uses the impairment based on the concept of "expected credit loss" (ECL). This means that the Group calculates impairment losses based on ECL and forward-looking approach, thus oriented to estimating future losses based on forecasts and expected future economic conditions in the context of credit risk assessment of exposures.

The impairment model based on the ECL concept applies to financial assets classified to the category of financial assets measured at amortised cost or at fair value through other comprehensive income, except for equity instruments.

In accordance with IFRS 9, impairment losses are determined in the following stages:

1. Stage 1: 12-month expected credit loss – expected loss related to impairment within 12 months from the balance sheet date, for exposures for which neither any significant increase in credit risk nor any impairment was identified from the date of initial recognition to the balance sheet date,
2. Stage 2: lifetime expected credit loss – expected loss related to impairment over the expected life of a financial asset, for exposures for which a significant increase in credit risk, but no impairment, was identified from the date of initial recognition to the balance sheet date,
3. Stage 3: lifetime expected credit loss – expected loss related to impairment over the expected life of a financial asset, for exposures for which impairment was identified to the balance sheet date.

For each reporting date, the Bank determines for each exposure being measured whether the credit risk related to a given exposure has significantly increased since the initial recognition as well as whether any evidence of impairment was reported.
The Bank applied the definition of "default" in accordance with the EBA recommendations and the provisions of IFRS 9.
The Bank applies the indication of no or delayed repayment above 90 DPD, with the use of a definition of past due in accordance with the EBA recommendations.

Other evidence that a given exposure should be classified by the Bank in Stage 3 include, among others:

- significant financial difficulties of the debtor manifesting by classification to the worst class (for corporate customers),
- a loan became due as a whole as a result of termination of the agreement (the exposure was forwarded to the debt collection),
- a loan extortion,
- a loan is contested by the debtor through court proceedings,

- death of the customer,
- a loan restructuring – multiple or causing loss of cash flows on the contract or for exposures with significant overdue payments,
- an application has been made for the bankruptcy of the debtor or a request for the institution of recovery proceedings,
- specific indications of default for individually significant exposures,
- infection with credit loss by other customer exposures in the case of corporate customers and taking into account the materiality threshold of 20% for retail customers.

The Bank applies quarantine periods in order to make it probable that the reasons for classifying the exposure as defaults will cease to exist. During the first 3 months of quarantine, the exposure continues to be classified as a defaults and for the next 3 months of quarantine it is classified in Stage 2.

For the purpose of estimating whether credit risk of an exposure increased significantly since initial recognition, the Bank defined the catalogue of reasons for classification to Stage 2, including:
- lack or delay in payments above 30 DPD (in accordance with the algorithm for estimating delinquency status in the Bank),
- inclusion of the corporate customer in the so-called watch-list as part of the Early Warning System,
- problems of a retail counterparty resulting from job loss or income reduction, failure to pay debt in other institutions or a significant deterioration of DTI,
- customer's use of BGK support (for housing loans),
- an exposition restructuring, which does not result in the classification to stage 3,
- SICR – a significant increase in the probability of default over the life of the exposure – estimated depending on the type of exposure by comparing the probability curves of the exposure during the life of the exposure according to the current exposure status and at the time of initial recognition or by comparing the quality assessments of exposure (for corporate customers for whom the probability curves of default are not used).

The Bank defined portfolios of the so-called Low Credit Risk (LCR), including among others exposures to State treasury and local government units, housing associations, banks or purchased lease receivables with buy back in the case of customer default. For the purpose of classifying exposures to the appropriate Stage, the Bank applies for LCR portfolios all of the above-described classification criteria except for the SICR criterion and for the portfolio of purchased leasing receivables except for the 30 DPD criterion as a criterion for classification to Stage 2. The Bank carries out an individual valuation for individually significant exposures classified to Stage 3 and for selected exposure groups irrespective of stage classification and exposure values – hereinafter referred to as exposures with mandatory individual valuation (e.g. NOSTRO exposures, mortgage bonds or other transactions concluded at interbank market or developer exposures). For individually significant exposures and for exposures with mandatory individual valuation, the Bank reviews impairment indications at least once a quarter, and then estimates the level of allowances for individually significant exposures classified to Stage 3 and for exposures with mandatory individual valuation as the difference between the carrying amount of the loan and the present value of estimated future discounted cash flows based on the effective interest rate on the loan. The Bank applies a scenario-based approach for the purpose of estimating the level of cash flow, including for loans for which collateral has been established, the current value of estimated future cash flows includes cash flows that can be obtained from enforcement of the collateral, less the costs of enforcement and sale of the collateral, if the enforcement is probable.

Other exposures not individually valued are included in portfolios with similar credit risk profile due to, among other factors, product type, customer or method of valuation at the disbursement date, and valued on a monthly basis in a group manner – in the first place, exposures are classified to the appropriate Stage, and then the level of credit losses in the 12M period (Stage 1) or lifetime (for other stages) is estimated. The Bank constructed the portfolio parameter models used to estimate the expected credit losses in a group manner, by including the applied definition of default, forward-looking approach and macroeconomic forecasts. The PD model provides for estimating the probability curves of default depending on the horizon of the estimated loss (12M vs. lifetime), taking into account the Bank's expectations regarding the future macroeconomic situation and taking into account behavioural data of exposures. In terms of estimation of LGD parameters, the Bank applies the approach to estimating the cure rate (CR) and the level of recovery rates (RR), taking into account future macroeconomic situation with respect to changes in real estate prices; in addition, a forward-looking element was implemented based on estimates of exposure characteristics affecting the observed level of recovery and cures from the exposure during its life.

For the purposes of modelling the expected value of exposure as at moment of default for revolving exposures without defined schedules, the Bank has implemented models of balance-sheet and off-balance-sheet values based on historical behavioural patterns of repayments and disbursements before the moment of default.

For each reporting date, the Bank determines for each exposure being measured whether the credit risk related to a given exposure has significantly increased since the initial recognition as well as whether any evidence of impairment was reported. If an entity has measured the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that for a given exposure there are no indications of a significant increase in credit risk from the initial recognition date and the impairment triggers have not been reported, the Bank measures the expected credit loss allowance at the amount equal to the 12-month expected credit loss as at the current reporting date. The Bank uses for a wide catalogue of indicators that classify exposures both to Stage 2 and Stage 3, that is a grace period, i.e. a specified number of calendar months from the last date of observation of the indicator provided that appropriate conditions for timely repayment have been met, only after such grace periods have been met for a given condition it is possible to reclassify exposures from a given Stage.

Subject to paragraphs 5.5.13–5.5.16 of IFRS 9, at each reporting date, the entity measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

The new method of calculating impairment of financial assets also affects the method of recognition of interest income. In particular, interest income on assets included in Stages 1 and 2 is determined by applying the effective interest rate to the gross value of the exposure, and in Stage 3 by applying the effective interest rate to the amortised cost of the asset, including impairment losses.

5.13. Repo/ reverse repo agreements

Repo and reverse-repo and sell-buy-back and buy-sell back agreements are sale or purchase transactions of securities with the agreement to repurchase or resale them at a specific future date and price. Repo and sell-buy back agreements are recognised in "Amounts due to banks and financial institutions" when occur. Reverse-repo and buy-sell back agreements are recognised in "Amounts due from banks and financial institutions".

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

5.14. Contingent liabilities

As part of its operations, the Group enters into transactions that are not recognised as assets or liabilities in the statement of financial position when concluded but give rise to contingent liabilities.

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group;
- a present obligation that arises from past events but is not recognised in the statement of financial position because it is not probable that an outflow of cash or other assets will be required to settle the obligation, or the amount of the obligation (liability) cannot be measured reliably.

Provisions are recognised in accordance with IFRS 9 for off-balance-sheet liabilities which involve the risk that the principal will default on the terms of the agreement.

5.15. Offsetting financial assets and liabilities

Financial assets and liabilities are set off against each other and disclosed on a net basis in the statement of financial position if the Group holds a valid legal title to set off the recognised amounts, and has the intention either to settle on a net basis or to realise the asset and settle the liability simultaneously.

5.16. Property, plant and equipment

Items of property, plant and equipment are recognised at cost less accumulated depreciation and impairment losses. Initial value of an item of property, plant and equipment comprises its cost plus any costs directly related to its acquisition and bringing it to working condition for its intended use. The carrying amount of property, plant and equipment also includes expenses related to the improvement/increase in the value of the fixed asset. Any costs incurred after a given fixed asset has been placed in service, such as costs of maintenance or repair, are charged to profit or loss as incurred.

(figures in PLN '000)

Upon acquisition, fixed assets are divided into components of material value to which separate useful economic lives can be assigned.

Depreciation is charged using the straight-line method over the estimated useful life of an asset. Residual values, useful lives and methods of depreciation of assets are reviewed and, if necessary, adjusted at the end of each financial year.

Type of fixed assets	Estimated useful life
Leasehold improvements	term of the lease – up to 10 years
Buildings	from 40 to 66.6 years
Machinery and technical equipment	from 4 to 14 years
Computer units	from 2 to 10 years
Vehicles	from 2.5 year to 5 years
Office equipment, furniture	from 2 to 10 years

An item of property, plant and equipment may be derecognised upon disposal or when no further economic benefits from the continued use of the asset are anticipated. Any gains or losses arising on derecognition of an item from the statement of financial position (calculated as the difference between net proceeds from its disposal, if any, and the carrying amount of the item) are posted to profit or loss in the period when the item was derecognised. Property, plant and equipment under construction include assets in the course of construction or assembly, and are measured at cost. Fixed assets under construction are not depreciated until completed and placed in service.

5.17. Investment properties

Investment property is property (land or a building – or part of a building – or both) held by the Group to earn rentals or for capital appreciation or both, rather than for use in the supply of services or for administrative purposes, of for sale in the ordinary course of business.

Investment property is recognised as an asset when, and only when it is probable that future economic benefits associated with the investment property will flow to the Group and the cost of the investment property can be measured reliably. Initially, investment property is measured at cost. Costs of the purchase are included in the initial measurement. The initial value of real estate accepted by the Bank under Article 453 of the Civil Code on the basis of an agreement on benefits in the place of performance is the price recorded in a notarial deed or a valid court decision, increased by all costs directly related to the transaction. The initial value of the real estate foreclosed in the enforcement proceedings in exchange for a partial/call reduction of claims under a loan is the price indicated in a legally binding court decision awarding the ownership title to the real estate to the Bank, increased by the costs of court and enforcement proceedings directly related to the foreclosure transaction.

Following initial recognition, investment property is measured using the fair value model, and gains or losses resulting from a change in the fair value are recognised in profit or loss for the period in which the change occurred, under "Other operating income/expenses". Fair value of investment property is determined in accordance with IFRS 13.

An investment property is eliminated from the balance sheet on disposal or when the investment property is permanently withdrawn from use and no future economic benefits from its disposal are expected. Any gains or losses arising from derecognition of investment property are recognised in profit or loss, under other operating income/expenses, in the period of the derecognition.

Assets are reclassified as investment property only when there is a change in use, evidenced by the end of occupation by the Group or execution of an operating lease agreement. If owner-occupied property (where the owner is the Group) becomes an investment property, the Group accounts for such property in accordance with the policy for property, plant and equipment up to the date of change in use.

5.18. Property obtained from foreclosures

Property obtained from foreclosures is measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price less the costs necessary to make the sale.

5.19. Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance, controlled by the Group which will result in the flow of economic benefits to the Group in the future. Intangible assets may be acquired in a separate transaction, generated internally or acquired in business combination.
The Group initially recognises intangible assets at cost. Cost of intangible assets acquired in a business combination is equivalent to

their fair value as at the date of the combination. Following initial recognition, intangible assets with a definite useful life are recognised at cost less accumulated amortisation and impairment losses.

The following expenditures on development works are capitalised in intangible assets:

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

Expenditure incurred on internally generated intangible assets, except for development expense, are expensed in the period in which they were incurred.

The Group determines whether intangible assets have definite or indefinite useful lives. Intangible assets with definite useful lives are amortised throughout their useful lives and tested for impairment each time there is an indication of impairment. The estimated useful life of computer software is 2-10 years. The amortisation period and the amortisation method for an intangible asset with a definite useful life are reviewed at the end of each financial year or more frequently. Changes in the expected useful life or pattern of consumption of the future economic benefits embodied in an asset are disclosed by adjusting the amortisation period or amortisation method, as appropriate, and treated as changes in accounting estimates.

Intangible assets with indefinite useful lives and those that are not in use are tested for impairment annually, either individually or at the level of cash-generating units.

Any gains or losses arising on derecognition of intangible assets are measured as the difference between net proceeds from the sale of a given asset and its carrying amount, and are recognised in profit or loss upon derecognition of the asset.

Core Deposit Intangible

According to IFRS 3, identifiable intangible assets of an acquiree must be recognised separately from goodwill, regardless of whether or not the acquiree had recognised the asset prior to the acquisition. As a result of the acquisition by the Group of the organised part of business, the intangible assets fulfilling the criteria for separate recognition in statement of financial position of the Group were identified – relationships with deposit customers ("Core Deposit Intangible"). From the Group's perspective, it reflects the benefit of cheaper source of finance as the difference between the cost of finance from external sources and interest cost of acquired current accounts and inflow of non-interest income less respective expenses. Fair value measurement is to determine the present value of future benefits, constituting the difference between the cost of finance of the Group from external sources (i.e. interbank market) and interest cost of current accounts estimated for anticipated period of deposit customers retention based on historical customers' behaviour and churn rate.

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

Goodwill

Goodwill arises on acquisition of subsidiaries. Goodwill is initially measured at the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill is recognised at acquisition cost less cumulative impairment losses. Goodwill is not amortised, but is tested for impairment. The Group calculates impairment of value by estimating the recoverable amount of a cash-generating unit which goodwill has been allocated. If the recoverable amount of a cash-generating unit is lower than its carrying amount plus goodwill, the Group recognises an impairment loss.

5.20. Non-current assets held for sale and discontinued operations

Non-current assets are classified as held for sale when their carrying amount will be recovered through a sale transaction rather than through continuing use. That condition is met only if an asset is available for immediate sale in its present condition, and its sale is highly probable. Classification of an asset as held for sale means that the Bank's management intends to complete the sale within one year from the change of its classification.

Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Assets classified in this category are not depreciated.

If the criteria for classification into the group of non-current assets held for sale are not met, the Group ceases to recognise them as held for sale and reclassifies them into the appropriate category of assets. In this case, the asset is measured at the lower of:

- its carrying amount as at the date immediately preceding its classification as held for sale, adjusted for the depreciation/amortisation charges and impairment losses which would have been recognised had the asset not been reclassified as held for sale,

- its recoverable amount at the date of the subsequent decision not to sell.

Discontinued operations are a part of the Group’s operations which represents a separate major line of business or a geographical area of operations and has been disposed of or classified as held for sale, or which comprises a subsidiary acquired exclusively for resale. Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

5.21. Business combination of entities not under common control

A business combination of entities not under common control is the bringing together of separate entities into one reporting entity. Business combination results in the acquisition of control by the parent company over acquired entities. Business combinations of entities not under common control are accounted for using the acquisition method. The purchase method views a business combination from the perspective of the combining entity that is identified as the acquirer. The acquirer recognises the assets acquired and contingent liabilities assumed, including those not previously recognised by the acquiree.

Applying the acquisition method involves the following steps:

- identifying the acquirer,
- determining the cost of the business combination,
- allocating, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and contingent liabilities assumed.

The acquirer measures the cost of a business combination as the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree.

5.22. Impairment of non-financial non-current assets

The carrying amount of individual assets is periodically tested for impairment.

If the Group identifies any indicators of impairment, it subsequently determines if the current carrying amount of the affected asset is higher than the value obtainable from its further use or sale, which means that the recoverable amount of the asset is estimated. If the recoverable amount is lower than the current carrying amount of the asset, an impairment loss is recognised in profit or loss.

The recoverable amount of an asset is equal to the higher of: its realisable value less cost to sell and the value in use of the asset. Value in use is determined as estimated future cash flows generated by an asset, discounted at a market rate plus a risk margin specific to that asset class.

An impairment loss may be reversed if there has been a change in the estimates used to determine recoverable amount, only up to the amount of the asset's carrying amount that, net of cumulative depreciation/amortisation, would have been determined had no impairment loss been recognised. An impairment loss in respect of goodwill is not reversed.

5.23. Cash and cash equivalents

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

5.24. Prepayments, accruals and deferred income

Prepayments (assets) comprise of particular expenses which will be settled against the profit and loss as being accrued over the future reporting periods. Prepayments (assets) are included in “Other assets”. Accruals (liabilities) comprise accrued costs resulting from performances provided to the Bank that will be accounted for in future periods. These balances are included in “Other liabilities”.
Deferred income comprises among others received amounts of future services and other types of income received in advance to be settled in the profit and loss in future reporting periods. In the statement of financial position, deferred income is presented under “Other liabilities”.

5.25. Employee benefits

Employee benefits comprise the costs of wages and salaries, bonuses and social security contributions. The Group recognizes the

anticipated value of short-term employee benefits as an expense of an accounting period when an employee has rendered service.
Pursuant to the provisions contained in the Remuneration Policy, the Employee Remuneration Rules and the Bonus Rules, a bonus may be granted to Bank employees. An employee may be covered by the bonus system if it has been provided for a given organizational unit of the Bank or for a given position. The subjective scope of each bonus regulation is determined each time in the regulation itself. The rules for rewarding managers are specified in the Policy of variable remuneration components or in the bonus rules of a given unit. In accordance with the Polish Labour Code and the Employee Remuneration Rules, the Bank's employees are entitled to retirement severance pay. Such severance pay is paid as a lump sum to an employee upon termination of his or her employment for retirement and the severance pay amount depends on the number of the employee's years of service and his or her individual pay level. Provisions for retirement severance pay are estimated based on an actuarial valuation. The provision being the result of the actuarial valuation is recognized and remeasured on an annual basis. Provisions for long-term employee benefits are included in the item "Provisions" in the statement of financial position.
Pursuant to the provisions of the Act on Employee Capital Plans of 4 October 2018, which came into force on 1 January 2019, the Bank's employees have the right to join the Employee Capital Plans (ECP). On behalf of the employees, the Bank concluded an agreement for the management and operation of EPC with a financial institution selected with the participation of employee representatives. Hired employees are enrolled in the program by the Bank in accordance with the provisions of the Act, however, they may resign from making payments to the PPK at any time on the basis of a written declaration submitted to the employing entity. Any person who is not automatically enrolled due to age or who has previously resigned can join the scheme without any time limit. Payments made to EPC are financed by the employing entity and the EPC participant from their own funds. The employer ensures the processing and payment of all contributions. The costs of EPC are recognized in the item "Administrative expenses – costs of employee benefits" and "Other liabilities".

5.26. Provisions

Provisions are recognised if the Group has a present obligation (legal or constructive) as a result of a past event and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the obligation amount can be made. The Group recognises the following provisions presented in equity and liabilities under the line item "Provisions":

a) retirement severance pays

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

b) off-balance-sheet liabilities

   The Group recognises an allowance for expected credit losses on contingent liabilities. If, at the balance sheet date, objective evidence has been identified that assets underlying contingent liabilities are impaired, the Group recognises a provision in the amount of a difference between a statistically estimated part of the off-balance sheet exposure (balance sheet equivalent of current off-balance sheet items) and the present value of estimated future cash flows.

c) litigation

   The Group keeps records of pending court cases and recognizes provisions based on the assessment of the probability of losing a case in the amount of expected outflows of economic benefits.

d) other

   The Group recognises provisions for certain or highly probable future liabilities whose amount can be reliably estimated.

   The Group recognises provisions for restructuring costs only on condition that the general criteria of recognising provisions under IAS 37 be fulfilled and in particular but not limited to the situation when the Group is in possession of the specific, formal restructuring plan determining at least the operations or part thereof, basic locations, place of employment, the functions and estimated number of employees entitled to compensation, the expenditure to be incurred and the term of execution. The commencement of restructuring procedure or the public announcement thereof is the condition indispensable for recognising the provision. The provisions recognised comprise only the direct and necessary expenditures to be incurred due to the restructuring procedure, which are not related to the current business operations nor cover the future operating expenses.

5.27. Operating and finance leases

A contract is recognised by the Group as a lease contract if it conveys the right to control the use of an identified asset. In order to qualify a contract as a lease, the following three conditions must be met:

- - the contract conveys the right to use an identified asset to the lessee;

- – the lessee obtains the economic benefits from use of this asset;
- – the lessee obtains the right to direct the use of this asset throughout the period of the contract.

The Group as a lessee as of 1 January 2019

For contracts where the Group acts as a lessee, the Group applies a uniform model of accounting for the lease. The Group recognises a right-of-use asset together with a corresponding lease liability in the amount of discounted future payments over the lease term – as a component of "Property, plant and equipment" and "Other liabilities", respectively. In the income statement, the Group recognises the costs of depreciation of the right-of-use asset (under "Administrative expenses") and interest expense on the lease liability (under "Interest expense"). The measurement of the lease liability is periodically reconciled with the lease payments. Right-of-use assets are depreciated using the straight-line method, while liabilities under lease contracts are accounted for using the effective interest rate.

Lease liabilities resulting from leases of real estate denominated in foreign currencies are measured at each balance sheet date, and gains or losses on revaluation are recognised in the income statement.

The Group used the simplified approach provided for in the standard for short-term leases (including leases whose remaining lease term as at 1 January 2019 is shorter than 12 months) and leases where the underlying asset has a low value. In the case of these leases, the Group accounts for lease payments as an expense on a straight-line basis over the lease term.

The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

When determining the lease term, the Group took into account the extension option if it is included in the contract and the Group considers it probable that the option will be exercised. For contracts concluded for an indefinite term, the Group estimates the useful life of the leased asset with reasonable certainty.

The Group as a lessor

The Group presents assets subject to operating leases in respective groups of fixed assets – according to the nature of the assets. Non-current assets in operating leases are depreciated on a straight-line basis over the lease term, taking into account their residual value. The residual value is determined at the amount that the Group is currently expected to obtain, taking into account the age and condition of the asset at the end of the lease, less the estimated costs of disposal.

Lease income from operating leases are recognised in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

The Group as a lessee – until 31 December 2018

Finance lease contracts that transfer substantially all risks and rewards incidental to the ownership to the Group are recognized in the statement of financial position at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Lease payments are apportioned between the other operating expenses and reduction of the outstanding lease liability so as to produce a constant rate of interest on the remaining balance of the liability. Other operating expenses are recognized directly in profit or loss. Property, plant and equipment used under finance leases are depreciated over the shorter of their estimated useful life and the lease term.

Leases under which substantially all the risks and rewards incidental to ownership of a leased asset are retained by the lessor are classified as operating leases. Lease payments under operating leases are recognised under "administrative expenses" in the income statement on a straight-line basis over the lease term.

5.28. Other receivables

Other receivables are recognised at amounts receivable less impairment. Where the effect of changes in the time value of money is material, the value of receivable is determined by discounting forecast future cash flows to their current value, with the use of a gross discount rate reflecting the current market assessments of the time value of money. If the discount method is applied, an increase in receivables over time is recognised in profit or loss.

5.29. Other liabilities

Other liabilities are recognised at amounts due. If the effect of the time value of money is material, the value of an amount payable is determined by discounting the projected future cash flows to their present value using a gross discount rate that reflects the current market estimates of the time value of money. If the discount method is applied, an increase in liabilities over time is recognised in profit or loss.

5.30. Equity

Equity comprises reserves and funds created in accordance with the applicable laws, respective acts and the articles of association. The equity consists of: share capital, repurchased treasury shares, retained earnings and other components of equity.

Share capital

Share capital is disclosed at par value, in the amount specified in the articles of association and entered in the court register.

Retained earnings (undistributed profit or loss)

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

Other components of equity

a) Supplementary capital
Share premium (excess of the issue price over the par value of the shares) less direct expenses incurred in connection with the issue and created from profit appropriation. Reserve funds also include the capital resulting from the settlement of a business combination.

b) Revaluation reserve
Revaluation reserve from valuation of debt and equity financial instruments measured at fair value through other comprehensive income, revaluation of cash flow hedges, actuarial gains and losses, share of other comprehensive income (loss) of associates and deferred tax relating to temporary differences recognised in the revaluation reserve.

c) Capital reserves
Capital reserves are created from the appropriations from profit and other sources and are used for covering special losses and expenses. The General Risk Fund is also included in this position.

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

5.31. Revenues

The Group recognises revenue from contracts with customers in a manner reflecting transfer of goods or services to customers and in such amount as to reflect the consideration (i.e. payment) which the Group expects to receive in exchange for these goods or services.

A key criterion for revenue recognition is the time when the Group satisfies the performance obligation, that is the time when the control of the asset is transferred. It determines the recognition of revenue.

Any goods or services that are sold in bundles that are separately identifiable as part of a contract concluded with a customer is recognised separately by the Group. And any discounts and rebates on the transaction price are allocated to the specific bundle items. An amount of variable consideration is recognised as revenue only if it is highly probable that there will not be a subsequent reversal in recognised revenue due to change in estimates. To recognise revenue from contracts with customers under IFRS 15, the Group applies a five-step model:

1. Identification of a contract with customer,
2. Identification of performance obligations under a contract,
3. Determination of transaction price,
4. Allocation of the transaction price to performance obligations,
5. Recognition revenue when (or as) the Group satisfies a performance obligation.

Net interest income

Interest income and expense include all interest income and expense on financial instruments measured at amortised cost using the effective interest rate method, financial instruments measured at fair value through other comprehensive income and financial instruments measured at fair value through profit or loss. Interest income also includes incremental costs relating to originated loans and advances, including integral and direct internal costs.

The following financial assets and liabilities are measured by the Group at amortised cost:
- financial assets classified as measured at amortised cost,
- non-derivative financial liabilities not classified at initial recognition as liabilities measured at fair value through profit or loss.

The effective interest rate is the rate that discounts the expected cash flows until maturity or the next market-based repricing date to the current net carrying amount of the financial asset or financial liability. That calculation includes all fees paid or received by the Group under the contract for the asset or liability, excluding the potential future credit losses. The method of settling interest coupons, commissions/ fees and certain external costs related to financial instruments (using the effective interest rate method or on a straight-line basis) depends on the nature of the given instrument. In the case of financial instruments with fixed cash flow schedules, the effective interest rate method is applied.

However, the method accounting for amounts of commissions/ fees in profit or loss as interest or commission income, and the need to account for them over time, rather than the possibility of recognizing them in profit or loss on a one-off basis, depends on the economic nature of the commission/ fee.

Fees/ commissions accounted for over time include for example, loan approval fees, loan origination fees, fees for loan disbursement, etc. Commissions include also consideration for insurance when there is a direct connection between credit product and insurance product. Such fees are an integral part of the return generated by the given financial instrument. This category also comprises fees and charges for changing the terms and conditions of contracts, which modifies the originally calculated effective interest rate where such modification does not result in the derecognition of a financial asset.

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

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

Net fee and commission income

Fees and commissions accounted for using the effective interest rate method are recognised by the Group in the net interest income. Fees and commissions that are accounted for over time using the straight-line method or on a one-off basis, are recognised in net fee and commission income. The fee and commission income include fee and commission income arising from transaction services comprising execution of significant activities. Such income includes fees for activities, recognised on a one-off basis, where the Group acts as an agent or provides services such as distribution of investment fund units, investment and structured products, income and expense on commission and fees not being an integral part of the effective interest rate of loan receivables.

The Group, offering insurance products to its customers, recognises fees for insurance services based on a professional judgment regarding the scope of sale: whether it is limited to the agency service or the sale of insurance is linked to the sale of financial instrument. The principles of the economic substance of the financial instruments and insurance products offered for which the Group acts as an agent are provided in Note 6.1 to these consolidated financial statements.

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

- the existence of direct link which results in the recognition of remuneration for offering insurance products under the amortised cost method using the effective interest rate method in interest income,
- the absence of a direct link which results in the recognition of remuneration for offering insurance products in commission income in accordance with IFRS 15 *Revenue from contracts with customers*,
- the existence of a bancassurance product composed of a financial instrument and an insurance product, resulting in the division of remuneration for offering insurance product based on separating the fair value of the offered financial instrument and fair value of the insurance product sold together with such instrument.

If a bancassurance product is identified, the remuneration for the sale of insurance product is divided into the part constituting the amortised cost element of the financial instrument and the part constituting the fee for agency services. The fee is divided based on the identifiable portion of the fair value of the financial instrument and the fair value of the agency service referred to the total of both amounts. Fair value measurement of the agency services and the financial instrument is based on market data. In the case of provision of after-sales services resulting from the offered insurance product, the corresponding part of the remuneration allocated to the agency service is accounted for during the term of the insurance contract according to the method of completion, taking into account the matching principle. This remuneration is recognised in fee and commission income.

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

The Group estimates the costs related to the sale of insurance product in accordance with the method of accounting for income and expenses depending on the form of sales of insurance product. The Group classifies costs associated with the sale of insurance product to directly related and other indirectly related costs, including fixed costs (recognised as incurred).

Gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income

Gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income comprises gains and losses from fair value measurement of held-for-trading financial assets and liabilities, financial assets and liabilities measured at fair value through profit or loss and derivatives, as well as gains and losses arising from the purchase/sale of foreign currencies and from the translation of assets and liabilities denominated in foreign currencies at the mid-rate quoted for a given currency by the National Bank of Poland for the balance sheet date.

Gain (loss) on derecognition of financial assets not measured at fair value through profit or loss

Gain (loss) on other financial instruments comprise realised gains and losses on disposal of financial assets measured at amortised cost and debt financial instruments measured at fair value through other comprehensive income.

5.32. Other operating income and expenses

Other operating income and expenses include income and expenses not directly related to the Group's banking business. These include, in particular: gains (losses) on disposal of fixed assets, income and expenses from provisions and impairment losses on non-financial assets, rental income and expenses, sales of other services, penalties and fines received and paid, as well as expense relating to the debt collection activities and court fees.

5.33. Dividends

Dividend income is recognised when the shareholders' right to receive the payment is established if the dividend is paid out from profit earned after the acquisition date.

5.34. Income tax

Current tax

Current tax assets and current tax liabilities for the current period and for previous periods are measured at the amount of the expected payment due to the tax authorities or expected refund from the tax authorities, as appropriate, with the use of tax rates and based on fiscal regulations legally or actually binding as at the balance sheet date.

Deferred tax

For the purposes of financial reporting, deferred tax is calculated using the balance-sheet liability method in relation to all temporary differences existing as at the end of the reporting period between the tax base of assets and liabilities and their carrying amount as disclosed in the financial statements.

Deferred tax liability is recognised for all taxable temporary differences:

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

A deferred tax asset is recognised for all deductible temporary differences, as well as unused tax credits and unused tax losses carried forward to subsequent years, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised:

- except to the extent that the deferred tax assets related to deductible temporary differences arise from the initial recognition of an asset or liability in a transaction which is not a business combination, and, at the time of the transaction, affects neither accounting profit before tax nor taxable income (tax loss), and
- in the case of deductible temporary differences associated with investments in subsidiary or associated entities and interests in joint arrangements, the related deferred tax asset is recognised in the statement of financial position to the extent it is probable that in the foreseeable future the temporary differences will be reversed and taxable income will be generated which will enable the deductible temporary differences to be offset.

The carrying amount of a deferred tax asset is reviewed as at the end of each reporting period and is subject to appropriate reduction to the extent it is no longer probable that taxable income sufficient for a partial or full realisation of this deferred tax asset would be generated. An unrecognised deferred tax asset is reassessed at the end of each reporting period and is recognised to the extent that it is probable that future taxable profit will be available against which the asset can be recovered.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realized or provision is released, using tax rates (and tax laws) that prevail at the balance sheet date. those whose future use is certain at the balance sheet date.

Income tax on items which are not included in profit or loss is not included in profit or loss: it is included in other comprehensive income (if it relates to items included in other comprehensive income) or directly in equity (if it relates to items that are recognised directly in equity).

The Group offsets deferred tax assets against deferred tax liabilities only if it has a legally enforceable right to set off current income tax assets against current income tax liabilities and the deferred income tax is attributable to the same taxable entity and the same taxation authority.

IFRIC 23 was published by the International Accounting Standards Board on 7 June 2017 and is effective for annual periods beginning on or after 1 January 2019. The Interpretation explains how to disclose and measure deferred tax assets and liabilities and current tax liabilities when there is uncertainty about the tax treatment. In such circumstances, the entity recognises and measures current tax receivables and liabilities or deferred tax assets and liabilities in compliance with the requirements of IAS 12, based on taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates. In accordance with the interpretation, the effects of uncertainty should be measured based on the approach which best predicts how the uncertainty will be resolved: either the most likely amount method or the expected value method. The Bank takes into account the effects of uncertain tax treatment where it would be likely that the tax authorities would not accept the Bank's approach.

6. Significant values based on professional judgement and estimates

6.1. Professional judgement

Apart from the accounting estimates, the professional judgement of the management was of key importance in the application of the accounting policies in the cases described below.

Commissions for insurance

The Group applies the following principles for recognition of commission income received for offering insurance products to the Bank's customers:

The Group, offering insurance products to its customers, recognises fees for insurance services based on a professional judgment regarding the scope of sale: whether it is limited to the agency service or the sale of insurance is linked to the sale of financial instrument. The evaluation is based on the economic substance of the financial instruments and insurance products offered. The purpose of the judgment is to differentiate, based on the economic substance, between revenue representing:

- an integral part of the fee for the financial instrument offered together with the insurance product,
- the fee for the agency or intermediation service;
- the fee for additional post-sale services.

The Group also analyses the economic substance of the insurance product, including the fulfilment of the criteria of independence of the insurance contracts from financial instruments offered, by establishing:

- sales rates of bancassurance products, i.e. the percentage share of financial instruments with insurance cover in the number of financial instrument agreements in the Bank's portfolio, by financial instrument, and insurance products or insurance groups offered by the Bank,

- the average annual actual interest rate on particular financial instruments in the Bank's portfolio, broken down into financial instruments with and without insurance cover, and into financial products, insurance products and insurance groups offered by the Bank,
- the possibility to accede to insurance cover without holding a financial instrument,
- lack of the requirement of the Group to conclude the insurance contract by the customer for the purchased financial instrument, number of insurance contracts similar in terms of terms and conditions, concluded in other insurance company than the insurance company whose products are offered by the Group together with a financial instrument (the percentage share in the whole credit portfolio – broken down into financial instruments offered by the Group),
- number of insurance terminations and the amount of fee refunds, broken down into financial instruments and insurance products or insurance groups offered by the Group,
- the number of insurance contracts continued after the earlier repayment of the loan or advance, together with information on the credit products to which they were linked,
- scope of activities performed by the Group to the insurance company during the term of the insurance contract,
- effects of analyses of management reports on the results of individual business lines, financial instruments offered by the Group, banking services.

If bancassurance product is identified, the remuneration for the sale of insurance product is divided into the part constituting the amortised cost element of the financial instrument and the part constituting the fee for agency services. The fee is divided based on the identifiable portion of the fair value of the financial instrument and the fair value of the agency service referred to the total of both amounts. At present, the Bank recognizes up to 30% of its income from bancassurance activities related to loans as income recognized on a one-off basis. The remaining part of income is accounted for over time at amortised cost. Fair value measurement of the agency services and the financial instrument is based on market data. In the case of provision of after-sales services resulting from the offered insurance product, the corresponding part of the remuneration allocated to the agency service is accounted for during the term of the insurance contract according to the method of completion, taking into account the matching principle.

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

Identification of low-value leases

Leases where the value of the underlying asset is not higher than PLN 20 thousand are assessed by the Group as low-value leases.

Expected rulings on disputed cases

The Group evaluates chances of winning a case, and consequently evaluates the need to recognise a provision for losing, in respect of all court proceedings. The value of the estimated provision is determined on a case by case basis, based on the circumstances of the case.

Consolidation of a special purpose vehicle

In connection with a transaction of securitisation of receivables resulting from lease contract portfolios acquired by Getin Noble Bank S.A., carried out in November 2015, the Group performed an analysis of risks, benefits and business object of a special purpose vehicle (SPV), GNB Leasing Plan Ltd., in light of the provisions of IFRS 10.

Based on the analysis, it was concluded that the essence of the relationship between the SPV and the Bank indicates that the SPV is controlled by the Bank. Therefore, the SPV became fully consolidated, despite the fact that the Group does not hold any equity interest in the SPV.

In connection with a transaction of securitisation of receivables resulting from a car loan portfolio of Getin Noble Bank S.A., carried out in July 2017, the Group performed an analysis of risks, benefits and business object of a special purpose vehicle (SPV), GNB Auto Plan 2017 sp. z o.o. with its registered office in Warsaw, in light of the provisions of IFRS 10. Based on the analysis, it was concluded that the essence of the relationship between the SPV and the Bank indicates that the SPV is controlled by the Bank. Therefore, the SPV became fully consolidated, despite the fact that the Group does not hold any equity interest in the SPV.

6.2. Uncertainty of estimates

Preparation of the financial statements in accordance with IFRSs requires the Group to make estimates and assumptions which affect the amounts presented in the financial statements. The estimates and assumptions are subject to ongoing review by the Group's management and are based on past experience and other factors, including expectations as to future events, which seem justified in a given situation. Although such estimates are based on the best knowledge of current conditions and activities of the Group, actual results may differ from those estimates. Estimates made at the end of each reporting period reflect the conditions existing on such dates (e.g. currency exchange rates, interest rates and market prices). Quantitative disclosures regarding these estimates are presented in the respective notes for these assets and liabilities.

Impairment of financial instruments

At each reporting date, the Group assesses whether credit risk of a given financial instrument has increased significantly since initial recognition. When making the assessment, the Group uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. A list of indications of a significant increase in credit risk since initial recognition and other estimates are described in Note 5.12.

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

The fair value of derivatives, financial assets and financial liabilities not quoted on active markets is determined using generally accepted valuation techniques. All models are approved prior to their application and calibrated to ensure that the results reflect true data and comparable market prices. Only observable inputs from the active market are used in the models as far as possible, but in certain the Bank estimates the relevant uncertainties (such as the counterparty risk, volatility and market correlations). A change in assumptions made for these factors may affect the measurement of certain financial instruments.

Net selling price of assets obtained from foreclosures

The Group makes estimates of the net selling price of property obtained from foreclosures The estimate reflects market conditions as at the valuation date and is based on current real estate valuations.

Associates

Associates are entities over which the investor has significant influence. In case of entities in which the Group holds 20% or more of the voting rights (but not more than 50%), it is assumed that the Group has significant influence and such entities are recognised as associates.

Impairment of other non-current assets, including investments in associates

The Group assesses at the end of each reporting period whether there is any evidence that non-current assets are impaired. If any such evidence is identified, the Group estimates the recoverable amount. Estimating the value in use of a non-current asset involves, among others, adoption of assumptions, among other things, as to amounts and dates of future cash flows which could be generated by the Group from the asset, as well as other factors. When estimating the fair value less costs to sell, the Group uses available market data or independent appraisals, which in principle are also based on estimates.

Measurement of provision for old-age retirement severance payments

The provision for old-age retirement severance payments was estimated by means of actuarial methods by an independent actuary; assumptions made for this purpose are updated at the end of each financial year.

Measurement of provisions for litigation

The chances of winning a case, and consequently the assessment of the need to recognise a provision for losing, in respect of all court proceedings (including those involving loans indexed to foreign currencies) are determined on a case-by-case basis. In the case of actions brought by customers, which were submitted to the Bank and are considered before the courts of first and second instance, an individual assessment of the probability of the Bank winning a given case was made based on the estimates of the attorney in charge of the case. A provision is recognised for such cases where the Bank's chance of winning is determined to be lower than 50%. In addition, regardless of the results of the individual assessment, the Bank also took into account an additional prudential mark-up for cases where the attorneys determined the risk of losing at less than 50%, which allows to take into account a certain scope of conservatism and is assumed to cover the potential risk of changing the case-law. For a detailed description of the disputed cases, see note II.40.

Measurement of provisions for costs of legal risk of foreign currency loans

Provisions for costs of legal risk of CHF-indexed loans were estimated using the portfolio approach, which takes into account: (i) future actions whose impact was estimated on the basis of the most recent trend of incoming actions, (ii) the likelihood of losing the case following a final judgment, (iii) occurrence of a possible scenario of a judgment, i.e. a judgment declaring a loan agreement null and void or declaring the "PLN conversion" of the loan, resulting in determining the loan balance in PLN, leaving the loan interest rate based on LIBOR, and (iv) the loss incurred by the Bank in case of losing the case in court. For a detailed description of the provisions for costs of legal risk of foreign currency loans, see note II.40.

Provision for the expected amount of returns of a portion of collected commissions upon the early repayment of consumer loans

Provision for the expected amount of returns of a portion of collected commissions upon the early repayment of consumer loans was estimated on the basis of available historical data related to the early repayments of consumer loans and the observed number of complaints concerning the return of commissions in connection with the early repayment of the loan. However, the above estimate is subject to uncertainty resulting from the difficulty in estimation of variability in the observed trend of filed complaints; as a result, the amount of the provision created may change in the future.

Deferred tax asset

The Group recognises a deferred tax asset if it assumes that taxable profit will be generated in the future against which the asset can be used. If taxable income deteriorates in the future, this assumption may prove invalid. For a detailed description of this issue, see Note II.18.

Leases – the Group as a lessee

Judgments concerning leases, where the Group is a lessee, in areas such as whether the contract contains a lease, contracts for an indefinite period, exercising the option to extend or shorten the lease term are presented in Notes 5.5 and II.33 to these financial statements.

Useful lives of property, plant and equipment and intangible assets

Factors taken into account when estimating the useful life of particular types of property, plant and equipment and intangible assets include, among others:

- the average useful economic lives applied so far, reflecting the actual wear and tear, intensity of use etc.;
- technological obsolescence;
- period of control over the asset and any legal or other limitations of the period of use;
- interdependencies between the useful lives of other assets;
- other factors that may affect the useful economic life of the asset type concerned.

If the period of use of an asset is based on contractual rights, the useful life of an asset corresponds to the period arising from such contractual rights, or, if the estimated period is shorter, the estimated useful life is used. The Bank reviews the useful lives of its assets annually, on the basis of current estimates.

Estimates regarding reimbursement of fees related to early repaid consumer loans

The Group recognised a portfolio provision for potential customer claims in respect of a partial reimbursement of fees on consumer loans repaid ahead of their contractual maturity, before the date of the CJEU's ruling, i.e. 11 September 2019. The provision was estimated on the basis of the amount of the fee to be reimbursed, product type, observed number of claims and repayment formula.

For early repayments of loans made after 11 September 2019, in view of the decision to reimburse fees to all customers, the Group recognises, accordingly, a liability for such reimbursements.

In addition, the Group remeasured loan receivables measured at amortised cost in respect of the intermediation costs accounted for over time for the expected prepayments in the loan portfolio held as at 31 December 2019, for which there is an obligation to reimburse fees in the case of early repayment by the customer and for the difference between the effective settlement of fees charged for granting the loan at the effective interest rate and a hypothetical linear settlement of these fees at the expected prepayment date of the loans.

Estimates concerning portfolio provisions for legal risk arising from mortgage loans in foreign currencies

Following the ruling of the Court of Justice of the European Union of 3 October 2019, the Group has identified an increased risk related to court judgments concerning CHF-indexed loans. Therefore, considering the risk that the scheduled cash flows from the CHF-indexed mortgage loan portfolio may not be fully recoverable and/or a liability may arise resulting in a future cash outflow, the Group estimated the provision for legal risk arising from such loans pursuant to provisions of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

The amount of the portfolio provision depends on a number of assumptions based, to a large extent, on the expert assessment of the Group. Essential elements of the methodology affecting the estimated amount of the provision include the assumed time horizon, the projected number of borrowers who will bring an action, the probability of losing the court dispute, the profile of the loans and the characteristics of the borrowers, different scenarios for possible judgments.

These estimates come with significant uncertainty and may be subject to major changes in the future.

Fair value of property/ assets obtained from foreclosures

The Group estimates the fair value of real property classified as investment property and assets obtained from foreclosures. The estimate reflects market conditions as at the valuation date and is based on current real property valuations.

Test for impairment of the Bank

Due to the fact that as at 31 December 2019 the carrying amount of the Bank's net assets was higher than the value of their market capitalization, the Bank performed an impairment test with reference to the Bank's net asset value.

The Bank estimated the recoverable amount of its net assets, based on five-year projections of financial results. As a result of its comparison to the carrying amount of the net assets, no impairment was recognised.

In the test, a discount rate used was determined based on the cost of capital of comparable entities, taking into account an additional margin on the risk of failure to meet financial projections – the rate was set at 10.13%. A change in the projected result in 2024 (and in the residual period) by 1% would change the recoverable amount by PLN 46 million. With a drop in the projected financial result in 2024 (and in the residual period) by 38%, there would be a decrease in the recoverable amount below the carrying amount of the net assets.

Although estimates used are based on best knowledge, actual results may differ from the estimates made. The conformity of actual results and estimates made is reviewed in the reporting periods.

7. Correction of prior period errors

In the period of 12 months ended 31 December 2019, the Group did not correct any prior period errors.

8. Net interest income

	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 (restated) PLN '000
Fee and commission income related to:		
Financial assets measured at amortised cost	**1,679,079**	**1,866,034**
*loans and advances**	1,637,754	1,801,427
amounts due from banks and financial institutions	14,660	7,381
other financial instruments	23,446	53,375
reserve requirement	3,219	3,851
Financial assets measured at fair value through other comprehensive income	**145,760**	**115,298**
Financial assets measured at fair value through profit or loss	**195,721**	**221,623**
loans and advances	11,484	23,384

other financial instruments	5	25
derivative financial instruments	184,232	198,214
Liabilities	**64,517**	**65,498**
of which:		
interest income related to impaired financial assets	*146,226*	*159,427*
Total interest income	**2,085,077**	**2,268,453**
Fee and commission expense related to:		
amounts due to customers	947,628	845,020
amounts due to banks and financial institutions	31,890	18,115
derivative financial instruments	14,207	18,394
debt securities issued	130,195	169,897
lease liabilities	4,297	-
financial assets	7,073	9,805
of which:		
costs calculated using the effective interest rate method, related to financial liabilities not measured at fair value through profit or loss	*1,120,917*	*1,042,602*
Total interest expense	**1,135,290**	**1,061,231**
Net interest income	**949,787**	**1,207,222**

The item of income related to financial liabilities include interest income from financial liabilities (derivatives) bearing interest at negative effective interest rates. The item of expense related to financial assets include interest expense related to financial assets (amounts due from banks and financial institutions and derivatives) with negative effective interest rates.

* In the net interest income for 2019, the amount of income was reduced by PLN 71.6 million to reflect reimbursement of fees for early repayment of consumer loans – for a detailed description, see Note II.40.

9. Net fee and commission income

	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 (restated) PLN '000
Fee and commission income related to:		
loans and advances	13,953	15,904
maintenance of bank accounts	26,309	27,310
payment and credit cards	30,227	32,765
investment products and asset management	62,058	60,265
insurance products	55,309	84,129
brokerage activities	15,771	20,271
other fee and commission income	1,062	1,377
Total fee and commission income	**204,689**	**242,021**
Fee and commission expense related to:		
loans and advances	2,547	3,057
payment and credit cards	53,711	47,067
investment and banking products and asset management	41,169	31,467
insurance products	5,120	6,999
brokerage activities	7,910	9,479
costs of promotion and awards to customers	11,853	10,930
other fee and commission expense	5,380	8,012
Total fee and commission expense	**127,690**	**117,011**
Net fee and commission income	**76,999**	**125,010**

10. Dividend income

	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 PLN '000
Dividends received:		
from securities classified as financial assets measured at fair value through other	38	29

comprehensive income		
from securities classified as financial assets measured at fair value through profit or loss	6,931	3,934
Total dividend income	**6,969**	**3,963**

11. Gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income

	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 PLN '000
Gain (loss) on financial instruments measured at fair value through profit or loss, of which:	(52,025)	(10,393)
on financial assets held for trading	705	(394)
on instruments designated at initial recognition as measured at fair value through profit or loss	(24,794)	(15,924)
on instruments mandatorily measured at fair value through profit or loss	(2,169)	2,625
on derivatives	(25,767)	3,300
Measurement of liability at fair value through profit or loss	711	6,180
Foreign exchange differences on loans denominated in and indexed to foreign currencies	16,587	16,771
Other foreign exchange differences	13,016	20,045
Total gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income	**(21,711)**	**32,603**

12. Gain (loss) on derecognition of financial assets not measured at fair value through profit or loss

	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 PLN '000
Gain (loss) on derecognition of financial instruments, of which:		
measured at fair value through other comprehensive income	184	41,519
measured at amortised cost	24,696	9,563
Gain (loss) on modification resulting in derecognition	936	-
Total gain (loss) on derecognition of financial assets not measured at fair value through profit or loss	**25,816**	**51,082**

The increase in gain on derecognition of financial assets measured at amortised cost in 2019 results from the sale of treasury bonds classified as measured at amortised cost in connection with a change in the approach to the classification of such debt securities. Newly purchased treasury bonds are classified in the business model "hold-to-collect and sell".

In 2018, the Group realised a gain on instruments measured at fair value through other comprehensive income in connection with the implemented changes in the structure of the securities portfolio, and additionally, in the fourth quarter of 2018, it liquidated securities in order to secure its liquidity position and, as a result, it realised a gain on instruments measured at fair value through other comprehensive income and on instruments measured at amortised cost.

13. Net other operating income and expenses

	01.01.2019-31.12.2019 PLN '000	01.01.2018 31.12.2018 PLN '000
Other operating income:		
rental income	4,066	5,956
revenues from sales of products and services	11,435	10,705
recovered legal and debt collection costs	13,960	11,941
reversal of provisions and impairment losses on other assets	21,453	7,293
income from bad debts recovered	1,050	778
gain on disposal of non-financial non-current assets	7,034	4,518
net gain on fair value measurement of investment property	-	16,404

(figures in PLN '000)

revenues from brokerage activities	3,023	4,854
penalties, fines and compensations received	1,045	1,350
revenues from card organisations related to promotional activities	937	5,318
reversal of unused portion of provision for costs	1,780	2,214
return of paid tax on certain financial institutions	-	19,122
other income	5,490	6,587
Total other operating income	**71,273**	**97,040**

Other operating expenses:		
rental costs	1,117	2,469
cost of products and services sold	9,394	11,058
debt collection and monitoring of receivables, including legal costs	52,088	62,434
recognition of provisions (including disputed cases) and impairment losses on other assets	32,039	31,339
provision for reimbursement of costs of commissions on loans	54,568	-
loss on sale and retirement of non-current non-financial assets	317	240
costs related to investment products	145	588
net losses on fair value measurement of investment property	17,245	-
recognition of impairment losses on assets obtained from foreclosure	20,322	18,987
penalties, fines and compensations paid	563	3,154
donations given	421	11
other expenses	13,438	13,987
Total other operating expenses	**201,657**	**144,267**
Net other operating income and expenses	**(130,384)**	**(47,227)**

In 2018, the Bank recognised income from the return of overpaid tax on certain financial institutions in the amount of PLN 19 million.

Under operating expenses, the Group recognised a provision in the amount of PLN 54.6 million for potential returns of portions of commissions collected in connection with early repayment of consumer loans — a detailed description is presented in Note II.40.

14. Administrative expenses

	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 (restated) PLN '000
Employee benefits	429,838	429,392
salaries	363,056	364,209
salary overheads and other employee benefits	66,782	65,183
Raw materials and consumables used	19,186	20,384
Third-party services, of which:	184,898	258,012
marketing and advertising	28,209	39,759
IT services	42,394	39,933
lease and rental	26,672	91,607
security and cash processing services	6,713	7,198
telecommunication and postal services	29,034	28,753
legal and advisory services	15,676	16,653
other third-party services	36,200	34,109
Taxes and charges	18,358	15,746
Amortisation and depreciation	160,696	88,836
Other expenses	14,093	15,791
Total administrative expenses excluding payments to the Bank Guarantee Fund	**827,069**	**828,161**
Payments to the Bank Guarantee Fund, of which:	118,446	122,223
contribution to the guarantee fund of banks	50,021	82,262
contribution to the resolution fund	68,425	39,961
Total administrative expenses	945,515	950,384

The implementation of IFRS 16 resulted in a shift in items of expenses: recognition of higher depreciation expenses of right-of-use assets in the amount of PLN 56.2 million, accompanied by lower rental and lease costs.
The costs of employee benefits include the provision for restructuring of employment in the amount of PLN 6.9 million.

15. Gain (loss) on non-substantial modification

Financial assets modified during the period	01.01.2019 31.12.2019 PLN '000	01.01.2018 31.12.2018 PLN '000
Value of measurement at amortised cost before modification	511,645	344,983
Gain/ (loss) on modification	(5,510)	(3,408)

Financial assets modified since initial recognition	31.12.2019 PLN '000	31.12.2018 PLN '000
Gross carrying amount of modified financial assets (modified when the lifetime expected credit loss was calculated), reclassified to Stage 1 in the analysed period	2,289	2,973

16. Net impairment losses on financial assets and off-balance sheet provisions

	01.01.2019-31.12.2019 PLN '000	01.01.2018 31.12.2018 PLN '000
Loans and advances to customers, of which:	(537,704)	(631,566)
corporate	49,828	(49,332)
car	(17,645)	(17,474)
mortgage	(100,120)	(279,886)
retail	(469,767)	(284,874)
Amounts due from banks	(313)	(410)
Other financial instruments	9,155	(16,749)
Portfolio of receivables held for sale	-	(81,728)
Off-balance-sheet liabilities	11,784	13,810
Other financial assets	74,412	(25,078)
Total net impairment losses on financial assets and off-balance sheet provisions	**(442,666)**	**(741,721)**

In 2019, the Bank revised the assumptions concerning models used to estimate the likelihood of insolvency and models used to determine the amount of the losses at default. The key changes concerned modification of the EAD model, revision of methodological assumptions adopted for modeling the PD Lifetime curve, introduction of three macroeconomic scenarios to the ECL calculation, introduction of the macroeconomic scenario element based on the AMRON forecasts for valuation of mortgage collaterals at the level of LTV calculation for the purpose of creating homogeneous groups in collective methods.

The aforementioned modifications had impact, in particular, on the level of EAD, macro and PD parameters and impairment losses recognised in Stage 1 and Stage 2 in the methodologies dedicated to valuation of uncollateralised retail loans and in the methodologies dedicated to portfolios of mortgage exposures.

The decrease in impairment losses under “other financial assets” in 2019 results primarily from:

- the repayment of receivables for deferred payments for sold debt portfolios, for which an indication of impairment was identified in 2017 and an impairment loss was recognised;
- a change in the manner of financing two related entities (Open Finance S.A. and Getin Holding S.A.), as described in detail in Section 11.49. At the same time, the above changes resulted in an increase in impairment losses on loans and advances granted to customers of these two companies.

Change in impairment losses 01.01.2019-31.12.2019	Loans and advances to customers measured at amortised cost PLN '000	Amounts due from banks PLN '000	Other financial instruments PLN '000	Off-balance-sheet liabilities PLN '000	Other financial assets PLN '000	Total PLN '000
Impairment losses/provisions at the beginning of the period	**4,828,794**	**1,797**	**93,302**	**17,998**	**129,772**	**5,071,663**
Net change in provisions recognised in profit or loss	537,704	313	(9,155)	(11,784)	(74,412)	442,666
Utilisation – written-off	(103,015)	-	(50)	-	(32,980)	(136,045)
Utilisation — sale of portfolio	(360,539)	-	-	-	-	(360,539)
Other net increases / decreases	(42,839)	(47)	190	4	-	(42,692)
Impairment losses/provisions at the end of the period	**4,860,105**	**2,063**	**84,287**	**6,218**	**22,380**	**4,975,053**

Change in impairment losses 01.01.2018-31.12.2018 (restated)	Loans and advances to customers measured at amortised cost PLN '000	Amounts due from banks PLN '000	Other financial instruments PLN '000	Portfolio of receivables held for sale PLN '000	Off-balance-sheet liabilities PLN '000	Other financial assets PLN '000	Total PLN '000
Impairment losses/provisions at the beginning of the period	**3,196,094**	**162**	**41,229**	**159,787**	**2,795**	**73,745**	**3,473,812**
Effect of IFRS 9	1,152,957	1,220	35,324	-	29,013	30,949	1,249,463
Impairment losses/provisions at the beginning of the period after adjustments	**4,349,051**	**1,382**	**76,553**	**159,787**	**31,808**	**104,694**	**4,723,275**
Net change in provisions recognised in profit or loss	631,566	410	16,749	81,728	(13,810)	25,078	741,721
Utilisation – written-off	(23,285)	-		-	-		(23,285)
Utilisation — sale of portfolio	(106,565)	-		(241,515)	-		(348,080)
Other net decreases	(21,973)	5		-	-		(21,968)
Impairment losses/provisions at the end of the period	**4,828,794**	**1,797**	**93,302**	**-**	**17,998**	**129,772**	**5,071,663**

"Other net increases / decreases" includes an adjustment to interest income on impaired loans. This item also reflects changes due to measurement of impairment losses on assets in foreign currencies.

Change in impairment losses on loans and advances to customers 01.01.2019-31.12.2019	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	POCI PLN '000	Total PLN '000
Impairment losses at the beginning of the period	**202,128**	**683,025**	**3,943,641**	**-**	**4,828,794**
Change in the period, including:	(5,067)	(401,856)	427,852	248	31,311
transfer to Stage 1	63,826	(55,130)	(8,696)	-	-
transfer to Stage 2	(73,686)	361,211	(287,525)	-	-
transfer to Stage 3	(7,218)	(301,995)	309,213	-	-
changes in estimation of loss allowances for expected credit losses	21,771	(414,235)	929,921	248	537,705
derecognition (cancellation, sale)	-	-	(463,555)	-	(463,555)
other*	374	8,293	(51,506)	-	(42,839)
Impairment losses at the end of the period	**207,195**	**281,169**	**4,371,493**	**248**	**4,860,105**

* "Other" includes and adjustment to net interest income on impaired loans and changes due to measurement of impairment losses on assets in foreign currencies.

Change in impairment losses on loans and advances to customers 01.01.2018-31.12.2018	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	Total PLN '000
Impairment losses at the beginning of the period	**66,595**	**145,243**	**2,984,256**	**3,196,094**
Effect of IFRS 9	109,709	648,783	394,465	1,152,957
Impairment losses at the beginning of the period, after adjustments	**176,304**	**794,026**	**3,378,721**	**4,349,051**
Change in the period, including:	25,824	(111,001)	564,920	479,743
transfer to Stage 1	284,785	(264,023)	(20,762)	-
transfer to Stage 2	(42,461)	140,791	(98,330)	-
transfer to Stage 3	(6,305)	(169,552)	175,857	-
changes in estimation of loss allowances for expected credit losses	(210,195)	181,783	659,978	631,566
derecognition (cancellation, sale)	-	-	(129,850)	(129,850)
other	-	-	(21,973)	(21,973)
Impairment losses at the end of the period	**202,128**	**683,025**	**3,943,641**	**4,828,794**

17. Net impairment losses on investments in associates

	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 PLN '000
Impairment losses at the beginning of the period	**313,827**	**291,342**
Net change in impairment losses recognised in profit or loss	49,218	22,485
Impairment losses at the end of the period	**363,045**	**313,827**

The recognition of impairment losses for individual entities is described in detail in Note II.28.

18. Income tax

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

For the purposes of financial reporting, deferred tax is calculated using the balance-sheet liability method in relation to all temporary differences existing as at the balance sheet date between the tax base of assets and liabilities and their carrying amount as disclosed in the financial statements.

	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 (restated) PLN '000
Consolidated income statement		
Current income tax	6,538	9,462

Current tax expense	6,088	9,120
Adjustments to current income tax for previous years	450	342
Deferred income tax	(108,429)	92,217
Related to recognition and reversal of temporary differences	14,332	(11,812)
Utilisation of tax loss from previous years	-	104,029
Current year's tax loss	(122,761)	-
Income tax in the consolidated income statement	**(101,891)**	**101,679**
Consolidated statement of comprehensive income		
Deferred income tax		
Related to recognition and reversal of temporary differences, of which:	(8,057)	(8,783)
related to financial instruments measured at fair value through other comprehensive income	(15,086)	(13,516)
related to cash flow hedges	6,948	4,703
related to actuarial gains/ (losses)	81	30
Income tax in the consolidated statement of comprehensive income	**(8,057)**	**(8,783)**
Total key components of income tax	**(109,948)**	**92,896**

Reconciliation of tax expense on profit (loss) before tax	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 (restated) PLN '000
Gross profit/(loss) before tax	**(693,442)**	**(358,531)**
Income tax at the applicable rate (19%)	(131,754)	(68,121)
Effect of permanent differences between profit/(loss) before tax and taxable income, including:	**29,863**	**169,800**
Effect of application of different tax rates	1,912	5,599
Effect of consolidation of non-taxable funds	1,180	16,207
Effect of equity-accounted entities	(29)	(1,811)
Effect non-taxable income (dividends)	(1,324)	(590)
Effect of non-deductible expenses (including contribution to BGF)	32,929	22,070
Effect of impairment loss on investment in associate	9,353	18,770
Redemption of investment certificates	(42,998)	-
Tax on financial institutions	-	(3,669)
Sale of receivables	19	39
Credit loss allowances that are tax non-deductible costs	(2,723)	10,249
Provisions for legal risk of foreign currency loans	30,050	-
Effect of non-recognised deferred tax asset on tax losses	-	97,905
Effect of other permanent differences	1,494	5,031
Total tax expense on profit (loss) before tax	**(101,891)**	**101,679**

2019	As at 01.01.2019	Changes in the period		As at 31.12.2019
		Recognised in profit or loss	Recognised in other comprehensive income	
	PLN '000	PLN '000	PLN '000	PLN '000
Interest receivable on financial instruments and derivatives	26,469	(2,478)	-	23,991
Interest receivable on loans and amounts due from banks	38,951	(9,179)	-	29,772
Commissions paid, accounted for using the effective interest rate method	29,589	(18,794)	-	10,795
Difference between balance sheet-and tax depreciation/amortisation	17,001	(10,310)	-	6,691
Measurement of financial instruments at fair value	2,099	-	9,024	11,123
Provision for amortisation of acquired intangible assets	4,767	(42)	-	4,725
Other	1,665	866	81	2,612
Deferred tax liabilities	**120,541**	**(39,937)**	**9,105**	**89,709**
Interest on amounts due to customers, debt securities and derivatives	39,324	8,952	-	48,276
Expected credit losses from impairment of financial assets and off-balance sheet liabilities	544,345	(77,759)	-	466,586
Tax losses brought forward	2	(2)	-	-
Current year's tax loss	-	122,761	-	122,761
Deferred fees and commissions received	10,444	6,794	-	17,238
Provision for administrative expenses	14,873	6,778	-	21,651
Measurement of financial instruments at fair value	13,165	-	24,110	37,275
Measurement of cash flow hedging instruments	10,502	-	(6,948)	3,554
Revaluation of property	10,819	2,368	-	13,187
Other	2,794	(1,400)	-	1,394
Deferred tax assets	**646,268**	**68,492**	**17,162**	**731,922**
Net assets	**525,727**	**108,429**	**8,057**	**642,213**

2018 (restated)	As at 01.01.2018 PLN '000	Change in accounting policies – including the effect of IFRS 9	Changes in the period: Recognised in profit or loss PLN '000	Changes in the period: Recognised in other comprehensive income PLN '000	Recognised in retained earnings PLN '000	As at 31.12.2018 PLN '000
Interest receivable on financial instruments and derivatives	39,583	(1)	(13,113)	-	-	**26,469**
Interest receivable on loans and amounts due from banks	31,223	5,140	2,588	-	-	**38,951**
Commissions paid, accounted for using the effective interest rate method	63,709	(11,829)	(22,291)	-	-	**29,589**
Difference between balance sheet-and tax depreciation/amortisation	20,955	-	(3,954)	-	-	**17,001**
Measurement of financial instruments at fair value	4,217	(316)	-	(1,802)	-	**2,099**
Provision for amortisation of acquired intangible assets	5,077	-	(310)	-	-	**4,767**
Revaluation of property	942	-	(942)	-	-	**-**
Other	3,008	-	(1,345)	2	-	**1,665**
Deferred tax liabilities	**168,714**	**7,006**	**(39,367)**	**(1,800)**	**-**	**120,541**
Interest on amounts due to customers, debt securities and derivatives	77,929	(1,372)	(37,233)	-	-	**39,324**
Impairment of financial assets and off-balance sheet liabilities	336,258	186,131	21,956	-	-	**544,345**
Tax loss	104,031	-	(104,029)	-	-	**2**
Deferred fees and commissions received	7,632	-	2,812	-	-	**10,444**
Provision for administrative expenses	13,176	-	1,697	-	-	**14,873**
Measurement of financial instruments at fair value	11,215	(9,764)	-	11,714	-	**13,165**
Measurement of cash flow hedging instruments	15,205	-	-	(4,703)	-	**10,502**
Revaluation of property	24,039	-	(13,220)	-	-	**10,819**
Other	3,935	2,116	(3,567)	(28)	338	**2,794**
Deferred tax assets	**593,420**	**177,111**	**(131,584)**	**6,983**	**338**	**646,268**
Net assets	**424,706**	**184,117**	**(92,217)**	**8,783**	**338**	**525,727**

Deferred tax assets are recognised in the amount which is expected to be utilised using future taxable income.

The utilisation of the deferred tax asset will depend, among others, on the fulfilment of assumptions regarding the moment when and the extent to which (in accordance with the Corporate Income Tax Act) impairment losses on loans and advances granted to customers become probable.

Based on historical observations made so far, the Bank assumed for the purpose of tax projections that the average annual level of probable impairment losses will amount to approximately PLN 430 million in subsequent years, which means that the following percentages of impairment losses on loans and advances as at 31 December 2019 for which deferred tax assets are recognised and which have not yet become probable, will become probable in subsequent years:

- up to 1 year: approx. 17%,
- from 1 year to 3 years: approx. 33%,
- from 3 to 5 years: approx. 33%,
- over 5 years: approx. 17%.

If the conditions specified in Article 16(2a) of the Corporate Income Tax Act are met and a fixed level of probability is assumed, the impairment losses for 2019 that have not yet become probable should become probable within the time horizon of approx. 6 years.

As at 31 December 2019, the Bank's tax loss carried forward for which the Bank recognised a deferred tax asset amounted to PLN 646,113 thousand, resulting in the asset of PLN 122,761 thousand. Both the asset on tax loss and other deferred tax assets were recognised in the amount which is expected to be utilised using future taxable income, based on current projections of financial results. Regulations on value added tax, corporate income tax, and social security contributions are subject to frequent amendments, With the effect being lack of established market practice, conflicting interpretations, and scarcity of established precedents which could be followed. Furthermore, the applicable tax laws lack clarity, which leads to differences in opinions and diverse interpretations of tax regulations, both between various public authorities and between public authorities and businesses.

Tax settlements and other areas of activity (e.g. customs or foreign exchange control) are subject to inspection by bodies which are authorised to impose high penalties and fines, and any additional tax liabilities arising from such inspections need to be paid with interest. Consequently, tax risk in Poland is higher than in countries with more mature tax systems.

The amounts presented and disclosed in the financial statements may therefore change in the future as a result of post-inspection decisions by a tax inspection authority.

In December 2019, the Head of the Mazovian Tax Office launched a tax audit in Getin Noble Bank S.A. concerning corporate income tax for 2017. At present, the Bank has submitted the required source documents and the audit is in progress.

On 15 July 2016, the Tax Legislation was amended to reflect the provisions of the General Anti-Abuse Rule ("GAAR"). The purpose of GAAR is to prevent the establishment and use of artificial schemes set up to avoid payment of taxes in Poland. GAAR defines tax evasion as measures taken primarily for the purpose of achieving a tax benefit. According to GAAR, such measures do not lead to the achievement of a tax benefit if the scheme used was artificial and had no business or economic rationale. Any arrangements involving (i) separation of transactions or operations without a sufficient rationale, (ii) engaging intermediaries where no business or economic rationale exists, (iii) any offsetting elements, and (iv) any arrangements that operate in a similar way, may be viewed as an indication of the existence of an abusive arrangement subject to GAAR. The new regulations will require much more judgement to be exercised when assessing the tax consequences of particular transactions.

The GAAR clause should be applied with respect to arrangements made after its effective date as well as arrangements that were made before its effective date but benefits of the tax advantage obtained through the arrangement continued or still continue after that date. After the new regulations are implemented, Polish tax inspection authorities will be able to challenge certain legal agreements and arrangements made by taxpayers, such as corporate restructurings.

The companies of Getin Noble Bank S.A. Group identify risks resulting from the GAAR clause on an ongoing basis and take steps to minimize them.

In 2019, the Bank was not involved in any disputes with authorities or courts and did not apply to the Ministry of Finance for a ruling, therefore it did not recognise any cases of uncertain tax treatment.

19. Earnings per share

Basic earnings per share

Basic earnings per share are calculated as the quotient of net profit for the reporting period attributable to holders of ordinary shares of the parent and the weighted average number of ordinary shares outstanding in the period.

	01.01.2019-31.12.2019	01.01.2018-31.12.2018 (restated)
Profit/ (loss) for the period attributable to equity holders of the parent (in PLN '000)	(591,551)	(460,210)
Weighted average number of ordinary shares	1,044,553,267	970,299,666
Basic earnings per share (in PLN)	**(0.57)**	**(0.47)**

Diluted earnings per share

Diluted earnings per share are calculated as the quotient of net profit for the reporting period attributable to holders of ordinary shares of the parent and the weighted average number of ordinary shares outstanding in the period adjusted by the weighted average number of the ordinary shares which would be issued as a result of the conversion of all dilutive potential equity instruments into ordinary shares.

Neither in 2019 nor in 2018, Getin Noble Bank S.A. issued any dilutive instruments. Diluted earnings per share are equal to basic earnings per share.

20. Cash and balances with the Central Bank

	31.12.2019 PLN '000	31.12.2018 PLN '000
Cash	199,210	284,882
Current account at the Central Bank	1,638,637	1,227,621
Total cash and balances with the Central Bank	**1,837,847**	**1,512,503**

During the day, the Bank may use funds on the current accounts with the Central Bank to carry out current monetary settlements, however, the Bank must ensure that the average monthly balance is maintained on these accounts in the amount consistent with the declaration of the reserve requirement.

On 30 January 2018, the Management Board of the National Bank of Poland agreed to release Getin Noble Bank S.A. from the obligation to maintain 55% of the reserve requirement from 31 January 2018 to 31 December 2018; on 27 September 2018, it agreed to extend the term until 31 December 2019.

On 3 October 2019, the Bank became aware that on 26 September 2019, the Management Board of the National Bank of Poland has adopted a resolution on releasing the Bank from the obligation to maintain 55% of the reserve requirement. The above exemption will apply from 1 January 2020 until 31 December 2020.

As at 31 December 2019 and as at 31 December 2018, funds on the reserve requirement account bore interest at the rate of 0.5%.

21. Amounts due from banks and financial institutions

	31.12.2019 PLN '000	31.12.2018 PLN '000
Current receivables	1,504,348	1,548,313
Deposits and other receivables	106,379	102,426
Total amounts due from banks and financial institutions	**1,610,727**	**1,650,739**
Impairment losses	(2,063)	(1,797)
Total amounts due from banks and financial institutions, net	**1,608,664**	**1,648,942**

	31.12.2019 PLN '000	31.12.2018 PLN '000
Current receivables and overnight deposits	1,599,306	1,645,718
Term receivables maturing in:	11,421	5,021
up to 1 month	8,972	2,688
from 1 to 3 months	92	176
from 3 months to 1 year	381	791
from 1 to 5 years	1,976	1,366
Total amounts due from banks and financial institutions	**1,610,727**	**1,650,739**
Impairment losses	(2,063)	(1,797)
Total amounts due from banks and financial institutions, net	**1,608,664**	**1,648,942**

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

	31.12.2019 PLN '000	31.12.2018 PLN '000
Value of receivables bearing interest at variable rates	1,510,949	1,548,528
Value of receivables bearing interest at fixed rates	97,715	100,414
Total amounts due from banks and financial institutions, net	**1,608,664**	**1,648,942**

22. Financial assets held for trading

	31.12.2019 PLN '000	31.12.2018 PLN '000
Equity instruments, of which:	1,175	388
listed	1,175	388
Debt instruments, of which issued by:	4,727	3,766
banks and financial entities	636	914
non-financial entities	4,091	2,852
Investment certificates	647	715
Total financial assets held for trading	**6,549**	**4,869**

The fair value of shares in listed companies was determined on the basis of their prices on active markets.

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

	31.12.2019 PLN '000	31.12.2018 PLN '000
Shares in other entities – not listed	113,043	141,067
Other instruments	10,807	7,513
Total financial assets measured at fair value through profit or loss	**123,850**	**148,580**

Shares in other, unlisted entities comprise a block of 858,334 ordinary registered shares in Towarzystwo Ubezpieczeń Europa S.A. (TU Europa), with the total nominal value of PLN 3,433 thousand, representing 9.08% of the company's share capital.

The fair value of shares in TU Europa as at 31 December 2019 was estimated on the basis of valuation of the company prepared by an independent entity specializing in this type of services. A combination of three methods was used for the valuation with equal weight assigned to each of them:

- a comparative method based on Price/Profit ratios, using retrospective and prospective comparisons,
- a comparative method based on Price/Book value ratio, where the ratio was determined for the benchmark group as at 31 December 2019,
- a comparative method based on Price/Gross written premium ratio, where the ratio was determined for the benchmark group as at 31 December 2019.

The Price/Profit and Price/Gross written premium ratios were increased by the amount of excess of capital over benchmark entities, and in the case of the Price/Book value method, the ratio was multiplied by the net asset value adjusted down by the value of the excess capital that was subsequently added with the implied multiplier of 1.

The value of the block of shares calculated in this manner was PLN 113,043 thousand.

The comparative method based on the price/profit ratio used financial projections of TU Europa S.A. for 2020. If the projected net profit for 2020 decreases by 1%, the fair value of the block of shares decreases by PLN 60 thousand; if it increases by 1%, the fair value of the block of shares increases by PLN 52 thousand.

A decrease in the determined Price/Profit ratios by 1% translates into a decrease in the fair value of the block of shares by PLN 146 thousand, while an increase in the determined ratios by 1% translates into an increase in the fair value of the block of shares by PLN 137 thousand. A decrease in the determined Price/Book value ratio by 1% translates into a decrease in the fair value of the block of shares by PLN 240 thousand, while an increase in the ratio by 1% translates into an increase in the fair value of the block of shares by PLN 232 thousand.

A decrease in the determined Price/Gross written premium ratio by 1% translates into a decrease in the fair value of the block of shares by PLN 240 thousand, while an increase in the ratio by 1% translates into an increase in the fair value of the block of shares by PLN 240 thousand.

24. Derivative financial instruments

The table below presents the notional values of derivative instruments and the fair value of derivative financial instruments by maturity:

	31.12.2019	up to 1 month	from 1 to 3 months	from 3 months up to 1 year	from 1 year to 5 years	more than 5 years	Total	Fair value	
								assets	liabilities
		PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Currency transactions	**Currency swap**	**2,227,915**	**985,827**	**-**	**-**	**-**	**3,213,742**	**11,718**	**4,931**
	Purchase	1,112,648	496,099	-	-	-	1,608,747		
	Sale	1,115,267	489,728	-	-	-	1,604,995		
	CIRS	**-**	**-**	**10,460,336**	**8,587,172**	**-**	**19,047,508**	**73,610**	**405,777**
	Purchase	-	-	5,049,115	4,296,095	-	9,345,210		
	Sale	-	-	5,411,221	4,291,077	-	9,702,298		
	Forward	**3,962**	**173,421**	**20,743**	**-**	**-**	**198,126**	**35**	**1,034**
	Purchase	1,965	86,370	10,220	-	-	98,555		
	Sale	1,997	87,051	10,523	-	-	99,571		
Interest rate contracts	**Interest rate swaps (IRS)**	**-**	**-**	**13,034**	**242,194**	**43,672**	**298,900**	**13,896**	**1,022**
	Purchase	-	-	6,517	121,097	21,836	149,450		
	Sale	-	-	6,517	121,097	21,836	149,450		
	Options	**109,360**	**164,966**	**468,972**	**-**	**-**	**743,298**	**501**	**783**
	Purchase	54,680	82,483	234,486	-	-	371,649		
	Sale	54,680	82,483	234,486	-	-	371,649		
Other transactions	**Share futures**	**-**	**928**	**-**	**-**	**-**	**928**	**-**	**-**
	Purchase	-	-	-	-	-	-		
	Sale	-	928	-	-	-	928		
	Index and commodity contracts	**-**	**935**	**4,982**	**16,246**	**-**	**22,163**	**2,067**	**64**
	Purchase	-	-	306	6,166	-	6,472		
	Sale	-	935	4,676	10,080	-	15,691		
	Share options	**-**	**-**	**-**	**-**	**165,658**	**165,658**	**17,441**	**-**
	Purchase	-	-	-	-	165,658	165,658		
	Other	**439,263**	**830,807**	**3,433,141**	**317,060**	**-**	**5,020,271**	**5,241**	**4,416**
	Purchase	217,321	412,406	1,711,370	158,612	-	2,499,709		
	Sale	221,942	418,401	1,721,771	158,448	-	2,520,562		
	Total derivative financial instruments	**2,780,500**	**2,156,884**	**14,401,208**	**9,162,672**	**209,330**	**28,710,594**	**124,509**	**418,027**

	31.12.2018	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 year to 5 years	more than 5 years	Total	Fair value	
								assets	liabilities
		PLN ‘000	PLN ‘000	PLN ‘000	PLN ‘000	PLN ‘000	PLN ‘000	PLN ‘000	PLN ‘000
Currency transactions	**Currency swap**	**2,721,199**	**-**	**985,476**	**-**	**-**	**3,706,675**	**2,783**	**7,131**
	Purchase	1,360,056	-	493,646	-	-	1,853,702		
	Sale	1,361,143	-	491,830	-	-	1,852,973		
	CIRS	**385,580**	**133,848**	**7,736,600**	**14,402,160**	**-**	**22,658,188**	**197,849**	**459,379**
	Purchase	194,750	65,600	3,806,170	7,123,535	-	11,190,055		
	Sale	190,830	68,248	3,930,430	7,278,625	-	11,468,133		
	FX/Purchase/sale	**-**	**-**	**-**	**-**	**19,591**	**19,591**	**412**	**48**
	Purchase	-	-	-	-	9,887	9,887		
	Sale	-	-	-	-	9,704	9,704		
	Forward	**11,152**	**9,767**	**222,809**	**-**	**-**	**243,728**	**1,480**	**931**
	Purchase	5,595	4,891	111,361	-	-	121,847		
	Sale	5,557	4,876	111,448	-	-	121881		
Interest rate contracts	**Interest rate swaps (IRS)**	**-**	**-**	**281,264**	**252,350**	**99,118**	**632,732**	**14,332**	**948**
	Purchase	-	-	140,632	126,175	49,559	316,366		
	Sale	-	-	140,632	126,175	49,559	316,366		
	Options	**79,842**	**95,820**	**323,706**	**752,552**	**-**	**1,251,920**	**2,172**	**2,581**
	Purchase	39,921	47,910	161,775	376,276	-	625,882		
	Sale	39,921	47,910	161,931	376,276	-	626,038		
Other transactions	**Share futures**	**-**	**84**	**20**	**-**	**-**	**104**	**-**	**-**
	Purchase	-	84	20	-	-	104		
	Sale	-	-	-	-	-	-		
	Index and commodity contracts	**412**	**900**	**6,570**	**-**	**65,894**	**73,776**	**4,069**	**1,447**
	Purchase	206	393	1,830	-	26,508	28,937		
	Sale	206	507	4,740	-	39,386	44,839		
	Share options	**-**	**-**	**-**	**-**	**165,658**	**165,658**	**19,043**	**-**
	Purchase	-	-	-	-	165,658	165,658		
	Other	**-**	**-**	**-**	**-**	**1,033**	**1,033**	**7,875**	**5,272**
	Purchase	-	-	-	-	7	7		
	Sale	-	-	-	-	1,026	1,026		
	Total derivative financial instruments	**3,198,185**	**240,419**	**9,556,445**	**15,407,062**	**351,294**	**28,753,405**	**250,015**	**477,737**

25. Loans and advances to customers

25.1 Loans and advances measured at amortised cost

	31.12.2019 PLN '000	31.12.2018 (restated) PLN '000
Loans and advances	36,759,291	38,599,319
Purchased receivables	5,086,280	6,426,190
Total loans and advances measured at amortised cost	**41,845,571**	**45,025,509**
Impairment losses	(4,860,105)	(4,828,794)
Total loans and advances measured at amortised cost, net	**36,985,466**	**40,196,715**

31.12.2019	**Gross carrying amount**				**Impairment losses**				**Total net carrying amount**
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	
	PLN '000	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**
corporate loans	7,810,796	532,017	966,014	24,997	(33,597)	(14,050)	(452,915)	(248)	**8,833,014**
car loans	1,108,749	108,757	261,494	-	(8,199)	(7,427)	(205,405)	-	**1,257,969**
mortgage loans	19,396,480	1,373,313	4,550,513	-	(50,067)	(173,897)	(2,698,499)	-	**22,397,843**
retail loans	3,783,264	386,322	1,542,855	-	(115,332)	(85,795)	(1,014,674)	-	**4,496,640**
Total	**32,099,289**	**2,400,409**	**7,320,876**	**24,997**	**(207,195)**	**(281,169)**	**(4,371,493)**	**(248)**	**36,985,466**

31.12.2018 (restated)	Gross carrying amount			Impairment losses			Total net carrying amount
	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	PLN '000
corporate loans	9,095,337	888,432	829,500	(45,083)	(49,745)	(476,016)	**10,242,425**
car loans	1,235,562	143,751	264,068	(10,200)	(11,147)	(186,836)	**1,435,198**
mortgage loans	21,177,888	1,673,448	4,328,915	(44,775)	(532,504)	(2,321,011)	**24,281,961**
retail loans	3,525,320	306,818	1,556,470	(102,070)	(89,629)	(959,778)	**4,237,131**
Total	**35,034,107**	**3,012,449**	**6,978,953**	**(202,128)**	**(683,025)**	**(3,943,641)**	**40,196,715**

A change in the degree to which exposures classified to Stage 2 are covered with impairment losses over 2019 results from methodological changes implemented by the Bank in the calculation formulas used for the estimation of lifetime expected credit loss. In particular, the changes concerned the manner and time period of embedding the result of the behavioural assessment - so far, the behavioural factor was taken into account on a permanent basis throughout the life of the exposure, whereas after changes, the factor is embedded periodically and expires during the contract term.

31.12.2019	Impaired loans (Stage 3) by valuation model					
	According to case-by-case valuation			According to the collective valuation		
	Gross carrying amount PLN '000	Impairment losses PLN '000	Net carrying amount PLN '000	Gross carrying amount PLN '000	Impairment losses PLN '000	Net carrying amount PLN '000
corporate loans	620,295	(240,632)	379,663	370,716	(212,531)	158,185
car loans	-	-	-	261,494	(205,405)	56,089
mortgage loans	1,552,785	(863,305)	689,480	2,997,728	(1,835,194)	1,162,534
retail loans	16,315	(12,389)	3,926	1,526,540	(1,002,285)	524,255
Total	**2,189,395**	**(1,116,326)**	**1,073,069**	**5,156,478**	**(3,255,415)**	**1,901,063**

31.12.2018	Impaired loans (Stage 3) by valuation model					
	According to case-by-case valuation			According to the collective valuation		
	Gross carrying amount PLN '000	Impairment losses PLN '000	Net carrying amount PLN '000	Gross carrying amount PLN '000	Impairment losses PLN '000	Net carrying amount PLN '000

corporate loans	474,111	(271,391)	202,720	355,389	(204,625)	150,764
car loans	-	-	-	264,068	(186,836)	77,232
mortgage loans	1,420,685	(769,792)	650,893	2,908,230	(1,551,219)	1,357,011
retail loans	21,413	(10,190)	11,223	1,535,057	(949,588)	585,469
Total	**1,916,209**	**(1,051,373)**	**864,836**	**5,062,744**	**(2,892,268)**	**2,170,476**

	31.12.2019 PLN '000	31.12.2018 (restated) PLN '000
Loans and advances to customers, of which:		
to state budget entities	905,125	1,073,606
to financial entities other than banks	593,562	465,211
to non-financial entities other than natural persons	7,893,607	9,464,499
to natural persons	27,593,172	29,193,399
Total	**36,985,466**	**40,196,715**

	31.12.2019	31.12.2018
Value of fixed-rate loans and advances (in PLN million)	1,458	2,163
% of total loans and advances portfolio	3.94%	5.38%

In 2019, the Group sold receivables comprising impaired loans. The total nominal principal amount of the portfolio covered by the assignment agreements was PLN 456 million and the realised net gain on this account amounted to PLN +3 million.

In 2018, the Group sold receivables comprising impaired loans and receivables written off from the books. The total nominal principal amount of the of portfolio covered by the assignment agreements was PLN 117 million.

Loans in Swiss francs

The structure and quality of mortgage loans denominated in or indexed to Swiss francs are presented below:

31.12.2019	Gross carrying amount			Impairment losses			Total net carrying amount
	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	PLN '000
mortgage loans	7,978,365	675,446	678,830	(33,566)	(120,145)	(274,610)	8,904,320

31.12.2018	Gross carrying amount			Impairment losses			Total net carrying amount
	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	PLN '000
mortgage loans	8,456,884	837,513	685,031	(26,754)	(278,400)	(288,065)	9,386,209

2019	Stage 1 PLN '000	Stage 1 PLN '000	Stage 3 PLN '000	POCI PLN '000	Total PLN '000
Gross carrying amount as at 1 January 2019	**35,034,107**	**3,012,449**	**6,978,953**	**-**	**45,025,509**
Transfers	(1,012,582)	(146,949)	1,159,531	-	-
to Stage 1	1,308,555	(1,195,856)	(112,699)	-	-
to Stage 2	(1,901,759)	2,151,031	(249,272)	-	-
to Stage 3	(419,378)	(1,102,124)	1,521,502	-	-
Purchases	4,589,777	26,551	185,290	24,823	4,826,441
Repayments	(7,766,833)	(559,396)	(543,964)	-	(8,870,193)
Write-offs/cancellations	-	-	(539,698)	-	(539,698)
Other	1,254,820	67,754	80,764	174	1,403,512
Gross carrying amount as at 31 December 2019	**32,099,289**	**2,400,409**	**7,320,876**	**24,997**	**41,845,571**

2018 (restated)	Stage 1 PLN '000	Stage 1 PLN '000	Stage 3 PLN '000	Total PLN '000
Gross carrying amount as at 1 January 2018	**35,069,873**	**4,097,324**	**6,662,010**	**45,829,207**
Transfers	(261,284)	(631,009)	892,293	-
to Stage 1	2,490,510	(2,358,959)	(131,551)	-
to Stage 2	(2,383,796)	2,840,980	(457,184)	-
to Stage 3	(367,998)	(1,113,030)	1,481,028	-
Purchases	5,761,127	124,323	5,468	5,890,918
Repayments	(7,402,647)	(791,294)	(582,701)	(8,776,642)
Write-offs/cancellations	-	-	(546,226)	(546,226)
Other	1,867,038	213,105	548,109	2,628,252
Gross carrying amount as at 31 December 2018	**35,034,107**	**3,012,449**	**6,978,953**	**45,025,509**

In accordance with the applicable methodologies and the purchase process in place, the Bank classifies the portfolio of purchased lease receivables as the Low Credit Risk portfolio. The following note presents the estimated effect of withdrawal of the Low Credit Risk classification for the portfolio of lease receivables purchased by the bank. The potential impact of withdrawal of the LCR classification for this portfolio has been included by the Bank in the amount of impairment losses as at 31 December 2019.

	Structure of gross carrying amount of the portfolio of purchased lease receivables according to the current classification 31.12.2019 PLN '000	Structure of the portfolio of purchased lease receivables upon withdrawal of classification as LCR 31.12.2019 PLN '000
Stage 1	4,837,988	3,970,183
Stage 2	118,879	865,939
Stage 3	70,987	191,732
Total	**5,027,854**	**5,027,854**

25.2 Loans and advances mandatorily measured at fair value through profit or loss

	31.12.2019 PLN '000	31.12.2018 PLN '000
Corporate loans	71,709	60,329
Credit card loans	69,714	77,215
Total loans and advances mandatorily measured at fair value through profit or loss	**141,423**	**137,544**

At fair value, the Group recognises a portfolio of corporate loans, the so-called stock loans, whose contractual cash flows are not solely payments of principal and interest on the principal amount outstanding was classified as measured at fair value through profit or loss. The credit card loan portfolio including leverage/ multiplier in the interest rate definition was also classified as measured at fair value through profit or loss. Current credit card facility agreements no longer contain a multiplier and are measured at amortised cost as they meet the SPPI test.

25.3 Loans and advances to customers – by maturity

	31.12.2019 PLN '000	31.12.2018 (restated) PLN '000
Loans and advances to customers by maturity:		
up to 1 month	6,978,029	6,677,158
from 1 to 3 months	879,133	1,196,280
from 3 months to 1 year	3,563,732	4,034,979
from 1 to 5 years	11,808,103	12,085,607
more than 5 years	18,757,997	21,169,029
Total	**41,986,994**	**45,163,053**

Impairment losses	(4,860,105)	(4,828,794)
Total net	**37,126,889**	**40,334,259**

26. Other financial instruments

Other financial instruments measured at fair value through other comprehensive income

A financial instrument is measured at fair value through other comprehensive income if both of the following conditions are met and the Group did not designate a financial asset as measured at fair value through profit or loss:

- the financial asset is held in the 'hold to collect and sell' business model (business model whose objective is achieved by both collecting contractual cash flows and selling financial assets);
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- On initial recognition, the Bank may irrevocably elect that certain investments in equity instruments that would otherwise be measured at fair value through profit or loss should subsequently be measured at fair value through other comprehensive income.

	31.12.2019 PLN '000	31.12.2018 PLN '000
Other financial instruments measured at fair value through other comprehensive income		
NBP bills	3,299,505	899,820
treasury bonds	5,863,131	1,437,168
equity instruments	74,783	56,873
debt portfolio	219,204	247,309
Total other financial instruments measured at fair value through other comprehensive income, gross	**9,456,623**	**2,641,170**
Expected credit losses	(73,994)	(71,734)
Total other financial instruments measured at fair value through other comprehensive income, net	**9,382,629**	**2,569,436**

	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 PLN '000
Other financial instruments measured at fair value through other comprehensive income at the beginning of the period	**2,569,436**	**7,794,539**
Foreign exchange differences	-	45,997
Increases	190,526,786	87,119,240
Decreases (sale and redemption)	(183,778,105)	(92,120,057)
Expected credit losses	(2,249)	(64,885)
Change in fair value	52,630	(215,422)
Other changes	14,131	10,024
Other financial instruments measured at fair value through other comprehensive income at the end of the period	**9,382,629**	**2,569,436**

	31.12.2019 PLN '000	31.12.2018 PLN '000
Other financial instruments measured at fair value through other comprehensive income by maturity:	9,162,636	2,336,988
up to 1 month	3,304,915	905,157
from 1 to 3 months	-	-
from 3 months to 1 year	24,048	1,628
from 1 to 5 years	1,600,320	242,851
more than 5 years	4,233,353	1,187,352
Other equity instruments with an unspecified maturity	74,783	56,873
Debt portfolio	219,204	247,309
Total other financial instruments measured at fair value through other comprehensive income, gross	**9,456,623**	**2,641,170**

Expected credit losses	(73,994)	(71,734)
Total other financial instruments measured at fair value through other comprehensive income, net	**9,382,629**	**2,569,436**

Other financial instruments measured at amortised cost

	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 PLN '000
Other financial instruments measured at amortised cost		
treasury bonds	-	552,640
bonds of local government units	145,934	171,188
mortgage bonds and bonds issued by banks	118,327	157,362
corporate bonds	79,991	163,571
Total other financial instruments measured at amortised cost, gross	**344,252**	**1,044,761**
Expected credit losses	(10,293)	(21,568)
Total financial instruments measured at amortised cost, net	**333,959**	**1,023,193**

	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 PLN '000
Financial instruments measured at amortised cost at the beginning of the period	1,023,193	2,073,024
Increases	3,400	162,448
Decreases (sale and redemption)	(695,513)	(1,210,279)
Expected credit losses	11,404	18,878
Accrued interest and adjustments on account of settlement at amortised cost	(8,525)	(20,878)
Financial instruments measured at amortised cost at the end of the period	**333,959**	**1,023,193**

	31.12.2019 PLN '000	31.12.2018 PLN '000
Financial instruments measured at amortised cost by maturity:	344,252	1,044,761
up to 1 month	7,670	157,904
from 1 to 3 months	4,240	47,566
from 3 months to 1 year	18,735	88,535
from 1 to 5 years	247,406	256,602
more than 5 years	66,201	494,154
Total financial instruments measured at amortised cost, gross	**344,252**	**1,044,761**
Expected credit losses	(10,293)	(21,568)
Total financial instruments measured at amortised cost, net	**333,959**	**1,023,193**

27. Assets pledged as security for liabilities

	Carrying amount of assets pledged as security	
	31.12.2019 PLN '000	31.12.2018 PLN '000
From the portfolio of financial instruments available for sale		
Loans pledged as security for the refinancing facility from the NBP	-	12,370,413
Treasury bonds pledged as security for the guaranteed deposit protection fund of the BGF	221,970	257,538
Treasury bonds pledged as security for contributions payable to the BGF	120,224	80,688
Treasury bonds pledged as security for facilities received	300,605	641,702
Treasury bonds pledged as security for liabilities on account of repo transactions	460,785	-
Treasury bonds pledged as security for repayment of debt	152,353	143,843
Loans pledged as security for liabilities in securitisation transactions	1,229,496	2,060,048
Total assets pledged as security for liabilities	**2,485,433**	**15,554,232**

Getin Noble Bank S.A. will hold the portfolio of assets pledged as security for facilities until these liabilities are repaid. In February 2019, the Bank repaid in full its refinancing facilities received from the National Bank of Poland in order to restore payment liquidity and the collateral for these facilities was released.

In accordance with Article 369 of the Act on the Bank Guarantee Fund ("BGF"), deposit protection system, and mandatory restructuring, Getin Noble Bank S.A. maintains the guarantee fund in the amount set by the resolution of the BGF. The basis for calculation is the total amount of deposits received by the Bank on all accounts, used as the basis for the calculation of the reserve requirement.

Part of the contributions to the BGF for the deposit guarantee fund and the mandatory restructuring fund, not exceeding 30% of the contribution due, may be paid by the Bank in the form of commitments to pay. The funds used as security for obligations to pay are invested in treasury bonds at a level not lower than 110% of the value of the obligation to pay. The value of assets pledged as collateral for obligations to pay contributions to the Bank Guarantee Fund is increased on the contribution payment dates indicated by the BGF.

28. Investments in associates

The Getin Noble Bank S.A. Group holds shares in the following associates:

31.12.2019	Proportion of ownership interest/ voting rights held by the Group	Gross carrying amount PLN '000	Impairment loss PLN '000	Carrying amount PLN '000
Open Finance S.A.	42.91%	317,396	(304,868)	12,528
Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A.	36.39%	162,890	(58,177)	104,713
Total investments in associates		**480,286**	**(363,045)**	**117,241**

31.12.2018	Proportion of ownership interest/ voting rights held by the Group	Gross carrying amount PLN '000	Impairment loss PLN '000	Carrying amount PLN '000
Open Finance S.A.	42.91%	326,698	(293,884)	32,814
Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A.	36.39%	161,123	(19,943)	141,180
Total investments in associates		**487,821**	**(313,827)**	**173,994**

	01.01.2019 31.12.2019 PLN '000	01.01.2018 31.12.2018 PLN '000
Investments in associates at the beginning of the period	**173,994**	**224,046**
Share of other comprehensive income/(losses)*	(7,535)	(20,982)
Profit distributions received from the associate	-	(6,585)
Impairment loss	(49,218)	(22,485)
Investments in associates at the end of the period	**117,241**	**173,994**

* Share of other comprehensive income/losses of associates reported in the consolidated income statement additionally includes the Bank's share of unrealised gains on transactions between the Bank and the Open Finance S.A. Group companies that does not affect the value of the investment in the associate. The share of profit of Noble Funds TFI S.A. included in the consolidated income statement was adjusted by depreciation of the depreciable assets identified as at the date of accounting for the acquisition of the investment.

A summary of financial highlights of an associate, Open Finance S.A., is presented below – the most recent published figures.

Open Finance S.A. Capital Group	30.09.2019 (not audited) PLN '000	31.12.2018 PLN '000
Non-current assets	405,020	405,211
Current assets	46,644	42,190
Current liabilities	121,735	207,190
Non-current liabilities	116,767	11,974

Open Finance S.A. Capital Group	01.01.2019	01.01.2018

	30.09.2019 (not audited) PLN '000	30.09.2018 PLN '000
Sales revenue	259,618	287,465
Net profit/ (loss)*	(15,050)	7,875
Total comprehensive income*	(15,074)	5,598

* Attributable to equity holders of the parent

As at 31 December 2019, the value of Getin Noble Bank S.A.'s investment in Open Finance S.A. for which there are published market quotations at the quoted market price amounted to PLN 5 million.

A summary of financial highlights of an associate, Noble Funds TFI, is presented below – unaudited figures

Noble Funds TFI S.A.	31.12.2019 PLN '000	31.12.2018 PLN '000
Non-current assets	8,910	10,703
Current assets	77,367	74,789
Current liabilities	2,223	5,836
Non-current liabilities	-	-

Noble Funds TFI S.A.	01.01.2019- 31.12.2019 PLN '000	01.01.2018 31.12.2018 PLN '000
Sales revenue	89,006	129,828
Net profit/ (loss)	13,102	25,230
Total comprehensive income	13,102	25,230

Impairment of investment in Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A.

The recoverable amount of the investment in NF TFI was determined as its fair value estimated using two methods:

- a comparative method based on Price/Profit ratios in a series of retrospective and prospective comparisons,
- income-based method based on the planned results of Noble Funds TFI on the basis of budgets approved by the company's management, taking into account prudential buffers.

Cash flow projections were prepared for the three-year planning period, and then the residual value was assumed in the form of a realistically stable flow based on the results in the third projection period. The discount rate was based on the cost of equity of Noble Funds TFI, calculated using the beta ratio for comparable companies. The discount rate was increased to take into account the risk that the company's financial projections would not be met – the rate was set at 10.42%. The ratios in the comparative method were set in the range of 9-18. In view of the administrative proceedings against Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A., pending since July 2018, concerning the imposition of an administrative sanction on this company pursuant to Article 228(1c) of the Act of 27 May 2004 on investment funds and on management of alternative investment funds (the "Act"), in connection with an alleged breach of Article 48(2a)(2) and Article 45a(4a) of the Act, the value estimated using two methods was decreased by a 5% discount for legal risk. By the date of publication of these consolidated financial statements, the above proceedings have not been completed. The recoverable amount determined as described above was next compared with the carrying amount of the investment. In the second half of 2019, the investment in the associate Noble Funds TFI was found impaired and an impairment loss of PLN 38.2 million was recognised. The identified impairment results both from updated financial results of NF TFI, taking into account the current situation on the investment products market, including restrictions on investing insurance assets of capital funds in certificates of private equity closed-end funds, as well as taking into account an additional discount for legal risk in the valuation.

A decrease in the discount rate by 1 percentage point would increase the determined recoverable amount by PLN 9.7 million; an increase in the discount rate by 1 percentage point would decrease the determined recoverable amount by PLN 7.5 million.

A decrease in the discount for legal risk by 1 percentage point would increase the determined recoverable amount by PLN 1.1 million; an increase in the discount for legal risk by 1 percentage point would decrease the determined recoverable amount by PLN 1.1 million. The Covid-19 epidemic, which started in March 2020 in Poland, will affect the financial and capital markets, which may have an impact on the expected potential for the sale of investment products and redemptions of investment products and, consequently, assets under the management of Noble Funds TFI and, consequently, the value of the associate in the future.

As at 31 December 2018, the discount rate was set at 9.80%. The ratios in the comparative method were set in the range of 8-15.

The recoverable amount determined as described above was next compared with the carrying amount of the investment. In 2018, the investment in the associate Noble Funds TFI was found impaired and an impairment loss of PLN 19.9 million was recognised.

A decrease in the discount rate by 1 percentage point would increase the determined recoverable amount by PLN 15.2 million; an increase in the discount rate by 1 percentage point would decrease the determined recoverable amount by PLN 11.5 million.

Impairment of investment in Open Finance S.A.

The Bank determines the carrying amount of the investment in Open Finance S.A. as the value of the Bank's percentage share in the consolidated net assets disclosed in the consolidated financial statements of the Open Finance S.A. Capital Group, adjusted for goodwill and the trademark of Home Broker S.A. due to the unification of the accounting principles of the associate and Getin Noble Bank S.A. (in detail, this adjustment was described in the Getin Noble Bank S.A.'s financial statements for 2011).

The recoverable amount of the investment was determined at the level of its value in use estimated using the dividend method based on the planned results of the Open Finance Group on the basis of budgets approved by the company's management, taking into account prudence buffers.

Cash flow projections were prepared for the three-year planning period, and then the residual value was assumed in the form of a realistically stable flow based on the results in the third projection period. In the first 3 years of the projection, no dividend payment was assumed, and in the residual period the dividend was set at 25% of the projected net profit.

The discount rate was based on the cost of equity adopted for the Open Finance Capital Group, calculated using the beta ratio for comparable companies. The discount rate was increased to take into account the risk that the company's financial projections would not be met – the rate was set at 13.35%. As at 31 December 2019, the carrying amount exceeded the recoverable amount of the investment and an impairment loss of PLN 11 million was recognized.

A decrease in the discount rate by 1 percentage point would increase the determined recoverable amount by PLN 1.7 million; an increase in the discount rate by 1 percentage point would decrease the determined recoverable amount by PLN 1.4 million.

As at 31 December 2018, cash flow projections were prepared for the three-year planning period, and then the residual value was assumed in the form of a realistically stable flow based on the results in the third projection period. In the first 3 years of the projection, no dividend payment was assumed, and in the residual period the dividend was set at 50% of the projected net profit.

The discount rate was based on the cost of equity adopted for the Open Finance Capital Group, calculated using the beta ratio for comparable companies. The discount rate was increased to take into account the risk that the company's financial projections would not be met – the rate was set at 12.35%. As at 31 December 2018, the carrying amount exceeded the recoverable amount of the investment and an impairment loss of PLN 2.5 million was recognized.

A decrease in the discount rate by 1 percentage point would increase the determined recoverable amount by PLN 4.5 million; an increase in the discount rate by 1 percentage point would decrease the determined recoverable amount by PLN 3.7 million.

29. Intangible assets

	31.12.2019 PLN '000	31.12.2018 PLN '000
Software and licenses	229,789	218,300
Other intangible assets	14,206	21,004
Expenditure on intangible assets	48,506	27,490
Total intangible assets	**292,501**	**266,794**

As at 31 December 2019, Getin Noble Bank S.A. recognises an intangible asset in the form of relationships with deposit customers (Core Deposit Intangible) in the amount of PLN 14,191 thousand, which have been identified and measured in the acquisition of an organized part of a business of DnB Nord Polska S.A. and DZ Bank Polska S.A. with an initial value of PLN 58,807 thousand. Relationships with customers reflect the benefits of obtaining a cheaper source of finance of the Bank activities and are measured at the present value of future benefits as the difference between the cost of finance obtained from external sources and the interest expense of the acquired current accounts, taking into account estimated customer behaviour.

The core deposit intangible is amortised on a straight-line basis over a period of 104 months, i.e. a period within which, according to the assumptions, the majority of benefits from the intangible assets is expected to be realised. The remaining amortisation period from the end of 2019 is 25 months for the relationships identified in the acquisition of an organised part of a business of

DnB Nord Polska S.A. and 28 months for the relationships identified in the acquisition of an organised part of a business of DZ Bank Polska S.A.

2019	Patents and licences PLN '000	Other intangible assets PLN '000	Expenditure on intangible assets PLN '000	Total PLN '000
Gross carrying amount as at 01.01.2019	**413,065**	**61,574**	**28,827**	**503,466**
Increases, including:	60,354	-	61,453	121,807
purchase	19,975	-	61,453	81,428
transfer from investments	40,379	-	-	40,379
Decreases, including:	(32,773)	(2,741)	(41,774)	(77,288)
retirement and sale	(32,773)	(2,741)	(1,395)	(36,909)
transfer from investments	-	-	(40,379)	(40,379)
Gross carrying amount as at 31.12.2019	**440,646**	**58,833**	**48,506**	**547,985**
Accumulated amortisation as at 01.01.2019	**179,063**	**40,570**	**-**	**219,633**
Increases, including:	48,866	6,798	-	55,664
amortisation for period	48,866	6,798	-	55,664
Decreases, including:	(20,913)	(2,741)	-	(23,654)
retirement and sale	(20,913)	(2,741)	-	(23,654)
Accumulated amortisation as at 31.12.2018	**207,016**	**44,627**	**-**	**251,643**
Impairment losses as at 01.01.2019	**15,702**	**-**	**1,337**	**17,039**
Decreases	(11,861)	-	(1,337)	(13,198)
Impairment losses as at 31.12.2019	**3,841**	**-**	**-**	**3,841**
Net carrying amount as at 01.01.2019	**218,300**	**21,004**	**27,490**	**266,794**
Net carrying amount as at 31.12.2019	**229,789**	**14,206**	**48,506**	**292,501**

2018	Patents and licences PLN '000	Other intangible assets PLN '000	Expenditure on intangible assets PLN '000	Total PLN '000
Gross carrying amount as at 01.01.2018	**358,356**	**61,851**	**31,811**	**452,018**
Increases, including:	71,910	-	58,756	130,666
purchase	10,235	-	58,756	68,991
transfer from investments	61,675	-	-	61,675
Decreases, including:	(17,201)	(277)	(61,740)	(79,218)
retirement and sale	(17,201)	(277)	(65)	(17,543)
transfer from investments	-	-	(61,675)	(61,675)
Gross carrying amount as at 31.12.2018	**413,065**	**61,574**	**28,827**	**503,466**
Accumulated amortisation as at 01.01.2018	**162,654**	**34,021**	**-**	**196,675**
Increases, including:	32,143	6,805	-	38,948
amortisation for period	32,143	6,805	-	38,948
Decreases, including:	(15,734)	(256)	-	(15,990)
retirement and sale	(15,734)	(256)	-	(15,990)
Accumulated amortisation as at 31.12.2018	**179,063**	**40,570**	**-**	**219,633**
Impairment losses as at 01.01.2018	**17,106**	**-**	**1,337**	**18,443**
Decreases	(1,404)	-	-	(1,404)
Impairment losses as at 31.12.2018	**15,702**	**-**	**1,337**	**17,039**
Net carrying amount as at 01.01.2018	**178,596**	**27,830**	**30,474**	**236,900**
Net carrying amount as at 31.12.2018	**218,300**	**21,004**	**27,490**	**266,794**

30. Property, plant and equipment

	31.12.2019 PLN '000	31.12.2018 PLN '000

(figures in PLN '000)

Land and buildings	127,987	126,294
Machinery and equipment	89,321	104,016
Vehicles	9,702	12,675
Other fixed assets, including equipment	6,141	7,154
Right-of-use assets – land	1,235	-
Right-of-use assets – vehicles	6,010	-
Right-of-use assets – lease of space	112,246	-
Fixed assets under construction	476	3,971
Total property, plant and equipment	**353,118**	**254,110**

In 2019 and 2018, there were no restrictions to the Bank's legal title to property, plant and equipment pledged as collateral for liabilities.

The amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss in 2019 was PLN 38.4 thousand (PLN 189 thousand in 2018).

During 12 months of 2019, the Group did not purchase or sell any material items of property, plant and equipment. As at 31 December 2019, there were no significant liabilities on account of the purchase of property, plant and equipment. As at 1 January 2019, in connection with the entry into force of IFRS 16, the Group recognized right-of-use assets together with a corresponding lease liability in the amount of discounted future payments over the lease term, amounting to PLN 139.1 million.

2019	Land and buildings	Machinery and equipment		Vehicles		Other fixed assets	Right-of-use assets			Fixed assets under construction	Total
		total	including leases	total	including leases		Lease of space	Land	Vehicles		
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Gross carrying amount as at 01.01.2019	**252,634**	**251,592**	**12,528**	**14,953**	**12,617**	**35,218**	**-**	**-**	**-**	**3,971**	**558,368**
Change in accounting policy	-	-	-	-	-	-	132,703	1,253	5,184	-	139,140
Gross carrying amount as at 01.01.2019 after adjustments	**252,634**	**251,592**	**12,528**	**14,953**	**12,617**	**35,218**	**132,703**	**1,253**	**5,184**	**3,971**	**697,508**
Increases, including:	28,772	22,099	-	643	-	2,637	40,022	-	2,652	6,636	**103,461**
purchase	505	15,742	-	-	-	1,770	-	-	57	6,636	**24,710**
Transfer from non-current assets held for sale	19,520	28	-	-	-	-	-	-	-	-	**19,548**
transfer from tangible assets under construction	8,747	491	-	-	-	867	-	-	-	-	**10,105**
Other increases*	-	5,838	-	643	-	-	40,022	-	2,595	-	**49,098**
Decreases, including:	(32,381)	(24,779)	(10,086)	(1,974)	(534)	(7,151)	(5,746)	-	(531)	(10,131)	**(82,693)**
retirement and sale	(28,637)	(14,693)	-	(1,580)	-	(6,998)	-	-	-	-	**(51,908)**
transfer to assets obtained from foreclosures	(3,744)	-	-	-	-	-	-	-	-	-	**(3,744)**
transfer from tangible assets under construction	-	-	-	-	-	-	-	-	-	(10,105)	**(10,105)**
other decrease	-	(10,086)	(10,086)	(394)	(534)	(153)	(5,746)	-	(531)	(26)	**(16,936)**
Gross carrying amount as at 31.12.2019	**249,025**	**248,912**	**2,422**	**13,622**	**12,083**	**30,704**	**166,979**	**1,253**	**7,305**	**476**	**718,276**
Accumulated amortisation as at 01.01.2018	**126,231**	**147,327**	**3,621**	**2,278**	**1,443**	**28,056**	**-**	**-**	**-**	**-**	**303,892**
Increases, including:	13,195	30,520	1,939	2,406	1,804	2,873	54,813	18	1,387	-	**105,212**
amortisation for period	13,155	30,520	1,939	2,266	1,804	2,873	54,813	18	1,387	-	**105,032**
Other increases	40	-	-	140	-	-	-	-	-	-	**180**
Decreases, including:	(28,372)	(18,363)	(4,259)	(764)	(230)	(6,374)	(80)	-	(92)	-	**(54,045)**
retirement and sale	(28,164)	(14,104)	-	(674)	-	(6,221)	-	-	-	-	**(49,163)**
transfer to assets obtained from foreclosures	(208)	-	-	-	-	-	-	-	-	-	**(208)**
other decrease	-	(4,259)	(4,259)	(90)	(230)	(153)	(80)	-	(92)	-	**(4,674)**
Accumulated amortisation as at 31.12.2018	**111,054**	**159,484**	**1,301**	**3,920**	**3,017**	**24,555**	**54,733**	**18**	**1,295**	**-**	**355,059**
Impairment losses as at 01.01.2019	**109**	**249**	**-**	**-**	**-**	**8**	**-**	**-**	**-**	**-**	**366**
Decreases	(17)	(170)	-	-	-	-	-	-	-	-	**(187)**
Transfer of impairment loss from non-current assets held for sale	9,892	28	-	-	-	-	-	-	-	-	**9,920**
Impairment losses as at 31.12.2019	**9,984**	**107**	**-**	**-**	**-**	**8**	**-**	**-**	**-**	**-**	**10,099**
Net carrying amount as at 01.01.2019	**126,294**	**104,016**	**8,907**	**12,675**	**11,174**	**7,154**	**-**	**-**	**-**	**3,971**	**254,110**
Net carrying amount as at 31.12.2019	**127,987**	**89,321**	**1,141**	**9,702**	**9,066**	**6,141**	**112,246**	**1,235**	**6,010**	**476**	**353,118**

* increase due to right-of-use assets results primarily from entering into new contracts and modifying the existing ones

2018	Land and buildings PLN '000	Machinery and equipment PLN '000	Vehicles PLN '000	Other fixed assets PLN '000	Fixed assets under construction PLN '000	Total PLN '000
Gross carrying amount as at 01.01.2018	**278,753**	**274,032**	**9,923**	**33,635**	**2,177**	**598,520**
Increases, including:	5,735	24,721	7,859	2,110	10,392	**50,817**
purchase	1,345	19,001	7,859	917	10,392	**39,514**
transfer from tangible assets under construction	4,147	2,725	-	1,193	-	**8,065**
other increases	243	2,995	-	-	-	**3,238**
Decreases, including:	(31,854)	(47,161)	(2,829)	(527)	(8,598)	**(90,969)**
retirement and sale	(120)	(34,064)	(2,638)	(484)	-	**(37,306)**
transfer to assets obtained from foreclosures	(510)	-	-	-	-	**(510)**
transfer to non-current assets held for sale	(31,224)	(71)	-	-	-	**(31,295)**
transfer from tangible assets under construction	-	-	-	-	(8,065)	**(8,065)**
other decrease	-	(13,026)	(191)	(43)	(533)	**(13,793)**
Gross carrying amount as at 31.12.2018	**252,634**	**251,592**	**14,953**	**35,218**	**3,971**	**558,368**
Accumulated amortisation as at 01.01.2018	**125,095**	**159,320**	**1,454**	**24,643**	**-**	**310,512**
Increases, including:	12,947	31,059	1,936	3,946	-	**49,888**
amortisation for period	12,947	31,059	1,936	3,946	-	**49,888**
Decreases, including:	(11,811)	(43,052)	(1,112)	(533)	-	**(56,508)**
retirement and sale	(92)	(32,931)	(1,047)	(491)	-	**(34,561)**
transfer to non-current assets held for sale	(11,704)	(43)	-	-	-	**(11,747)**
other decrease	(15)	(10,078)	(65)	(42)	-	**(10,200)**
Accumulated amortisation as at 31.12.2018	**126,231**	**147,327**	**2,278**	**28,056**	**-**	**303,892**
Impairment losses as at 01.01.2018	**9,874**	**1,318**	**-**	**9**	**-**	**11,201**
Decreases	-	(1,069)	-	(1)	-	**(1,070)**
Classification as an asset held for sale	(9,765)	-	-	-	-	**(9,765)**
Impairment losses as at 31.12.2018	**109**	**249**	**-**	**8**	**-**	**366**
Net carrying amount as at 01.01.2018	**143,784**	**113,394**	**8,469**	**8,983**	**2,177**	**276,807**
Net carrying amount as at 31.12.2018	**126,294**	**104,016**	**12,675**	**7,154**	**3,971**	**254,110**

31. Investment properties

Investment property comprises undeveloped and developed land as well as premises constituting separate ownership, acquired and held by the Group to earn rentals or for capital appreciation. There are no restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.

The Group measures investment property using the fair value model, according to which following initial measurement the property is measured at fair value, and changes in fair value are recognised in profit or loss, under operating income and expenses.

The fair value of the Group's investment properties as at 31 December 2019 was calculated based on the valuation carried out by independent experts as at that date.

The fair value of investment properties is categorised as a level 3 of the fair value hierarchy.

	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 PLN '000
Fair value of investment properties at the beginning of the period	**167,287**	**185,091**
Increases, including:	296	-
purchase of investment property	282	-
Other increases	14	-
Decreases, including:	-	(16,653)
sale of investment property	-	(16,653)
Net losses on fair value measurement	(17,245)	(1,151)
Fair value of investment properties at the end of the period	**150,338**	**167,287**

In 2019 and 2018, the following amounts of income and expenses related to investment property were recognised in the consolidated income statement:

	01.01.2019-31.12.2019 PLN '000	01.01.2018 31.12.2018 PLN '000
Rental income from investment properties	1,753	558

32. Property obtained from foreclosures

Property obtained from foreclosures comprises undeveloped and developed land as well as premises constituting separate ownership, acquired or repossessed by the Bank in exchange for partial or total reduction of loan receivables and held by the Bank to earn rentals or for capital appreciation. There are no restrictions on their realisability or the remittance of income and proceeds of disposal.

	01.01.2019-31.12.2019 PLN '000	01.01.2018 31.12.2018 PLN '000
Value as at the beginning of the period	**396,322**	**422,413**
Increases, including:	12,434	31,845
purchase of investment property	7,532	29,303
reclassification from own real property	3,536	495
reclassification from assets held for sale	1,352	2,047
other increases	14	-
Decreases, including:	33,956	44,034
sale of investment property	22,638	23,382
transfer to assets held for sale	10,202	18,838
other decrease	1,116	1,814
Net losses on fair value measurement	(20,322)	(13,902)
Property obtained from foreclosures at the end of the period	**354,478**	**396,322**

33. Leases

33.1. Leases until 31 December 2018

Finance lease liabilities

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

	Minimum lease payments 31.12.2018 PLN '000	Present value of minimum lease payments 31.12.2018 PLN '000
Lease liabilities:	**17,035**	**15,492**
up to 1 year	5,695	5,040
from 1 to 5 years	11,340	10,452
Future finance charges	(1,543)	-
Present value of minimum lease payments	**15,492**	**-**

As at 31 December 2018, the net carrying amount of fixed assets used by the Group under finance leases was PLN 19,934 thousand.

Operating leases – the Group as a lessor

The Group earns income from lease of office space, buildings and commercial and residential premises in its investment properties and from lease of agricultural land. These contracts are treated as operating leases. These contracts do not provide for contingent payments to be made by the lessee and there are no limitations imposed by the lease agreements. The contracts are concluded mainly for a definite period of 2-5 years, with the extension option.

	31.12.2018 PLN '000
Payments by maturity as from the balance sheet date:	
up to 1 year	2,992
from 1 to 5 years	5,106
more than 5 years	303
Total future minimum lease payments under irrevocable operating leases	**8,401**

Future minimum lease payments were determined only for leases concluded for a definite period.

Operating leases – the Group as a lessee

Operating lease contracts with the Group as the lessee relate to the lease of cars and real property used by the Group in its operating activities. According to the contracts concluded, the leased asset is used by the Group throughout the lease period. In exchange for the acquired rights to use of the leased asset, the Group is required to make lease payments in the amounts and on the dates specified in the lease contracts. Some of the contracts may be extended.

Operating lease payments are recognised as an expense in profit or loss over the lease term on a straight-line basis. The value of minimum operating lease payments recognised as cost in 2018 amounted to PLN 94,624 thousand.

In 2018, there were no significant contingent lease payments or irrevocable sublease contracts.

	31.12.2018 PLN '000
Payments by maturity as from the balance sheet date:	
up to 1 year	49,366
from 1 to 5 years	69,837
more than 5 years	402
Total future minimum lease payments under irrevocable operating leases	**119,605**

Future minimum lease payments were determined only for leases concluded for a definite period.

33.2. Leases as of 1 January 2019 in accordance with IFRS 16

The Group recognises a right-of-use asset together with a corresponding lease liability in the amount of discounted future payments over the lease term – as a component of "Property, plant and equipment" and "Other liabilities", respectively. In the income statement, the Group recognises the costs of depreciation of the right-of-use asset (under "Administrative expenses") and interest expense on the lease liability (under "Interest expense") (in accordance with IAS 17, lease payments related to the use of leased assets were recognized in "Administrative expenses" as lease and rental expenses). The measurement of the lease liability is periodically reconciled with the lease payments. Right-of-use assets are depreciated using the straight-line method, while liabilities under lease contracts are accounted for using the effective interest rate.

Lease liabilities resulting from leases of real estate denominated in foreign currencies are measured at each balance sheet date, and gains or losses on revaluation are recognised in the income statement.

The Group used the simplified approach provided for in the standard for short-term leases (including leases whose remaining lease term as at 1 January 2019 is shorter than 12 months) and leases where the underlying asset has a low value. In the case of these leases, the Group accounts for lease payments as an expense on a straight-line basis over the lease term.

	31.12.2019 PLN '000
Property, plant and equipment	129,605
Other liabilities	131,971

	01.01.2019 – 31.12.2019 PLN '000
Depreciation of right-of-use asset	(59,907)
Interest expense on lease liabilities	(4,297)
Expense relating to variable lease payments not included in the measurement of lease liabilities	-
Expenses relating to short-term leases * of which:	(2,843)
low-value leases	-
Expenses relating to leases of low-value assets (excluding short-term leases)*	-
Foreign currency gains	574
Total amount recognised in profit or loss	**(66,473)**

* The Group used the simplified approach provided for in the standard for short-term leases (including leases whose remaining lease term as at 1 January 2019 is shorter than 12 months) and leases where the underlying asset has a low value. In the case of these leases, the Group accounts for lease payments as an expense on a straight-line basis over the lease term.

Operating leases – the Group as a lessor

The Group earns income from lease of office space, buildings and commercial and residential premises in its investment properties and from lease of agricultural land. These contracts are treated as operating leases. These contracts do not provide for contingent payments to be made by the lessee and there are no limitations imposed by the lease agreements. The contracts are concluded mainly for a definite period of 2-5 years, with the extension option.

Assets obtained from foreclosures made available for use under operating leases – costs and income	01.01.2019-31.12.2019 PLN '000
Income from rentals/ reinvoices concerning assets obtained from foreclosures	1,042
Direct costs to be reinvoiced to the lessee	170
Direct costs not to be reinvoiced to the lessee	812

Assets obtained from foreclosures made available for use under operating leases	2019-12-31 PLN '000
Assets obtained from foreclosures made available for use under operating leases	33,086
Fair value if the cost model is selected	26,978

Lease and sublease income and costs	01.01.2019-31.12.2019 PLN '000
Income from rentals/ reinvoices concerning leased and subleased space	1,119
Direct costs to be reinvoiced to the lessee	1,062

34. Non-current assets held for sale

As at 31 December 2019 and 31 December 2018, non-current assets held for sale included real property for which the Group assumes that the carrying amount will be recovered principally through a sale transaction, rather than through continued use. Real property is classified as non-current assets held for sale if the sale of the property in its current condition is highly probable, the Group is actively searching for buyers, and the sale date is one year from the date of reclassification.

	31.12.2019 PLN '000	31.12.2018 PLN '000
Real property	1,164	17,371
Mortgage loan portfolio	-	4,126
Total non-current assets held for sale	**1,164**	**21,497**

	01.01.2019- 31.12.2019 PLN '000	01.01.2018- 31.12.2018 PLN '000
Non-current assets held for sale at the beginning of the period	**21,497**	**247,713**
Increases, including:	10,202	28,621
transfer from property, plant and equipment	-	9,783
transfer from assets obtained from foreclosures	10,202	18,838
Decreases, including:	(30,535)	(254,837)
transfer to property, plant and equipment	(9,628)	
transfer to assets obtained from foreclosures	(1,405)	(2,047)
fair value adjustment	(156)	(84,331)
disposal/liquidation	(15,220)	(168,459)*
other decrease	(4,126)	-
Non-current assets held for sale at the end of the period	**1,164**	**21,497**

* On 13 December 2018, Debtor NSFIZ whose investment certificates are wholly owned by the Bank, sold a significant part of its debt portfolio against a consideration.

Pursuant to the concluded Agreement for the sale of debt portfolios, in the event of situations provided for in the Agreement and on the terms and conditions set forth in the Agreement, within 36 months from the date of conclusion of the Agreement, the Purchaser will have the right to withdraw from the Agreement in the part relating to a given Debt, by submitting a representation on withdrawal to the Seller.

If the Purchaser exercises the right to withdraw from the Agreement in relation to a given Debt, the Purchaser will be entitled to a claim against the Seller for a refund of the amount paid, increased by all reasonable and documented costs incurred by the Purchaser in servicing such a Debt and reduced by all repayments and considerations received by the Purchaser in respect of such a Debt.

In addition, under the agreement, from the date of its conclusion, for a period of three years, the Seller will be entitled to repurchase individual debts, provided that they continue to be held by the Purchaser. If the Seller exercises the repurchase right in relation to a given Debt, the Purchaser will be entitled to a claim for reimbursement of the amount paid, increased by incurred and documented costs and reduced by repayments and considerations received by the Purchaser in relation to such Debt.

The Bank, as the owner of 100% of the investment certificates of Debtor NSFIZ, undertook to: a) remain the sole holder of the certificates and not to undertake any actions aimed at dissolution or liquidation of the Fund for a period of 3 years from the date of execution of the agreement,

b) ensure that the Fund meets all its non-financial obligations arising from the agreement, c) ensure that the Fund has sufficient funds at its disposal to pay any amounts due to the Purchaser or to pay them directly

35. Other assets

	31.12.2019 PLN '000	31.12.2018 PLN '000
Receivables from sundry debtors, of which:	395,394	745,587
receivables from of taxes, subsidies and social security	17,346	46,923
payment card settlements	33,478	25,940

other receivables	344,570	672,724
Prepayments	13,846	16,796
Recourses and security deposits	13,617	5,261
Other assets	5,430	6,262
Total other assets	**428,287**	**773,906**
Impairment losses	(64,034)	(175,021)
Total other net assets	**364,253**	**598,885**

	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 PLN '000
Impairment losses on other assets at the beginning of the period	**175,021**	**105,205**
Effect of IFRS 9	-	30,949
Increase taken to profit or loss	14,892	46,232
Decrease taken to profit or loss	(89,065)	(12,424)
Other increases	1,089	5,059
Utilisation – written-off	(37,903)	-
Impairment losses on other assets at the end of the period	**64,034**	**175,021**

The decrease in other receivables from sundry debtors and impairment losses in 2019 results mainly from:

- the repayment and partial write-off of receivables for deferred payments for sold debt portfolios, for which an indication of impairment was identified in 2017 and an impairment loss was recognised;
- and a change in the manner of financing related parties.

36. Amounts due to banks and financial institutions

	31.12.2019 PLN '000	31.12.2018 PLN '000
Current accounts	117,092	101,999
Deposits of other banks and financial institutions	49,078	24,530
Loans and advances received	244,293	553,787
Amounts due to Central Bank	-	4,809,074
Repo transactions	392,628	-
Other amounts due to other banks	3,307	2,540
Total amounts due to banks and financial institutions	**806,398**	**5,491,930**

In November 2018, in view of the liquidity situation, the National Bank of Poland disbursed two refinancing facilities in the total amount of PLN 4.8 billion for a period of 3 months. In February 2019, the Bank repaid in full its refinancing facilities.

	31.12.2019 PLN '000	31.12.2018 PLN '000
Liabilities bearing interest at variable rates	413,770	5,489,408
Liabilities bearing interest at fixed rates	392,628	2,522
Total amounts due to banks and financial institutions	**806,398**	**5,491,930**

	31.12.2019 PLN '000	31.12.2018 PLN '000
Current liabilities	169,477	126,548
Term liabilities maturing in:	636,921	5,365,382
up to 1 month	-	109,933
from 1 to 3 months	163	4,809,380
from 3 months to 1 year	392,628	190,480
from 1 to 5 years	180,907	180,871
more than 5 years	63,223	74,718

Total amounts due to banks and financial institutions	**806,398**	**5,491,930**

37. Amounts due to customers

	31.12.2019 PLN '000	31.12.2018 PLN '000
Amounts due to corporate entities	**4,203,369**	**3,975,687**
current accounts and overnight deposits	2,367,438	1,626,607
term deposits	1,835,931	2,349,080
Amounts due to state budget entities	**1,787,031**	**1,656,028**
current accounts and overnight deposits	1,609,660	1,395,781
term deposits	177,371	260,247
Amounts due to individuals	**40,178,973**	**31,443,180**
current accounts and overnight deposits	17,146,516	7,685,782
term deposits	23,032,457	23,757,398
Total amounts due to customers	**46,169,373**	**37,074,895**

	31.12.2019 PLN '000	31.12.2018 PLN '000
Liabilities bearing interest at variable rates	14,345,319	10,802,218
Liabilities bearing interest at fixed rates	31,824,054	26,272,677
Total amounts due to customers	**46,169,373**	**37,074,895**

	31.12.2019 PLN '000	31.12.2018 PLN '000
Current accounts and overnight deposits	21,123,614	10,708,171
Term liabilities maturing in:	25,045,759	26,366,724
up to 1 month	5,613,597	5,412,916
from 1 to 3 months	9,287,774	9,044,780
from 3 to 6 months	5,442,732	7,656,162
from 6 months to 1 year	2,828,841	2,509,255
from 1 to 5 years	1,643,374	1,536,368
more than 5 years	229,441	207,243
Total amounts due to customers	**46,169,373**	**37,074,895**

38. Debt securities issued

	31.12.2019 PLN '000	31.12.2018 PLN '000
Debt securities issued, of which:	2,047,916	3,342,796
subordinated bonds	1,556,337	1,864,534
other bonds	491,579	1,478,262
Interest, of which:	23,939	32,112
subordinated bonds	21,687	25,936
on other bonds	2,252	6,176
Total debt securities issued	**2,071,855**	**3,374,908**

Change in bonds issued	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 PLN '000
Net balance at the beginning of the period	**3,374,908**	**4,443,174**
accrual of interest/ settlement of commission	152,498	158,705
bond redemption	(1,297,285)	(1,062,641)
interest payment	(158,266)	(164,330)

Net balance at the end of the period	**2,071,855**	**3,374,908**

	31.12.2019 PLN '000	31.12.2018 PLN '000
Liabilities bearing interest at variable rates	2,063,373	3,364,823
Liabilities bearing interest at fixed rates	8,482	10,085
Total debt securities issued	**2,071,855**	**3,374,908**

	31.12.2019 PLN '000	31.12.2018 PLN '000
Liabilities by maturity:		
up to 1 month	122,959	7,063
from 1 to 3 months	161,252	18,153
from 3 months to 1 year	456,157	997,798
from 1 to 5 years	1,331,487	1,522,633
more than 5 years	-	829,261
Total debt securities issued	**2,071,855**	**3,374,908**

In 2019, Getin Noble Bank S.A. issued and redeemed the following bonds:

Types of securities redeemed	Issue date	Redemption date	Number of securities	Nominal value PLN '000
Series SP-I Getin Noble Bank bonds	2015-03-23	2019-01-17	143	143
Series SP-I Getin Noble Bank bonds	2015-03-23	2019-01-18	178	178
Series SP-I Getin Noble Bank bonds	2015-03-23	2019-01-24	10	10
Series SP-I Getin Noble Bank bonds	2015-03-23	2019-02-08	71	71
Series SP-I Getin Noble Bank bonds	2015-03-23	2019-04-12	185	185
Series SP-I Getin Noble Bank bonds	2015-03-23	2019-07-05	146	146
Series SP-I Getin Noble Bank bonds	2015-03-23	2019-07-12	365	365
Series SP-I Getin Noble Bank bonds	2015-03-23	2019-08-09	285	285
Series SP-I Getin Noble Bank bonds	2015-03-23	2019-08-21	161	161
Series SP-I Getin Noble Bank bonds	2015-03-23	2019-08-26	51	51
Series PP2-I Getin Noble Bank bonds	2012-02-23	2019-08-27	172,025	172,025
Series SP-I Getin Noble Bank bonds	2015-03-23	2019-09-13	73	73
Series PP2-II Getin Noble Bank bonds	2012-02-23	2019-09-26	17,994	17,994
Series PP2-III Getin Noble Bank bonds	2012-02-23	2019-10-21	40,000	40,000
Series SP-I Getin Noble Bank bonds	2015-03-23	2019-10-30	71	71
Series PP2-IV Getin Noble Bank bonds	2012-02-23	2019-11-18	40,000	40,000
Series PP2-V Getin Noble Bank bonds	2012-02-23	2019-12-23	40,616	40,616
Total			**312,374**	**312,374**

In 2019, the Group did not issue any bonds.

In the reporting period, there were no cases in which the Group failed to perform its obligations related to repayment of principal, payment of interest and redemption of its own debt securities on time.

In 2019, the Group also redeemed bonds in the amount of PLN 984.9 million, including bonds related to a securitisation transaction in the amount of PLN 974.4 million.

In 2018, Getin Noble Bank S.A. issued and redeemed the following bonds:

Types of securities redeemed	Issue date	Redemption date	Number of securities	Nominal value PLN '000
Series PP-I Getin Noble Bank bonds	2012-02-23	2018-02-23	200,000	200,000
Series PP-II Getin Noble Bank bonds	2012-02-23	2018-02-23	41,641	41,641
Series PP-III Getin Noble Bank bonds	2012-03-23	2018-03-23	160,000	160,000
Series SP-I Getin Noble Bank bonds	2015-03-23	2018-01-04	40	40
Series SP-I Getin Noble Bank bonds	2015-03-23	2018-01-15	117	117
Series SP-I Getin Noble Bank bonds	2015-03-23	2018-01-26	214	214

Series SP-I Getin Noble Bank bonds	2015-03-23	2018-02-22	50	50
Series SP-I Getin Noble Bank bonds	2015-03-23	2018-03-05	181	181
Series SP-I Getin Noble Bank bonds	2015-03-23	2018-03-12	95	95
Series PP-V Getin Noble Bank bonds	2012-04-27	2018-04-27	40,000	40,000
Series PP-IV Getin Noble Bank bonds	2012-05-23	2018-05-23	37,283	37,283
Series SP-I Getin Noble Bank bonds	2015-03-23	2018-05-30	192	192
Series F Getin Noble Bank bonds	2012-06-14	2018-06-14	40,000	40,000
Series SP-I Getin Noble Bank bonds	2015-03-23	2018-06-21	711	711
Series SP-I Getin Noble Bank bonds	2015-03-23	2018-06-26	86	86
Series A Getin Noble Bank bonds	2011-06-29	2018-06-29	2,500	250,000
Series SP-I Getin Noble Bank bonds	2015-03-23	2018-07-12	71	71
Series SP-I Getin Noble Bank bonds	2015-03-23	2018-07-16	50	50
Series SP-I Getin Noble Bank bonds	2015-03-23	2018-08-03	1,372	1,372
Series SP-I Getin Noble Bank bonds	2015-03-23	2018-08-27	23	23
Series SP-I Getin Noble Bank bonds	2015-03-23	2018-09-12	32	32
Series SP-I Getin Noble Bank bonds	2015-03-23	2018-09-21	285	285
Series SP-I Getin Noble Bank bonds	2015-03-23	2018-09-26	214	214
Series SP-I Getin Noble Bank bonds	2015-03-23	2018-10-19	102	102
Series SP-I Getin Noble Bank bonds	2015-03-23	2018-10-29	178	178
Series SP-I Getin Noble Bank bonds	2015-03-23	2018-12-18	40	40
Series SP-I Getin Noble Bank bonds	2015-03-23	2018-12-20	422	422
Series SP-I Getin Noble Bank bonds	2015-03-23	2018-12-21	46	46
Series SP-I Getin Noble Bank bonds	2015-03-23	2018-12-24	287	287
Series SP-I Getin Noble Bank bonds	2015-03-23	2018-12-27	618	618
Series SP-I Getin Noble Bank bonds	2015-03-23	2018-12-28	188	188
Total			**527,038**	**774,538**

In 2018, the Group did not issue any bonds.

In the reporting period, there were no cases in which the Group failed to perform its obligations related to repayment of principal, payment of interest and redemption of its own debt securities on time.

In 2018, the Group also redeemed early bonds related to a securitisation transaction in the amount of PLN 272 million, as well as bonds issued by OFWD NS FIZ in the amount of PLN 12 million.

39. Other liabilities

	31.12.2019 PLN '000	31.12.2018 PLN '000
Interbank settlements	21,191	43,225
Sundry creditors, of which:	199,653	168,923
amounts due to state budget	70,159	38,386
credit card liabilities	2,716	1,377
other	126,778	129,160
Liabilities on account of fees to be reimbursed	11,869	-
Lease liabilities	131,971	15,492
Amounts due to the BFG	101,266	71,849
Accruals	35,621	33,710
Provision for accrued holiday entitlements	6,744	9,846
Deferred income	21,558	25,021
Liabilities related to brokerage activities	3,192	2,442
Liabilities on account of non-controlling interest in OFWD	11,332	13,039
Other liabilities	36,817	44,246
Total other liabilities	**581,214**	**427,793**

40. Provisions

	31.12.2019 PLN '000	31.12.2018 PLN '000
Provision for:		
employee benefits	1,262	1,588
litigation	28,429	19,472
costs of legal risk of foreign currency loans	158,160	-
reimbursement of costs of loans	49,022	-
commitments and guarantees given	6,218	17,998
restructuring	3,532	-
Total provisions	**246,623**	**39,058**

Provision for old-age and disability retirement severance payments

Provision for employee benefits concern old-age and disability retirement severance payments and is recognised individually for each employee on the basis of an actuarial valuation performed by an independent actuary. The basis for calculation of provisions is the expected amount of the old-age and disability retirement severance payment that the Group is obliged to make pursuant to the remuneration policy. The calculated value of the provisions is equal to the amount of discounted future payments, taking into account employee turnover, and relates to the period until the reporting date. Changes in future employee benefit obligations are presented below:

Provision for employee benefits	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 PLN '000
Provisions as at the beginning of the period	**1,588**	**1,645**
Recognition/ remeasurement	(191)	47
Utilisation	(135)	(104)
Provisions as at the end of the period	**1,262**	**1,588**

	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 PLN '000
Present value of the obligations at the beginning of the period	**1,588**	**1,645**
Costs recognised in profit or loss, of which:	237	217
Current service costs	190	170
interest expense	47	47
Gains recognised in other comprehensive income, of which:	(428)	(170)
actuarial (gains)/losses arising from ex-post adjustments to assumptions	(195)	50
actuarial (gains) arising from changes in demographic assumptions	(163)	(786)
actuarial (gains)/losses arising from changes in financial assumptions	(70)	566
Benefits paid	(135)	(104)
Present value of the obligation at the end of the period	**1,262**	**1,588**
Carrying amount of current obligations	**170**	**274**
Carrying amount of non-current obligations	**1,092**	**1,314**

The discount rate on future benefits was assumed at 2%, i.e. at the level of yield on the safest long-term securities listed on the Polish capital market as at the valuation date. The effect of an increase/decrease in the discount rate on the change in provision for old-age and disability retirement severance payments is presented in the table below:

	31.12.2019		31.12.2018	
	+0.25 p.p. PLN '000	-0.25 p.p. PLN '000	+0.25 p.p. PLN '000	-0.25 p.p. PLN '000
Provision for old-age and disability retirement severance payments	1,233	1,291	1,545	1,623

Court proceedings

In 2019 or 2018, neither Getin Noble Bank S.A. nor any of its subsidiaries was a party to any proceedings concerning liabilities or receivables whose value would account for 10% or more of the Group's equity.

As at 31 December 2019, the total value of claims in 2,309 court proceedings concerning loan agreements indexed to foreign currencies, in which the Bank was the defendant, amounted to PLN 674 million. As at that date, the total value of claims in all 2,788 court proceedings amounted to PLN 746.9 million.

The value of provisions recognised for disputes was PLN 27 million, including PLN 18 million for proceedings concerning indexed loan agreements. In the case of actions brought by customers which were submitted to the Bank as at 31 December 2019 and are considered before the courts of first and second instance, an individual assessment of the probability of the Bank winning a given case was made based on the estimates of the attorney in charge of the case. Consequently, the need to recognise a provision for losing the cases was also assessed. Until 31 December 2019, the courts ruled in favour of the Bank in 93 cases concerning indexed loans that were closed with a final ruling, and in 17 cases – in favour of the customer.

In 2019, three class action lawsuits against Getin Noble Bank S.A. were still pending: an action for damages for the return of funds lost by customers, brought in 2011, and two actions brought in 2014 regarding loans indexed to foreign currencies.

The first case was closed on 30 October 2019. On that day, the Supreme Court issued a decision refusing to accept the Bank’s cassation appeal for consideration, which ended the court proceedings in this case. However, the amounts awarded from the Bank in this case were paid in full to the plaintiff after the judgment of the Court of second instance became final and binding, which took place in the fourth quarter of 2018.

With respect to two actions concerning CHF-indexed loans, no final decision on allowing the case to be heard in class action proceedings has been made as at 31 December 2019. Based on the assessment of risk related to each case, the Group did not recognise provisions for these cases.

On 26 August 2019, by Decision No RLU 30/2019, the President of the Office of Competition and Consumer Protection (“UOKiK”) initiated proceedings to declare the provisions of the model agreement prohibited in connection with the alleged use by the Bank of prohibited provisions of model agreements. In the statement of reasons, UOKiK refers to Article 3531(1) of the Civil Code, alleging the lack of individual agreement with the Consumer, the inconsistency of the modification clauses with good practice and the blatant infringement of the Consumer's interests, accusing the Bank of the lack of precision of the clauses which makes them incomprehensible and ambiguous for the Consumer. The Bank does not agree with the arguments presented by UOKIK – the modification clauses applied by the Bank are not abusive in nature.

On 25 September 2019, by Decision No RBG 74/2019, the President of the Office of Competition and Consumer Protection (UOKiK) initiated proceedings to amend the terms and conditions of mortgage loan agreements. UOKiK contests the legality of the modification clauses and, in its opinion, this action constituted an unfair market practice. On 7 November 2019, the Bank sent a reply to the UOKiK, referring to all allegations. At the beginning of 2020, UOKIK requested additional explanations and the Bank replied to these requests.

On 31 December 2019, UOKIK considered the clauses concerning the rules of determining exchange rates applied in annexes to mortgage loan agreements to be prohibited. UOKIK obliged the Bank to notify the customers who were parties to the agreements containing the provision deemed inadmissible of the decision and imposed a financial penalty of PLN 13,417,225 on the Bank. The Bank does not agree with the decision of the Office and on 7 February 2020 it appealed against the decision to the Competition and Consumer Protection Court. No provision was recognised for this amount.

On 17 March 2020, the Bank received a notice of initiation of administrative proceedings concerning the use by Getin Noble Bank of practices harming collective interests of consumers consisting of:

1. misleading consumers in the course of offering GetBack's corporate bonds by disseminating false information about the security of the investment and the guaranteed return on the bonds, which could have caused consumers to take a decision to purchase the bonds offered that they would not have taken otherwise,
2. offering consumers who were bound with Getin Noble Bank by a bank deposit agreement to purchase GetBack corporate bonds in a situation where the terms and conditions of these bonds with respect to investment risk did not correspond to the needs of these consumers, determined on the basis of:

a) characteristics of products offered by Getin Noble Bank S.A., which were used by these consumers to date, and/or
b) representations made by these consumers in the course of offering them corporate bonds of GetBack Spółka Akcyjna in restructuring with its registered office in Warsaw.

As at 31 December 2019, court proceedings were also pending against the Bank concerning reimbursement of commissions and fees in the event of early repayment of the customer's loan liabilities in full or in part, for which a provision in the amount of PLN 0.9 million was created as part of provisions for litigation.

In 2018, Noble Securities S.A. received from the President of the Office of Competition and Consumer Protection notifications of initiation, pursuant to Article 48(1) and 48(2)(2) of the Act of 16 February 2007 on Competition and Consumer Protection, of an investigation procedure aimed at preliminary determination as to whether the Company's operations resulted in a breach justifying the initiation of proceedings regarding practices harming collective interests of consumers. The proceedings were initiated in connection with actions taken against GetBack S.A. and the offering or sale of corporate bonds of this issuer.

The investigation conducted by the President of the Office for Competition and Consumer Protection (Delegate Office in Wrocław) was closed on 30 April 2019. However, second proceedings are still pending before the President of the Office for Competition and Consumer Protection (UOKiK). The proceedings are of an explanatory nature and do not constitute initiation of proceedings regarding practices harming collective interests of consumers. The proceedings to which Noble Securities S.A. is a party are to serve the purpose of preliminary determination of whether there has been an infringement justifying the initiation of appropriate proceedings in a given case and whether there are grounds to initiate proceedings regarding practices harming collective interests of consumers.

In the course of the proceedings, UOKiK requested the submission of a specific catalogue of information and data concerning the service of end customers in connection with the offering or sale of corporate bonds issued by that issuer.

On 5 June 2017, GetBack S.A. and Kancelaria Prawna M. Brysik sp. k. (the "Law Firm"), respectively, terminated the following agreements with Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A. (the "Company"): agreement on the management of securitised receivables of the fund Open Finance Wierzytelności Detalicznych NSFIZ ("OFWD") and agreement for the provision of legal services. The termination letter contained the information that after the termination of the agreement, the Law Firm will be entitled to a claim of PLN 102 million for the costs of legal and enforcement representation. The Company considers the expectation of this remuneration to be unjustified. In accordance with the agreement, OFWD paid the Law Firm the amount of PLN 5.9 million as reimbursement for the costs of legal and enforcement representation which, in the opinion of the Fund, covers all claims from the Law Firm. As at the date of preparation of these financial statements, no action was brought in respect of a claim against OFWD. In February 2020, the Company received a notification about a planned court session concerning the Law Firm's proposal concerning an amicable settlement of the claim. The Company considers the expectation of additional remuneration to be unjustified. Consequently, this claim has no material impact on the financial statements of the Bank and the Group.

Provision for litigation	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 PLN '000
Provisions as at the beginning of the period	**19,472**	**15,844**
Recognition/ remeasurement	30,185	19,674
Utilisation	(3,816)	(12,352)
Reversal	(17,412)	(3,694)
Provisions as at the end of the period	**28,429**	**19,472**

Provision for costs of legal risk of foreign currency loans

On 3 October 2019, the Court of Justice of the EU (CJEU) issued a decision in connection with the questions referred for a preliminary ruling by the Polish court considering the case concerning the CHF-indexed loan, aimed at determining, among other things, the consequences of the abusive nature of individual provisions contained in the above-mentioned loan agreement, in particular, whether it is permissible to fill in gaps in the agreement resulting from removal of prohibited provisions based on national laws of general nature, stating that the effects of the legal action also include the consequences of the principles of equity or established customs.

In accordance with the decision of the CJEU, it is not permitted to fill in gaps in the agreement resulting from removal from it of any prohibited provisions with general national laws referring to the principles of equity or established customs. However, in the opinion of the Court of Justice, it is acceptable to supplement these gaps with a dispositive provision when the parties to the agreement so agree, but this possibility is limited to cases where the removal of such an unfair provision would oblige the court to cancel the agreement in its entirety, thus exposing the consumer to particularly harmful effects.

However, the CJEU left it for national courts to decide on the permissibility of further performance of the loan agreement in PLN, bearing interest at the LIBOR rate, while expressing the view that such a structure may give rise to doubts.

In the Bank's opinion, the above decision will affect future decisions of Polish courts in cases related to loan agreements in CHF, whose clauses have been deemed abusive by these courts; at the same time, it is currently difficult to predict the direction that judgments of Polish courts will take following the above-mentioned CJEU judgment within the scope of loans granted by the Bank (the value of loans in CHF is presented in Note II.25).

The Bank has identified an increased risk related to court judgments concerning CHF-indexed loans. Therefore, considering the risk that the scheduled cash flows from the CHF-indexed mortgage loan portfolio may not be fully recoverable and/or a liability may arise resulting in a future cash outflow, the Bank estimated the provision for these loans pursuant to provisions of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". Following the assessment, provisions for legal risk of CHF-denominated loans was recognised in the amount of PLN 158.2 million. The amount of the portfolio provision depends on a number of assumptions based, to a large extent, on the expert assessment of the Bank. Essential elements of the methodology affecting the estimated amount of the provision include the assumed time horizon (the Bank applies a 3-year prediction window), the projected number of borrowers who will bring an action, the probability of losing the court dispute, the profile of the loans and the characteristics of the borrowers, different scenarios for possible judgments.

Based on the portfolio approach, the assessment of legal risk related to CHF-indexed loans took into account: (i) future actions whose impact was estimated on the basis of the most recent trend of incoming actions, (ii) the likelihood of losing the case following a final judgment, (iii) occurrence of a possible scenario of a judgment, i.e. a judgment declaring a loan agreement null and void or declaring the "PLN conversion" of the loan, resulting in determining the loan balance in PLN, leaving the loan interest rate based on LIBOR, and (iv) the loss incurred by the Bank in case of losing the case in court. Provisions for future litigation were calculated on the basis of a model that determines the projected population of borrowers together with the potential value of the CHF-indexed mortgage loan portfolio disputed by the debtors, after exclusions of exposures for which the determination of abusivity of the so-called indexation clauses can be regarded as significantly limited.

When calculating the expected loss on account of legal risk related to CHF loans, the Bank applied simplifications and expert assumptions resulting from a short horizon of available historical data and a relatively small number of cases that ended with final judgements. The Bank will monitor the number of actions and the case law of Polish courts on an ongoing basis to gradually reduce the expert component and move towards a fully statistical approach.

These estimates come with significant uncertainty and may be subject to major changes in the future.

Taking the above into account, based on the adopted portfolio approach, the Bank carried out an analysis of sensitivity of the model to the estimation of the volume of future actions and estimation of assumptions regarding lost cases. The results of the analysis are presented in the table below:

Parameter	Scenario	Effect on the level of recognised provisions for legal risk PLN '000
Volume of future cases	-10%	(12,716)
	10%	12,716
Assumptions concerning lost cases	-5 pp	(31,790)
	5 pp	31,790

Provision for costs of legal risk of foreign currency loans	01.01.2019-31.12.2019 PLN '000
Recognition/ remeasurement	158,160
Provisions as at the end of the period	**158,160**

Provision for the expected amount of returns of a portion of collected commissions upon the early repayment of consumer loans

On 11 September 2019, the CJEU, in response to the question of a Polish court referred for a preliminary ruling as regards interpretation of Article 16(1) of Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers, issued a ruling in case C 383/18, indicating the right of the consumer to a reduction in the total cost of the loan in the event of early repayment of the loan includes all the costs imposed on the consumer. This applies to consumer loans granted as of 18 December 2011 in the amount not exceeding PLN 255 thousand and mortgage loans granted as of 22 July 2017 without limitation of the loan amount, which are repaid before the contractual maturity.

When assessing the legal risk resulting from court actions, the Bank recognises provisions for litigation in accordance with the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. As at 31 December 2019, the Bank was sued in cases concerning reimbursement of a part of fees for granting consumer loans for which provisions were recognised in the total amount of PLN 0.9 million.

Additionally, the Bank, taking into account the history and scale of complaints, estimated the amount of fees to be reimbursed taking into account the level of the fees to be reimbursed, the type of product, and the repayment formula in the estimates.

In 2019, the amount of reimbursed fees recognised in the Bank's profit or loss was PLN 126.2 million. This amount comprises:

a) costs of provisions recognised for repayments made before 11 September 2019,
b) adjustment to net interest income related to liabilities recognised on account of reimbursements related to repayments made after 11 September 2019,
c) adjustment to net interest income related to the remeasurement of the portfolio of loans measured at amortised cost.

Re. a) The amount of provisions recognised for estimated repayments made up to 11 September 2019 was PLN 54.6 million. This amount was estimated on the basis of the amount of the fee to be reimbursed, product type, observed number of claims and repayment formula. An important assumption made by the Bank for estimating the provision for reimbursement of loan costs was the assumed level of claims. A change in these assumptions by +/- 10% would result in an increase/decrease in the cost of reimbursements by PLN +/-5.46 million respectively. The level of the provision will be subject to verification in the future and will depend on the number of agreements and amounts to be reimbursed.

Re. b) For repayments of loans made after the CJEU ruling, the Bank recognised an adjustment to net interest income in the amount of PLN 14.5 million concerning liabilities on account of the calculated amount of fee to be reimbursed to all customers who made prepayments by 31 December 2019.

Re. c) Following a change in expected cash flows related to existing loans, the Bank remeasured the amounts of intermediation costs recognised as part of the measurement of loan receivables at amortised cost, as a result of which the balance sheet exposure in respect of loan receivables was adjusted by PLN 35.2 million with a corresponding decrease in interest income.

In the value of loan receivables measured at amortised cost, the Bank also included an adjustment for the difference between the effective settlement of income fees for granting a loan at the effective interest rate and a hypothetical linear settlement of these fees as at the expected prepayment date of the loans. The adjustment on this account amounted to PLN 21.9 million and was deducted from the Bank's interest income.

The total amount of costs recognized by the Bank in 2019 in respect of the CJEU judgment on the reimbursement of fees for early repayment of consumer loans amounted to PLN 126.2 million, of which PLN 54.6 million was recognised in operating expenses and PLN 71.6 million was deducted from interest income.

Provision for reimbursement of costs of loans	01.01.2019-31.12.2019 PLN '000
Recognition/ remeasurement	54,568
Utilisation	(5,546)
Provisions as at the end of the period	**49,022**

Provision for off-balance-sheet liabilities

Provisions are recognised in accordance with IFRS 9 for off-balance-sheet liabilities which involve the risk that the principal will default on the terms of the agreement.

Provision for commitments and guarantees issued	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 PLN '000
Provisions as at the beginning of the period	**17,998**	**2,795**
Effect of IFRS 9	-	29,013
Recognition/ remeasurement	11,714	27,030
Reversal	(23,498)	(40,840)
Other increases	4	-
Provisions as at the end of the period	**6,218**	**17,998**

Change in provisions for commitments and guarantees issued	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	POCI PLN '000	Total
As at 1 January 2019	**10,390**	**6,759**	**849**	**-**	**17,998**
Change in the period, including:	(5,220)	(6,293)	(267)	-	(11,780)
transfer to Stage 1	835	(828)	(7)	-	-
transfer to Stage 2	(53)	124	(71)	-	-
transfer to Stage 3	(1)	(287)	288	-	-
increases due to issue or acquisition	1,220	259	11	-	1,490
decreases due to derecognition	(5,523)	(3,162)	(319)	-	(9,004)
other	(1,698)	(2,399)	(169)	-	(4,266)
Provision for commitments and guarantees issued as at 31 December 2019	**5,170**	**466**	**582**	**-**	**6,218**

31.12.2019	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	POCI PLN '000	Total PLN '000
Provisions on commitments and financial guarantees issued	5,170	466	582	-	6,218

31.12.2018	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	POCI PLN '000	Total PLN '000
Provisions on commitments and financial guarantees issued	10,390	6,759	849	-	17,998

Restructuring provision

In connection with the optimisation of costs aimed at increasing the business efficiency, in September 2019, the Management Board of Getin Noble Bank decided to further centralise the Bank's operations. The result of the planned change in organisational structures were dismissals of no more than 320 persons. In the third quarter of 2019, a restructuring provision in the amount of PLN 6.9 million was created.

Restructuring provision	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 PLN '000
Recognition/ remeasurement	6,889	1,571
Utilisation	(3,357)	(1,552)
Reversal	-	(19)
Provisions as at the end of the period	**3,532**	**-**

41. Share capital

The share capital of the Bank amounts to PLN 2,851,630,418.91 and is divided into 883,381,106 series A shares, 18,315,019 series B shares,69,597,068 series C shares, 36,630,037 series D shares and 36,630,037 series E shares with a nominal value of PLN 2.73 each. The Bank's shares are listed on the Warsaw Stock Exchange. The Bank's shares are ordinary bearer shares, each of which carries the right to one vote at the Bank's General Meeting. All shares in the Bank are admitted to trading on the Warsaw Stock Exchange and are quoted under the abbreviated name of GETINOBLE, labelled with the code PLGETBK00012.

42. Other components of equity

	31.12.2019 PLN '000	31.12.2018 PLN '000
Supplementary capital	382,796	1,938,855
Revaluation reserve, including:	(127,338)	(237,256)
measurement of cash flow hedges	(15,149)	(44,771)
actuarial losses	372	21

measurement of financial assets measured at fair value through other comprehensive income	(111,528)	(191,475)
share in other comprehensive income/ (losses) of associates	(1,033)	(1,031)
Other reserves	279,394	279,394
Total other components of equity	**534,852**	**1,980,993**

	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 PLN '000
Revaluation reserve from revaluation of financial instruments measured at fair value through other comprehensive income at the beginning of the period	**(191,475)**	**(29,840)**
(Decrease) / increase from revaluation	72,757	(133,857)
Accumulated gain reclassified to profit or loss on sale/redemption	7,190	(27,778)
Revaluation reserve from revaluation of financial instruments measured at fair value through other comprehensive income at the end of the period	**(111,528)**	**(191,475)**

43. Dividends paid and proposed

The parent neither paid nor declared any dividend in the reporting period.

PFSA's position on dividend policies of banks

On 24 December 2019, the Bank received the position of the Polish Financial Supervision Authority on dividend policies of banks in 2020. In order to ensure further stable development of the sector, PFSA recommends that the dividend be paid only by the banks that do not pursue any remedy plan, have a positive BION rating, have an appropriate leverage ratio and comply with the relevant capital requirements including the combined buffer requirement and the criterion of material exposure to foreign currency housing loans to households.

44. Contingent lending and guarantee commitments

The Group has lending commitments. These commitments comprise approved but not fully disbursed loans, undrawn credit card limits and overdraft facilities. The Group issues guarantees and letters of credit to secure that its customers will discharge their liabilities towards third parties. The Group charges fee for these commitments given, settled in accordance with the nature of the respective instrument.

	31.12.2019 PLN '000	31.12.2018 PLN '000
Financial commitments given	**1,860,409**	**1,857,999**
to financial entities	70,312	67,596
to non-financial entities	1,738,449	1,715,029
to the State budget	51,648	75,374
Guarantee commitments given	**92,523**	**140,013**
to financial entities	2,605	2,890
to non-financial entities	80,864	131,769
to the State budget	9,054	5,354
Total contingent commitments given	**1,952,932**	**1,998,012**

31.12.2019	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	Total PLN '000
Commitments and financial guarantees given	1,746,028	191,001	15,903	1,952,932

	31.12.2019 PLN '000	31.12.2018 PLN '000
Financial commitments	12,255	-
Guarantee commitments	70,238	112,797
Total contingent commitments received	**82,493**	**112,797**

45. Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For many financial instruments, the market values are unattainable hence the presented fair values are estimated with the use of a range of valuation techniques. The fair value of financial assets and liabilities was measured using a model based on estimating the present value of future cash flows by discounting them using appropriate market discount rates.

For certain groups of financial assets and liabilities, it has been assumed that their carrying amount approximately equals their fair values, which is due to the lack of expected material differences between their carrying amount and fair value resulting from the characteristics of these groups.

45.1 Financial assets and liabilities not carried at fair value in the statement of financial position

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

Cash and balances with the Central Bank

The carrying amounts of such assets have been assumed to approximate their fair values due to their short-term nature.

Amounts due from banks and financial institutions

Amounts due from banks comprise mainly deposits made on the interbank market and margins on derivative transactions (CIRS). Fixed-rate deposits made on the interbank market comprise short-term deposits. For this reason, it has been assumed that the fair value of amounts due from banks approximates their carrying amount.

Loans and advances to customers measured at amortised cost

The fair value was calculated for loans with a defined payment schedule. For agreements where such payments have not been specified (e.g. overdraft facilities), the fair value is assumed to be equal to the carrying amount. A similar assumption has been made for past due payments and impaired agreements.

In order to calculate the fair value, on the basis of information recorded in transaction systems, a schedule of principal and interest flows is identified for each agreement, grouped by type of interest rate, disbursement date, product type and currency of the agreement. The cash flows determined in this manner were discounted at rates reflecting current margins for a particular product type. In the case of foreign currency loans for which there is no appropriate sample of disbursements in the period under consideration, the margins were determined as for loans in PLN adjusted for historical differences between margins for loans in PLN and in foreign currencies. Comparison of the amount of cash flows discounted with the aforesaid interest rate assigned to a given agreement with its carrying amount enables to determine the difference between the fair value and the carrying amount. The appropriate rate for discounting a particular cash flow is identified on the basis of the agreement currency, the product and the cash flow date.

Other financial instruments measured at amortised cost

The measurement of debt securities from the portfolio of instruments measured at amortised cost is based on the discounted cash flow model, with the discount rate for unrealised cash flows based on the market discount rate determined by the zero-coupon curve plus the risk margin specific to the particular security.

The fair value of debt securities measured in accordance with the valuation model described above (using margins ranging from -0.11% to 4.60%) amounts to PLN 338,380 thousand. In case of one-sided change in the risk margins on securities by 25 basis points, the fair value increases by PLN 2,771 thousand – for a decrease in margins, and decreases by PLN 2,733 thousand – for an increase in margins.

Amounts due to banks and financial institutions

It is assumed that the fair value of deposits from other banks and loans contracted in the interbank market at variable interest rates approximates their carrying amount.

Amounts due to customers

The fair value was calculated for fixed-rate deposits with a fixed maturity. The fair value of current deposits is assumed to be equal to their carrying amount. In order to calculate fair value on the basis of data from transaction systems, future principal and interest flows are determined, grouped by currency, original deposit term, product type and cash flow date. The cash flows calculated in this manner are discounted at the interest rate constructed as a sum of the market rate from the yield curve for a given currency and the deposit maturity date as well as the margin obtained on deposits placed in the last month of the settlement period. The margin is calculated by comparing the interest rate of deposits placed during the past month with the market rate. The discounting period is defined as the difference between the end of the deposit (with the accuracy of one calendar month) and the date of the financial statements. The discounted value calculated in this manner is compared with the carrying amount, resulting in a difference between the carrying amount and the fair value for the contract portfolio used in the calculation.

Debt securities issued

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

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

A summary of carrying amounts and fair values of financial assets and liabilities is presented below:

	31.12.2019		31.12.2018	
	Carrying amount	Fair value	Carrying amount (restated)	Fair value
	PLN '000	PLN '000	PLN '000	PLN '000
ASSETS				
Cash and balances with the Central Bank	1,837,847	1,837,847	1,512,503	1,512,503
Amounts due from banks and financial institutions	1,608,664	1,608,664	1,648,942	1,648,942
Loans and advances to customers measured at amortised cost	36,985,466	36,096,692	40,196,715	39,102,898
Other financial instruments measured at amortised cost	333,959	338,380	1,023,193	1,020,771
LIABILITIES				
Amounts due to banks and financial institutions	806,398	806,398	5,491,930	5,491,930
Amounts due to customers	46,169,373	47,501,936	37,074,895	38,301,882
Debt securities issued	2,071,855	1,923,703	3,374,908	2,968,166

Fair values of financial assets and liabilities meet the conditions for classification to level 3, except for liabilities on account of debt securities issued, quoted on an active market and classified to level 1, and those whose fair value approximates their carrying amount and therefore have not been measured.

45.2 Financial assets and liabilities carried at fair value in the statement of financial position

The Group classifies financial assets and liabilities measured and presented in the financial statements at fair value according to the following hierarchy:

Level 1

Financial assets and liabilities measured on the basis of quoted prices from active markets for identical assets and liabilities. This category includes debt and equity instruments held to collect contractual cash flows or for sale, measured at fair value through other comprehensive income, for which an active market exists.

Level 2

Financial assets and liabilities measured using valuation techniques based on quoted market prices that are directly observable or other information based on quoted market prices. This category includes debt and equity securities in the portfolio of the Brokerage House traded on the regulated market with limited liquidity, NBP money bills measured based on the reference curve, investment certificates measured based on the price published by the fund and derivatives.

Level 3

Financial assets and liabilities measured using valuation techniques based on quoted market prices which are not directly observable. This category includes shares which are not traded on a regulated market and financial assets whose fair value is determined using internal valuation models.

The table below shows the carrying amounts of financial instruments measured at fair value, broken down into the 3 hierarchy levels:

31.12.2019	Level 1 PLN '000	Level 2 PLN '000	Level 3 PLN '000	Total PLN '000
ASSETS				
Financial assets held for trading	1,386	-	5,163	6,549
Financial assets measured at fair value through profit or loss	-	-	123,850	123,850
Derivative financial instruments	-	107,068	17,441	124,509
Loans and advances mandatorily measured at fair value through profit or loss	-	-	141,423	141,423
Financial instruments measured at fair value through other comprehensive income	5,914,071	3,299,505	169,053	9,382,629
LIABILITIES				
Derivative financial instruments	-	418,027	-	418,027

31.12.2018	Level 1 PLN '000	Level 2 PLN '000	Level 3 PLN '000	Total PLN '000
ASSETS				
Financial assets held for trading	517	-	4,352	4,869
Financial assets measured at fair value through profit or loss	-	-	148,580	148,580
Derivative financial instruments	-	230,972	19,043	250,015
Loans and advances mandatorily measured at fair value through profit or loss	-	-	137,544	137,544
Financial instruments measured at fair value through other comprehensive income	1,469,614	899,820	200,002	2,569,436
LIABILITIES				
Derivative financial instruments	-	477,737	-	477,737

In 2019 and in 2018 there were no transfers between level 1 and level 2 of the fair value hierarchy, and no instruments were transferred from level 1 or from level 2 to level 3 in the fair value hierarchy.

Financial instruments measured at fair value on a recurring basis are transferred between levels of the fair value hierarchy in the following situations:

- transfer from level 1 to level 2 – if there are no quoted prices from active markets for identical assets and liabilities on the balance sheet date,
- transfer from level 2 to level 3 – if the non-market component taken into account in the valuation techniques used has become material at the balance sheet date.

For financial instruments measured on a recurring basis at fair value using significant unobservable inputs (level 3), the impact of valuations on profit or loss was PLN -31,805 thousand in 2019 and PLN -16,696 thousand in 2018, the impact on other comprehensive income was PLN 5,649 thousand in 2019 and PLN 6,217 thousand in 2018.

The valuation techniques and inputs for fair value measurements of financial assets and financial liabilities classified at levels 2 and 3 of the fair value hierarchy are as follows:

Derivative instruments

Option transactions with a non-linear value profile are measured using recognised valuation models (Black 76, replication model, Bachelier model, Monte Carlo simulation) with parameters appropriate to the instruments being measured. In this case, the market input data include exchange rates, index levels, option strategy volatility surfaces and discount curves.

Other derivative instruments of a straight-line nature are measured based on the discounted cash flow model, using discount and projection curves generated on the basis of market quotations of financial instruments. Discount curves are constructed according to the discount concept based on the cost of margin, using OIS rates, SWAP point quotations, FRA, IRS, tenor basis swap and CCBS points. Additionally, for the purposes of instruments based on a variable interest rate, a projection curve is constructed, based on FRA, IRS and relevant benchmark indices.

(figures in PLN ‘000)

The measurement of the put option of the block of shares held, classified at level 3 of the fair value hierarchy, is performed using the Black-Scholes model in which current market parameters and the fair value of shares obtained from the valuation of the company are adopted. This measurement is reduced by a claw back estimate of the discounted estimate of the potential future liability whose amount depends on the outcome of cooperation between companies from the TU Europa S.A. Capital Group and companies affiliated with Mr Leszek Czarnecki in the years 2012-2026, which results from the framework agreement on the result of cooperation in the bancassurance sector concluded on 14 December 2011 by Getin Holding with Talanx, Meiji Yasuda, TU Europa, TU Europa, TU Europa Życie and Mr Leszek Czarnecki (hereinafter: Frame Incentive Agreement).

The fair value of the option is PLN 17,441 thousand. If the fair value of the shares increases by 1%, the fair value of the option will decrease by PLN 574 thousand, and if the value of the shares decreases by 1%, the value of the option will increase by PLN 578 thousand.

According to the currently effective Annex to the Frame Incentive Agreement, the balance of the technical account expected by TU Europa and TU Europa Życie from cooperation in the period from 1 January 2012 to 31 December 2026 with companies affiliated with Mr Leszek Czarnecki (including Getin Noble Bank, Idea Bank, Idea Getin Leasing) amounts to PLN 1,138.5 million. As at the end of 2019, the accumulated balance of the technical account was PLN 574.6 million.

If the accumulated cooperation result in 2012-2026 is equal to or lower than 50% of the expected balance of the technical account, the Bank's liability will amount to PLN 125,175 thousand. Claw-back will not be payable if the execution is 100% or higher. If the execution range is 50-100%, the payment is distributed on a straight-line basis, i.e. each 1 percentage point below the execution at 100% corresponds to a claw back of PLN 2,503 thousand.

In the years 2012-2019, 50.5% of the technical account balance planned for 2012-2026 was executed. The Bank estimated and adopted the technical account balance projection until 2026 – the cumulative result for 15 years assuming that the projections are fulfilled amounts to 75% of the assumed result – which would imply a claw back of PLN 62,314 thousand. As at 31 December 2019, this amount, discounted at a risk-free rate, was PLN 54,872 thousand and is included in the valuation of the option described above.

If the Bank sells its block of shares in TU Europa S.A. before 1 June 2027 to an entity other than Getin Holding, Talanx International AG or Meiji Yasuda Life Insurance Company, the Bank will be obliged to pay liquidated damages of PLN 228 million (in such a case the claw-back and option conditions described above would no longer apply). The Bank's block of shares in TU Europa S.A. is subject to a registered pledge established in favour of Getin Holding in order to secure the aforementioned contingent liability. The pledge also covers the Bank's commitment to refrain from exercising voting rights from its block of shares under pain of payment of a penalty of EUR 15 thousand for each breach of this commitment, as well as to compensate for any damage suffered by Talanx and Meiji Yasuda as a result of voting by the Bank. The security period will last until the date on which the contingent liabilities expire, i.e. in the case of sale of a block of shares to Talanx, Meiji Yasuda or Getin Holding as a result of exercising an option held by the Bank or a repurchase option held by Getin Holding or in the case of a decision by both entities not to exercise the option

NBP money bills

They are measured on the basis of a benchmark curve constructed on the basis of short-term interbank deposits.

Shares in unlisted companies

Shares in companies for which no quotations on the capital market are available are measured at fair value using various valuation techniques, selected depending on, among others, the specificity of a particular market segment or the availability of observable inputs. The principal methods used by the Bank include: methods of valuation based on net assets, income-based methods and comparative methods. An exposure may be measured using a combination of two or more techniques. Valuations of selected equity exposures may be prepared by external entities specializing in this type of services.

Loans measured at fair value through profit or loss

The fair value of performing exposures represents the difference between discounted income and discounted costs until the maturity of the exposure. Costs include, among others, the cost of capital maintenance, the cost of funding liabilities and the expected credit loss on the exposure. For default exposures, the market value corresponds to the net carrying amount of the exposure (i.e. the gross exposure value less the allowance determined in accordance with IFRS 9) multiplied by a scaling factor that adjusts the net exposure value to the expected selling price of the portfolio.

Change in financial assets / liabilities classified as level 3 of valuation:

2019	Loans and advances	Financial assets	Financial assets	Derivative	Other financial

	to customers mandatorily measured at fair value through profit or loss PLN '000	held for trading PLN '000	measured at fair value through profit or loss PLN '000	financial instruments PLN '000	instruments PLN '000
Opening balance	**137,544**	**4,352**	**148,580**	**19,043**	**200,002**
Gains or losses, including:	(277)	150	(24,730)	(1,602)	(568)
recognised in the income statement	(277)	150	(24,730)	(1,602)	-
recognised in other comprehensive income	-	-	-	-	(568)
Purchases	-	27,133	-	-	-
Sales/ redemptions/ settlements	4,156	(25,995)	-	-	(33,143)
Other changes/ reclassifications/ transfers	-	(477)	-	-	2,762
Closing balance	**141,423**	**5,163**	**123,850**	**17,441**	**169,053**

2018	Loans and advances to customers mandatorily measured at fair value through profit or loss PLN '000	Financial assets held for trading PLN '000	Financial assets measured at fair value through profit or loss PLN '000	Derivative financial instruments PLN '000	Other financial instruments PLN '000
Opening balance	**-**	**6,027**	**158,491**	**13,183**	**654,311**
Effect of IFRS 9	132,143	-	6,012	-	(386,508)
Opening balance, after adjustments	**132,143**	**6,027**	**164,503**	**13,183**	**267,803**
Gains or losses, including:	(76)	(218)	(15,923)	5,860	6,217
recognised in the income statement	(76)	(218)	(15,923)	5,860	-
recognised in other comprehensive income	-	-	-	-	6,217
Purchases	-	71,941	-	-	-
Sales/ redemptions/ settlements	5,477	(73,298)	-	-	(74,018)
Other changes/ reclassifications/ transfers	-	(100)	-	-	-
Closing balance	**137,544**	**4,352**	**148,580**	**19,043**	**200,002**

45.3 Non-financial assets carried at fair value in the statement of financial position

31.12.2019	Level 1 PLN '000	Level 2 PLN '000	Level 3 PLN '000	Total PLN '000
ASSETS				
Investment properties	-	-	150,338	150,338
Non-current assets held for sale	-	-	1,164	1,164

31.12.2018	Level 1 PLN '000	Level 2 PLN '000	Level 3 PLN '000	Total PLN '000
ASSETS				
Investment properties	-	-	167,287	167,287
Non-current assets held for sale	-	-	21,497	21,497

Change in non-financial assets classified as level 3 of valuation is presented in Notes II.31 and II.34 to these financial statements.

46. Company Social Benefits Fund

The Act on Company Social Benefits Fund of March 4th 1994, as amended, stipulates that each employer with 50 or more full-time employees, as at 1 January of a given year, is obliged to create and make contributions to a social benefits fund. The Group maintains such a fund and makes periodic contributions to the fund. The Fund's assets are used to finance welfare activities, employee loans and other social expenses.

The Group has offset the Fund assets against its liabilities towards the Fund, as the Fund assets are not separate assets of the Group. Accordingly, the net balance as at 31 December 2019 and 31 December 2018 is PLN 0.

	01.01.2019 31.12.2019 PLN '000	01.01.2018 31.12.2018 PLN '000
Contributions to the fund during the financial period	3,124	3,238

47. Additional notes to the statement of cash flows

For the purposes of the consolidated statement of cash flows, the following classification of economic activity types was adopted:

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

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the balance of cash and balances of current accounts and short-term deposits.

	31.12.2019 PLN '000	31.12.2018 PLN '000
Cash and balances with Central Bank	1,837,847	1,512,503
Current amounts due from other banks	669,574	804,673
Total cash and cash equivalents	**2,507,421**	**2,317,176**

Reconciliation of differences between changes in assets and liabilities presented in the balance sheet and changes disclosed in the statement of cash flows

2019	Change as disclosed in the balance sheet PLN '000	Statement of cash flows PLN '000	Difference PLN '000	
Change in amounts due from banks and financial institutions	40,278	(94,821)	135,099	1)
Change in derivative financial instruments (assets)	125,506	138,629	(13,123)	2)
Change in financial instruments measured at fair value through other comprehensive income	(6,813,193)	(6,733,244)	(79,949)	3)
Change in amounts due to banks and financial institutions	(4,685,532)	413,538	(5,099,070)	4)
Change in derivative financial instruments (liabilities)	(59,710)	(43,211)	(16,499)	5)
Change in debt securities issued	(1,303,053)	(5,768)	(1,297,285)	6)
Change in provisions	207,565	207,912	(347)	7)
Change in other liabilities	153,421	14,281	139,140	8)

1) Change in part of receivables comprising cash equivalents (current accounts and overnight deposits in other banks) was excluded from "Change in amounts due from banks and financial institutions" and presented under "Net increase / (decrease) in cash and cash equivalents";
2) "Change in derivative financial instruments (assets)" does not include the valuation of cash flow hedges recognised in revaluation reserve;

3) "Change in financial instruments measured at fair value through other comprehensive income" – change in the fair value measurement recognised in revaluation reserve was excluded;
4) "Change in amounts due to banks and financial institutions" – change on account of credit facilities contracted and repaid presented in financing activities was excluded;
5) "Change in derivative financial instruments (liabilities)" does not include the valuation of cash flow hedges recognised in revaluation reserve;
6) "Change in debt securities issued" – change on account of issue and redemption of long-term securities presented in financing activities was excluded;
7) "Change in provisions" does not include actuarial gains/losses recognised in revaluation reserve;
8) "Change in other liabilities" – the effect of adoption of IFRS 16 was excluded.

48. Information on operating segments

The Group's business is focused on the following main products/services:

- mortgage – real estate market financing,
- cars – car purchase financing,
- retail – deposit and investment products for retail customers, as well as financing customers' consumption needs through retail loans (mainly cash loans and credit cards),
- corporate – services for companies and state budget entities.

Management reporting includes the presentation of selected elements of the income statement and items of the balance sheet broken down by main product groups. The classification of individual types of income, costs and balance sheet items into a specific group is based on the following criteria:

- for loan products – purpose of loans and advances granted and type of entity,

Selected items of the income statement		01.01.2019 31.12.2019 PLN '000	01.01.2018 31.12.2018 (restated) PLN '000
Interest income	Mortgage loans	703,924	774,560
	Car loans	62,837	82,183
	Retail loans	463,287	487,500
	Corporate loans	410,199	505,659
	Other amounts due from customers	12,207	10,437
	Other activities of the Bank	432,623	408,114
	Total	**2,085,077**	**2,268,453**
Interest expenses	Retail deposits	(794,263)	(717,367)
	Corporate deposits	(150,136)	(230,304)
	Other activities of the Bank	(190,891)	(113,560)
	Total	**(1,135,290)**	**(1,061,231)**
Net fee and commission income	Mortgage loans	4,165	3,303
	Car loans	3,049	4,885
	Retail loans	(546)	(10,034)
	Corporate loans	4,808	7,116
	Other activities of the Bank	65,523	119,740
	Total	**76,999**	**125,010**
Dividend income		6,969	3,963
Gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income	Mortgage loans	16,560	18,785
	Car loans	1,693	102
	Retail loans	(3,844)	-
	Corporate loans	(1,953)	-
	Other activities of the Bank	(34,167)	13,716
	Total	**(21,711)**	**32,603**
Gain (loss) on derecognition of financial assets not measured at fair value through profit or loss		25,816	51,082
Other operating income		71,273	97,040
Other operating expenses		(201,657)	(144,267)

Costs of legal risk of foreign currency loans		(158,160)	-
Administrative expenses		(945,515)	(950,384)
Impairment losses on financial assets and off-balance sheet provisions	Mortgage loans	(100,120)	(279,886)
	Car loans	(17,645)	(17,474)
	Retail loans	(469,767)	(284,874)
	Corporate loans	49,828	(49,332)
	Other activities of the Bank	95,038	(110,155)
	Total	**(442,666)**	**(741,721)**
Net impairment losses on investments in subsidiaries and associates		(49,218)	(22,485)
Gain (loss) on modification		(5,510)	(3,408)
Share of profit/(losses) of equity-accounted associates		151	(13,186)
Profit / (loss) before tax		**(693,442)**	**(358,531)**
Income tax		101,891	(101,679)
Net profit / (loss)		**(591,551)**	**(460,210)**

Selected items of the balance sheet		31.12.2019 PLN '000	31.12.2018 (restated) PLN '000
Assets	Mortgage loans	22,397,843	24,281,961
	Car loans	1,257,969	1,435,198
	Retail loans	4,496,640	4,237,131
	Corporate loans	8,833,014	10,242,425
	Other assets	15,842,973	9,706,194
	Total	**52,828,439**	**49,902,909**
Equity and liabilities	Retail deposits	40,178,973	31,443,180
	Corporate deposits	5,990,400	5,631,715
	Other liabilities and equity	6,659,066	12,828,014
	Total	**52,828,439**	**49,902,909**

49. Related-party transactions

Related parties of the Getin Noble Bank S.A. Group include the Group's associates and joint ventures, their subordinates and entities related through the ultimate parent – Mr Leszek Czarnecki.

As part of their business activities, related parties hold current accounts with the Bank, where they carry out standard settlement operations and place their funds on term deposits.

In its lending activities with respect to related parties, the Bank applies standard lending terms and conditions:

- transactions are concluded in accordance with terms and conditions approved by the Bank,
- the creditworthiness of related companies is assessed in accordance with the rules governing the assessment of creditworthiness of other customers of the Bank,
- the rules for establishing collateral for financing transactions are consistent with the instructions for legal collateral applicable in the Bank,
- general payment monitoring rules applied by the Bank, as well as rules of termination of agreements and debt collection.

Moreover, the Bank purchases debt claims from related companies and offers insurance and investment products in cooperation with related parties, as well as uses agency services when selling its own products.

31.12.2019	Statement of financial position						Off-balance sheet
	Assets – loans and receivables purchased PLN '000	Assets – financial instruments PLN '000	Assets – other receivables PLN '000	Liabilities – deposits PLN '000	Other liabilities PLN '000	Impairment losses recognised PLN '000	Financial and guarantee commitments given PLN '000
Associates	**99,974**	**117,241**	**3,041**	**50,193**	**680**	**2,453**	**269**
Entities related through the parent:	**5,162,204**	**79,270**	**191,723**	**1,734,716**	**16,177**	**51,448**	**2,610**

Notes to the consolidated financial statements presented on pages from 9 to 152 are an integral part of these financial statements.

Idea Getin Leasing Group companies	5,027,867	-	88,266	38,413	15,748	43,412	18
Idea Bank S.A. Group companies	-	28,917	29	126,560	28	675	2,000
Getin Holding S.A. Group companies	108,973	31,584	22	23,304	-	1,761	380
LC Corp B.V. Group companies	25,364	18,769	103,406	1,540,883	397	5,598	-
Other companies	-	-	-	5,556	4	2	212
Members of the Management Board and Supervisory Board of Getin Noble Bank S.A.	**862**	**-**	**15**	**8,755**	**-**	**4**	**1,479**

31.12.2018	Statement of financial position						Off-balance sheet
	Assets – loans and receivables purchased	Assets – financial instruments	Assets – other receivables	Liabilities – deposits	Other liabilities	Impairment losses recognised	Financial and guarantee commitments given
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Associates	**-**	**233,966**	**13,645**	**41,351**	**-**	**9,634**	**166**
Entities related through the parent:	**5,596,819**	**75,879**	**454,089**	**1,775,284**	**15,355**	**94,279**	**18,363**
Idea Getin Leasing Group companies	5,584,566	16,272	206,851	69,058	13,922	46,141	15,018
Idea Bank S.A. Group companies	-	27,562	10	4,487	31	1,591	2,000
Getin Holding S.A. Group companies	11,927	12,891	113,476	9,827	-	37,562	649
LC Corp B.V. Group companies	-	19,154	133,751	1,687,363	1,273	8,980	486
Other companies	2	-	1	4,549	129	5	210
Members of the Management Board and Supervisory Board of Getin Noble Bank S.A.	**1,019**	**-**	**1**	**13,119**	**-**	**3**	**1,595**

01.01.2019-31.12.2019	Income statement				
	Interest and commission income	Interest and commission expense	Other purchases	Other sales	Dividend income
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Associates	**13,407**	**4,460**	**498**	**1,134**	**-**
Entities related through the parent	**266,998**	**106,536**	**7,154**	**4,244**	**-**
Getin Leasing S.A. Group companies	218,991	19,390	3,523	1,247	-
Idea Bank S.A. Group companies	572	1,068	763	1,565	-
Getin Holding S.A. Group companies	5,653	343	117	275	-
LC Corp B.V. Group companies	41,774	85,626	168	1,153	-
Other companies	8	109	2,583	4	-
Members of the Management Board and Supervisory Board of Getin Noble Bank S.A.	**1**	**108**	**-**	**848**	**-**

Commissions and fees settled at the effective interest rate are presented in amounts arising from invoices issued in a given period.

01.01.2018-31.12.2018	Income statement				
	Interest and commission income	Interest and commission expense	Other purchases	Other sales	Dividend income
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Associates	**22,291**	**12,717**	**738**	**852**	**6,585**
Entities related through the parent	**308,927**	**144,464**	**7,473**	**1,567**	**-**
Getin Leasing S.A. Group companies	244,115	23,778	2,894	1,357	
Idea Bank S.A. Group companies	480	37	-	42	-
Getin Holding S.A. Group companies	6,059	320	137	12	-
LC Corp B.V. Group companies	58,257	120,319	1,701	146	-
Other companies	16	10	2,741	10	-
Members of the Management Board and Supervisory Board of Getin Noble Bank S.A.	**39**	**332**	**-**	**791**	**-**

Commissions and fees settled at the effective interest rate are presented in amounts arising from invoices issued in a given period.

Selected transactions with related parties

As part of its cooperation with companies from the Idea Getin Leasing Group (hereinafter referred to as the "IGL Group"), the Bank repurchases leasing claims related to financing the purchase of leased assets by lessees in companies from the IGL Group. As at the end of 2019, the carrying amount of the Bank's exposure on that account was PLN 5 billion.

In the fourth quarter of 2018, the Bank and its related parties, Open Finance S.A. and Getin Holding S.A. agreed to change the method of financing:

a) On 14 December 2018, the Bank concluded an agreement with Getin Holding S.A. for a working capital facility of up to PLN 114.3 million with a 5-year repayment period. The funds from this facility are earmarked for repayment of all liabilities of Getin Holding S.A. arising from the purchase of Idea Bank S.A. shares from Getin Noble Bank S.A. that took place in March 2012 (refinancing trade liabilities of Getin Holding S.A. on this account). The facility was disbursed in February this year. As at 31 December 2019, the exposure amounted to PLN 89.3 million.

b) In January 2019, the Bank disbursed a non-renewable working capital facility of up to PLN 77.5 million granted to Open Finance S.A., refinancing Open Finance's liabilities on account of corporate bonds issued and acquired by the Bank and liabilities resulting from deferred payments on account of the Bank's sale of a block of Noble Funds TFI SA shares to Open Finance S.A. in 2016. As at 31 December 2019, the drawn-down amount of the facility was PLN 75.5 million.

c) In April 2019, the Bank granted a non-revolving working capital facility in the amount of PLN 25 million to Open Finance to be disbursed in two tranches, for the period until April 2020. As at 31 December 2019, the drawn-down amount of the facility was PLN 25 million.

Transactions with Getin Holding S.A.

As at 31 December 2019, the Bank has 2 active loan agreements with Getin Holding S.A:

1. agreement of 28 August 2015 for a non-revolving working capital loan up to PLN 25 million, maturing over 8 years. As at 31 December 2019, the exposure amounted to PLN 20 million.
2. agreement of 14 December 2018 for a working capital loan up to PLN 114.3 million, maturing over 5 years. As at 31 December 2019, the exposure amounted to PLN 89.3 million.

These loans are secured with a registered pledge over 49% of the borrower's share in OOO Carcade with its registered office in Kaliningrad (Russian Federation). In connection with Getin Holding's intention to sell its shares in Carcade, the Bank released the registered pledge on shares in Carcade, with the reservation that in the event of failure to complete the transaction, the Borrower must immediately, no later than within 30 calendar days, conclude another agreement on the pledge over the released collateral and deliver a confirmation of the establishment of the pledge no later than within 90 days. Failure to comply with this condition will constitute a material breach of the agreement. According to information published by Getin Holding in current stock exchange announcements, the Borrower is currently in the process of finalizing the sale of shares pledged as security for the loan.

Remuneration of members of the Management and Supervisory Boards of the parent

	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 PLN '000
Management Board of the Bank	**14,908**	**17,287**
Short-term employee benefits	14,908	17,287
Supervisory Board of the Bank	**3,254**	**2,065**
Short-term employee benefits	3,254	2,065
Total remuneration of members of the Management Board and Supervisory Board of the Bank	**18,162**	**19,352**

Short-term employee benefits comprise basic salaries, bonuses (including provisions) and other benefits, including provisions for benefits, constituting remuneration costs in a given year, which will be fully accounted for within 12 months from the balance sheet date, as well as amounts on account of variable remuneration components resulting from the remuneration policy for the Bank's management described below, which will be paid out in cash in the following year.

Share-based payments include the measurement of the rights granted and the amount of the deferred remuneration component granted in the form of a financial instrument, i.e. phantom shares, in accordance with the principles described below. The amounts reported include overheads on account of social security contributions, etc.

Benefits for the Bank's management resulting from the programme of variable remuneration components

Variable remuneration of members of the Management Board of Getin Noble Bank S.A. is accounted for in a transparent manner, ensuring effective implementation of the Policy for Variable Remuneration Components. The amount of the variable components of remuneration is determined based on the Management Board members' performance appraisal in at least 3-years horizon so that the amount of variable remuneration takes into account the business cycle of the Bank and the risk associated with its business operations. The Bank's performance used in determining the variable components of remuneration should include the cost of the Bank's risk, cost of capital and liquidity risk in long-term perspective. To evaluate the work performance, financial and non-financial criteria are used determined in the form of annual quantitative and qualitative objectives of relative and absolute nature – assigned to each member of the Bank's Management Board.

The amount of variable remuneration granted and paid out must reflect financial situation of the Bank and appropriate level of cost of the Bank's risk, cost of capital and liquidity risk in long term, and may be subject to adjustments in this respect. Moreover, variable components of remuneration of the Management Board are conditional. It is conditioned, among other things, by the absence of a significant deterioration of the Bank's situation as a result of activities falling within the responsibilities of a given manager, exceeding the risk, capital and liquidity risk cost ratios that exposed the Bank to significant losses.

The maximum ratio of variable remuneration to fixed remuneration cannot exceed 100% of the total fixed remuneration received in the Bank and in its subsidiaries and may not exceed 3.5% of the Bank's annual net profit.

Granting and payment of 60% or 40% in the case when the amount of variable remuneration exceeds PLN 2,000,000 takes place after the end of the settlement period and the announcement of financial results, and the payment of respectively 40% or 60% of variable remuneration is deferred over a period of five years and payable in equal instalments.

Variable remuneration granted and paid in the year following the settlement period and deferred is split equally between cash and financial instruments.

Variable remuneration payable in the form of financial instruments is based on shares in Getin Noble Bank S.A., i.e. it is paid in cash, in the amount dependent on the Bank's share price.

The Bank does not envisage granting/payment of variable remuneration for 2019 to persons holding managerial positions that have a significant impact on the Bank's risk profile. This is due to the Bank's failure to meet the capital requirements referred to in Article 55 (4) of the Act on macro-prudential supervision and the absence of profit for the financial year.

50. Remuneration of the auditor

The table below presents net remuneration of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. paid or payable for the years ended 31 December 2019 and 31 December 2018, broken down by type of service:

	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 PLN '000
Mandatory audit of the annual financial statements	3,329	2,264
Other assurance services, including a review of financial statements	1,367	1,185
Other services	35	62
Total remuneration of the statutory auditor	**4,731***	**3,511**

* The costs for 2019 include a portion of remuneration paid for the audit service for 2018 in the amount of PLN 963.5 thousand.

51. Headcount

As at 31 December 2019 and 31 December 2018, headcount at the Group was as follows:

	31.12.2019	31.12.2018
Number of employees in persons	4,701	5,225
Number of employees in FTEs	4,647.4	5,127.8

52. Events subsequent to the end of reporting period

On 10 January 2020, the Management Board of the Bank decided to launch the Recovery Plan of Getin Noble Bank S.A. Group („Group Recovery Plan") approved on 9 January 2020 by the Polish Financial Supervision Authority that replaced the "Plan for a sustainable improvement in profitability of Getin Noble Bank S.A. for 2017-2021. UPDATE of the Recovery Program for 2016-2019" implemented previously by the Bank.

Recovery measures taken by the Bank under the Group Recovery Plan aim at the recovery of the financial effectiveness of the Bank, its organic development and return to earlier sustainable profitability path. Moreover, considering changing market conditions, the Bank will take appropriate measures to increase the capital ratio level.

The Bank assumes that the recovery measures taken as part of the Group Recovery Plan in order to return to sustainable profitability and to reach required capital ratio levels will be performed until the end of 2024. Notwithstanding the foregoing, the Bank does not rule out the possibility of future measures to raise external capital.

On 25 February 2020, the Bank launched another collective redundancy process, scheduled to be completed on 30 June 2020. It is dictated by the need to improve cost effectiveness and optimise employment, and to adapt the level and conditions of employment to the scale of the Bank's operations. The process will cover employees of support units in the Head Office and units responsible for the performance of the Bank's customer service processes, i.e. up to 250 people.

In the first quarter of 2020, the Group redeemed bonds with a total value of PLN 340.1 million, including:
- bonds issued by GLP Leasing Plan DAC in the amount of PLN 113.9 million
- bonds issued by GNB Auto Plan 2017 Sp. z o.o. in the amount of PLN 73.5 million
- bonds issued by the Bank in the amount of PLN 152.7 million.

On 13 March 2020, the Ordinance of the Minister of Health on declaring an epidemic emergency in the Republic of Poland was published. To address this situation, the Bank monitors its financial standing, including the impact of external factors, on an ongoing basis. The risk associated with COVID-19 will have an impact on the Bank's financial standing, with the scale of this impact depending in particular on how the COVID-19 risk will affect:

- changes in the Bank's environment affecting its income potential – including: administrative decisions, changes in the legislative and macroeconomic environment, situation on financial markets (including currency markets), changes in the Bank's customers' behaviour, both in deposit and credit areas, and changes in demand for banking services (including demand for credit products);
- costs of operations – including labour costs (availability and costs of staff resources) and costs of services (availability and prices of services provided to the Bank by third parties);
- financial standing of entities related to the Bank, including in particular entities in respect of which the Bank has capital exposure.

Considering the relatively short period of impact of COVID-19 risk, the Bank currently does not have sufficient information to estimate the future effect of consequences of COVID-19 on its key financial parameters. At the same time, the Bank continuously monitors the aforementioned areas in order to optimally adjust business decisions to the ongoing changes.

Considering the banks' relevance for the financial situation of their customers and for the financing of the economy, especially the funding of businesses, the Polish financial supervisor has developed a package of measures to further improve the resilience of the banking sector and to enhance its ability to finance the economy under the COVID-19 pandemic conditions. It is called the Supervisory Stimulus Package for Security and Development, or the "SSP" for short. The SSP comprises measures:

- in the areas of provisions and classification of credit exposures
- in the area of capital buffers
- in the area of liquidity requirements
- in the area of day-to-day supervision
- legislative measures

On 17 March this year, the Monetary Policy Council:

- reduced the NBP reference rate by 0.5 percentage point, i.e. to 1.00%;
- determined that the interest rate on the reserve requirement funds held by banks on current accounts or on the reserve requirement accounts is set at 1.0 % (currently 0.5%) as of 30 April this year;
- determined that the rate of the reserve requirement for cash held as of 30 April will be 0.5%.

These decisions will affect the development of future financial performance of the Bank and the Group.

On 19 March this year, the Ordinance of the Minister of Finance of 18 March 2020, repealing the Ordinance on the systemic risk buffer, came into force. Currently, the total capital ratio (CET 1) requirement for the Bank is 11.82%.

After 31 December 2019, there were no other events which were not disclosed in these financial statements which may significantly impact the future financial results of the Getin Noble Bank S.A. Capital Group.

III. FINANCIAL RISK MANAGEMENT IN THE GROUP

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

The purpose of risk management is to stabilise the Group's financial performance in the long term and, in the short term, to maintain the expected value of asset quality parameters and the desired structure of balance sheet and off-balance sheet items, as well as the quality of operating processes to maintain the assumed income to risk ratio.

Due to unfavourable development of the credit risk profile, a number of measures have been taken to change the manner the Bank is managed, including strengthening the role of the risk management division in the Bank's structure, including the implementation of a new organizational structure tailored to the scale and type of business, organisational structure, and improvement of risk management processes. The loan portfolio was reviewed based on the assessment of the probability of recovery of non-performing exposures. These activities were accompanied by the intention to build a solid base for the gradual recovery by the Bank of the assumed level of profitability and rebuilding of capital adequacy ratios and their stabilization in the long term at the expected level.

In line with legal obligations, supervisory requirements and good market practice, the Bank's Management Board is responsible for risk management at the strategic level. Objectives in this respect are included in the "Strategy and policy for the management of credit exposure risk of Getin Noble Bank S.A.". Operational risk management is assigned to the committees responsible for recommendations and decisions and for monitoring particular risks. These are:

- Credit Committee,
- Asset and Liability Committee,
- Operational Risk, Quality and Process Committee.

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

Corporate governance in terms of risk management policy is exercised by the Bank's Supervisory Board.

In terms of market risks management, individual Group companies take into account the market regulations and the requirements of the relevant supervisory authorities, especially of the Polish Financial Supervision Authority. Corporate governance in terms of the financial risk management policy is exercised by the supervisory boards appointed within the Group companies.

1. Credit risk

Credit risk results from a potential failure to perform or untimely performance by a customer of financial obligations arising from transactions concluded, in particular credit and other financial instruments.

Getin Noble Bank S.A. manages credit risk in order to build and maintain loan portfolios with a risk level expected by the Bank expressed as averaged risk costs for particular portfolios, understood as a ratio of allowances for expected losses recognised in a given period to the average balance of credit exposures. To this end, the Bank manages credit risk at all stages of life of credit transactions, i.e. at the stage of:

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

The tools for risk management in this area are credit policies, including industry-specific policies, acceptance rules, scoring and rating models used in the decision-making process for transaction selection and creditworthiness assessment, scoring models for the selection of paths of debt collection, the organisation of the loan granting process, including the rules and decision-making powers included in the operational procedures, etc. At the end of 2017 and in 2018, significant changes were introduced to the organisational structure of the credit risk management function. The implemented organisational changes were based, on the one hand, on the strive to reflect the transformation, occurring in the sales function, of the Bank's product-oriented model into a relational model based on customer-focused approach, and, on the other hand, on a permanent modification of the quality of credit risk management which should primarily ensure:

- improved ability to manage loan portfolios on an ongoing basis by enabling a quicker response to changes in the quality of loan portfolios and events in the Bank's environment, including the general economic situation,
- enabling early identification of exposures at risk,
- increased efficiency of recovery of receivables as part of forbearance and debt collection activities.

In 2019, the Bank continue to tighten and improve the lending policy in terms of increasing the effectiveness of identification and rejection of customers with a higher credit risk profile. In the retail area, a number of improvements in the process of identification and measurement of credit risk were implemented, including the implementation of new rules for counteracting the risk of fraud in the lending process, new scoring models and a complete redesign of documentary requirements. In the area of corporate risk, far-reaching changes were introduced in the process of repurchase of lease receivables, and work continued in the area of assessment and monitoring of risk of individual loan portfolios. In order to improve the risk identification and monitoring processes, the Bank started using BIK reports dedicated to entrepreneurs. At the same time, the Bank continued efforts to increase the efficiency of its operating activities, in particular in the area of mortgage collateral portfolio management.

In the Group's subsidiaries, credit risk has not been identified as material or is at a very low level due to their business profile - these companies do not conduct lending activities but only participate in the process of acquiring customers and selling the Bank's credit products.

Structure and organisation of the credit risk management process

The basic participants of the Bank's credit risk management system include:

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

The role of the Supervisory Board is to approve credit risk management strategy and credit policy, perform periodic assessments of the implementation by the Management Board of the objectives of the Bank's credit strategy and policy, supervise the control over the credit risk management system and assess its adequacy and efficiency.

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

The Bank's Management Board is responsible for the development, implementation and updates of strategies and procedures related to the credit risk management system as well as the credit policy, periodical reporting to the Supervisory Board on the effects of the implementation of the credit policy and on functioning of the credit risk management system, maintaining communication with the supervisory authorities and reporting to these authorities as well as making available to these authorities all required by law information on credit risk. The Management Board of the Bank is also responsible for the development of the credit risk management system and for overseeing credit risk management in all areas of the Bank's operations. Pursuant to the Management Board's decision, a Credit Committee has been established in the Bank. The Bank's Management Board makes credit decisions regarding exposures in accordance with given decision levels (expressed as the amount of exposure).

<u>Credit Committee of the Bank</u>

The role of the Bank's Credit Committee is to support the Bank's Management Board by fulfilling opinion-making and advisory functions in the process of making credit decisions, or making independent decisions in accordance with the powers granted. It is also responsible for recommending to the Bank's Management Board system solutions related to the determination of internal limits of exposure to issuers of securities and to other banks. The Credit Committee of the Bank takes the majority of credit decisions and adopts recommendations regarding credit exposures reserved by its size to the discretion of the Bank's Management Board.

<u>Internal audit function</u>

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

Credit risk management strategy and processes

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

- mortgage loans (the Bank does not sell mortgage loans since October 2014),
- unsecured lending to individuals – cash loans, credit cards, overdraft facilities, etc. (retail loans)
- private banking,
- car purchase financing,
- servicing small and medium-sized enterprises and local government units,
- financing of residential and commercial property developers.

The lending strategy for all areas is set out in documents, primarily in the "Strategy and policy for the management of credit exposure risk of Getin Noble Bank S.A.", which set out the principles, guidelines and recommendations regarding issues related to lending activities.

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

Credit risk in the Bank is managed on the basis of internal procedures concerning risk identification, measurement, monitoring and control. The applied credit risk identification and measurement models are adjusted to the profile, scale and complexity of the risk assumed, however, the Bank intensively implements changes in the applied risk identification and measurement models, consistently implementing the approach based on estimation of expected loss (EL).

Within these business areas, there are procedures for particular credit products. In order to ensure objectivity of credit risk assessment, the sales (customer acquisition) process has been separated in the structures of the trading areas from the process of assessing and accepting customers' credit risk. The assessment and acceptance of individual credit applications and the preparation of recommendations for senior decision-making bodies are the responsibility of specialised risk management staff.

The procedure of making credit decisions is subject to approval of the Bank's Management Board. Credit approval authorities are granted to the Bank's employees on an individual basis, depending on their skills, experience as well as the functions performed. Credit decisions exceeding the authorisation limits granted individually to staff members are made by the Credit Committees operating in the acceptance centres. The Bank's Credit Committee located in the Bank's Head Office is responsible for making credit decisions exceeding the authorisation limits granted to the approval centres. Credit decisions at the highest level of authority are taken by the Bank's Management Board.

Any changes to the decision making procedure must be approved by the Bank's Management Board.

In accordance with the consolidation of the relational bank model, the methods applied in the area of loan acceptance will be gradually changed further, aiming at consistent models based on the management of the customer's credit profile instead of the product approach.

Scope and type of risk reporting and measurement systems

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

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

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

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

- monitoring the quality of the Bank's loan portfolio, including large exposures,

- periodic assessments of exposure concentration risk including: industry risk (to determine maximum exposure concentration limits for particular industries), exposure concentration risk to individual entity and groups of related entities (to monitor the so-called large exposures),
- assessing the financial standing of banks-counterparties, determine maximum concentration limits for particular banks,
- performing stress tests for selected product groups,
- submitting periodic management reports to the Supervisory and the Management Board.

The Bank strives to limit the concentration of exposures to individual customers or groups of related customers. The Management Board of the Bank established the concentration limit at more restrictive level that the one required by the CRR Regulation, i.e. 5% of the Bank's own funds, however the sum of all large exposures cannot be higher than 400% of the Bank's own funds. As at 31 December 2019 (except for the exposure to National Bank of Poland and governments, including State Treasury, as well as exposures resulting from interbank market transactions) only exposure to the group of entities related to the Bank by the parent and the exposure to GNB Leasing Plan DAC (own securitization exposure) exceeds 10% of the Bank's own funds.

Management of risk of loans denominated in and indexed to foreign currencies

Getin Noble Bank S.A. systematically analyses the effect of changes in foreign exchange rates and interest rates on credit risk incurred in the area of car, mortgage and retail loans. The effect of currency risk on the quality of the portfolio of loans denominated or indexed to foreign currency is examined, and in the case of mortgage-backed exposures, the Bank also analyses the effect of exchange rate changes on the value of exposure collateral.

The Bank carries out stress tests twice a year for mortgage loans and once a year for loans to purchase vehicles and retail loans granted in a currency other than PLN.

With respect to analyses and simulations carried out in the stress-test procedure, the Bank takes into account scenarios assuming materialisation of the risk of an increase in exchange rates, risk of interest rate increase, risk of reduction in the value of real property used as collateral for loans granted and increase in unemployment rate on the market. Under the PLN depreciation scenario, the analysis assumes an increase in exchange rates by 10%, 30%, 50% or the maximum increase observed over the last 5 years. Under the interest rate scenario, the analysis assumes an increase by 1, 2, 4 and 6 percentage points, and for the unemployment rate – by 2, 4 and 6 percentage points. In addition, scenarios with a decrease in the value of real property by 5%, 10% and 15% (for mortgage-backed exposures) and, optionally, by any other higher rate determined by the Bank, are taken into account. The Bank considers both individual scenarios (e.g. only the PLN depreciation scenario) and combined scenarios (e.g. interest rate, unemployment and exchange rate increases) under the conservative approach, i.e. assuming no correlation between risks.

Currently, the Bank grants retail and mortgage loans in the Polish currency only. As regards loans for business entities intended to finance their operations, loans in convertible currencies are granted only to customers who earn revenue from business activities in a given currency or hedge against the currency risk. Currency loans are primarily also granted to finance income-generating real property, due to the specificity of this market, where EUR is still the reference currency.

Policies on the use of collateral and risk mitigation

In order to mitigate credit risk, the Bank applies a wide range of legally permitted collateral, selected based on the characteristics of products and business area. Detailed rules for selection, use and establishment of collateral are contained in internal regulations and product procedures of particular trading areas. The collateral accepted should ensure that the Bank will satisfy itself in the event of the borrower's default under the loan agreement. When selecting the collateral, the Bank takes into account the type and amount of the loan, the lending period, legal status and financial standing of the borrower, as well as the Bank's risk and other threats. Preference is given to collateral in a form that guarantees full and quick recovery of debts through debt collection. Typical forms of collateral required by the Bank are as follows:

For mortgage loans, the basic collateral is a first-rank mortgage over real property, as well as the assignment of rights from the insurance policy against fire and other random events.

When granting loans for the purchase of a vehicle, the Bank requires a registered pledge over the vehicle, partial or total transfer of the ownership right to the vehicle, as well as personal collateral (a blank promissory note, a third party guarantee in the form of a promissory note or a civil-law surety) and the conclusion of insurance agreements (e.g. in the event of the borrower's death or total disability and the assignment of rights under the insurance policy or the designation of the Bank as the policy beneficiary).

Collateral for consumer loans comprises: an insurance policy and personal collateral (e.g. a third party guarantee in the form of a promissory note or a civil-law surety).

Collateral such as a first-rank mortgage over real property, a registered pledge (over the company's assets or the complete transfer of ownership of the borrower's business or the borrower's or the company's management's personal assets) or a cash deposit or a pledge over cash in an escrow account, are some of the types of collateral used for corporate loans. The Bank also accepts personal collateral (third party guarantee in the form of a promissory note or civil-law surety, blank promissory note) and assignment of receivables.

Forbearance

The Bank's forbearance activities are intended to maximise the effectiveness of difficult debt management, i.e. to ensure the highest recovery with reduced costs incurred to recover the debts, which eventually are imposed on the debtor.

Forbearance consists in changing the terms of debt repayment, which are defined individually for each contract. Forborne exposures are those that are subject to certain facilities such as a settlement with the debtor who has or is soon going to have difficulties meeting his financial commitments.

Forbearance of a credit exposure involves renegotiation or amendment of the terms of a loan agreement, receivables or held-to-maturity investment, resulting from the financial difficulties of the debtor or issuer.

Forbearance of a credit exposure restructuring comprises such activities as:

- capitalisation of the outstanding debt and establishment of a new payment schedule,
- extension of the repayment periods for both the principal and the interest (grace period for principal and/or interest),
- waiving the charging of interest on all or part of the debt claim over a specific period,
- rescheduling (extending) repayments of principal and interest as compared to the applicable repayment schedule (individual repayment schedule),
- periodic accumulation of interest,
- change of financial terms of the transaction (including in particular a change of the interest rate, extension of the lending period),
- cancellation of a part of the outstanding principal amount,
- cancellation of / waiving the recovery of some or all of the unpaid interest due up to the date of signing the settlement,
- waiving of charging and collecting part or all of the interest due on the debt, starting from the date of signing the settlement (agreement), if the debt is repaid within the deadline specified in the agreement,
- change of the order in which the repayments provided for in the agreement will be accounted for (payments are accounted for firstly as repayments of the principal amount),
- granting the debtor, in special cases, new banking products to support the implementation of the forbearance plan, provided that the justification for granting them is documented,
- conversion of part or all of the debt into shares or interests in the assets of the debtor, takeover of the assets of the debtor in exchange for release from part or all of the debt,
- release/sale of collateral,
- debt refinancing (which means the use of debt contracts to ensure the total or partial payment of other debt contracts the current terms of which the debtor is unable to comply with).

The Bank renegotiates agreements with debtors who found themselves in difficult financial circumstances and are unable to comply with the original terms and conditions of the loan agreement. The forbearance process involves the evaluation of the debtor's ability to perform its obligations set out in the forbearance annex (i.e. to pay the debt within agreed deadlines). When providing forbearance to customers, the Bank makes appropriate entries in the systems to enable identification of the portfolio of forborne receivables. Forborne exposures are subject to the monitoring process. After a quarantine period of at least one year, during which the debt has been serviced on a regular basis, the debt loses its status as a forborne exposure and is classified as a cured/ performing exposure. If the timely service is discontinued during the 12-month grace period, the grace period is interrupted. This period restarts as soon as the timely debt service is resumed. The period from the recording of the condition until its complete cessation is defined as the period during which forbearance becomes probable.

For the purpose of calculating impairment losses, a definition of a forborne exposure was introduced as an exposure for which forbearance occurred and which is in the period when the forbearance becomes probable. The exposure is treated as being forborne until the forbearance becomes probable. Where the exposure is not serviced in a timely manner, the period when forbearance is probable is extended. Each time the Bank carries out a forbearance process, it conducts an impairment test to assess whether there is a significant difference between cash flows generated by the forbearance those resulting from the original loan agreement

Exposures for which the Forbearance condition was reported and are in the period when the forbearance is probable are classified in Stage 3, e.g in the case when there was a significant loss of cash flows due to the forbearance or the exposure was reported to be over 90 DPD or it is an event of so-called multiple forbearance. Other forborne agreements are classified to Stage 2 in the period when the forbearance is probable. For these agreements, impairment is calculated in accordance with the algorithms adopted for a given Stage.

The figures for forborne exposures taken into account in the calculation of impairment losses are presented below:

Forborne exposures 31.12.2019	Gross carrying amount – Stages 1 and 2 PLN '000	Gross carrying amount – Stage 3 PLN '000	Impairment losses on loans and advances – Stages 1 and 2 PLN '000	Impairment losses on loans and advances – Stage 3 PLN '000	Total net carrying amount PLN '000
Loans and advances:					
assessed on a case-by-case basis	-	792,394	-	(334,407)	457,987
assessed on a collective basis	171,546	1,430,628	(26,818)	(905,021)	670,335
Total	**171,546**	**2,223,022**	**(26,818)**	**(1,239,428)**	**1,128,322**

Forborne exposures 31.12.2018	Gross carrying amount – Stages 1 and 2 PLN '000	Gross carrying amount – Stage 3 PLN '000	Impairment losses on loans and advances – Stages 1 and 2 PLN '000	Impairment losses on loans and advances – Stage 3 PLN '000	Total net carrying amount PLN '000
Loans and advances:					
assessed on a case-by-case basis	14,906	606,728	-	(325,211)	296,423
assessed on a collective basis	259,952	1,541,081	(75,593)	(872,543)	852,897
Total	**274,858**	**2,147,809**	**(75,593)**	**(1,197,754)**	**1,149,320**

Forborne exposures – geographical structure	31.12.2019			31.12.2018		
	Gross carrying amount PLN '000	Impairment losses PLN '000	Total net carrying amount PLN '000	Gross carrying amount PLN '000	Impairment losses PLN '000	Total net carrying amount PLN '000
Poland	2,379,677	(1,258,450)	1,121,227	2,357,833	(1,265,013)	1,092,820
Ireland	4,415	(2,701)	1,714	4,415	(2,393)	2,022
United Kingdom	6,155	(4,520)	1,635	56,136	(5,517)	50,619
Other countries	4,321	(575)	3,746	4,283	(424)	3,859
Total	**2,394,568**	**(1,266,246)**	**1,128,322**	**2,422,667**	**(1,273,347)**	**1,149,320**

Forborne exposures – by entity	31.12.2019			31.12.2018		
	Gross carrying amount PLN '000	Impairment losses PLN '000	Total net carrying amount PLN '000	Gross carrying amount PLN '000	Impairment losses PLN '000	Total net carrying amount PLN '000
Loans and advances to:						
financial entities other than banks	217,922	(10,572)	207,350	33,416	(17,677)	15,739
non-financial entities other than natural persons	407,134	(254,258)	152,876	439,837	(252,303)	187,534
natural persons	1,767,309	(1,001,367)	765,942	1,949,414	(1,003,367)	946,047
State budget entities	2,203	(49)	2,154			
Total	**2,394,568**	**(1,266,246)**	**1,128,322**	**2,422,667**	**(1,273,347)**	**1,149,320**

Forborne exposures – by type	31.12.2019 Gross carrying amount PLN '000	31.12.2019 Impairment losses PLN '000	31.12.2019 Total net carrying amount PLN '000	31.12.2018 Gross carrying amount PLN '000	31.12.2018 Impairment losses PLN '000	31.12.2018 Total net carrying amount PLN '000
corporate loans	418,462	(134,698)	283,764	283,307	(153,098)	130,209
car loans	75,547	(65,184)	10,363	77,379	(60,530)	16,849
mortgage loans	1,594,234	(901,902)	692,332	1,731,422	(887,264)	844,158
retail loans	306,325	(164,462)	141,863	330,559	(172,455)	158,104
Total	**2,394,568**	**(1,266,246)**	**1,128,322**	**2,422,667**	**(1,273,347)**	**1,149,320**

Forborne exposures – by DPD	31.12.2019 Gross carrying amount PLN '000	31.12.2019 Impairment losses PLN '000	31.12.2019 Total net carrying amount PLN '000	31.12.2018 Gross carrying amount PLN '000	31.12.2018 Impairment losses PLN '000	31.12.2018 Total net carrying amount PLN '000
non-past due and past due up to 30 days	585,754	(67,237)	518,517	629,594	(163,425)	466,169
past due from 30 days to 90 days	131,567	(22,666)	108,901	121,489	(58,146)	63,343
past due more than 90 days	1,677,247	(1,176,343)	500,904	1,671,584	(1,051,776)	619,808
Total	**2,394,568**	**(1,266,246)**	**1,128,322**	**2,422,667**	**(1,273,347)**	**1,149,320**

Forborne exposures	31.12.2019 PLN '000	31.12.2018 PLN '000
Collateral value	817,400	937,627

Changes in forborne exposures	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 PLN '000
Net balance at the beginning of the period	**1,149,320**	**2,197,550**
Value of exposures recognised in the period	564,049	443,483
Value of exposures excluded in the period	(524,618)	(1,489,361)
Repayments / other changes.	(67,530)	8,357
Increase/decrease in impairment losses	7,101	(10,709)
Net balance at the end of the period	**1,128,322**	**1,149,320**

Structure of the loan portfolio

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

	% of the portfolio 31.12.2019	% of the portfolio 31.12.2018
Loans granted to natural persons:	75.38	73.44
car loans	2.60	2.58
instalment loans	0.22	0.26
housing, construction and mortgage loans	58.79	58.39
other	13.77	12.21
Corporate loans	24.62	26.56
Total	**100.00**	**100.00**

Concentration amount by industry	% of the portfolio 31.12.2019	% of the portfolio 31.12.2018
Agriculture and hunting	0.73	0.31
Mining and quarrying	0.06	0.05

Manufacturing	1.65	1.82
Electricity and gas supply	0.03	0.05
Construction	4.12	3.87
Wholesale and retail trade	3.46	5.45
Transport, storage and communications	2.73	2.95
Financial intermediation	1.55	1.25
Real estate activities	3.46	3.23
Public administration	1.30	1.62
Other sections	5.53	5.96
Natural persons	75.38	73.44
Total	**100.00**	**100.00**

Amount of concentration by geographical segment	% of the portfolio	
	31.12.2019	31.12.2018
According to the administrative division of Poland:		
Dolnośląskie	11.01	11.13
Kujawsko-Pomorskie	4.09	4.15
Lubelskie	3.03	2.84
Lubuskie	2.43	2.37
Łódzkie	5.16	5.13
Małopolskie	6.87	7.03
Mazowieckie	25.06	24.76
Opolskie	1.68	1.80
Podkarpackie	2.21	2.38
Podlaskie	1.52	1.43
Pomorskie	8.10	7.90
Śląskie	10.37	10.83
Świętokrzyskie	1.28	1.29
Warmińsko-Mazurskie	3.25	3.19
Wielkopolskie	8.22	8.14
Zachodniopomorskie	4.77	4.69
Seated outside Poland	0.95	0.94
Total	**100.00**	**100.00**

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

Maximum exposure to credit risk	31.12.2019 PLN '000	31.12.2018 (restated) PLN '000
Financial assets:		
Cash and balances with the Central Bank (excluding cash)	1,638,636	1,227,621
Amounts due from banks and financial institutions	1,608,664	1,648,942
Financial assets held for trading	6,549	4,869
Financial assets measured at fair value through profit or loss	123,850	148,580
Derivative financial instruments	124,509	250,015
Loans and advances to customers	37,126,889	40,334,259
measured at amortised cost	36,985,466	40,196,715
mandatorily measured at fair value through profit or loss	141,423	137,544
Other financial instruments, of which:	9,716,588	3,592,629
measured at fair value through other comprehensive income	9,382,629	2,569,436
measured at amortised cost	333,959	1,023,193
Other financial assets	303,312	550,888
Total financial assets	**50,648,997**	**47,757,803**
Guarantee commitments	92,523	140,013
Contingent liabilities	1,860,409	1,857,999
Total off-balance sheet liabilities	**1,952,932**	**1,998,012**

(figures in PLN '000)

Total exposure to credit risk	**52,601,929**	**49,755,815**

The Bank uses funded and unfunded credit protection with respect to the banking book; it does not use CRM techniques with respect to trading book transactions.

As regards funded protection, the Bank applies the standard method of credit risk mitigation techniques in the form of a simplified technique of recognising the most liquid financial collateral (NBP and State Treasury deposits and securities).

With respect to unfunded protection, the Bank applies guarantees provided by recognised credit protection providers, such as Institutions and Bank Gospodarstwa Krajowego.

In connection with the use of unfunded credit protection, the Bank analyses the risk of excessive concentration towards a single credit protection provider or on account of the use of this protection instrument.

The amount of collateral assumed in the calculation of impairment losses on individually significant loans as at 31 December 2019 was PLN 1.13 billion (PLN 0.94 billion as at 31 December 2018).

In 2019, the value of assets obtained from foreclosures amounted to PLN 7.5 million (PLN 29.3 million in 2018).

Information on the credit quality of assets as at 31 December 2019 and 31 December 2018 is presented below.

Credit quality of financial assets as at 31.12.2019	Non-overdue	Overdue – Stages 1 and 2			Overdue – Stage 3 and POCI	Interest	Impairment losses	Total
		up to 1 month	from 1 to 2 months	more than 2 months				
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Amounts due from banks and financial institutions	**1,608,681**	**490**	**-**	**-**	**6**	**1,550**	**(2,063)**	**1,608,664**
Financial assets held for trading	**6,549**	**-**	**-**	**-**	**-**	**-**	**-**	**6,549**
Financial assets measured at fair value through profit or loss, of which:	**123,850**	**-**	**-**	**-**	**-**	**-**	**-**	**123,850**
equity instruments	123,850	-	-	-	-	-	-	123,850
Loans and advances to customers, of which:	**32,131,101**	**1,758,441**	**247,658**	**264,443**	**7,144,750**	**299,178**	**(4,860,105)**	**36,985,466**
corporate loans	6,868,638	1,123,146	141,339	178,859	995,725	26,117	(500,810)	8,833,014
car loans	1,173,456	32,457	4,887	3,435	249,027	15,738	(221,031)	1,257,969
mortgage loans	20,254,447	387,427	41,834	42,265	4,432,618	161,715	(2,922,463)	22,397,843
retail loans	3,834,560	215,411	59,598	39,884	1,467,380	95,608	(1,215,801)	4,496,640
Financial instruments measured at fair value through other comprehensive income, of which:	**9,233,345**	**-**	**-**	**-**	**223,278**	**-**	**(73,994)**	**9,382,629**
NBP bills	3,299,505	-	-	-	-	-	-	3,299,505
treasury bonds	5,863,131	-	-	-	-	-	-	5,863,131
equity instruments	70,709	-	-	-	4,074	-	(4,074)	70,709
debt portfolio	-	-	-	-	219,204	-	(69,920)	149,284
Financial instruments measured at amortised cost, of which:	**336,707**	**-**	**-**	**-**	**7,545**	**-**	**(10,293)**	**333,959**
treasury bonds	-	-	-	-	-	-	-	-
bonds of local government units	145,934	-	-	-	-	-	(520)	145,414
mortgage bonds and bonds issued by banks	118,327	-	-	-	-	-	(145)	118,182
corporate bonds	72,446	-	-	-	7,545	-	(9,628)	70,363
Total financial assets	**43,440,233**	**1,758,931**	**247,658**	**264,443**	**7,375,579**	**300,728**	**(4,946,455)**	**48,441,117**

Credit quality of financial assets as at 31.12.2018 (restated)	Non-overdue	Overdue – Stages 1 and 2: up to 1 month	Overdue – Stages 1 and 2: more than 1 month up to 2 months	Overdue – Stages 1 and 2: more than 2 months	Overdue – Stage 3 and POCI	Interest	Impairment losses	Total
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Amounts due from banks and financial institutions	**1,646,224**	**46**	**-**	**-**	**27**	**4,442**	**(1,797)**	**1,648,942**
Financial assets held for trading	**4,869**	**-**	**-**	**-**	**-**	**-**	**-**	**4,869**
Financial assets measured at fair value through profit or loss, of which:	**148,580**	**-**	**-**	**-**	**-**	**-**	**-**	**148,580**
equity instruments	148,580	-	-	-	-	-	-	148,580
Loans and advances to customers, of which:	**34,779,102**	**2,171,057**	**476,069**	**499,694**	**6,794,945**	**304,642**	**(4,828,794)**	**40,196,715**
corporate loans	7,530,588	1,594,518	360,821	449,129	845,896	32,317	(570,844)	10,242,425
car loans	1,315,961	51,402	5,610	2,711	251,802	15,895	(208,183)	1,435,198
mortgage loans	22,386,641	324,558	61,030	29,183	4,217,278	161,561	(2,898,290)	24,281,961
retail loans	3,545,912	200,579	48,608	18,671	1,479,969	94,869	(1,151,477)	4,237,131
Financial instruments measured at fair value through other comprehensive income, of which:	**2,637,046**	**-**	**-**	**-**	**4,124**	**-**	**(71,734)**	**2,569,436**
NBP bills	899,820	-	-	-	-	-	-	899,820
treasury bonds	1,437,168	-	-	-	-	-	-	1,437,168
equity instruments	52,749	-	-	-	4,124	-	(4,124)	52,749
debt portfolio	247,309	-	-	-	-	-	(67,610)	179,699
Financial instruments measured at amortised cost, of which:	**1,037,516**	**-**	**-**	**-**	**7,245**	**-**	**(21,568)**	**1,023,193**
treasury bonds	552,640	-	-	-	-	-	-	552,640
bonds of local government units	171,188	-	-	-	-	-	(687)	170,501
mortgage bonds and bonds issued by banks	157,362	-	-	-	-	-	(255)	157,107
corporate bonds	156,326	-	-	-	7,245	-	(20,626)	142,945
Total financial assets	**40,253,337**	**2,171,103**	**476,069**	**499,694**	**6,806,341**	**309,084**	**(4,923,893)**	**45,591,735**

2. Operational risk

Operational risk management definition and objective

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

The strategic objective of operational risk management is the optimisation of the internal business and non-business processes, enabling the reduction of costs and losses and the improvement of the operational security and reduction of the reputational risk. Operational risk management is aimed at prevention of threats, effective decision-making, prioritisation and resources allocation, ensuring better understanding of potential risks and its possible adverse effects.

The core operational objective of operational risk management is to strive to identify operational risk and to measure the size and assess its profile as precisely as possible. For this purpose, solutions concerning the model of operational risk measurement and management are being improved, allowing for the future use of advanced measurement methods sensitive to operational risk, taking into account the Bank-specific factors and parameters of operational risk specific for the Group, and particularly for the Bank, i.e. closely related to the Bank's business profile.

Structure and organisation of the operational risk management unit

The following organisational units are actively involved in the operational risk management process:

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

From a functional point of view, there are two groups of organisational units involved in the process:

- system units – responsible for systemic operational risk management, establishing internal regulations and developing solutions for day-to-day operational risk management, performing also tasks relating to day-to-day operational risk management;
- operational units – involved in day-to-day operational risk management.

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

- basic level – units and staff dealing with operational risk management in their everyday activities;
- supervisory level – staff holding managerial positions, performing functional control;
- superior level, functioning in centralized form – its main function is operational risk management. This function is performed by individuals performing the tasks of a separate operational risk management unit, operating as part of the Operational Risk Management Team and the Committee for Operational Risk, Quality and Processes.

The leading role in the operational risk management in the Bank is performed by the governing bodies of Getin Noble Bank S.A.: the Supervisory Board and the Management Board. The activities of the Bank's Management Board, at the operational level, are performed by the Committee for Operational Risk, Quality and Processes – it is responsible for monitoring operational risk, evaluating regulations concerning operational risk management and recommending measures and standards for risk exposure.

The main, superior role in operational risk management in the Bank is performed by designated employees of an independent operational risk management unit – the Operational Risk Management Team which is part of the Risk Management Division of the Financial Risk Department.

Operational risk management strategies and processes, and scope and type of risk reporting and measurement systems

Operational risk management is a process which encompasses activities for risk identification, measurement, mitigation, monitoring and reporting. It covers all processes and systems, with particular focus on those related to the performance of banking activities that ensure the provision of financial services to customers.

The Bank manages the operational risk in accordance with the "Operational Risk Management Strategy" established by the Management Board and approved by the Bank's Supervisory Board:

- taking into account the prudential regulations resulting from the Banking Law and relevant resolutions and recommendations of banking supervision authority,

- containing a description of the policies already in place at the Bank and those that are under development and planned for the future.

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

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

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

Operational risk measurement includes, among others, the calculation of:

- own capital required to cover operational risk,
- ratios indicating the level of the Bank's exposure to operational risk, also called the Bank's sensitivity to operational risk,
- aggregate volume of actual losses.

Policies and strategies related to mitigation of operational risk

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

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

In addition, in order to secure any processes requiring the transfer of funds, operational risk is mainly mitigated by introducing the four-eyes principle.

Key business processes have been described in appropriate documents – Policies and Procedures. The correctness of business operations is monitored on an ongoing basis, and reports are submitted directly to the Management Board.

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

3. Liquidity risk

Liquidity risk is defined as the potential inability of the Bank to fulfil its current and future financial obligations. Liquidity management is an obvious, key element of the Bank's risk management. The objective of liquidity risk management in the Bank is to ensure the possibility of fulfilment of obligations on a daily basis, the ability to maintain liquidity over a short, medium and long term both under normal conditions and in the case of crisis events.

For effective liquidity management, the Bank adequately shapes the structure of assets and liabilities through the deposit and credit policy, products price structure, etc. In doing so, the Bank takes into account the current, short-term liquidity needs, on the one hand, and the long-term strategy aimed at building the Bank's liquidity profile based on growing and stable sources of funding. This was reflected in the Bank's reconstruction strategy, the important element of which is the implementation of the relational model which will, inter alia, ensure the growth of stable sources of financing in the form of deposits on current accounts and saving accounts of retail customers and the segment of small and medium enterprises, reducing the importance of term deposits in the Bank's financing.

The Bank's approach to liquidity risk management is defined in the "Liquidity Risk Management Policy" and in each Financial Plan adopted for the given year. These documents define the risk appetite level understood as the expected risk exposure level and the extent of tolerance, i.e. the maximum risk levels that must not be exceeded.

The Bank's activities in the area of liquidity risk management are in line with the recommendations and prudential regulations of the Polish Financial Supervision Authority and of the National Bank of Poland, but also with the Regulations of the European Union.

The Bank's liquidity risk management process, both at strategic and operational level, is aligned with the requirements of Recommendation P of the PFSA.

The Bank identifies the following groups of risk factors to which it is exposed:
- risks arising from external factors (changes in the volume of the deposit balance in the system, macroeconomic situation, level of exchange rates),
- risks arising from internal factors (such as the ability to maintain stable sources of financing, including the ability to renew customer deposits at an acceptable cost, the impact of reducing the creditworthiness on the Bank's liquidity).

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

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

Medium- and long-term liquidity management is within the competence of the Bank's Management Board, while the current and short-term liquidity management is the responsibility of the Treasury Department. The consultative and advisory role in the liquidity management process is performed by the Assets and Liabilities Committee which monitors the liquidity risk level on the basis of information prepared by the Financial Risk Department.

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

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

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

The Financial Risk Department prepares a monthly report summarizing the Bank's liquidity position. The report contains, among others, information about:
- the level of key liquidity ratios (including supervisory measures),
- the structure and level of liquid assets,
- liquidity gap,
- stability of financing sources,
- transactions financing the portfolio of foreign currency loans.

The report is submitted to the Assets and Liabilities Committee and the Bank's Management Board.

Information on the liquidity situation is provided periodically to the Supervisory Board.

To ensure the required level of liquidity, the Bank creates the structure of assets and liabilities in line with the accepted internal limits and the recommendations of NBP and PFSA; for this purpose:
- the Bank maintains liquidity reserves in safe and liquid financial assets,
- the Bank has a possibility of using additional sources of financing such as lombard intraday facilities with the National Bank of Poland,
- lending is financed mainly by own funds and a stable deposit base,
- the Bank is operationally ready to apply to the NBP for a refinancing facility (periodically verifies the available facility amount).

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

The Bank carries out simulations of the Bank resilience in case of increased cash outflows (stress tests). The analyses are an important element in the process of asset and liability management. The Bank has a procedure for situation threatening the significant increase in the liquidity risk, entitled "The procedure for the liquidity contingency plan of Getin Noble Bank S.A. in crisis situations".

(figures in PLN '000)

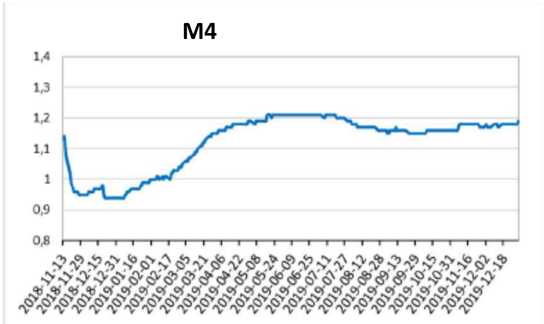
The procedure sets out, among others, signs of deterioration in the liquidity position of the Bank, the so-called warning and crisis signs, which are intended to indicate potential threats in advance. They are monitored on a daily basis. In the event of a situation threatening the liquidity of the Bank, the Management Board and the Assets and Liabilities Committee are informed of the occurrence of the threat.

An extraordinary liquidity event took place in 2018. Due to intensified media speculation following the publication of the press release of 13 November 2018 and the Customers uncertainty regarding the Bank's financial standing, in November 2018, the Bank reported a significant outflow of deposits.

In the following months, the Bank carried out a process to rebuild its liquidity (the Liquidity Recovery Plan), supported by a refinancing facility granted by the NBP. This processes was formally completed on 18 March 2019, when the Bank's Management Board adopted a Resolution in which it concluded that the objectives of the Liquidity Recovery Plan had been achieved and the Bank met both internal and external liquidity requirements. In 2019, liquidity risk continued to be managed, and liquidity continued to be monitored and reported, in particular with respect to the development of supervisory liquidity standards, such as LCR and M4, in accordance with the practices set forth in internal procedures, as well as the requirements of reporting and supervisory regulations.

The following diagrams provide a summary of changes in LCR and M4 in the period from 13 November 2018 to 31 December 2019.

The table below presents changes in LCR for the bank and the Group in the period from 1 January 2019 to 31 December 2019:



The table below presents changes in LCR for the bank and the Group in the period from 1 January 2019 to 31 December 2019:

Supervisory liquidity measures		Minimum value	Value as at		
			31.12.2019	31.03.2019	31.12.2018
LCR	Short-term liquidity ratio – Bank	100%	161.7%	152.9%	52.3%
LCR	Short-term liquidity ratio – Group	100%	169.8%	157.5%	54.3%
M3	Own funds to non-liquid assets ratio – Bank	1.00	1.69	1.82	1.97
M4	Own funds and stable external funds to non-liquid and limited liquidity assets ratio – Bank	1.00	1.19	1.12	0.94

Customer deposits are the main source of financing lending activities of the Bank; the net loans to amounts due to customers ratio does not exceed 85%, and this level did not undergo significant fluctuations until the completion of the Liquidity Recovery Plan. Approx. 95% of customer deposits are stable sources of financing, with the largest share of retail customers' deposits (currently accounting for 90% of the volume), while stable corporate customers' deposits and local government units' funds supplement the general base of stable funding sources.

Risk monitoring in the Group is carried out through periodic risk measurements on a consolidated basis for the entire Group. The impact of consolidated entities on the level of liquidity risk incurred by the Group is insignificant, but positive (the LCR ratio in consolidated terms is higher than the standalone one).

The Bank does not have any agreements which in the case of a decrease in the Bank's creditworthiness would result in the need to provide additional collateral to the counterparty at the material level. At the same time, a downgrade of the Bank's rating by 1 notch, relative to the lower of the Bank's ratings, could result in the Bank's liquidity position in foreign currencies requiring financing at the level of approximately CHF 0.4 billion. However, it should be emphasized that the liquidity position would not be created automatically, but would depend on the decision to close the transaction taken by each counterparty.

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

31.12.2019	Up to 1 month PLN '000	From 1 to 3 months PLN '000	From 3 months to 1 year PLN '000	From 1 to 5 years PLN '000	More than 5 years PLN '000	Total PLN '000
Amounts due to banks and financial institutions	169,758	991	395,752	185,768	63,514	815,783
Derivative financial instruments	9,484	337	364,185	44,021	-	418,027
Amounts due to customers	26,754,541	9,315,363	8,337,163	1,826,098	323,515	46,556,680
Debt securities issued	124,799	169,077	514,902	1,484,434	-	2,293,212
Lease liabilities	5,842	12,159	44,837	92,840	3,624	159,302
Total financial liabilities	**27,064,424**	**9,497,927**	**9,656,839**	**3,633,161**	**390,653**	**50,243,004**

31.12.2018	Up to 1 month PLN '000	From 1 to 3 months PLN '000	From 3 months to 1 year PLN '000	From 1 to 5 years PLN '000	More than 5 years PLN '000	Total PLN '000
Amounts due to banks and financial institutions	251,309	4,819,928	196,169	189,570	75,747	5,532,723
Derivative financial instruments	11,567	2,574	184,716	278,056	824	477,737
Amounts due to customers	16,132,275	9,076,837	10,245,640	1,781,119	303,656	37,539,527
Debt securities issued	16,240	47,164	1,075,340	1,749,250	842,591	3,730,585
Total financial liabilities	**16,411,391**	**13,946,503**	**11,701,865**	**3,997,995**	**1,222,818**	**47,280,572**

4. Market risk

Market risk consists in the possibility of incurring losses as a result of volatility of market factors, primarily interest rates, foreign exchange rates and prices of securities and other, including derivative financial instruments. Through the applied policy of assets and liabilities management and the system of market risk limits, the Group aims to optimize the income to risk ratio. The main source of market risk in the Group are items of Getin Noble Bank S.A. The Bank's Management Board is responsible for market risk management. The Assets and Liabilities Committee performs the role of opinion and advice providers in the process of liquidity management. Its role is to create a policy of assets and liabilities management, setting risk limits and monitoring their use. Operationally, the Treasury Department is responsible for market risk management, performing ongoing monitoring of risk positions and shaping their size by entering into transactions on the interbank market and by defining exchange rates and transfer rates for transactions concluded with customers. The Financial Risk Department located in the risk management division is responsible for controlling market risk management. Its key tasks include monitoring of key market risk measures, developing risk measurement methods and recommending internal limits and prudential standards in this respect. The Market Risk Department submits information on market risk management to the Assets and Liabilities Committee on a monthly basis. Risk monitoring in the Group is carried out through periodic risk measurements on a consolidated basis.

4.1. Currency risk

The Bank's currency risk results from the negative effects of exchange rate volatility for the financial results. The basic objective of currency risk management is to shape the structure of the Bank's currency position in order to minimize sensitivity to exchange rate volatility. The tool serving this purpose is a system of monitoring internal limits and prudential standards resulting from supervisory regulations. The Bank's currency position arises from transactions entered into with the Bank's customers. The Bank does not carry trading positions related to currency risk. The Treasury Department monitors the level of the open currency position on an on-going basis and regulates its volume through currency transactions concluded on the interbank market. These are predominantly spot transactions. In addition, the Bank enters into derivative transactions within internal limits. A separate issue is the management of currency risk resulting from the existing portfolio of mortgage loans indexed to CHF and EUR. In this respect, the volatility of cash flows of these portfolios is hedged by the portfolio of CIRS transactions. The effect of this hedge is reflected in the Bank's accounting books with the application of hedge accounting, observing the necessary cash flow adjustment regime and their valuation. The analysis of the Bank's exposure to currency risk takes place on the basis of market-based methods based on estimation of the impact of volatility on profit or loss and on the use of the Bank's own funds. The basic methods in this area include:

- measurement of the Value of Risk (VaR),
- stress tests,

- analysis of the size of the currency position in relation to own funds and calculation of the capital requirement for covering currency risk.

The Bank's exposure to currency risk and the calculation of the capital requirement necessary to cover currency risk is carried out daily and is part of a daily set of management information provided to the Bank's management, including the Management Board. The Financial Risk Department provides a full set of information on currency risk to the Assets and Liabilities Committee. The report contains, among other things, information on the size of the Bank's currency positions in particular currencies, the size of risk measures and the degree of utilisation of limits on open currency positions. The process of managing and measuring currency risk, its control and monitoring is supported by a number of IT tools whose key element is the Market Analysis and Liquidity Risk System (SARRP).

Analysis of sensitivity to currency risk

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

VAR (1D, 99.9%)	31.12.2019 PLN '000	31.12.2018 PLN '000
Currency risk	66	134

This method is based on the value-at-risk (VaR) model and consists in examining, with 99.9% probability, the amount of the maximum loss that the Bank/ Group may incur on a single day from the valuation of a currency position (as a result of changes in exchange rates), assuming normal market conditions. The volatility used in the model is calculated using exponentially weighted moving average (EWMA) of daily relative changes in exchange rates over the last 251 business days. A time series of the same length has been used to determine the correlation matrix between particular exchange rates. The VaR measure does not express the absolute maximum loss to which the Bank/ Group is exposed. VaR is a measure that determines the level of risk at a given moment in time, reflecting the positions for a specific moment, which do not have to reflect the risk of the Bank/ Group's position at another point in time and is a tool for the current management of the currency position. As at 31 December 2019, the share of total currency position (the higher of the sum of net long positions or short positions in individual currencies) in the regulatory own funds of the Group amounted to 0.17% (0.29% as at 31 December 2018). The Group does not hold open currency positions at a level which would generate significant currency risk in any of the currencies.

The tables below show the currency exposure of the Group as at 31 December 2019 and 31 December 2018, by type of assets, liabilities and off-balance sheet liabilities:

Currency exposure by type of assets, liabilities and off-balance sheet items as at 31.12.2019	CURRENCY							Total
	PLN PLN '000	EUR PLN '000	CHF PLN '000	USD PLN '000	GBP PLN '000	JPY PLN '000	Other PLN '000	PLN '000
Cash and balances with the Central Bank	948,191	849,365	7,446	28,743	4,102	-	-	1,837,847
Amounts due from banks and financial institutions	415,202	901,743	95,032	130,103	40,582	23,294	2,708	1,608,664
Loans and advances to customers	27,240,838	755,739	8,938,175	30,185	5	161,946	1	37,126,889
Other assets	12,231,564	1,537	8,800	13,095	-	43	-	12,255,039
Total assets	**40,835,795**	**2,508,384**	**9,049,453**	**202,126**	**44,689**	**185,283**	**2,709**	**52,828,439**
Amounts due to banks and financial institutions	410,632	3,061	392,689	16	-	-	-	806,398
Amounts due to customers	43,541,298	1,727,920	41,235	814,175	43,813	256	676	46,169,373
Other liabilities	3,236,061	81,626	32	-	-	-	-	3,317,719
Total liabilities	**47,187,991**	**1,812,607**	**433,956**	**814,191**	**43,813**	**256**	**676**	**50,293,490**
Equity	**2,534,949**	**-**	**-**	**-**	**-**	**-**	**-**	**2,534,949**
Total liabilities and equity	**49,722,940**	**1,812,607**	**433,956**	**814,191**	**43,813**	**256**	**676**	**52,828,439**
NET EXPOSURE	**(8,887,145)**	**695,777**	**8,615,497**	**(612,065)**	**876**	**185,027**	**2,033**	**-**
Financial and guarantee commitments given	1,936,329	16,601	-	2	-	-	-	1,952,932

Currency exposure of notional amounts of derivative instruments as at 31.12.2019	CURRENCY							Total
	PLN PLN '000	EUR PLN '000	CHF PLN '000	USD PLN '000	GBP PLN '000	JPY PLN '000	Other PLN '000	PLN '000
Purchase	12,434,383	434,571	763,779	611,718	999	-	-	14,245,450
Sale	3,897,792	1,128,503	9,253,393	1,478	2,199	181,779	-	14,465,144

Currency exposure by type of assets, liabilities and off-balance sheet items as at 31.12.2018 (restated)	CURRENCY							Total
	PLN PLN '000	EUR PLN '000	CHF PLN '000	USD PLN '000	GBP PLN '000	JPY PLN '000	Other PLN '000	PLN '000
Cash and balances with the Central Bank	918,456	516,874	8,245	63,403	5,525	-	-	1,512,503
Amounts due from banks and financial institutions	559,020	748,682	45,502	228,435	41,397	22,546	3,360	1,648,942
Loans and advances to customers	29,876,102	800,082	9,437,551	37,738	-	182,786	-	40,334,259
Other assets	6,386,835	3,247	8,545	8,546	-	29	3	6,407,205
Total assets	**37,740,413**	**2,068,885**	**9,499,843**	**338,122**	**46,922**	**205,361**	**3,363**	**49,902,909**
Amounts due to banks and financial institutions	5,468,605	23,249	60	16	-	-	-	5,491,930
Amounts due to customers	34,865,984	1,407,699	42,493	715,701	41,518	461	1,039	37,074,895
Other liabilities	4,318,072	1,390	33	3	-	-	-	4,319,498
Total liabilities	**44,652,661**	**1,432,338**	**42,586**	**715,720**	**41,518**	**461**	**1,039**	**46,886,323**
Equity	**3,016,586**	**-**	**-**	**-**	**-**	**-**	**-**	**3,016,586**
Total liabilities and equity	**47,669,247**	**1,432,338**	**42,586**	**715,720**	**41,518**	**461**	**1,039**	**49,902,909**
NET EXPOSURE	**(9,928,834)**	**636,547**	**9,457,257**	**(377,598)**	**5,404**	**204,900**	**2,324**	**-**
Financial and guarantee commitments given	1,974,449	23,538	-	25	-	-	-	1,998,012

Currency exposure of notional amounts of derivative instruments as at 31.12.2018	CURRENCY							Total
	PLN PLN '000	EUR PLN '000	CHF PLN '000	USD PLN '000	GBP PLN '000	JPY PLN '000	Other PLN '000	PLN '000
Purchase	11,781,327	252,423	1,713,612	565,083	-	-	-	14,312,445
Sale	1,988,793	872,276	11,178,938	190,993	5,173	204,744	43	14,440,960

4.2. Interest rate risk

Interest rate risk is defined as the risk of decrease in the expected interest income due to changes in market interest rates and the risk of change in the value of open balance sheet items and off-balance-sheet items sensitive to changes in market interest rates. The Group takes measures aimed at mitigating the impact of the adverse changes on profit or loss. The interest rate risk management is the responsibility of the Bank's Management Board which receives and analyses global reports concerning this risk on a monthly basis and information about the level of exposure to the trading portfolio risk on a weekly basis.

The Bank's primary objective in interest rate risk management in the banking book is to mitigate the risk of decrease in the expected interest income due to changes in market interest rates and to maintain the value of open balance sheet and off-balance-sheet items exposed to changes in market interest rates within the limits that do not pose a threat to the Bank's security.

The main objective of the Bank in the area of interest rate risk management in the trading book is to generate an additional gain on the portfolio of financial instruments by using projected changes in the level of market interest rates within the limits of the rights held and the limits granted. The scale of the Bank's operations in the trading book is insignificant.

Interest rate risk management involves minimising the risk of adverse impact of changes in market interest rates on the financial position of the Bank / Group through, among other measures:

- setting and observing limits reducing the acceptable level of interest rate risk,
- preparing periodic analyses examining the level of interest rate risk and sensitivity of profit or loss to interest rate changes,
- entering into transactions limiting risk exposure (derivatives, sale/purchase of fixed coupon securities).

The effectiveness of risk management (including its hedging) is evaluated on the basis of the level of utilisation of limits on exposure to risk.

The Bank complies with the EBA guidelines on the management of interest rate risk arising from non-trading activities.

Interest rate risk is monitored, among others, through:

- analysis of assets, liabilities and off-balance sheet items sensitive to changes in interest rates broken down into currencies, according to the repricing of interest rates,
- analysis of underlying risk, profitability curve risk and customer option risk,
- testing the sensitivity of profit or loss to changes in interest rates (EaR method),
- analysis of exposure of the economic value of equity (EVE method),
- analysis of value at risk of the Bank's portfolio related to market valuation (VaR method) and backtesting of VaR model,
- stress tests showing the susceptibility of the Bank to losses in case of unfavourable market conditions or in case the key assumptions of the Bank become invalid,
- analysis of changes in the interest margin and its impact on the Bank's profit or loss.

The process of managing and measuring interest rate risk, its control and monitoring is supported by a number of IT tools whose key element is the Market Analysis and Liquidity Risk System (SARRP).
The Financial Risk Department monitors interest rate risk parameters and provides a full set of information on interest rate risk to the Assets and Liabilities Committee. The report contains, among other things, information on the size of risk measures and the degree of utilisation of individual internal limits.

Analysis of sensitivity to interest rate risk

Analysis of sensitivity to interest rate risk is prepared for the Bank's exposures – on a monthly basis, and for the Group's exposures – on a quarterly basis.

	31.12.2019		31.12.2018	
	EaR (+/- 25 pb) PLN '000	EVE (+/- 25 pb) PLN '000	EaR (+/- 25 pb) PLN '000	EVE (+/- 25 pb) PLN '000
Interest rate risk	8,545	6,469	8,109	12,056

The EaR measure represents a potential change in the Bank's / Group's net interest income (sensitivity of profit or loss) over the next 12 months if interest rates change by 25 basis points (parallel shift of the yield curve) for all currencies (according to the exposure direction for particular currencies).

The EVE measure represents a potential change in the Bank's / Group's economic value of equity if interest rates change by 25 basis points (parallel shift of the yield curve) for all currencies (according to the exposure direction for particular currencies).

When measuring its exposure to interest rate risk, the Group takes into account the impact of assumptions regarding deposits with an unspecified maturity, i.e. current deposits, by estimating the level of core deposits held on those accounts. The maturity/ revaluation date for such items is modelled on the basis of models specific to these balance sheet items.

In order to supplement information on the possible loss of the Bank/ Group due to unfavourable changes in interest rates, stress tests are also carried out quarterly on the simulation of the impact of major changes in market interest rates and the structure and balances of assets and liabilities as well as off-balance sheet items, on the level of interest rate risk to which the Bank/ Group is exposed as regards net interest income and valuation of the portfolio of receivables/ liabilities sensitive to interest rate risk.

The Bank tests changes in the structure of receivables and liabilities by taking into account the risk of the customer options (increased level of early repayments of fixed-rate loans or increased withdrawal of deposits - depending on the exposure direction) and potential changes in the Bank's income and changes in the economic value of the portfolio assuming "shocking" changes in interest rates, for the revised structure of the portfolio. As regards assumptions concerning changes in interest rates, the Bank adopts the following options:

- parallel shifts in the yield curve,
- different nature of changes in the shape of the yield curve.

In addition, the Bank carries out quarterly supervisory stress tests as set out in EBA/GL/2018/02 guidelines, involving a parallel shift by +/- 200 basis points (the so-called "standard supervisory shock") and six specific EBA supervisory scenarios with different nature of yield curve changes.

The table below presents a breakdown of the Group's assets, liabilities and off-balance sheet items classified as at 31 December 2019 and 2018 by the interest rate risk criterion. Carrying amounts of fixed-rate financial instruments are presented broken down by group of held-to-maturity instruments. Carrying amounts of floating-rate financial instruments are presented broken down by group of instruments according to contractual interest fixing dates.

Breakdown of assets, liabilities and off-balance sheet items by the interest rate risk criterion as at 31.12.2019	up to 1 month PLN '000	from 1 to 3 months PLN '000	from 3 months to 1 year PLN '000	from 1 to 5 years PLN '000	more than 5 years PLN '000	non-interest bearing assets/liabilities PLN '000	Total PLN '000
ON-BALANCE SHEET ITEMS							
Cash and balances with the Central Bank	1,638,638	-	-	-	-	199,209	1,837,847
Amounts due from banks and financial institutions	1,608,664	-	-	-	-	-	1,608,664
Financial assets held for trading and measured at fair value through profit or loss	1,238	5,311	-	-	-	123,850	130,399
Loans and advances to customers	19,375,957	15,809,195	1,008,739	861,718	71,280	-	37,126,889
Other financial instruments	4,167,489	146,610	3,711,102	960,460	660,816	70,111	9,716,588
Other assets	-	-	-	-	-	2,408,052	2,408,052
Total assets	**26,791,986**	**15,961,116**	**4,719,841**	**1,822,178**	**732,096**	**2,801,222**	**52,828,439**
Amounts due to banks and financial institutions	169,873	243,897	392,628	-	-	-	806,398
Amounts due to customers	21,702,284	12,443,881	8,579,804	3,215,911	227,493	-	46,169,373
Debt securities issued	732,247	561,960	777,648	-	-	-	2,071,855
Other liabilities	-	-	-	-	-	1,245,864	1,245,864
Total liabilities	**22,604,404**	**13,249,738**	**9,750,080**	**3,215,911**	**227,493**	**1,245,864**	**50,293,490**
Equity	**-**	**-**	**-**	**-**	**-**	**2,534,949**	**2,534,949**
Total liabilities and equity	**22,604,404**	**13,249,739**	**9,750,080**	**3,215,911**	**227,493**	**3,780,813**	**52,828,439**
BALANCE SHEET GAP	**4,187,582**	**2,711,378**	**(5,030,239)**	**(1,393,733)**	**504,603**	**(979,591)**	**-**
OFF-BALANCE-SHEET ITEMS							
Interest rate contracts							
Receivables	3,545,853	5,838,203	50,104	103,197	21,836	1,759,163	11,318,356
Liabilities	3,712,222	6,123,543	49,022	17,900	-	1,758,919	11,661,606
BALANCE SHEET GAP	**(166,369)**	**(285,340)**	**1,082**	**85,297**	**21,836**	**244**	**(343,250)**
TOTAL GAP	**4,021,213**	**2,426,038**	**(5,029,157)**	**(1,308,436)**	**526,439**	**(979,347)**	**(343,250)**

Breakdown of assets, liabilities and off-balance sheet items by the interest rate risk criterion as at 31.12.2018 (restated)	up to 1 month PLN '000	from 1 to 3 months PLN '000	from 3 months to 1 year PLN '000	from 1 to 5 years PLN '000	more than 5 years PLN '000	non-interest bearing assets/liabilities PLN '000	Total PLN '000
ON-BALANCE SHEET ITEMS							
Cash and balances with the Central Bank	1,227,617	-	-	-	-	284,886	1,512,503
Amounts due from banks and financial institutions	1,648,942	-	-	-	-	-	1,648,942
Financial assets held for trading and measured at fair value through profit or loss	924	3,488	243	-	214	148,580	153,449
Loans and advances to customers	20,837,183	17,067,962	1,478,673	826,747	123,694	-	40,334,259
Other financial instruments	1,991,911	190,975	943,742	31,793	398,622	35,586	3,592,629
Other assets						2,661,127	2,661,127
Total assets	**25,706,577**	**17,262,425**	**2,422,658**	**858,540**	**522,530**	**3,130,179**	**49,902,909**
Amounts due to banks and financial institutions	5,046,330	445,600	-	-	-	-	5,491,930
Amounts due to customers	16,438,659	7,918,077	9,101,271	3,410,292	206,596	-	37,074,895
Debt securities issued	1,723,061	745,079	896,683	10,085	-	-	3,374,908
Other liabilities						944,590	944,590
Total liabilities	**23,208,050**	**9,108,756**	**9,997,954**	**3,420,377**	**206,596**	**944,590**	**46,886,323**
Equity						**3,016,586**	**3,016,586**
Total liabilities and equity	**23,208,050**	**9,108,756**	**9,997,954**	**3,420,377**	**206,596**	**3,961,176**	**49,902,909**
BALANCE SHEET GAP	**2,498,527**	**8,153,669**	**(7,575,296)**	**(2,561,837)**	**315,934**	**(830,997)**	**-**
OFF-BALANCE-SHEET ITEMS							
Interest rate contracts							
Receivables	4,084,330	5,946,100	889,492	173,708	30,881	2,788,341	13,912,852
Liabilities	4,201,705	6,099,002	996,699	72,306	18,678	2,799,414	14,187,804
BALANCE SHEET GAP	**(117,375)**	**(152,902)**	**(107,207)**	**101,402**	**12,203**	**(11,073)**	**(274,952)**
TOTAL GAP	**2,381,152**	**8,000,767**	**(7,682,503)**	**(2,460,435)**	**328,137**	**(842,070)**	**(274,952)**

5. Risk related to derivatives

Basic types of risk related to derivative financial instruments are market risk and credit risk. At initial recognition derivative financial instruments usually are of zero or low market value. This is due to the fact that no initial net investment or proportionally low investment is required in comparison with other types of agreements with similar reactions to changes of market conditions.

Derivative financial instruments take a positive or negative value along with changes of specific interest rate, price of securities, commodity price, exchange rate, price index, credit classification, credit index or other market parameter. As a result of these changes, derivatives held become more or less profitable in comparison with instruments with the same residual maturity date which are available on the market at a given point in time. Credit risk related to derivatives is a potential cost of signing a new contract on the original terms if the other party to the original contract does not fulfil its obligation. In order to estimate the value of the potential replacement cost, the Bank uses the same methods as for the assessment of market risk incurred. To control the level of credit risk assumed, the Bank assesses other parties to contracts by using the same methods as those used for making credit decisions.

The Group companies enter into transactions on derivative financial instruments with domestic and foreign banks. Transactions are concluded within the credit limits allocated to particular institutions. On the basis of the adopted procedure for assessing banks' financial standing, the Bank determines limits of maximum exposure for banks. Percentage exposure limits for particular types of transactions are determined within these limits.

6. Hedge accounting

Getin Noble Bank S.A. is the only company in the Group that applies hedge accounting.

As part of the cash flow hedge accounting for the portfolio of mortgage loans in CHF and the portfolio of term deposits in PLN, the Bank established two separate hedging relationships. The actual CIRS float-to-float CHF/PLN transactions were split into two artificial transactions:

- the artificial CIRS float-to-fixed CHF/PLN transaction hedging currency risk and interest rate risk of the CHF-indexed mortgage loan portfolio – type A hedging relationship;
- the artificial IRS fixed-to-float PLN transaction hedging interest rate risk of the portfolio of term deposits in PLN – type B hedging relationship.

At the inception of the hedging relationship and during the term of the hedging relationship, the fair value of the artificial transactions is equal to the fair value of the actual transactions.

In order to reflect the cash flows on hedged transactions, hypothetical hedged transactions are created. As part of the type A hedging relationship – float-to-fixed CHF/PLN transactions are created; the notional amount in CHF corresponds to the notional amount of the actual hedging transaction in CHF, while the notional amount in PLN depends on the exchange rate as at the date of establishing the hedging relationship. The variable leg of a hypothetical transaction reflects cash flows from the CHF-indexed mortgage loan portfolio.

As part of the type B hedging relationship hedging interest rate risk of the portfolio of term deposits in PLN, a hypothetical IRS fixed-to-float PLN transaction was created with a notional amount determined in PLN and equal to the notional amount of the PLN leg of the actual CIRS float-to-float CHF/PLN transaction as at the date of establishing the hedging relationship.

Throughout the hedging period, the Bank measures the effectiveness of the hedging relationship. A change in the fair value of hedging instruments is recognised in revaluation reserve in the amount of the effective portion of the hedge.

The ineffective part of the hedge is recognised in the income statement under "Gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income". The effective portion accumulated in the revaluation reserve is gradually reclassified (amortised) in accordance with the schedule established by the Bank to profit or loss in the period until the maturity date of the original portfolio (straight-eight amortisation, over time).

The Bank discontinues hedge accounting when the hedging instrument expires, or is sold, terminated or exercised, when the hedge no longer meets the criteria of hedge accounting or when the Bank terminates the hedging relationship.

The main sources of ineffectiveness identified by the Bank regarding the cash flow hedge relationships:
- differences in the notional amount of the PLN leg of artificial and hypothetical CIRS transactions, resulting from the passage of time and exchange rate changes between the execution of a hedging transaction and its inclusion in the hedging relationship;
- differences in the interest rate on hedged and hedging instruments;
- differences in the timing of revaluation of hedging instruments, i.e. currency interest rate swaps (CIRSs) and hedged items.

As at 31 December 2019, the effective change in the fair value of hedging instruments recognised in the revaluation reserve amounts to PLN -15,149 thousand. Cash flows from the hedged item will occur in the period from 1 January 2020 to 8 August 2022, i.e. until the maturity date of the longest CIRS transaction.

The maturity structure of CIRS hedging transactions (in nominal value) is presented below:

	31.12.2019	
	Receivables PLN '000	Liabilities PLN '000
Maturity of CIRS hedging transactions:		
up to 1 month	-	-
from 1 to 3 months	-	-
from 3 months to 1 year	4,433,971	4,803,593
from 1 to 5 years	4,080,595	4,078,152
Total CIRS hedging transactions	**8,514,566**	**8,881,745**

	31.12.2018	
	Receivables PLN '000	Liabilities PLN '000
Maturity of CIRS hedging transactions:		
up to 1 month	194,750	190,830
from 1 to 3 months	-	-
from 3 months to 1 year	2,525,315	2,671,620
from 1 to 5 years	6,765,716	6,927,129
Total CIRS hedging transactions	**9,485,781**	**9,789,579**

The table below presents the fair value of cash flow hedges as at 31 December 2019 and 31 December 2018. The carrying amount of the hedging instrument is disclosed as its fair value.

	31.12.2019 PLN '000	31.12.2018 PLN '000
CIRS – positive valuation	73,610	171,805
CIRS – negative valuation	(405,032)	(455,828)

The change in fair value of cash flow hedges recognised in equity is presented below:

	01.01.2019-31.12.2019 PLN '000	01.01.2018-31.12.2018 PLN '000
Accumulated comprehensive income at the beginning of the period (before tax)	**(55,273)**	**(80,025)**
Losses on hedging instrument	(14,960)	(338,764)
Amount reclassified from other comprehensive income to profit or loss during period, of which:	51,530	363,517
interest income	(209,641)	(230,305)
Foreign exchange gains	261,171	593,822
Accumulated comprehensive income at the end of the period (before tax)	**(18,703)**	**(55,272)**
Tax effect	3,554	10,502
Accumulated comprehensive income at the end of the period (net of tax)	**(15,149)**	**(44,770)**
Ineffective portion of cash flow hedges recognised in profit or loss	**(28,844)**	**(9,626)**
Effect on other comprehensive income (before tax) during period	**36,570**	**24,753**
Deferred tax on cash flow hedges	(6,948)	(4,703)
Effect on comprehensive income (net of tax) during period	**29,622**	**20,050**

The effect of measuring the effectiveness of the hedging relationship on profit or loss and on other comprehensive income is presented below:

Amounts before tax	01.01.2019-31.12.2019		01.01.2018-31.12.2018	
	Type A relationship PLN '000	Type B relationship PLN '000	Type A relationship PLN '000	Type B relationship PLN '000

Accumulated comprehensive income at the beginning of the period (open hedging relationships)	36,494	(50,979)	70,411	(149,698)
Accumulated comprehensive income at the beginning of the period (amortisation to be accounted for on account of discontinued relationships)	49,546	(90,333)	6,248	(6,986)
Accumulated comprehensive income at the end of the period (open hedging relationships)	19,881	(26,187)	36,494	(50,979)
Accumulated comprehensive income at the end of the period (amortisation to be accounted for on account of discontinued relationships)	28,279	(40,675)	49,546	(90,333)
Effect on other comprehensive income during period	**(37,880)**	**74,450**	**9,381**	**15,372**
Ineffective portion of cash flow hedges recognised in profit or loss	(8,945)	(508)	2,768	(1,369)
Amortisation of discontinued hedging relationships recognised in profit or loss	41,415	(60,806)	10,467	(21,492)
Effect on profit or loss in the period	**32,470**	**(61,314)**	**13,235**	**(22,861)**

Getin Noble Bank S.A. applies fair value hedge accounting. The Bank applies portfolio fair value hedges for fixed-rate deposits in PLN against the risk of changes in the WIBOR benchmark interest rate. The hedging instrument is a part or all of the cash flows from IRS transactions entered into by the Bank. The Bank designates hedging relationships based on the analysis of sensitivity of the fair value of the hedged portfolio of deposits and the portfolio of hedging instruments to the risk of changes in the WIBOR benchmark interest rate. This analysis is based on two measures: "BPV" and "duration". The effectiveness of the hedging relationship is measured on a monthly basis.

The main sources of ineffectiveness identified by the Bank regarding the fair value hedge relationships:

- impact of counterparty credit risk and the Bank's own credit risk on the fair value of hedging instruments, i.e. interest rate swaps (IRSs), which is not reflected in the fair value of the hedged item;
- differences in the interest rate on hedged and hedging instruments;
- differences in the maturity dates of hedged and hedging instruments.

The fair value of IRS transactions designated as fair value hedges of fixed-rate deposits in PLN against interest rate risk as at 31 December 2019 and 31 December 2018 is presented in the table below:

	31.12.2019 PLN '000	31.12.2018 PLN '000
The fair value of IRS transactions designated as fair value hedges of deposits from individuals against interest rate risk	8,132	9,254

During the reporting period, the Bank recognised the following amounts on account of change in the fair value of the hedging instrument and the hedged item:

	01.01.2019-31.12.2019		01.01.2018-31.12.2018	
	On the hedging instrument PLN '000	On the hedged item – attributable to the hedged risk PLN '000	On the hedging instrument PLN '000	On the hedged item – attributable to the hedged risk PLN '000
Gains	-	-	325	-
Losses	1,123	936	-	1,581
Total	1,123	936	325	1,581

From 1 January to 31 December 2019, the Group recognised amortisation of the change in fair value of the hedged item in the amount of PLN 1,569 thousand (PLN 1,288 thousand in the period from 1 January to 31 December 2018).

The profile of time distribution of notional amounts and corresponding average interest rates of hedging instruments is presented below:

Fixed-to-float interest rate swaps (PLN IRSs)	Notional value of hedging instruments by maturity							
	from 1 month		from 1 month to 3 months		from 3 months to 1 year		from 1 to 5 years	
	notional amount (PLN '000)	average % (fixed/ floating)	notional amount (PLN '000)	average % (fixed/ floating)	notional amount (PLN '000)	average % (fixed/ floating)	notional amount (PLN '000)	average % (fixed/ floating)
As at 31.12.2019	-	-	-	-	-	-	95,000	4.1% / 1.8%
As at 31.12.2018	-	-	-	-	-	-	95,000	4.1% / 1.8%

7. Capital management

The primary objective of capital management strategy in the Bank is to have an adequate level of capital hedging the risk assumed.

Total capital ratio is a measure of the capital adequacy, reflecting the ratio of own funds (after mandatory reductions) to the sum of risk-weighted assets and off-balance sheet items. The capital adequacy ratio assigns the percentage weights to assets and off-balance sheet items according to, among others, the level of credit risk, market risk, currency risk or interest rate risk.

The capital management, in accordance with regulatory requirements, is in place also on the subsidiary level at Noble Securities S.A.

Noble Securities S.A., as a brokerage house, is obliged to maintain capital requirements in accordance with the Act of 29 July 2005 on financial instrument trading and the CRR Regulation on prudential requirements for

credit institutions and investment firms. The company controls financial liquidity and capital adequacy ratios on an ongoing basis. All significant financial information, including information regarding to financial liquidity and capital adequacy, is submitted to the Supervisory Board of Noble Securities S.A. Information on the level of own funds is submitted to the Polish Financial Supervision Authority. As at 31 December 2019, the company's own funds and common equity Tier 1 capital stood at PLN 66,602 thousand. Statutory minimal initial capital of Noble Securities S.A. amounts to PLN 3,109 thousand. Moreover, as at 31 December 2019 the company set the total risk exposure in the amount of PLN 295,440 thousand and calculated total capital requirement (requirement due to so-called II Pillar) in the amount of PLN 33,867 thousand. As at 31 December 2019 the company had not any additional Tier 1 capital and Tier 2 capital. The level of own funds of Noble Securities S.A. as at 31 December 2019 was higher than internal capital, Tier 1 common equity ratio was higher than 4.5%, Tier 1 capital ratio was higher than 6%, total capital ratio was higher than 8%, which means that the company complied with capital adequacy requirements.

8. Capital ratio

As at 31 December 2019 and 31 December 2018, the capital ratio was calculated in accordance with *Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms* (CRR).

Capital ratio	31.12.2019 PLN '000	31.12.2018 (restated) PLN '000
TIER 1 CAPITAL	**3,216,844**	**3,854,209**
Equity instruments eligible as Tier 1	2,851,630	2,751,630
Retained earnings / (accumulated losses)	(176,924)	(1,284,241)
Accumulated other comprehensive income/ (losses)	(112,191)	(192,489)
Other reserves	660,684	2,216,756
Intangible assets	(288,805)	(261,778)
Current loss (-)	(596,750)	(470,897)
Amortisation of the impact of IFRS 9 during the transitional period	944,195	1,099,060
Additional value adjustments arising from prudent valuation (AVA)	(10,585)	(3,832)
Deduction from CET1 items (10%)	(54,410)	-
TIER 2 CAPITAL	**684,792**	**1,016,266**
Subordinated loans eligible as Tier 2	684,792	1,016,266
TOTAL OWN FUNDS	**3,901,636**	**4,870,475**
Own funds requirements		
Credit risk	2,939,115	3,229,244
Operational risk	179,770	187,192
Position risk	1,117	3,522
CVA	6,935	13,882
Commodities risk	1,826	1,140
TOTAL CAPITAL REQUIREMENT	**3,128,763**	**3,434,980**
CAPITAL RATIOS		
CET1 Capital ratio	8.2%	9.0%
T1 Capital ratio	8.2%	9.0%
Total capital ratio	10.0%	11.3%

As of 1 January 2019, the level of amortisation of the effects of implementation of IFRS 9 in 2018 increased from 5% to 15% (The Bank exercised an option enabling this approach specified in the Regulation (EU) 2017/2395 of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State).

As of 1 January 2018, the Bank does not meet the minimum required level of the combined capital buffer. The reasons for this and the measures taken to return to the required level have been described in Section II, which has its origin mainly in the legal and regulatory factors described in more detail in Section II.5.2.

As at 31 December 2019, the capital ratios applicable to Getin Noble Bank S.A. were as follows:

- Tier 1 capital ratio: 12.49%,
- total capital ratio (CET 1): 14.82%,

The capital ratios required take into account:

- additional capital requirements for the Bank's own funds to cover the risk associated with the portfolio of foreign currency mortgage loans for households; on the basis of an individual PFSA's recommendation for Getin Noble Bank S.A. of November this year, the Bank is required to maintain an additional capital requirement at 1.32 p.p. over the value of the total capital ratio and 0.99 p.p. over the Tier 1 capital ratio,
- safety buffer of 2.5 p.p. in terms of the capital ratio based on Tier 1 capital (CET 1) and total capital ratio (TCR) – resulting from the provisions of the Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial system – on 1 January 2019, the safety buffer increased by 0.625 p.p.,
- systemic risk buffer of 3% – effective for banks from 1 January 2018 to 19 February 2020 (Regulation of the Minister of Development and Finance dated 1 September 2017 repealed by Regulation of the Minister of Development and Finance dated 18 March 2020).

9. Compliance risk

Compliance risk is a risk of bearing the consequences of failure to comply with legal regulations (including laws, regulations, resolutions) together with prudential regulations, internal regulations or internally adopted market standards, rules or codes of conduct.

The compliance risk management process includes: risk identification, risk assessment, risk control, monitoring of the size and profile of risks after the application of compliance risk controls and risk reporting.

In the process of compliance risk identification, the Bank carries out ongoing analyses of the applicable laws, prudential regulations, internal regulations and standards of conduct adopted by the Bank, and collects information on the existing cases of non-compliance and reasons for their occurrence. When assessing the risk, the Bank defines the nature and potential scale of financial losses or legal sanctions. Monitoring of compliance risk involves the systematic observation and tracking changes of the compliance risk profile, as well as the effectiveness of applied methods of compliance risk reduction. The process of compliance risk control and reduction at the Bank includes: activities to prevent the occurrence of non-compliance and violations, elimination of identified non-compliance incidents and minimize the impact of their occurrence and covers following aspects: preventive (i.e. allowing risk reduction through implementation of procedures and solutions ensuring compliance) and mitigating (i.e. risk management upon identification of non-compliance and aimed at alleviating the possible negative outcomes of risks). Reporting includes in particular the results of identification, including identified irregularities, compliance risk assessment, including information on cases of non-compliance and the results of monitoring and controls, including major changes

in the regulatory environment, results of monitoring of testing of key compliance controls. The reports are submitted in particular to the Operational Risk, Quality and Processes Committee, President of the Management Board, Management Board, Audit Committee and Supervisory Board of the Bank.

In the process of compliance risk management, the Bank takes into account risks resulting from activities of entities of the Getin Noble Bank S.A. Capital Group.

(figures in PLN '000)

Signatures of members of the Management Board of Getin Noble Bank S.A.:

Artur Klimczak	*President of the Management Board*	Signed with a qualified electronic signature The signature is correct Document signed by Artur Klimczak; Getin Noble Bank S. A. Date: 2020.03.31 13:39:19 CEST
Karol Karolkiewicz	*Member of the Management Board*	Signed with a qualified electronic signature The signature is correct Document signed by Karol Karolkiewicz; Getin Noble Bank S. A. Date: 2020.03.31 13:35:04 CEST
Maciej Kleczkiewicz	*Member of the Management Board*	Signed with a qualified electronic signature The signature is correct Document signed by Maciej Kleczkiewicz; Getin Noble Bank S. A. Date: 2020.03.31 13:41:51 CEST
Tomasz Misiak	*Member of the Management Board*	Signed with a qualified electronic signature The signature is correct Document signed by Tomasz Misiak; Getin Noble Bank S. A. Date: 2020.03.31 13:50:26 CEST
Marcin Romanowski	*Member of the Management Board*	Signed with a qualified electronic signature The signature is correct Document signed by Marcin Romanowski; Getin Noble Bank S. A. Date: 2020.03.31 13:32:20 CEST
Maja Stankowska	*Member of the Management Board*	Signed with a qualified electronic signature The signature is correct Document signed by Maja Stankowska; Getin Noble Bank S. A. Date: 2020.03.31 13:46:50 CEST
Wojciech Tomasik	*Member of the Management Board*	Signed with a qualified electronic signature The signature is correct Document signed by Wojciech Tomasik; Getin Noble Bank S. A. Date: 2020.03.31 13:44:23 CEST

Signature of the person responsible for keeping the accounting records:

Michał Sasim	*Director of the Accounting Department*	Signed with a qualified electronic signature The signature is correct Document signed by Michał Sasim Date: 2020.03.31 12:35:51 CEST

Warsaw, 31 March 2020