**SANTANDER CONSUMER BANK S.A.**

**Wrocław, ul. Strzegomska 42c**

# FINANCIAL STATEMENTS FOR THE 2015 FINANCIAL YEAR

**prepared in accordance with the International Financial Reporting Standards as approved by the European Union**

**Including an independent auditor's opinion**

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## I) Statement of comprehensive income

Prepared for the years ended 31 December 2015 and 31 December 2014 (PLN '000).

| Item | Note | 2015 | 2014 |
|---|---|---|---|
| **Continuing operations** | | | |
| Interest income | 6 | 1 381 582 | 1 394 589 |
| Interest expense | 7 | -347 873 | -431 754 |
| **Net interest income** | | **1 033 709** | **962 835** |
| Commission income | 8 | 260 723 | 252 480 |
| Commission expenses | 9 | -86 534 | -80 125 |
| **Net commission income** | | **174 189** | **172 355** |
| Result on financial operations and FX result | 10 | 21 471 | -393 |
| **Result on banking activities** | | **1 229 369** | **1 134 797** |
| Other operating income | 11 | 13 938 | 23 692 |
| Bank's operating expenses | 12 | -512 641 | -451 066 |
| Depreciation and amortization | 12 | -34 959 | -42 989 |
| Impairment losses on financial assets | 13 | -122 514 | -41 124 |
| Other operating expenses | 14 | -23 980 | -18 378 |
| **Result on operating activities** | | **549 213** | **604 932** |
| **Gross profit** | | **549 213** | **604 932** |
| Income tax | 15 | -114 627 | -131 563 |
| **Net profit** | | **434 586** | **473 369** |
| **Other comprehensive income that can be reclassified to financial profit/loss** | | | |
| Measurement of financial assets available for sale | 37 | 9 790 | 5 583 |
| Effective portion of a hedging relationship in cash flow hedge accounting | 37 | 4 342 | 3 045 |
| Deferred tax | 37 | -2 685 | -1 639 |
| **Total other comprehensive income** | | **11 447** | **6 989** |
| **Total comprehensive income** | | **446 033** | **480 358** |

The Bank did not recognize any other comprehensive that could be reclassified to the profit/loss in 2015 or 2014.

Notes presented below constitute an integral part of these financial statements.

## II) Statement of financial position

Prepared as at 31 December 2015 and 31 December 2014 (PLN '000)

| **ASSETS** | **Note** | **31.12.2015** | **31.12.2014** (restated data) |
|---|---|---|---|
| Cash and balances in the Central Bank | 17 | 100 307 | 239 409 |
| Accounts and deposits in other banks | 18 | 66 407 | 67 879 |
| Financial assets available for sale | 19 | 2 120 371 | 2 599 522 |
| Hedging derivatives | 21 | 1 955 | 0 |
| Loans and advances granted to clients | 22 | 13 284 496 | 12 458 352 |
| Shares and interests in subsidiaries | 23 | 96 199 | 142 433 |
| Intangible assets | 24 | 15 054 | 37 501 |
| Property, plant and equipment | 25 | 57 533 | 57 268 |
| Other assets | 26 | 213 606 | 151 505 |
| Deferred tax asset | 27 | 361 430 | 307 584 |
| Prepayments | 28 | 69 621 | 63 956 |
| **TOTAL ASSETS** | | **16 386 979** | **16 125 409** |

| **EQUITY AND LIABILITIES** | **Note** | **31.12.2015** | **31.12.2014** (restated data) |
|---|---|---|---|
| **LIABILITIES** | | | |
| Liabilities to banks | 29 | 2 553 276 | 3 001 066 |
| Financial liabilities held for trading | 20 | 1 353 | 0 |
| Hedging derivatives | 21 | 61 780 | 40 017 |
| Liabilities to clients | 30 | 8 920 340 | 8 266 164 |
| Liabilities arising from issue of debt securities | 31 | 1 570 351 | 1 959 058 |
| Other liabilities, including: | 32 | 106 744 | 177 888 |
| *– income tax liability* | | *37 466* | *105 299* |
| Accrued expenses and deferred income | 33 | 332 180 | 291 012 |
| Restructuring and other provisions | 34 | 43 126 | 38 408 |
| Subordinated debt | 35 | 100 000 | 100 000 |
| **TOTAL LIABILITIES** | | **13 689 150** | **13 873 613** |
| **EQUITY** | | | |
| Share capital | 36 | 520 000 | 520 000 |
| Share premium | 36 | 768 047 | 768 047 |
| Other reserves | 37 | 738 512 | 490 380 |
| Retained earnings | 38 | 671 270 | 473 369 |
| **TOTAL EQUITY** | | **2 697 829** | **2 251 796** |
| **TOTAL EQUITY AND LIABILITIES** | | **16 386 979** | **16 125 409** |

*Restated data for 2014 is presented in Note 47 *Changes in the presentation of financial data*.

Notes presented below constitute an integral part of these financial statements.

## III) Statement of changes in equity

Prepared for the year ended 31 December 2015 (PLN '000)

| | Share capital | Share premium | Other supplementary capital | Revaluation reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| **Note** | 36 | 36 | 37 | 37 | 38 | |
| **Opening balance of equity** | **520 000** | **768 047** | **493 843** | **-3 463** | **473 369** | **2 251 796** |
| - net profit | 0 | 0 | 0 | 0 | 434 586 | **434 586** |
| - other comprehensive income for the year | 0 | 0 | 0 | 11 447 | 0 | **11 447** |
| – reclassification of profit to supplementary capital | 0 | 0 | 236 685 | 0 | -236 685 | **0** |
| **Closing balance of equity** | **520 000** | **768 047** | **730 528** | **7 984** | **671 270** | **2 697 829** |

Prepared for the year ended 31 December 2014 (PLN '000)

| | Share capital | Share premium | Other supplementary capital | Revaluation reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| **Note** | 36 | 36 | 37 | 37 | 38 | |
| **Opening balance of equity** | **520 000** | **768 047** | **493 843** | **-10 452** | **382 481** | **2 153 919** |
| - net profit | 0 | 0 | 0 | 0 | 473 369 | **473 369** |
| - other comprehensive income for the year | 0 | 0 | 0 | 6 989 | 0 | **6 989** |
| – dividend payments | 0 | 0 | 0 | 0 | -382 481 | **-382 481** |
| **Closing balance of equity** | **520 000** | **768 047** | **493 843** | **-3 463** | **473 369** | **2 251 796** |

Notes presented below constitute an integral part of these financial statements.

## IV) Statement of cash flows

Prepared for the years ended 31 December 2015 and 31 December 2014 (PLN '000)

| CASH FLOWS | Note | 2015 | 2014 |
|---|---|---|---|
| **A. NET CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Net profit** | | **434 586** | **473 369** |
| **Total adjustments:** | | **-653 221** | **1 091 892** |
| Depreciation/ amortization | 12 | 34 959 | 42 989 |
| Profit/ (loss) on investing activities | 42 | 13 349 | 1 210 |
| Income tax paid | 42 | -238 992 | -129 076 |
| Change in debt securities | 42 | 6 194 | 559 |
| Change in receivables from banks | 42 | 2 | 276 722 |
| Change in receivables in respect of loans and advances granted to clients | 42 | -1 695 817 | -2 025 714 |
| Change in liabilities to banks | 42 | -398 036 | 528 082 |
| Change in liabilities to clients | 42 | 929 697 | 1 476 142 |
| Change in liabilities arising from issue of debt securities | 42 | 55 821 | 78 672 |
| Change in other liabilities | 42 | 167 850 | 178 272 |
| Change in prepayments | 42 | -21 029 | -34 026 |
| Change in provisions | 34 | 4 718 | -1 391 |
| Change in other assets | 42 | -186 600 | -196 845 |
| Sale of impaired loan receivables | 42 | 60 445 | 36 350 |
| Measurement of derivatives charged to profit/loss | 42 | 2 902 | 59 267 |
| Interest | 42 | 505 674 | 727 693 |
| Dividends and other payments from subsidiaries | 42 | 64 056 | 32 669 |
| Other adjustments | 42 | 41 586 | 40 317 |
| **Net cash flows from operating activities** | | **-218 635** | **1 565 261** |
| **B. NET CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| **Inflows from investing activities** | | **29 747 438** | **19 128 247** |
| Disposal of intangible assets and property, plant and equipment | 42 | 75 | 547 |
| Proceeds from redemption of debt securities | 42 | 29 745 555 | 19 127 700 |
| Proceeds from the measurement of financial assets available for sale | | 1 808 | 0 |
| **Outflows from investing activities** | | **-29 286 171** | **-20 435 572** |
| Purchase of intangible assets and property, plant and equipment | 24, 25 | -23 151 | -19 442 |
| Proceeds from purchase of debt securities | 42 | -29 263 020 | -20 416 130 |
| **Net cash flows from investing activities** | | **461 267** | **-1 307 325** |
| **C. NET CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| **Inflows from financing activities** | | **345 000** | **845 000** |
| Issuance of debt securities | 31 | 345 000 | 845 000 |
| **Outflows from financing activities** | | **-728 200** | **-1 305 081** |
| Dividends and other payments to shareholders | 38 | 0 | -382 481 |
| Repayment of subordinated liabilities | | 0 | -50 000 |
| Redemption of debt securities | 31 | -728 200 | -872 600 |
| **Net cash flows from financing activities** | | **-383 200** | **-460 081** |
| **D. TOTAL NET CASH FLOWS (A+/-B+/-C)** | | **-140 568** | **-202 145** |
| **E. BALANCE SHEET CHANGE IN CASH** | | **-140 568** | **-202 145** |
| **F. OPENING BALANCE OF CASH** | 42 | **307 273** | **509 418** |
| **G. CLOSING BALANCE OF CASH** | 42 | **166 705** | **307 273** |

Notes presented below constitute an integral part of these financial statements.

*PLN '000*

## Accounting policies and notes

### 1 Details of the Bank

| | |
|---|---|
| Name: | Santander Consumer Bank Spółka Akcyjna (hereinafter "the Bank") |
| Registered address: | ul. Strzegomska 42c, 53-611 Wrocław |
| Country of incorporation: | Poland |
| Statistical number (REGON): | 012736938 |
| TAX IDENTIFICATION NUMBER (NIP): | 527-20-46-102 |
| Register: | District Court for Wrocław, VI Business Division of the National Court Register, KRS 0000040562 |

The scope of business activities defined in the National Court Register:

- opening and keeping bank accounts,
- accepting saving and term deposits,
- handling cash settlements,
- granting and contracting loans and advances,
- handling cheque and bill of exchange operations,
- accepting and making money deposits in local and foreign banks and other financial institutions,
- giving bank guarantees and accepting securities and bank guarantees,
- organizing credit consortia,
- performing banking operations upon request of other banks,
- performing lease, factoring and forfaiting operations,
- providing financial and investment advisory services as well as providing agency and representation services within the scope of operations of the Bank,
- purchasing, selling and intermediating in trade of receivables and liabilities,
- purchasing and holding shares, bonds as well as other rights and securities issued by companies and other legal entities, coordination and management of operations of such companies and other legal entities,
- founding or assistance with founding companies or other legal entities whose establishing will be considered beneficial for the Bank, as well as assuming and purchasing shares or securities issued by these companies or legal entities in another form,
- performance of immediate and term transactions as well as other transactions on derivatives.

Bank Zachodni WBK S.A., with its registered office in Wrocław, is the Bank's parent company. The parent holds 60% of shares in the share capital of the Bank.
Banco Santander S.A., with its registered office in Santander, Spain, is the Bank's ultimate parent company.

Composition of the Management Board of Santander Consumer Bank S.A. at 31 December 2015:

- Arkadiusz Wiktor Przybył – President of the Management Board,
- Piotr Żabski – First Vice-President of the Management Board,
- Mariusz Klepacz - Member of the Management Board,
- Przemysław Kończal – Member of the Management Board,
- Oleksandr Krupchenko – Member of the Management Board,
- Rafał Szmuc – Member of the Management Board,
- Sebastian Ślanda – Member of the Management Board.

In 2015, the composition of the Management Board of the Bank did not change.

The financial statements of Santander Consumer Bank S.A. were prepared on a going concern basis in the foreseeable future, i.e. at least 12 months from 31 December 2015. The Management Board believes that as at the date of preparation of the financial statements there are no threats to the Bank's ability to continue as a going concern within at least 12 months from 31 December 2015.

The Bank applied exemption from the obligation to prepare consolidated financial statements as it meets conditions of IFRS 10.4. The ultimate parent company Bank Zachodni WBK S.A. prepares consolidated financial statements comprising Santander Consumer Bank S.A. and all the subsidiaries of Santander Consumer Bank S.A.
Bank Zachodni WBK S.A. was established and operates in Poland. The consolidated financial statements of Bank Zachodni WBK S.A. are available on the Bank's website http://www.bzwbk.pl.

The Bank did not discontinue any operation in 2015 or 2014.

## 2 Indication of periods covered by the financial statements and comparable financial data

These financial statements have been prepared for the period from 1 January 2015 to 31 December 2015.

The presented financial data for the prior year covers the period from 1 January 2014 to 31 December 2014.

## 3 Entity authorized to audit financial statements

Deloitte Polska Spółka z ograniczoną odpowiedzialnością sp.k., with its registered office in Warsaw, al. Jana Pawła II 19, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors.

## 4 Significant accounting principles

Key accounting principles used in the preparation of the financial statements are presented below. The rules were applied consistently in all presented periods.

### a) Statement of compliance

These financial statements were prepared in compliance with the International Financial Reporting Standards (IFRS) and IFRS adopted by the European Union. In view of the ongoing process of IFRS introduction in the EU and the business run by the Bank, as at the approval date of these financial statements, there are no differences between the already effective IFRS and the IFRS adopted by the EU in terms of the accounting principles applied by the Bank. IFRS consist of standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements were approved by the Management Board of the Bank on 9 February 2016.

**Standards and interpretations applied for the first time in 2015**

The accounting policies applied in preparation of the financial statements are consistent with those used for preparation of the Bank's financial statements for the year ended 31 December 2014, except the following amendments to the standards, new interpretations applicable to annual periods starting on 1 January 2015.
The following changes to the existing standards published by the International Accounting Standards Board and adopted by the EU became effective in 2015:

- **Revision of various standards *Revised IFRS (cycle 2011-2013)*** - resulting from the annual quality improvement in IFRS (IFRS 3, IFRS 13, and IAS 40) primarily with a view to removing inconsistencies and clarifying wording, endorsed by the EU on 18 December 2014 (to be applied to annual periods beginning on or after 1 January 2015);
- **IFRIC Interpretation 21 *Levies*** - endorsed by the EU on 13 June 2014 (applicable to annual periods beginning on or after 17 June 2014).

The above changes to standards did not have any significant effect on the financial statements of the Bank.

**Revisions and interpretations to the existing standards published by IASB and approved by the EU, but not yet effective**

During approval of these financial statements the Bank did not apply the following changes to the existing standards that have been published by IASB and approved for use in the EU, but which had not yet come into force:

- **Revision of various standards *Revised IFRS (cycle 2010-2012)*** - resulting from the annual quality improvement in IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording, endorsed by the EU on 17 December 2014 (to be applied to annual periods beginning on or after 1 February 2015);
- **Revised IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture*** – bearer plants (applicable to annual periods beginning on or after 1 January 2016);
- **Revised IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*** - clarification of acceptable methods of depreciation and amortization (applicable to annual periods beginning on or after 1 January 2016);
- **Revised IAS 19 *Employee Benefits*** – defined benefit plans: employee premiums, endorsed by the EU on 17 December 2014 (applicable to annual periods beginning on or after 1 February 2015);
- **Revised IFRS 11 *Joint Arrangements* –** accounting for acquisitions of interests in joint operations (applicable to annual periods beginning on or after 1 January 2016);
- **Revised IAS 1 Presentation of Financial Statements** – disclosures - endorsed by the EU on 18 December 2015 (applicable to annual periods beginning on or after 1 January 2016);
- **Revised IAS 27 *Separate Financial Statements*** – equity method in separate financial statements, endorsed by the EU on 18 December 2014 (effective for annual periods beginning on or after 1 January 2016);
- **Revision of various standards: Revised IFRS (cycle 2012-2014)** - resulting from the annual quality improvement in IFRS (IFRS 5, IFRS 7, IAS 19, and IAS 34) primarily with a view to removing inconsistencies and clarifying wording, endorsed by the EU on 15 December 2015 (to be applied to annual periods beginning on or after 1 February 2016).

**Standards and interpretations adopted by IASB, but not yet endorsed by the EU**

At present, IFRS in the form adopted by the EU do not differ significantly from regulations adopted by the International Accounting Standards Board (IASB), except the following standards as well as amendments to standards and interpretations which had not been adopted for use at 9 February 2016 (the following dates are effective dates of standards in the full version):

- **IFRS 9 *Financial Instruments*** (applicable to annual periods beginning on or after 1 January 2018);
- **IFRS 14 *Regulatory Deferral Accounts*,** (applicable to annual periods beginning on or after 1 January 2016) **–** the European Commission decided not to begin the process of approval for the use of this temporary standard in the EU until the final version of IFRS 14 is published;
- **IFRS 15 *Revenue from Contracts with Customers*** with revisions (applicable to annual periods beginning on or after 1 January 2018);
- **Revised IFRS 10 *Consolidated Financial Statements*** and **IAS 28 *Investments in Associates and Joint Ventures*** - sale or contribution of assets between an investor and an associate or joint venture, and subsequent revisions (the effective date has been postponed until enquiry into the equity method is completed);
- **Revised IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities*** and **IAS 28 *Investments in Associates and Joint Ventures* –** investment vehicles: consolidation relief (applicable to annual periods beginning on or after 1 January 2016);
- **IFRS 16 *Leasing*** (applicable to annual periods beginning on or after 1 January 2019);
- **Revised IAS 7 *Statement of Cash Flows*** – disclosures (applicable to annual periods beginning on or after 1 January 2017);
- **Revised IAS 12 *Income Taxes* –** recognizing deferred tax assets on unrealized losses (applicable to annual periods beginning on or after 1 January 2017).

In the Bank's estimation, the aforementioned standards, interpretations or revised standards would not have had a significant effect on the financial statements had they been adopted by the Bank at the balance sheet date, except IFRS 9 whose effects are still being analyzed by the Bank. At present, the impact of those changes cannot be reliably estimated due to the need to appropriately adjust the IT systems and credit risk models used by the Bank.

In addition, hedge accounting principles applicable to the portfolios of financial assets and liabilities continue to remain outside the scope of regulations adopted by the EU, as they have not been approved for use in the EU. In the Bank's estimation, application of hedge accounting with respect to its portfolio of financial liabilities in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, would not have a significant effect on the financial statements had they been adopted by the Bank at the balance sheet date.

**b) Basis for preparation of the financial statements**

The financial statements of Santander Consumer Bank S.A. for the period from 1 January 2015 to 31 December 2015 have been prepared in PLN and rounded up to rounded up to the nearest PLN thousand.

The financial statements are based on the historical cost concept, except assets which are measured at fair value through profit or loss and financial assets available for sale.

The statement of financial position was prepared on the basis of liquidity of assets.

**c) Accounting estimates**

While preparing the financial statements in line with IFRS, the Bank makes certain estimates and assumptions that influence the financial statements and notes.

Estimates and assumptions made as at the end of each reporting period reflect current conditions, i.e. market prices, interest rates, exchange rates, etc. Although the estimates are based on the best knowledge of current conditions and activities of the Bank, actual results may differ from the estimates.

The Bank discloses the nature and amounts of changes in estimates, if the change impacts the current period or it is reasonably expected to impact future periods.

Estimates and assumptions adopted by the Bank for the carrying amounts of assets and liabilities as well as revenue and expenses are calculated based on historical data and other information which is available and deemed appropriate under the given circumstances. The key assumptions for the future and other available data are used in determining the amounts of assets and liabilities presented in the financial statements that cannot be reliably evaluated using other sources. In making the assumptions, the Bank takes into account the causes and sources of uncertainty that it is able to foresee as at the date of preparation of the financial statements.

Estimates and assumptions adopted by the Bank are subject to ongoing reviews. Adjustments to estimates are recognized in the period in which the estimate in question was changed, provided it applies to this period only.

The key assumption concerning the future used in the Bank's estimates refer mainly to the following areas:

- **Impairment of financial assets**

  At the end of each month, the Bank assesses whether there is any objective impairment trigger of a financial asset or a group of financial assets. Indications of impairment are events or groups of events that took place after the initial recognition of an asset or a group of assets and could have adverse effect on the expected future cash flows of the financial asset or group of financial assets. Impairment loss is estimated at the moment of recognition of indications of impairment.

  The Bank adopts three approaches to measurement of impairment:

  – for loans with impairment trigger of a single asset considered individually significant, the impairment loss is estimated based on an analysis of future cash flows for each individual asset;
  – for loans with impairment trigger of a single asset not considered individually significant, the impairment loss is estimated on the level for separated exposure, based on expected average cash flows generated by particular credit portfolios;

- loans without impairment trigger of a single asset are collectively assessed for impairment following inclusion in a group of financial assets with similar credit risk to evaluate the possibility of losses incurred but not reported, with impairment loss estimated based on the loss identification period and the probability of default, as well as the loss given default.

- **Impairment of non-current assets**

  At the end of each reporting period, the Bank assesses whether there is any objective indication of impairment of any non-current asset or cash generating unit. If such indication exists, the Bank evaluates the recoverable amount and value in use of the non-current asset or cash generating unit. To estimate these values, the Bank needs to make assumptions e.g. on future cash flows that could be obtained from further use or disposal of the non-current asset or the cash generating unit. Making different assumptions on measurement of the future cash flows may impact the amount of some non-current assets presented in the financial statements.

- **Calculation of provision for post-employment, disability and death benefits**

  The provision is measured by an external actuarial firm in line with IAS 19. The calculation is based on the following data:
  - standard HR data of employees (gender, date of birth, length of service, salary, etc.);
  - information about the number of employees leaving the Bank in the past few years;
  - forecast increase in salaries and wages in the Bank in the next years;

  as well as actuarial tables, probability of retirement, mobility model and technical discount rate.

- **Calculation of provisions for disputes**

  Provisions for disputes were estimated using the probable payment amount.

- **Useful life of property, plant and equipment, intangible assets and investment property**

  Useful life of property, plant and equipment, intangible assets and investment property is estimated taking into consideration the following factors:
  - the so-far observed average useful lives, reflecting physical wear and tear, intensity of usage, etc.;
  - technological obsolescence;
  - period of control over the asset, legal and other limitations on period in use;
  - co-relation between the useful life of the asset in question and those of other assets;
  - other factors that may affect useful life of a given type of non-current assets.

  The expected useful life of a given asset is equal to its period in use defined under terms of the appropriate contract. If, however, the expected useful life of an asset is shorter than its contractual period in use, the asset is depreciated/amortized over its useful life.

- **Revenues and costs from distribution of insurance products**

  The Bank recognizes revenue from agency services related to the sale of insurance products and from providing insurance coverage to third persons under group insurance agreements concluded between the Bank and insurance companies on the bass of the following:
  - whether the sale of insurance by the Bank is limited to the agency services; or
  - whether the sale of insurance by the Bank is related to sale of a financial product.

  The basis of the aforementioned analysis is the economic substance of the financial products and insurance products sold through the Bank acting as an agent; the analysis should determine whether and to what extent the Bank's revenue constitutes:
  - an integral part of a fee for an additionally offered financial product;
  - an agency fee;
  - a fee for additional services provided after the sale of an insurance product.

On the basis of the aforesaid allocation of the Bank's revenues received for acting as an agent, the following solutions for recognition of *bancassurance* revenue were adopted:

- If financial products are linked directly to insurance products: the Bank recognizes revenue from the sale of an insurance product under interest revenue at the effective interest rate using the amortized cost method;
- if no direct link exists between financial and insurance products: the Bank recognizes revenue from the sale of an insurance product under commission revenue in accordance with the requirement of IAS 18;
- a compound product (comprising a financial product and an insurance product): In accordance with Recommendation U, revenue from the sale of insurance products recognized by the Bank is divided into a portion recognized at amortized cost and a portion recognized in accordance with IAS 18. The division is made proportionally to the fair value of the financial product offered and the fair value of the agency service related to the sale of the insurance product.

In addition, as regards the fair value model, the Bank estimates the portion of the revenue that will be reimbursed after the sale of the insurance product and allocates to the aforesaid elements, analogous to the allocation of revenue.

Furthermore, under commission revenue the Bank also recognizes the commission received from insurance companies as a share in the profit from insurance earned by a given insurer from insurance agreements concluded as a result of the Bank's agency.
The expected commission is recognized on the accrual basis as the insurance company's insurance profit arises.

- **Derivatives**

  Derivatives are used as FX risk hedges. Furthermore, the Bank concludes short-term FX SWAP in order to manage *nostro* account liquidity.
  Hedging derivatives are carried at fair value. Their measurement and effectiveness is based on the discount curves determined using the bootstrapping method.
  Curves used for CHF/PLN:
  - the discount curves for CHF and PLN are based on the quotations of swap points and basis points for EUR using direct quotations of Cross Currency Basis Swaps for the currency against EUR;
  - EUR base curve based on the bank rates, FRA and IRS.

  All derivative transactions concluded by the Bank are measured daily and subject to security deposit swaps with contractors.

**d) Cash and cash equivalents**

Cash and cash equivalents include cash on the nostro (current) account at the National Bank of Poland as well as receivables from other banks on the current account, and other cash with maturity of up to 3 months, disclosed at the nominal value.

**e) Financial assets and liabilities**

Financial assets are classified to the following categories:

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

The Bank decides on classification of a given item of financial assets and liabilities at its initial recognition. Financial assets and liabilities are recognized at the transaction date.

- **Financial assets and liabilities measured at fair value through profit or loss**

  This category includes financial assets held for trading and the assets which at the moment of initial recognition are classified as financial assets measured at fair value through profit or loss.

  Financial assets held for trading include debt and equity securities, advances and receivables acquired or granted primarily for the purpose of selling them in short term.

  As at 31 December 2015, the Bank had classified FX SWAP derivatives as financial assets measured at fair value through profit or loss. The Bank concludes the aforesaid transactions in order to manage nostro account liquidity. As at 31 December 2014, the Bank did not have such instruments.

- **Financial assets available for sale**

  This category includes financial assets which will be held for an unspecified period, and have not been classified as either financial assets measured at fair value through profit or loss or investments held to maturity. This category includes debt and equity securities.

  Debt instruments

  Debt instruments classified as available for sale are disclosed at fair value determined as follows:

  – debt instruments quoted on an active market – according to their market price;
  – debt instruments not quoted on an active market – according to another value best reflecting the fair value estimated by reference to:
    - reference asset value;
    - yield curve method, based on market quotations of interest rates, adjusted by a risk margin equal to the margin specified in the terms of issue.

  The effects of the fair value changes of the carrying amount of an instrument measured at amortized cost are recognized in other comprehensive income and charged to revaluation reserve, except impairment losses, which are recognized through profit or loss. Interest income and discount determined with the use of effective interest rate are recognized under interest revenue, while the profit or loss charged to revaluation reserve is the difference between the fair vale determined at the end of the reporting period and the value of the assets measured at amortized cost.

  Equity instruments

  Equity instruments classified as available for sale are disclosed at fair value determined as follows:

  – equity instruments quoted on an active market – according to their market value;
  – equity instruments not quoted on an active market:
    - based on the current bid price received,
    - based on the valuation made by a specialized external entity preparing such valuations.

  When it is not possible to establish the fair value of an equity instrument, it is measured at cost less impairment.

  Effects of changes in fair values of equity instruments classified as available for sale are recognized in revaluation reserve, except the impairment losses, which are recognized through profit or loss. As regards equity instruments, impairment previously recorded as a loss is not reversed through profit or loss.

  Dividends on equity instruments are recognized in the statement of comprehensive income as at the record date.

- **Loans and receivables**

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

  – financial assets that the Bank intends to sell immediately or in the near term, which are classified as held for trading, and financial assets that the Bank designated upon initial recognition as measured at fair value through profit or loss;
  – financial asses that the Bank designated upon initial recognition as available for sale; or
  – financial assets for which the holder may not recover substantially all of its initial investment, for reasons other than loan service deterioration, which are classified as available for sale.

This category includes loans, advances and other receivables acquired or granted. Loans and receivables are measured at amortized cost with the use of effective interest rate and taking into account impairment.

Amortized cost is the amount at which the loan or advance is measured at initial recognition less principal repayments, plus or minus any difference between the value at initial recognition and value at maturity and less impairment losses. The amortized cost is calculated using the effective interest rate that discounts estimated future cash payments or receipts to the net carrying amount over the period remaining to the item's maturity or, as appropriate, over the period remaining to the item's next market valuation, which is the internal rate of return of the financial asset for the given period. When calculating the effective interest rate, the Bank takes into account all payments received that influence the nature of the financial instrument. Fees and commissions that are an integral part of effective return on a loan or advance adjust the carrying amount of these assets and are taken into account when calculating the effective interest rate.

Loans and advances with undefined repayment schedules are measured at their nominal value plus any interest due, less impairment losses.

Receivables due to services provided by the Bank to clients are valued at their nominal value increased by interest due and reduced by impairment losses.

The Bank identifies restructured credit exposures and classifies them, in order to estimate impairment losses, to selected portfolios with separate modeling of PD parameters.

In the case of restructuring exposures overdue by at least 90 days, the Bank applies the recovery period, during which, regardless of the current delay, the exposure is treated as impaired.

All restructured exposures are being monitored and reported until expiration.

- **Securitization of credit portfolio**

The Bank securitized the car loan and instalment sale portfolio in June 2014. The transaction was a traditional one and consisted in transferring the right to securitized receivables to SC Poland Auto 2014-1 Limited (SPV1), with a registered office in Ireland. On the basis of the securitized assets, the aforesaid company issued bonds secured in the form of a registered pledge on the assets of SPV1. The Bank granted the company a subordinated loan to support the transaction.

The Bank securitized the instalment loan portfolio in September 2015. The transaction was a traditional, revolving one and consisted in transferring the right to securitized receivables to SC Poland Consumer Sp  z o.o. 15-1 (SPV2), with its registered office in Poland. On the basis of the securitized assets, the aforesaid company issued bonds secured in the form of a registered pledge on the assets of SPV2. The Bank granted the company a subordinated loan to support the transaction.

The Bank carried out a comprehensive analysis of the transaction and concluded that in accordance with IAS 39, the terms and conditions of the transaction do not require the Bank to derecognize the securitized assets from its financial statements. As a consequence, the Bank recognizes a liability to SPV1 and SPV2 with respect to securitization. The transaction is described in Note 22 *Loans and advances granted to clients*.

- **Financial assets held to maturity**

Financial assets held to maturity include financial assets with determined or determinable due dates or amounts, which were acquired with the intention to hold and which the Bank is able to hold to maturity.

Financial assets classified to this category are measured at amortized cost using the effective interest rate and impairment losses. The settlement of amortized cost using the effective interest rate is recognized under "interest revenue" in the statement of comprehensive income.

- **Other financial liabilities**

This category includes financial liabilities resulting from a contractual obligation to pay in cash or other financial asset to another entity, which are not classified to the group of liabilities measured at fair value through profit and loss with characteristics of deposit or loan received. Other financial liabilities are measured at amortized cost or at the payment amount due.

- **Hedging derivatives**

  The Bank may designate certain derivatives as fair value or cash flow hedges. The Bank applies hedge accounting if the following conditions have been met:
  - at the inception of the hedge there is formal designation and documentation of the hedging relationship and the Bank's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction and the nature of the risk being hedged. The Bank determines the way in which it will evaluate the effectiveness of the hedging instrument in offsetting changes in cash flows attributable to the hedged transaction with respect to mitigation of the hedged risk;
  - the hedging financial instrument which is the subject of the contract and the hedged assets and liabilities display similar qualities, especially the nominal value, maturity date, sensitivity to changes in the interest rate or changes in the currency exchange rate;
  - the Bank expects that the hedging will be highly effective in achieving offsetting changes in cash flows, consistently with the originally documented risk management strategy for that particular hedging relationship;
  - for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss;
  - the effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured;
  - the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

- **Fair value hedge**

  Fair value hedge is defined as a hedge of the exposure to changes in fair value of a recognized asset or liability or firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the statement of comprehensive income.

  The fair value hedge is accounted for in the following manner: the gain or loss from remeasuring the hedging instrument at fair value (i.e. for a derivative hedging instrument) are recognized in the statement of comprehensive income; the gain or loss on the hedged item attributable to the hedged risk adjust the carrying amount of the hedged item and are recognized in profit or loss. This way, any ineffective portion (i.e. lack of full offsetting of the fair value of the hedged item and changes in the fair value of the hedged instrument) is immediately charged to profit or loss.

  For hedged items which are financial assets available for sale, the gains or losses on the hedged risk are recognized in profit or loss whereas the gain or loss on the unhedged risk are charged to equity.

- **Cash flow hedges**

  A hedge of the exposure to variability in cash flows that:
  - is attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction;
  - could affect profit or loss of the Bank.

  The cash flow hedge is accounted for as follows: changes in the fair value of the hedging instrument that is determined to be an effective hedge shall be recognized in equity and the ineffective portion of the gain or loss on the hedging instrument shall be recognized in profit or loss.

  Gains and losses recognized in equity (effective hedge) upon recognition of the financial asset or liability attributable to the hedged forecast transaction are reclassified to profit or loss in the period or periods when the hedged financial asset or liability affects the profit/loss.

  In the case of non-financial assets and liabilities hedges, gain or loss recognized in equity as effective hedge are reclassified into the income statement on an ongoing basis, in the same period as the non-financial assets or liabilities affect the profit or loss (e.g. in the form of amortization) or on a one-off basis as an adjustment of the initial cost or carrying amount of the hedged item.

The Bank applies cash flow hedges to hedge future cash flows of a specific pool of assets and liabilities of the Bank or a portfolio of highly probable forecasted transactions against the risk resulting from changes in foreign exchange rates.

- **De-recognition of financial instruments**

  Financial instruments are derecognized from the financial statement when contractual rights to cash flows from these assets extinguish or when the Bank transfers the entire risk and rewards associated with a given financial instrument to another entity.

  The Bank usually derecognizes loans when they are cancelled, expire or are irrecoverable. Derecognized loans, advances and other receivables are charged to impairment loss allowance created for these items. When no impairment loss allowance has been created or when their value is lower than the value of loans, advances and other receivables, the value of the impairment loss allowance is increased, before the receivables are written down, by the difference between the receivable's value and the impairment loss allowance created thus far.

**f) Impairment of financial assets**

At the end of each month, the Bank checks whether there are objective impairment triggers of a financial asset or a group of financial assets. If such indications exists, the Bank determines an impairment loss. Impairment loss is identified when there is objective evidence of impairment associated with one or more events that took place after the initial recognition of an asset and the loss generating event affects the expected future cash flows related to a financial asset or group of financial assets the value of which can be reliably estimated. Losses expected as a result of future events are not recognized regardless of their probability.

The following situations in particular can result in determination of impairment loss:

- delinquency in repayment exceeding 90 days;
- information about client's bankruptcy;
- fraud identified;
- borrower's death;
- Restructuring of the exposure or arrangement with the client regarding repayment of debt;
- information of effective contract termination;
- information of acquisition of credit exposure collateral;
- high probability of bankruptcy or other financial reorganization of borrower;
- the entity learns about financial problems of the issuer or debtor;
- material deterioration is credit scoring;
- unknown residence or undisclosed assets of a counterparty;
- exposure being affected by impairment of other exposures.

As regards individually assessed loans granted to corporate clients, impairment triggers include:

- delinquency in repayment exceeding 90 days;
- material deterioration in the counterparty's financial standing that poses a threat to timely repayments, including losses severely affecting client's net assets;
- the Bank's notice to terminate the credit contract;
- a downgrade in a credit rating of counterparty by recognized rating agency;
- information about the bankruptcy proceedings or liquidation of the debtor;
- initiation of enforcement proceedings against the contractor;
- the debtor legally questions the loan exposure;
- the whereabouts of the client are unknown or his possessions are not disclosed;
- counterparty's loss of a major source of revenue;
- restructuring of the exposure.

The impairment loss amount is equal to the difference between the book value of the asset and the current value of estimated future cash flows discounted using the initial effective interest rate for a given item.

*Individual impairment assessment*

The individual assessment of impairment is performed for corporate portfolio credit receivables and for other credit receivables above a specific level of involvement, when individual impairment triggers have been identified.

Future cash flows for individual impairment valuation are calculated based on:

- type and value of collaterals attributable to the Bank;
- expected timing and value of recovery from respective collateral;
- expected costs needed to recover from the collateral.

*Collective assessment of impairment*

For the purpose of collective assessment of impairment, financial assets are grouped to portfolios according to their similar credit risk characteristics. Future cash flows in a group of financial assets collectively tested for impairment are estimated based on history of losses for assets of similar credit risk characteristics. The Bank regularly checks the methodology and assumptions made for the purpose to evaluate future cash flows in order to reduce mismatch between the estimated and actual losses.

In order to calculate the impairment loss for balance sheet exposures analyzed collectively, the modified probability of default (PD) parameter is used among others. Modifications of the parameter allow taking into account the specificity of the product as well as periods when the impairment occurs.

Such approach, in particular, allows to identify in particular:

- losses which already occurred;
- losses, which occurred at the date of impairment, but have not been yet documented (so called provision for credit losses, for which impairment occurred but was not reported – IBNR).

The carrying amount of an asset is decreased by impairment loss and the impairment loss is charged to profit or loss. If, in the subsequent period, the value of impairment loss decreases as a result of an event that occurs after the impairment date (e.g. improvement of a debtor's creditworthiness), then the previously recognized impairment loss allowance is reversed. The reversed amount is charged to profit or loss.

There were no changes in the impairment methodology for exposures assessed collectively in 2015. Only the parameters in impairment calculation model have been subject to changes, i.e.:

- refreshing the PD and LGD parameters in compliance with internal instructions for calculation of the amount of impairment loss on credit portfolio;
- updating the LIP/RIP parameter;
- Modifying the definition of the End-state (change in delay from 180+ to 90+);
- Adding additional segmentation (lower, behavioral) to mortgage portfolio.

**g) Property, plant and equipment and intangible assets**

Property, plant and equipment as well as intangible assets are disclosed as at the end of the reporting period at cost less depreciation/amortization charges and impairment losses. All non-current assets, whose value decreases due to their use or the time elapsed, are depreciated using the straight line method over their estimated useful lives. The adopted depreciation periods and rates are reviewed periodically. If circumstances or changes which suggest that the carrying amount of property, plant and equipment may not be recoverable occur, such assets are tested for impairment. Depreciation charges and impairment loss are charged directly to profit or loss as expenses of a given period.

Costs of leasehold improvements are divided among a building's material components, when these components have different useful lives or when they provide the Bank with different benefits. Each component is depreciated separately.

Depreciation is finished no later than the moment when:

- the value of depreciation/amortization or accumulated depreciation/amortization charges becomes equal to the initial value of a given asset;
- assets are designated for liquidation;
- sale;
- their shortage is identified;
- verification reveals that their expected residual value exceeds their net carrying amount.

In the case of intangible assets, it is assumed that their residual value is zero, unless there is a third party obligation to buy back the asset in question or when an active market exists and will continue to exist upon discontinuation of the asset's use, and its value on this market can be determined.

Depreciation/amortization periods for basic groups of fixed assets and intangible assets applied at the Bank:

| **Fixed assets** | **Periods** |
|---|---|
| Leasehold improvements (buildings, facilities) | 10 years<br>(or the rent period, if shorter) |
| Machines, technical equipment, tools and devices | 3–15 years |
| Computer sets | 3 years |
| Vehicles | 2.5–5 years |

| **Intangible assets** | **Periods** |
|---|---|
| Computer software | 3–10 years |
| Other intangible assets | 2–5 years |

**h) Assets seized for debt**

The Bank recognizes assets seized for debt as its own assets only when it takes over all the risks and rewards related to them. In particular, the Bank does not recognize vehicles took over as collateral for car loans as assets if according to the loan contract, the risk related to the decrease in the value of the vehicle (between the date of takeover and date of cash recovery) is incurred by the debtor, not the Bank.

**i) Lease agreements**

The Bank is a party to lease arrangements, under which it rents an asset for use and benefiting from the PP&E or intangible assets for a given period, in particular under sublease or lease of premises. The Bank is also a party to lease arrangements, under which it receives fixed assets or intangibles for a chargeable use for a given period. The basis for classification of lease arrangements is the extent in which the risks and rewards of the ownership of the asset are attributable to the lessor or the lessee.

Leases whereby the lessor retains substantially all the risk and rewards of ownership of an asset are classified as operating leases.

Operating lease payments are recognized as costs in profit and loss account throughout the lease period.

**j) Recognition of investments in controlled entities**

Investments in associates, subsidiaries and co-subsidiaries are measured at cost less impairment loss.

**k) Non-current assets held for sale**

Non-current assets classified as held for sale include assets whose carrying amount is to be recovered through their sale, instead of continued use. Only assets that are available for immediate sale in their current status, whose sale is highly likely (i.e. the decision to carry out the plan to sell a given asset has been made, and an active search for a buyer in order to execute the sale plan has begun), are classified as held for sale. Such assets must also be offered at prices that are rational as compared to the current fair value of the asset and it is expected that the sales transactions shall be recognized as completed within one year of the asset's classification to this category.

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Non-current assets classified as held for sale are measured at their book value and fair value less cost to sell, whichever is lower. Impairment losses on non-current assets held for sale are recognized in profit or loss of the period, when such impairment is applied. Assets classified as held for sale are not depreciated.

**l) Measurement of items denominated in foreign currencies and FX result**

The Bank disclosed on- and off-balance sheet foreign currency items in PLN after translation, using the NBP's average exchange rate applicable at the end of the reporting period. Impairment losses on loans, advances and other receivables denominated in foreign currency that are created in PLN are revalued in line with changes in the value of the foreign currency assets for which they are created. Realized and unrealized exchange differences are charged to profit or loss.

**m) Exchange rates adopted during preparation of the financial statements**

The Bank adopted the following exchange rates announced by the National Bank of Poland at the end of the reporting period when translating on- and off-balance sheet items:

| Currency | 31.12.2015 | 31.12.2014 |
|---|---|---|
| CHF | 3.9394 | 3.5447 |
| USD | 3.9011 | 3.5072 |
| EUR | 4.2615 | 4.2623 |

As regards impairment losses on credit receivables denominated in foreign currencies, the Bank applies an approach whereby for each reporting date an impairment loss is calculated in the reporting currency (PLN), and the change in the value of impairment is presented in the income statement under *Impairment losses on financial assets*.

**n) Granted off-balance sheet liabilities**

As part of its operating activity, the Bank enters into transactions which are not recognized upon conclusion in the financial statements as assets or liabilities, but they still result in origination of contingent liabilities. A contingent liability is:

- a possible obligation that arises from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not fully controlled by the Bank;
- a present obligation that arises from past events but which is not recognized in the financial statements, as it is unlikely that cash or other assets will have to be used to fulfill this obligation, or the amount of the related liability cannot be reliably estimated.

Off-balance sheet liabilities include in particular credit lines and guarantees granted.

Granted off-balance sheet liabilities bearing the risk that the mandator will not fulfill contractual terms are covered by provisions created in accordance with IAS 37 and IAS 39.

**o) Deferred tax**

For the purposes of financial reporting, deferred income tax is calculated using the balance sheet liability method based on temporary differences that occur as at the end of the reporting period between the tax value of assets and liabilities and their carrying amount recognized in the consolidated financial statements.

A deferred tax provision is recognized in relation to all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of goodwill or 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 nor taxable profit (tax loss); and
- in respect of taxable temporary gains associated with investments in subsidiaries, associates and share in joint arrangements except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred tax assets relating to the deductible temporary difference arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects either the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and share in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of a deferred tax asset is verified as at each balance sheet date and is reduced as appropriate, taking into account a decrease in probability of achieving taxable income sufficient for the realization of the deferred tax asset in part or in whole. An undisclosed deferred tax asset is remeasured as at the end of each financial year and recognized up to the amount reflecting probable taxable income which will facilitate realization of the asset.

Deferred tax assets and liabilities are measured by reference to the tax rates expected to be applicable in the period when the asset is realized or the liability derecognized, assuming tax rates (and tax regulations) effective as at the end of the reporting period or those certain to be effective as at the aforementioned date as the basis.

Income tax on items not recognized in profit or loss is recognized in other comprehensive income for items recognized there or directly in equity for items recognized directly in equity.

The Bank offsets its deferred tax assets and deferred tax liabilities only if it has an enforceable legal title to offset its current tax receivables with liabilities, whereas the deferred income tax is related to the same taxpayer and the same tax authority.

The deterred tax is calculated as 19% of the difference between the tax value of assets and liabilities and their book value and is presented in the financial statements either as deferred tax assets or deferred tax provision.

Changes in deferred tax are classified as statutory deductions from profit, except effects of measurement of financial assets which are charged to equity.

The carrying amount of a deferred tax asset is verified as at each end of the reporting period and is reduced as appropriate, taking into account the reduction in the probability of achieving taxable income sufficient for the realization of the deferred tax asset in part or in whole.

Deferred tax assets and provisions for deferred tax are measured with the application of tax rates expected to be applicable in the period of realization of the asset or release of the provision, with the consideration of tax rates (tax regulations) applicable as at the end of the reporting period or rates that will be applicable at the end of the reporting period in the future.

### p) Financial liabilities measured at amortized cost

Financial liabilities (except for derivatives) are measured at amortized cost using the effective interest rate. If a cash flow schedule cannot be determined for a given financial liability and therefore the effective interest rate cannot be reliably estimated, such a liability is measured at the amount due.

Debt instruments issued by the Bank are recognized as liabilities and measured at amortized cost taking into account effective interest rate.

### q) Accruals

Accrued expenses relate to particular types of expenses, which will be charged to profit or loss in future reporting periods in line with the passage of time.

### r) Provisions

Provisions are recognized in the financial statements, if the Bank is subject to legal or customary liability resulting from past events, and if there is a probability that fulfillment of the obligation results in outflow of funds that include economic benefits. If the effect is material, a provision is determined using expected discounted future cash flows, with pre-tax interest rate, which reflects the current market assessment of the time value of money value and, when applicable, risks related to a given item of liabilities. The Bank creates provisions for future liabilities whose value can be reliably estimated, as well as for contingent liabilities.

In accordance with IAS 37, the Bank recognizes in the financial statements a restructuring provision for documented costs of restructuring. The provision is recognized, based on a detailed, formal and announced restructuring plan. The provision does not take into account for future operating costs.

### s) Calculation of profit or loss

The Bank recognizes all material items of expenses and revenue in accordance with the accrual and matching principle, as well as principles of recognition and measurement of assets and liabilities, and recognition of impairment losses.

**Interest revenue and expenses**

Interest revenue and expenses include interest recognized based on the accrual method using the effective interest rate. The effective interest rate method is a method of accruing the amortized cost of financial assets or liabilities (or a group of financial assets or financial liabilities) and assigning interest revenue or expenses to the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected period. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms but without possible credit losses not yet incurred. The calculation includes all fees paid and received by the parties to an agreement which form an integral part of the effective interest rate, transactional costs and any other premiums and discounts.

**Commission revenue and expenses**

Commissions on credit limits, revolving loans and off-balance sheet liabilities are settled on a straight-line basis in profit or loss. Other commissions and fees related to post-sales support are recognized in profit or loss when services are provided.

**Revenues and costs from distribution of insurance products**

Revenues and costs from distribution of insurance products are recognized in accordance with the rules described in point 4.c. *Accounting estimates.*

**Gain/loss on foreign exchange transactions**

Gain/loss on foreign exchange transactions includes exchange gains and losses, both realized and unrealized, resulting from everyday measurement of foreign currency assets and liabilities at the average exchange rate of the National Bank of Poland applicable at the end of the reporting period.

**Other operating revenue and expenses**

Other operating revenue and expenses include revenue and expenses that are not related directly to banking operations. Other operating revenue include the recovered overdue, redeemed and irrecoverable receivables, revenue due to the sale/liquidation of non-current assets and assets seized for debts, received damages fines and gains from debt collection. Other operating expenses include mainly the costs of selling/liquidating non-current assets, including assets seized for debts, costs of granted donations and costs related to damages, fines and losses on debt collection.

### t) Current income tax

Current income tax is calculated based on profit before tax adjusted by: revenue which in accordance with tax regulations is not classified as taxable income, taxable income not recognized as revenue for accounting purposes, non-deductible expenses and costs that are not recognized as expenses for accounting purposes, in accordance with Polish tax regulations. These items include mainly accrued but not received interest revenue and expenses as well as provisions for receivables, off-balance sheet liabilities and other assets.

### u) Equity

Equity includes capitals created by the Bank in line with current legal regulations and the Bank's Charter. Equity also includes undistributed prior year profits and uncovered prior year losses.

Share capital is recognized in the amount stated in the Charter and the entry in the Register of Entrepreneurs, at nominal value.

Supplementary capital is created in accordance with the Bank's Charter, through appropriation of profit and share premiums, and is designated to cover losses that may result from the Bank's activity. Decisions on the use of supplementary capital are made by the General Shareholders' Meeting.

The following items are also included in equity:

- profit/loss pending approval;
- declared but unpaid dividends;
- revaluation reserve, recognized following the measurement of financial instruments classified as available for sale and financial instruments designated as cash-flow hedges.

The net profit/loss for the financial year is defined as profit before tax adjusted by the income tax liability.

**v) Company Social Benefits Fund**

The Bank has created a social benefits fund in accordance with the Act on Social Benefits Funds of 4 March 1994 (*Journal of Laws* of 1994 No. 43, item 163 as amended). The purpose of the fund is to finance social benefits for employees. The fund's assets comprise accumulated contributions made by the Bank to the social benefits fund increased by the instalments of loans repaid by employees, less non-refundable expenses from that fund. The Bank offset the fund's assets and liabilities in the financial statement, due to the fact that the fund's assets do not constitute the Bank's assets.

## 5 Risk management

The purpose of risk management is to support business operations by way of optimizing expenses incurred by the Bank if a given type of risk occurs.

The key risks affecting the Bank's financial profit/loss include: credit and market risk comprising interest rate risk, foreign exchange risk, liquidity risk, capital adequacy risk and operational risk. The Bank verifies and agrees the management principles applied to each type of risk.

### a) Credit risk

Credit risk is managed in two areas of operations: *ex ante,* i.e. credit approval, and ex post, i.e. monitoring of repayments and collateral, restructuring, collection of receivables and alternatively the sale of irregular portfolio, if collection of receivables is not economically justified, considering the proportion of collection expenses to potential recoveries. The credit risk management consists of the following actions taken by the Bank:

- assessment and review of credit applications;
- credit risk ratios monitoring and reporting;
- repayment monitoring and collection and debt restructuring;
- collateral management;
- trading in liabilities portfolios;
- determining impairment losses on credit exposures;
- determining concentration limits for exposures and production and red light levels for these limits;
- monitoring, reporting and validation of score cards and other instruments used in the credit application analysis, which define decision rules and which are created based on quantitative methods.

Credit risk monitoring is carried out on an ongoing basis and reports are prepared every day, month or quarter. The reports are a part of the management reporting system and sent to a Member of the Management Board responsible for the Bank's credit risk and discussed during the meetings of the Management Board and Supervisory Board.

The Bank manages credit risk using the key risk parameter forecasting method and mitigating some of the risk types. The Bank prepares forecasts for annual periods which coincide with calendar years. The forecasts are divided into separate business

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lines (products). The forecasts are controlled on a monthly basis and any deviations from the assumption are subject to a detailed analysis.
The objective of the Bank is to reach credit risk ratios assumed in the forecast and to control credit risk impact on the credit portfolio profitability.
An important element of the Bank's policy is management of credit risk limits, in particular identification of criteria for risk limit-setting and their periodic reviews, monitoring and inspection.

Apart from the risk forecast, the Bank applies other tools for measuring and projecting credit risk, which also allow for simulating results of potential business decisions. In particular the Bank prepares:

- vintage analysis;
- analysis of key loss ratios in the portfolio;
- boundary value analysis of selected credit risk ratios;
- matrix of exposure migrations between delinquency buckets;
- analysis of impairment provisions;
- analysis of identification of risk, its levels and possibility of managing it in relation to new products and services;
- analysis of application and behavioral characteristics of clients;
- statistical analyses considering the historical data as well as portfolio forecasts and other internal analyses to determine the limits applicable in the Bank;
- stress testing;
- Validation of models used by the Bank;
- other ad-hoc analyses and reports to monitor and report the quality of credit portfolio.

The Bank's objective is to ensure the most comprehensive IT support for the analyses and verification of credit applications. The Bank's strategy is to restructure the acceptance of credit decisions so that the Bank is able to service a bigger volume of credit applications at the same acceptable credit risk exposure, measured as the equity requirement for credit risk.
In order to identify impairment losses on credit exposures, the Bank uses the methodology consistent with International Financial Reporting Standards.
The table presents the Bank's maximum exposure to the credit risk.

| | **31.12.2015** | **31.12.2014** |
|---|---|---|
| **Exposures with triggers of impairment, recognized impairment and impairment loss** | **1 385 180** | **1 384 937** |
| **Exposures with triggers of impairment, but no impairment loss recognized, including:** | **4** | **20** |
| – exposures in which the discounted future cash flows included the value of hedges | 0 | 0 |
| – past-due repayment of principal and interest | 3 | 20 |
| **Exposures with no impairment triggers /events resulting in a loss** | **13 464 755** | **12 636 670** |

Data concerning the value of financial assets with an indication of impairment assessed individually or collectively as well as data concerning the overdue structure of the portfolio categorized by the period of their being overdue are presented In Note 22 *Loans and advances granted to clients*.

The main business objective of the Bank in terms of the credit policy is to carry out the Strategy of the Bank and the Risk Management Strategy, which assumes maintaining the same level of risk, so that there is the right balance between the income of the Bank and the expenses related to the materialization of the risk and to ensure the safety of the Bank's deposits.

The detailed objective is to reach the credit risk ratios assumed in the budget.
The Bank carries out the aforementioned objectives by way of:

- implementing procedures which ensure loan granting in line with the safety principles, which will guarantee repayment and management of outstandings;
- adjusting the price and marketing policy of the Bank in order to maintain the assumed sales and profitable allocation of funds in the credit portfolio;
- ensuring that information provided to Applicants and Customers is clear, unambiguous and comprehensible;
- following the principles of professionalism, reliability, due diligence and best knowledge in relationships with Applicants and Customers.

When performing and defining the aforementioned objectives, the Bank follows the rules of acceptable credit risk (risk appetite) defined in the Risk Management Strategy and determined by the Management Board and the Supervisory Board.
Credit policy compliance monitoring is carried out on an ongoing basis and reports are prepared every day and month. The reports are a part of the management reporting system and are presented to Management Board and Supervisory Board meetings to facilitate proper management over the Bank.
In launching new credit products and modifying the existing ones or related approval principles, the Bank strives to accurately assess the impact of the changes on the credit risk based on historical data and expertise. If the Bank is unable to assess the impact on the risk it applies limited sample test methods.

The Bank grants loans to the following entities:

- households (loans, car loans, cash loans and credit cards);
- enterprises (loans, cars loans, operational loans).

The aforementioned entities are registered in Poland, their permanent or temporary residence address is in Poland or they have a permanent or temporary residence permit. The Bank may provide credit financing to entities generating revenue abroad in cases stipulated in credit instructions.
The Bank offers business loans for car dealers, the Bank's business partners (revolving and short-term) and financial partners (working capital loan and investment loan).

The Bank offers loans denominated in PLN only. The Bank used to avail FX loans (CHF, USD, EUR), hence now it manages a credit portfolio with such exposures.
The Bank offers long-, mid- and short-term loans. The maximum tenors are specified in the credit instructions.

Risk management system includes:

- portfolio diversification;
- centralized decision process;
- internal debt concentration, operational and approval limits;
- acceptance and monitoring of collateral;
- internal review of receivables;
- strict rules for the recognition of impairment loss;
- monitoring of risk level indicators;
- repayment monitoring and collection and debt restructuring;
- stress testing;
- validation of models used by the Bank;

The Bank has defined the following concentration limits pursuant to the Banking Law:

- the total exposure of the Bank to its related parties cannot exceed 25% of its equity;

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- the total exposure of the Bank in a different domestic bank, credit institution, foreign bank or a group of related entities comprising at least one domestic bank, credit institution or foreign bank cannot exceed 25% of the Bank's equity or EUR 150 million, whichever is greater;
- the total exposure of the Bank to all related parties form the group of capital or organizational related parties, comprising at least one domestic bank, credit institution or a foreign bank which are not a national bank, credit institution or a foreign bank, cannot exceed 25% of the Bank's equity.

| **Allowed limits** | **2015** | **2014** |
|---|---|---|
| Limits concerning large exposures to related party/parties (25%) | 530 843 | 412 600 |
| Limits concerning exposures to another domestic bank, credit institution, foreign bank or group of related parties comprising at least one domestic bank, credit institution or foreign bank (25% of EUR 150 million, whichever is greater) | 639 225 | N/A |
| Limits concerning exposures to another domestic bank, credit institution, foreign bank or group of related parties comprising at least one domestic bank, credit institution or foreign bank (50% of EUR 150 million, whichever is lower) | N/A | 624 135 |

At 31 December 2015 and 31 December 2014, none of above-mentioned limits were exceeded. The maximum exposure due to a group of related parties was, respectively, PLN 45 676 thousand and PLN 28 188 thousand (sum of balance and off-balance exposures).

Other concentration limits concern:

1) exposure to the Bank's individual products;
2) regional division;
3) exposure to operating loans with mortgage liens as the main type of security where the Bank is not the first on the list of lenders;
4) share of car loans in new production;
5) client's/group of closely related clients involvement;
6) exposure to clients referred to in Article 79a of the Banking Law.

The table below presents the distribution of exposure in particular regions. As at 31 December 2015 and 31 December 2014, there was no significant concentration in any of the regions. The table presents gross values of loans granted to clients.

| **Region** | **31.12.2015** | **%** | **31.12.2014** | **%** |
|---|---|---|---|---|
| Central | 2 907 056 | 19.57% | 2 585 919 | 18.45% |
| South-West | 1 903 170 | 12.82% | 1 655 740 | 11.81% |
| South | 2 385 802 | 16.07% | 2 363 019 | 16.85% |
| North | 2 391 358 | 16.10% | 2 291 579 | 16.34% |
| North-West | 2 887 402 | 19.44% | 2 773 192 | 19.78% |
| East | 1 661 341 | 11.19% | 1 584 828 | 11.30% |
| Non-residents | 228 643 | 1.54% | 412 213 | 2.94% |
| No data | 485 167 | 3.27% | 355 137 | 2.53% |
| **Total** | **14 849 939** | **100.00%** | **14 021 627** | **100.00%** |

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Operating limits include:

1) Level of overdue exposures – early delays;
2) Potential maximum level of lost loans;
3) Average level of collateral recovery;
4) Average probability of non-fulfillment of the obligation by debtors.

The loans (except for operational loans) are collateralized with:

- partial transfer of ownership of a vehicle;
- transfer of ownership to a vehicle with a condition precedent and depositing of the vehicle history card;
- insurance (in particular: assignment of real property insurance, naming the Bank as the first beneficiary in a life insurance and/or employment insurance or temporary inability to work, bridging insurance – insurance against non-payment of the loan until the mortgage lien was established, assignment of a comprehensive insurance of a transferred vehicle);
- mortgage lien on real property;
- blank promissory note;
- bill-of-exchange guarantee;
- civil law guarantee;
- transfer of receivables due to payments to the construction of a facility / single-family house;
- authorization to debit the borrower checking account;
- freeze on the term deposit account;
- other (rarely used), mentioned in credit instructions or accepted by the Management Board of the Bank.

As regards operational loans, collateral includes:

- transfer of ownership of a variable car stock, in particular a car stock financed by the Bank;
- transfer of ownership of a variable car stock with a rental or lease option with transfer of receivables arising from the rental or lease agreements;
- registered pledge on a variable car stock;
- in case of financing/refinancing cars with vehicle history cards, depositing with the Bank vehicle history cards of cars whose purchase is financed/refinanced by the Bank;
- assignment of insurance of a car stock included into the ownership transfer agreement or an agreement regarding establishment of a registered pledge;
- assignment of a comprehensive motor insurance of cars registered as owned by the debtor or their clients, whose purchase is financed/refinanced by a loan granted by the Bank;
- blank promissory note;
- bill-of-exchange guarantee or civil law guarantee, in particular by the owners or members of the management board of the borrower as well as their spouses (joint marital property);
- real estate mortgage lien and transfer of rights arising from the insurance policy;
- freeze of receivables due to disbursement of instalment loans for business partners;
- blockade on the term deposit account;
- other, accepted by the Bank.

| **Value of collateral granted by the Bank** | **31.12.2015** | **31.12.2014** |
|---|---|---|
| Mortgage collateral | 9 259 896 | 10 089 530 |
| Car loans collateral | 1 137 771 | 1 541 061 |
| Operating loans collateral | 486 960 | 362 597 |
| **Total** | **10 884 627** | **11 993 188** |

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**Forbearance measures**

According to the Implementing Regulation (EU) 2015/1278 of 9 July 2015, forbearance measures (i.e. client's debt restructuring) consist of concessions to a debtor that is experiencing or about to experience difficulties in meeting its financial commitments under the current terms and conditions of their contracts with the Bank. The concessions can consist in a modification of the previous terms and conditions of a contract, or a total or partial refinancing of a troubled debt contract. The restructuring aims at adjusting payment terms of liabilities to the current and forecast financial position of the client, minimizing the risk of default, and minimizing the risk of loss/ maximizing potential recoveries.
Forbearance measures do not apply when renegotiation of contractual terms are not related to the creditor's financial difficulties.

The decision whether concessions can be granted to a debtor that is experiencing difficulties in meeting its financial commitments is made after an assessment of the debtor's financial position, possibilities of meeting its financial commitments under new terms and conditions, analysis of its existing security, assessment of its will to repay its liabilities and the history of the relationship with the Bank. Whether concessions are granted depends on the results of the analysis; they may consist of the following: allowing payments not to be received for a certain period of time (grace period), changing the repayment schedule; prolonging the repayment term, including more favorable provisions in the amended contract as compared to the terms and conditions granted by the same financial institution to other debtors in the same financial position and with the same risk profile (e.g. exemption from credit insurance), etc. The aforesaid applies to retail and corporate clients.

The portfolio of restructured contracts undergoes regular verification and review for any delays in payments. Reports on the percentage of delinquent accounts in the portfolio of refinanced contracts by product, type of restructuring used, delinquency buckets and other parameters that are relevant to a given analysis, are presented during meetings of the Debt Collection Department.

If a client is granted concessions regarding debt repayment (restructuring), the relevant entries are made in the systems ensuring identification of the portfolio of restructured receivables. The receivable/ client is classified as restructured throughout the whole restructuring term until it is decided that the client's position is stable again, the terms and conditions of restructuring have been met and there are no payments past the 30 days' payment date, the client is creditworthy, and there are no past due amounts on the exit date. The Bank classifies the client as clients subject to restructuring for at least two years from the date on which it decides that the client meets its financial commitments. The classification of clients as subject to restructuring is separate from the classification to the performing/non-performing portfolio.

The accounting principles with respect to financial assets subject to forbearance measures are not different from the principles applied to other performing and non-performing assets in the Bank. The Bank measures loans and receivables at amortized cost using the effective interest rate method. When the terms and conditions of the contract are renegotiated or otherwise changed owing to the debtor's financial difficulties, such exposure is measured using the original effective interest rate (in accordance with IAS 39).

| **Portfolio of forbearance loans** | **Gross value** | | **Impairment losses** | | **Net value** | |
|---|---|---|---|---|---|---|
| | **31.12.2015** | **31.12.2014** | **31.12.2015** | **31.12.2014** | **31.12.2015** | **31.12.2014** |
| Corporate loans | 6 784 | 0 | -2 300 | 0 | 4 484 | 0 |
| Car loans | 37 954 | 55 295 | -32 914 | -42 749 | 5 040 | 12 546 |
| Mortgages | 319 768 | 321 831 | -158 707 | -136 802 | 161 061 | 185 029 |
| Cash loans | 67 477 | 75 873 | -40 976 | -51 270 | 26 501 | 24 603 |
| **Total** | **431 983** | **452 999** | **-234 897** | **-230 821** | **197 086** | **222 178** |

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| Portfolio of forbearance loans | Gross value | | Security value | | Impairment losses | |
|---|---|---|---|---|---|---|
| | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| Impaired | 222 389 | 236 691 | 272 493 | 294 554 | -204 378 | -193 186 |
| Not impaired | 209 594 | 216 308 | 286 554 | 313 953 | -30 519 | -37 635 |
| *- current* | *124 504* | *117 035* | *166 580* | *167 210* | *-12 481* | *-16 300* |
| *- past due by up to 30 days* | *45 695* | *48 698* | *62 179* | *72 607* | *-7 013* | *-8 470* |
| *- past due by 31 to 60 days* | *22 738* | *31 665* | *33 756* | *49 753* | *-5 345* | *-7 318* |
| *- past due by 61 to 90 days* | *16 657* | *18 910* | *24 039* | *24 383* | *-5 680* | *-5 547* |
| **Total** | **431 983** | **452 999** | **559 047** | **608 507** | **-234 897** | **-230 821** |

As at 31 December 2015 and 31 December 2014, revenues from interest on assets subject to forbearance measures amounted to PLN 12 530 thousand and PLN 19 083 thousand, respectively.

| Portfolio of gross forbearance loans by region | 31.12.2015 | % | 31.12.2014 | % |
|---|---|---|---|---|
| Central | 93 061 | 21.55% | 98 051 | 21.66% |
| South-West | 53 321 | 12.34% | 55 197 | 12.18% |
| South | 82 947 | 19.20% | 89 152 | 19.68% |
| North | 67 763 | 15.69% | 72 541 | 16.01% |
| North-West | 84 668 | 19.60% | 83 850 | 18.51% |
| East | 48 230 | 11.16% | 51 752 | 11.42% |
| No data | 1 993 | 0.46% | 2 456 | 0.54% |
| **Gross total** | **431 983** | **100.00%** | **452 999** | **100.00%** |

| Change in the balance of forbearance loans | 2015 |
|---|---|
| **Opening balance of net carrying amount** | **222 178** |
| Impairment losses (provisions) | -4 076 |
| Gross loans excluded during the period | 0 |
| New gross loans during the period | 51 191 |
| Other changes/ payments | -72 207 |
| **Closing balance of net carrying amount** | **197 086** |

**Impact of stronger CHF on PLN**

As a result of the decision of the Swiss Central Bank to scrap the cap on the CHF/EUR exchange rate, the Polish zloty lost its value significantly in January 2015.

average PLN/CHF rate in NBP on 31 December 2014: 3.5447

average PLN/CHF rate in NBP on 31 December 2015: 3.9394

The aforesaid change in the PLN/CHF rate had an effect on the value and risk profile of assets, liabilities and off-balance sheet financial instruments denominated in CHF.

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The table presents the estimated effect of the change in the PLN/CHF rate on the PLN equivalent of loans denominated in CHF.

| **Structure of portfolio of loans denominated in CHF gross value** | **31.12.2015** | **31.12.2014** |
|---|---|---|
| Real estate loans | 3 043 944 | 2 960 689 |
| Other loans, including: | 102 590 | 129 950 |
| *Mortgages and other loans* | *95 788* | *101 038* |
| *Car loans* | *6 802* | *28 912* |
| **Total gross loans and advances** | **3 146 534** | **3 090 639** |

The currency risk and capital adequacy risk related to loans denominated in CHF is monitored on an ongoing basis. A detailed description of monitoring that risk is described in Note 5 *Management of assets and liabilities* in sections on market risk management and capital adequacy management, respectively.

The table presents the structure of portfolio of real estate loans denominated in CHF on 31 December 2015:

| **Structure of portfolio of real estate loans denominated in CHF** | **Gross value** | | | **Impairment** | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | **Coverage** | |
| | **Non-impaired loans** | **Impaired loans** | **Share of Impaired loans** | **IBNR impairment** | **Impairment losses** | **IBNR impairment** | **Impairment losses** |
| Real estate loans | 3 010 878 | 33 066 | 1.10% | 43 558 | 22 608 | 1.45% | 68.37% |

As at 31 December 2015, 97.29% of the real estate portfolio of real estate loans denominated in CHF had been granted before 2009. As at 31 December 2015, the average LTV for the aforesaid portfolio was 92.17%.

**b) Market risk**

The Bank is exposed to market risk understood as the risk resulting from adverse movement in the current measurement of open positions debt, F/X and equity instruments due to changes in risk factors, in particular interest rates, currency exchange rates, share prices. The Bank's market risk comprises the interest rate risk and foreign exchange risk.

The purpose of managing the market risk of the Bank is to mitigate exposure to particular types of risk and to optimize the Bank's income at acceptable levels of liquidity, interest rate and currency risks. The Bank's objective is not to generate speculative gains on short-term changes in prices but to prevent adverse impact of these changes on the Bank's profit/loss. Consequently, the Bank classifies all transactions to its banking portfolio, not to the commercial one.

The tool used by the Bank to determine the acceptable risk level is limiting open positions in financial instruments. The Bank's exposure to market risk is measured using standard tools applied for particular risk types.

The risk management process in the Bank ensures separating operational functions, i.e. concluding transactions in the interbank market from risk assessment, monitoring and control functions. The process covers the Bank and its subsidiaries applying the same methods and principles of managing market risk.

Market risk reporting is an integral part of the management information system and comprises monthly reports to the Management Board of the Bank, the Market Risk Committee and the ALCO Committee, and quarterly reports to the Bank's Supervisory Board.

Market risk and liquidity risk is managed on the management and operational levels. Risk management policy and reporting systems are consistent with Santander Group's practices and recommendations of the Banking Supervision. The Management Board is responsible for introduction and execution of the policies and procedures.

As a member of the Santander Group, Santander Consumer Bank S.A. is completely free to carry out its own treasury functions and manage liquidity risk. The Bank carries out its debt financing and treasury functions independently of other members of the Group. The same is true about the retail market on which the Bank collects deposits from individual and SMEs, the wholesale market on which the Bank obtains debt financing from enterprises and corporations, as well as the interbank market. As regards liquidity risk management in its subsidiaries, the treasury functions are centralized. Liquidity risk and debt financing is managed entirely by the Treasury Department of the Bank.

The following organizational units of the Bank take part in the process or risk management:

- the Supervisory Board of the Bank;
- the Management Board of the Bank;
- Assets and Liabilities Management Committee (ALCO);
- Financial Management Division (Treasury Department);
- Market Risk Committee;
- Market Risk Department;
- Internal Audit.

The Supervisory Board ensures that the marker risk and liquidity risk management remains in compliant with the Bank's strategy and financial plan.

The Management Board is responsible for ensuring that the Bank's market risk, liquidity risk and risk management process are on a general risk level accepted by the Supervisory Board of the Bank, as well as and ensuring that the process is formal and ongoing.

The Financial Management Division performs operating activities connected with risk management. In particular, the Department manages current liquidity of the Bank within the granted limits. The ALCO Committee is in charge of mid- and long-term liquidity, especially keeping the correct structure of liabilities. Tasks connected with control and monitoring of the risk level are separated and performed by the Market Risk Division and ALCO. The Market Risk Committee is in charge of expressing opinions on the liquidity risk management and checking credit limits which are set by the Management Board. Strategic decisions concerning market and liquidity risks are made by the Management Board on request of the ALCO Committee and/or Market Risk Committee.

Internal audit plays an important role in the liquidity risk management process. It checks the effectiveness of the Risk Department's solutions regarding identification, measurement and management of a given risk.

The Bank does not conduct trading activities. The financial risk of the Bank stems solely from its banking activities and comprises:

- liquidity risk;
- interest rate risk;
- currency risk.

Risk is managed using the monitoring system, limits and stress tests. Limits are approved by the Management Board based on the recommendation of the Market Risk Committee and/ or ALCO. Global risk appetite limits are approved by the Supervisory Board. The key elements of the risk management system include:

- net interest income sensitivity limits and economic value of capital limits;
- internal limits for supervisory liquidity measures;
- liquidity gap limits;
- VAR (Value-at-Risk) limit for currency risk and interest rate risk;
- stress tests for interest rate, currency and liquidity risks.

**Methodology for estimation of *Value-at-risk* for calculation of market risk**

The Bank uses the VaR measurement method for measurement of the FX and interest rate risk. VaR, which the Bank defines as a loss in the market value (of a financial instrument, portfolio) whereby the probability that the value is reached or exceeded in an assumed period equals an assumed tolerance level in accordance with the following formula: $P(W<<W0-VaR)=\alpha$. W0 W and a represent, respectively, the present value, value at the end of a period in question and tolerance level. The Bank calculates VaR for interest rate assuming a 99 per cent confidence level and a one-month holding period. The Bank calculates VaR for a currency position assuming a 99 per cent confidence level and a 10-day holding period.

Out of many VaR estimation methods available, the Bank chose the Monte Carlo Simulation. On the basis of 10 000 hypothetical scenarios, a given distribution of rates of return is generated. Then a quintile of the generated distribution is determined which allows the Bank to determine the VaR level. The VaR model is based on an assumption that the distribution of probability of the rate of return on financial instrument prices (currency rate and zero-coupon synthetic bonds reflecting remeasured gap) is a multivariate normal distribution with median covariance matrix values Σ. Σ represents a positive definite symmetric matrix:

$$\Sigma_r = \begin{bmatrix} Var(R_1) & CovR_1,R_2 & \cdots & CovR_1,R_N \\ CovR_1,R_2 & \ddots & \ddots & \vdots \\ \vdots & \ddots & \ddots & CovR_{N-1},R_N \\ CovR_1,R_N & \cdots & CovR_{N-1},R_N & Var(R_N) \end{bmatrix}$$

In order to calculate the gain/ loss in each simulation, the W vector representing positions in individual instruments $w=(w_1,w_2,\ldots w_n)$.

**a. Interest rate risk in banking register**

The Bank understands the interest rate risk as the risk which results from the exposure of the Bank's present and future financial profit/loss as well as its capitals to adverse impact of interest rate fluctuations. The Bank monitors and mitigates all elements of the interest rate risk, such as:

- reprising risk;
- basis risk;
- yield curve risk;
- option risk.

In order to measure interest rate risk, the Bank applies e.g. interest rate gap adjusted by early repayments of loans, taking into account deposits termination assumption. The Bank analyses the impact of the potential change in interest rates on the interest income. The Bank also estimates the Value at Risk (VaR) on a monthly basis at a 99 percent confidence level. The analysis includes stress tests in case of a sudden dramatic change in interest rates.

Interest rate risk is measured on the basis of reports on revaluation schedule gaps and VaR. Stress tests are performed as well. The Bank applies a highly conservative approach to the management of interest rate risk, which consists in aligning the remeasurement structure of liabilities to the current remeasurement structure of assets. The Bank does not use derivatives in the process of interest rate risk management. Interest rate risk expressed as VaR was as follows (the potential impact on the financial result is presented in million PLN resulting from the observed price volatility in the financial markets with the confidence level of 0.99):

| **Value at Risk for the interest rate** | **2015** | **2014** |
|---|---|---|
| VaR, one month horizon – value at 31 December | 5.7 | 12.7 |
| VaR, one month horizon – minimal value during the year | 4.8 | 5.5 |
| VaR, one month horizon – average value during the year | 9.4 | 10.4 |
| VaR, one month horizon – maximum value during the year | 13.8 | 13.2 |
| Top limit | 25.00 | 25.00 |

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Interest rate gap as at 31 December 2015:

- Upside 100 basis points scenario

| | 1M | 3M | 6M | 12M | 2 years |
|---|---|---|---|---|---|
| **Assets, including:** | **4 784 954** | **3 369 183** | **3 867 019** | **1 791 757** | **1 745 363** |
| Securities and interbank market | 2 235 878 | 0 | 0 | 0 | 0 |
| Loans granted | 2 356 498 | 3 369 183 | 3 867 019 | 1 791 757 | 1 745 363 |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Other assets | 192 578 | 0 | 0 | 0 | 0 |
| **Liabilities, including** | **3 639 325** | **3 608 670** | **2 146 169** | **1 496 752** | **984 994** |
| Interbank market | 2 283 151 | 1 403 618 | 491 271 | 30 000 | 0 |
| Issuance of shares | 113 000 | 771 700 | 675 000 | 0 | 0 |
| Deposits, excluding bank deposits | 1 243 174 | 1 433 352 | 979 898 | 1 466 752 | 984 994 |
| Equity and other liabilities | 0 | 0 | 0 | 0 | 0 |
| **Off-balance sheet items** | 0 | 0 | 0 | 0 | 0 |
| **Gap** | 1 145 629 | -239 487 | 1 720 850 | 295 005 | 760 369 |
| **Accumulated gap** | 1 145 629 | 906 142 | 2 626 992 | 2 921 997 | 3 682 366 |

| | 3 years | 4 years | 5 years | 5 years | Non-interest | Total |
|---|---|---|---|---|---|---|
| **Assets, including:** | **527 941** | **493 751** | **46 859** | **1 124** | **-240 972** | **16 386 979** |
| Securities and interbank market | 0 | 0 | 0 | 0 | 8 955 | 2 244 833 |
| Loans granted | 527 941 | 493 751 | 46 859 | 1 124 | 1 370 978 | 15 570 473 |
| Provisions | 0 | 0 | 0 | 0 | -1 565 443 | -1 565 443 |
| Other assets | 0 | 0 | 0 | 0 | -55 462 | 137 116 |
| **Liabilities, including** | **863 204** | **227 968** | **0** | **0** | **3 419 897** | **16 386 979** |
| Interbank market | 0 | 227 968 | 0 | 0 | 0 | 4 436 008 |
| Issuance of shares | 0 | 0 | 0 | 0 | 0 | 1 559 700 |
| Deposits, excluding bank deposits | 863 204 | 0 | 0 | 0 | 0 | 6 971 374 |
| Equity and other liabilities | 0 | 0 | 0 | 0 | 3 419 897 | 3 419 897 |
| **Off-balance sheet items** | 0 | 0 | 0 | 0 | 0 | 0 |
| **Gap** | -335 263 | 265 783 | 46 859 | 1 124 | -3 660 869 | 0 |
| **Accumulated gap** | 3 347 103 | 3 612 886 | 3 659 745 | 3 660 869 | 0 | 0 |

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– Downside 100 basis points scenario

| | 1M | 3M | 6M | 12M | 2 years |
|---|---|---|---|---|---|
| **Assets, including:** | **9 927 927** | **2 635 656** | **2 922 723** | **427 615** | **344 890** |
| Securities and interbank market | 2 235 878 | 0 | 0 | 0 | 0 |
| Loans granted | 7 499 471 | 2 635 656 | 2 922 723 | 427 615 | 344 890 |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Other assets | 192 578 | 0 | 0 | 0 | 0 |
| **Equity and liabilities, including** | **3 639 325** | **3 608 670** | **2 146 169** | **1 496 752** | **984 994** |
| Interbank market | 2 283 151 | 1 403 618 | 491 271 | 30 000 | 0 |
| Issuance of shares | 113 000 | 771 700 | 675 000 | 0 | 0 |
| Deposits, excluding bank deposits | 1 243 174 | 1 433 352 | 979 898 | 1 466 752 | 984 994 |
| Equity and other liabilities | 0 | 0 | 0 | 0 | 0 |
| **Off-balance sheet items** | 0 | 0 | 0 | 0 | 0 |
| **Gap** | 6 288 602 | -973 014 | 776 554 | -1 069 137 | -640 104 |
| **Accumulated gap** | 6 288 602 | 5 315 588 | 6 092 142 | 5 023 005 | 4 382 901 |

| | 3 years | 4 years | 5 years | 5 years | Non-interest | Total |
|---|---|---|---|---|---|---|
| **Assets, including:** | **97 642** | **261 342** | **9 115** | **1 040** | **-240 971** | **16 386 979** |
| Securities and interbank market | 0 | 0 | 0 | 0 | 8 955 | 2 244 833 |
| Loans granted | 97 642 | 261 342 | 9 115 | 1 040 | 1 370 979 | 15 570 473 |
| Provisions | 0 | 0 | 0 | 0 | -1 565 443 | -1 565 443 |
| Other assets | 0 | 0 | 0 | 0 | -55 462 | 137 116 |
| **Equity and liabilities, including** | **863 204** | **227 968** | **0** | **0** | **3 419 897** | **16 386 979** |
| Interbank market | 0 | 227 968 | 0 | 0 | 0 | 4 436 008 |
| Issuance of shares | 0 | 0 | 0 | 0 | 0 | 1 559 700 |
| Deposits, excluding bank deposits | 863 204 | 0 | 0 | 0 | 0 | 6 971 374 |
| Equity and other liabilities | 0 | 0 | 0 | 0 | 3 419 897 | 3 419 897 |
| **Off-balance sheet items** | 0 | 0 | 0 | 0 | 0 | 0 |
| **Gap** | -765 562 | 33 374 | 9 115 | 1 040 | -3 660 868 | 0 |
| **Accumulated gap** | 3 617 339 | 3 650 713 | 3 659 828 | 3 660 868 | 0 | 0 |

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Interest rate gap as at 31 December 2014:

- Upside 100 basis points scenario

| | 1M | 3M | 6M | 12M | 2 years |
|---|---|---|---|---|---|
| **Assets, including:** | **5 279 153** | **2 609 154** | **3 781 461** | **1 699 332** | **1 618 679** |
| Securities and interbank market | 2 859 391 | 0 | 0 | 0 | 0 |
| Loans granted | 2 287 829 | 2 609 154 | 3 781 461 | 1 699 332 | 1 618 679 |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Other assets | 131 933 | 0 | 0 | 0 | 0 |
| **Equity and liabilities, including** | **3 726 191** | **3 368 066** | **2 036 340** | **2 478 611** | **1 292 405** |
| Interbank market | 2 434 095 | 1 355 383 | 120 000 | 405 000 | 0 |
| Issuance of shares | 141 000 | 710 900 | 1 051 000 | 40 000 | 0 |
| Deposits, excluding bank deposits | 1 151 096 | 1 301 783 | 865 340 | 2 033 611 | 1 292 405 |
| Equity and other liabilities | 0 | 0 | 0 | 0 | 0 |
| **Off-balance sheet items** | 0 | -284 | 284 | 0 | 0 |
| **Gap** | 1 552 962 | -759 196 | 1 745 405 | -779 279 | 326 274 |
| **Accumulated gap** | 1 552 962 | 793 766 | 2 539 171 | 1 759 892 | 2 086 166 |

| | 3 years | 4 years | 5 years | Over 5 years | Non-interest | Total |
|---|---|---|---|---|---|---|
| **Assets, including:** | **540 793** | **215 436** | **37 763** | **9 485** | **334 153** | **16 125 409** |
| Securities and interbank market | 0 | 0 | 0 | 0 | 9 346 | 2 868 737 |
| Loans granted | 540 793 | 215 436 | 37 763 | 9 485 | 1 791 933 | 14 591 865 |
| Provisions | 0 | 0 | 0 | 0 | -1 563 275 | -1 563 275 |
| Other assets | 0 | 0 | 0 | 0 | 96 149 | 228 082 |
| **Equity and liabilities, including** | **183 987** | **6 081** | **0** | **21** | **3 033 707** | **16 125 409** |
| Interbank market | 0 | 0 | 0 | 0 | 0 | 4 314 478 |
| Issuance of shares | 0 | 0 | 0 | 0 | 0 | 1 942 900 |
| Deposits, excluding bank deposits | 183 987 | 6 081 | 0 | 21 | 64 | 6 834 388 |
| Equity and other liabilities | 0 | 0 | 0 | 0 | 3 033 643 | 3 033 643 |
| **Off-balance sheet items** | 0 | 0 | 0 | 0 | 0 | 0 |
| **Gap** | 356 806 | 209 355 | 37 763 | 9 464 | -2 699 554 | 0 |
| **Accumulated gap** | 2 442 972 | 2 652 327 | 2 690 090 | 2 699 554 | 0 | 0 |

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- Downside 100 basis points scenario

| | 1M | 3M | 6M | 12M | 2 years |
|---|---|---|---|---|---|
| **Assets, including:** | **9 989 342** | **1 910 993** | **2 892 590** | **439 886** | **357 362** |
| Securities and interbank market | 2 859 391 | 0 | 0 | 0 | 0 |
| Loans granted | 6 998 018 | 1 910 993 | 2 892 590 | 439 886 | 357 362 |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Other assets | 131 933 | 0 | 0 | 0 | 0 |
| **Equity and liabilities, including** | **3 314 414** | **3 368 066** | **2 036 340** | **2 478 611** | **1 292 405** |
| Interbank market | 2 022 318 | 1 355 383 | 120 000 | 405 000 | 0 |
| Issuance of shares | 141 000 | 710 900 | 1 051 000 | 40 000 | 0 |
| Deposits, excluding bank deposits | 1 151 096 | 1 301 783 | 865 340 | 2 033 611 | 1 292 405 |
| Equity and other liabilities | 0 | 0 | 0 | 0 | 0 |
| **Off-balance sheet items** | 0 | 0 | 0 | 0 | 0 |
| **Gap** | 6 674 928 | -1 457 073 | 856 250 | -2 038 725 | -935 043 |
| **Accumulated gap** | 6 674 928 | 5 217 855 | 6 074 105 | 4 035 380 | 3 100 337 |

| | 3 years | 4 years | 5 years | Over 5 years | Non-interest | Total |
|---|---|---|---|---|---|---|
| **Assets, including:** | **125 276** | **49 226** | **17 186** | **421 171** | **-77 623** | **16 125 409** |
| Securities and interbank market | 0 | 0 | 0 | 0 | 9 346 | 2 868 737 |
| Loans granted | 125 276 | 49 226 | 17 186 | 421 171 | 1 380 156 | 14 591 864 |
| Provisions | 0 | 0 | 0 | 0 | -1 563 275 | -1 563 275 |
| Other assets | 0 | 0 | 0 | 0 | 96 150 | 228 083 |
| **Equity and liabilities, including** | **183 987** | **6 081** | **0** | **411 797** | **3 033 708** | **16 125 409** |
| Interbank market | 0 | 0 | 0 | 411 776 | 0 | 4 314 477 |
| Issuance of shares | 0 | 0 | 0 | 0 | 0 | 1 942 900 |
| Deposits, excluding bank deposits | 183 987 | 6 081 | 0 | 21 | 64 | 6 834 388 |
| Equity and other liabilities | 0 | 0 | 0 | 0 | 3 033 644 | 3 033 644 |
| **Off-balance sheet items** | 0 | 0 | 0 | 0 | 0 | 0 |
| **Gap** | -58 711 | 43 145 | 17 186 | 9 374 | -3 111 331 | 0 |
| **Accumulated gap** | 3 041 626 | 3 084 771 | 3 101 957 | 3 111 331 | 0 | 0 |

### b. Currency risk

The Bank understands the currency risk as the risk which results from the exposure of the Bank's present and future financial profit/loss as well as its capitals to adverse impact of foreign exchange rate fluctuations. As part of its currency risk monitoring, the Bank analyses the liquidity risk in foreign currencies and the impact of the currency risk on the credit risk affecting credit facilities denominated in foreign currencies if there is a mismatch between the currency of a loan and the currency of the Bank's revenue, as well as the influence of the currency risk on the liquidity risk resulting from the PLN valuation of CIRS and FX Swap instruments. The aforesaid risk affects a large portion of the Bank's portfolio because loans denominated in foreign currencies, whose financing is significantly based on swap transactions, constitute a material item of the Bank's financial statements.

The key objective of the Bank is to maintain the currency position of the Bank in the amount which is not related to the need to maintain the regulatory capital requirements related to currency risk. In order to do so the currency position limits are conservative and they do not exceed the materiality threshold determined with relation to the Bank's own funds.

Currency risk management includes the following issues:

- managing the open currency position of the Bank, including determination and control over limits for the open currency position and maximum loss limits;

- monitoring exchange differences from currency exchange and exchange position result;
- estimating a potential loss due to currency risk (Value at Risk) and stress tests analysis;
- managing revenue related to transactions bearing currency risk;
- capital allocation to the risk of currency mismatch between exposures and clients' revenue.

The capped values include: the value of open currency positions and the Value at Risk calculated for 10-day periods at a 99 percent confidence level.

The Bank is exposed to the currency risk because it grants loans and advances denominated in foreign currencies. Currency risk is managed through daily monitoring and minimizing the Bank's current FX position. The position is closed through matching of assets and liabilities, by FX spots.
Since 2011, the Bank has been hedging its CHF-indexed portfolio against the currency risk using derivatives in its hedge accounting.
The currency risk is measured based on daily reports on the Bank's total position as well as VaR reports. Bank's currency position as at 31 December 2015 and 31 December 2014:

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**Open currency position and utilization of limit as at 31 December 2015**

| | Currency structure in PLN (converted to PLN at average NBP rate) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Accounts and deposits in other banks | Loans and advances granted to clients | Financial assets available for sale | Hedging derivatives | Liabilities to banks | Liabilities to clients | Other liabilities | Off-balance sheet items |
| CHF | 730 | 3 077 144 | 0 | 957 | 1 948 681 | 13 568 | 0 | -1 116 820 |
| USD | 66 | 98 | 0 | 0 | 0 | 0 | 0 | 0 |
| EUR | 55 773 | 689 | 8 523 | 0 | 214 442 | 6 | 47 | 158 315 |
| **Total** | **56 569** | **3 077 931** | **8 523** | **957** | **2 163 123** | **13 574** | **47** | **-958 505** |
| | | | | | | | | **Total position** |
| | | | | | | | | Equity |
| | | | | | | | | 2% of equity |
| | | | | | | | | Capital requirement |
| | | | | | | | | Limit utilization |

*PLN '000*

**Open currency position and utilization of limit as at 31 December 2014**

| | Currency structure (converted to PLN at average NBP rate) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Accounts and deposits in other banks | Loans and advances granted to clients | Financial assets available for sale | Hedging derivatives | Liabilities to banks | Liabilities to clients | Other liabilities | Off-balance shee items |
| CHF | 455 | 3 094 413 | 0 | -5 | 1 931 760 | 14 840 | 0 | -1 147 77 |
| USD | 320 | 91 | 1 602 | 0 | 1 754 | 0 | 0 | 0 |
| EUR | 43 878 | 796 | 0 | 0 | 45 072 | 8 | 37 | 85 |
| **Total** | **44 653** | **3 095 300** | **1 602** | **-5** | **1 978 586** | **14 848** | **37** | **-1 146 92** |
| | | | | | | | | **Total position** |

| |
|---|
| Equity |
| 2% of equity |
| Capital requirement |
| Limit utilization |

Interest rate risk expressed as VaR was as follows (the potential impact on the financial result is presented in PLN '000 resulting from the observed price volatility on the financial markets with the confidence level of 0.99):

| **Value at Risk for currency risk** | **2015** | **2014** |
|---|---|---|
| VaR, 10-day horizon – value at 31 December | 217.82 | 41.80 |
| Top limit | 500 | 500 |

### c. Liquidity risk

The objective of managing liquidity risk is to shape the financial position and contingent liabilities of the Bank in order to ensure permanent ability to repay liabilities taking into account the nature of operations and the needs that may occur as a result of changes in the market environment and clients' behavior. The key objective of liquidity risk management in the Bank is growing stable sources of financing.

The liquidity risk is measured using liquidity gap adjusted by early repayments of loans, stress tests included in the emergency liquidity plan and the analysis of stability and costs of acquisition of liabilities and equity.

The financial liquidity of the Bank is impacted mainly by funds from deposits of retail and corporate clients, issue of own debt securities and credit lines granted by the Santander Group and other entities, as well as credit portfolio securitization. Unused credit lines cover all financing needs of the Bank and ensure the primary and secondary liquidity reserve under Resolution No. 386/2008 of the Polish Financial Supervision Authority, also if the Bank obtains funds from other sources.
Due to the lack of speculative positions, the risk related to illiquidity of financial markets is significantly mitigated.

In 2013, the Bank made material changes to the financial structure of portfolio denominated in CHF in order to match financing to the characteristics of asset portfolio and to mitigate the short-term liquidity gap. For this purpose, a portion of the financing acquired from short-term swap transactions was replaced by long-term balance-sheet financing. This financing was acquired in consequence of *repo* transaction secured by securities and in addition by credit line in CHF. In 2014–2015, the Bank continued the strategy of reducing the short-term and long-term liquidity gap by way of entering into long-term off-balance transactions (CIRS). In 2014, the Bank carried out a process of adjusting to the new liquidity measures as required by the CRR Regulation. In particular, the Bank changed the liquidity reserve; until December 2013, the said reserve was ensured by irrevocable credit lines from entities in the Capital Group. Such a liquidity reserve mechanism is allowed under Resolution No. 386 of the Financial Supervision Authority, but not under the CRR Regulation. For that reason, in 2014, the Bank began the process of replacing off-balance sheet liquidity instruments with liquidity reserves which comply with the definition of high quality of liquid assets from the CRR Regulation. In 2015, the Bank continued the strategy of maintaining liquidity reserves composed of high quality liquid assets.

The main purpose of liquidity management is for the Bank to be able to pay its current and future liabilities. The specific strategy of the Bank assumes obtaining maximum support from the Santander Group in gaining short-term and long-term liabilities. In order to receive funding and decrease operational risk in this area, the Bank has signed loan agreements with entities in the Santander Group.

The liquidity risk is affected by internal and external factors: The internal factors controlled by the Bank include:

- The structure of the balance sheet and off-balance sheet items denominated in individual currencies;
- Internal liquidity risk management regulations and procedures;
- Pricing policy and product offering.

The internal factors out of the Bank's control include:

- The Capital Group's support;
- The monetary policy of the Central Bank;

- Domestic economic situation;
- The Capital Group's credit rating;
- The market liquidity risk.

In 2015, the Bank continued its strategy of diversifying the sources of its funds based on deposit products for retail and corporate clients, and financial instruments on wholesale financial markets, in particular the following:

- Credit lines in CHF;
- Credit lines in PLN;
- Long-term dual currency repo transactions (CHF);
- Securitization transactions;
- Issuance of debt securities.

As regards liquidity risk management in its subsidiaries, the treasury functions of the Bank are centralized. Liquidity risk and debt financing is managed entirely by the Treasury Department of the Bank.

In 2015, the Bank continued the strategy of obtaining long-term funding; especially retail clients were encouraged to use deposits from 12M to three years. In 2015, the bank also concluded derivative transactions to finance the CHF-denominated loan portfolio with the original maturity from four to six years.

The Bank defines surplus liquidity as highly liquid unencumbered assets with high credit quality designation, easily sold without having to take any extraordinary steps, which are not subject to any legal, regulatory or operating oracles as regards their use for obtaining funds. Surplus liquidity is divided into main and additional.

The main surplus liquidity is comprises:

- Cash;
- Current accounts and overnight deposits at banks;
- Cash in a current account or in a cash reserve account at the central bank, however, if the funds are used, the Bank has to ensure that the statutory required minimum balance of the reserve can be replenished after the end of the "survival horizon";
- High quality government bonds or similar instruments, including debt securities accepted by the National Bank of Poland as security for a collateral loan, technical loan and repo transactions.

The additional surplus liquidity comprises loan assets that can be presented to the National Bank of Poland as a pledge for a refinancing loan, excluding encumbered assets, e.g. securitized.

The liquidity management system of Santander Consumer Bank S.A. takes into account the market liquidity risk. The Bank's liquidity buffers are comprised solely of highly liquid financial instruments. Throughout 2015, the said assets were comprised solely of NBP money bills. Since the instrument has a very maturity term, it does not involve any liquidity risk. Thanks to this approach to liquidity management, the Bank managed to completely eliminate the liquidity risk from its liquidity buffers. As regards its liabilities, the Bank reduces the liquidity risk by engaging in long-term transactions on wholesale financial markets to obtain financing, especially derivatives (CIRS) and credit lines.

**Liquidity risk measurement**

The key elements of the Bank's liquidity risk measurement method are:

- the Bank's liquidity gap including earlier repayment of loans, termination and renewal of deposits by clients, analysis carried out separately for every currency and jointly for all currencies for the whole portfolio (consolidated gap takes into account only early repayment of loans);
- determination of the liquidity gap up to one month, including off-balance liabilities and the main liquidity reserve;
- stress tests of the effect of internal and systemic changes (separately and jointly);

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- analysis of liquidity risk in subsidiaries in accordance with the rules set forth in the Policy and with the Capital Group's methodology;
- analysis of and limiting the number of loans granted in a given period;
- analysis of the balance sheet amount, concentration, stability, termination and renewal rates of deposits;
- reserve requirement analysis and execution forecast, and balances of nostro accounts;
- calculation of management liquidity measures in accordance with Resolution 386/2008 of the Polish Financial Supervision Authority;
- calculation of LCR in accordance with CRR Regulation and Delegated Regulation;
- analysis of the structure of liabilities for each currency separately and for all jointly;
- analysis of the cost of finance;
- financial plans and plans on obtaining fixed liabilities, including long-term liquidity analysis.

The Bank monitors its liquidity in PLN and foreign currencies through:

- maturity gap analysis for assets and liabilities (liquidity gap analysis);
- analysis of realized cash flows (realization of liquidity gap).

Based on the documentation of maturity gap analyses, liquidity thresholds are set and monitored on an on-going basis. The objective of the reports is to mitigate the liquidity risk. Liquidity ratios are calculated based on the balance at the end of each business day.

Liquidity measures of the Bank for management purposes:

| Liquidity measurement | 31.12.2015 | 31.12.2014 |
|---|---|---|
| M1 | 703 880 | 2 325 251 |
| M2 | 1.76 | 2.68 |
| M3 | 16.75 | 10.17 |
| M4 | 1.17 | 1.12 |

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Liquidity gap as at 31 December 2015:

| | 1M | 3M | 6M | 12M | 2 years |
|---|---|---|---|---|---|
| **Assets, including:** | **2 529 779** | **1 481 489** | **1 678 823** | **1 900 571** | **2 957 701** |
| Securities and interbank market | 917 441 | 47 337 | 49 055 | 0 | 560 000 |
| Loans granted | 1 397 002 | 1 434 152 | 1 629 768 | 1 900 571 | 2 397 701 |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Other assets | 215 336 | 0 | 0 | 0 | 0 |
| **Equity and liabilities, including** | **1 157 222** | **1 810 420** | **1 228 069** | **1 799 489** | **2 755 957** |
| Interbank market | 62 336 | 667 471 | 527 143 | 917 880 | 1 239 278 |
| Issuance of shares | 113 000 | 171 700 | 190 000 | 100 000 | 665 000 |
| Deposits, excluding bank deposits | 981 886 | 971 249 | 510 926 | 781 609 | 851 679 |
| Equity and other liabilities | 0 | 0 | 0 | 0 | 0 |
| **Off-balance sheet items** | 0 | 0 | 0 | 0 | 0 |
| **Gap** | 1 372 557 | -328 931 | 450 754 | 101 082 | 201 744 |
| **Accumulated gap** | 1 372 557 | 1 043 626 | 1 494 380 | 1 595 462 | 1 797 206 |

| | 3 years | 4 years | 5 years | Over 5 years | Non-interest | Total |
|---|---|---|---|---|---|---|
| **Assets, including:** | **1 963 802** | **1 058 692** | **407 299** | **2 681 506** | **-272 683** | **16 386 979** |
| Securities and interbank market | 671 000 | 0 | 0 | 0 | 0 | 2 244 833 |
| Loans granted | 1 292 802 | 1 058 692 | 407 299 | 2 681 506 | 1 370 921 | 15 570 414 |
| Provisions | 0 | 0 | 0 | 0 | -1 565 443 | -1 565 443 |
| Other assets | 0 | 0 | 0 | 0 | -78 161 | 137 175 |
| **Equity and liabilities, including** | **1 481 119** | **809 026** | **560 174** | **1 365 606** | **3 419 897** | **16 386 979** |
| Interbank market | 541 382 | 267 501 | 213 075 | 0 | 0 | 4 436 066 |
| Issuance of shares | 150 000 | 170 000 | 0 | 0 | 0 | 1 559 700 |
| Deposits, excluding bank deposits | 789 737 | 371 525 | 347 099 | 1 365 606 | 0 | 6 971 316 |
| Equity and other liabilities | 0 | 0 | 0 | 0 | 3 419 897 | 3 419 897 |
| **Off-balance sheet items** | 0 | 0 | 0 | 0 | 0 | 0 |
| **Gap** | 482 683 | 249 666 | -152 875 | 1 315 900 | -3 692 580 | 0 |
| **Accumulated gap** | 2 279 889 | 2 529 555 | 2 376 680 | 3 692 580 | 0 | 0 |

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Liquidity gap as at 31 December 2014:

| | 1M | 3M | 6M | 12M | 2 years |
|---|---|---|---|---|---|
| **Assets, including:** | **2 976 402** | **1 078 783** | **1 254 533** | **1 905 088** | **2 466 037** |
| Securities and interbank market | 1 524 503 | 38 852 | 50 318 | 68 975 | 216 089 |
| Loans granted | 1 298 010 | 1 039 931 | 1 204 215 | 1 836 113 | 2 249 948 |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Other assets | 153 889 | 0 | 0 | 0 | 0 |
| **Equity and liabilities, including** | **1 118 087** | **1 425 285** | **1 071 940** | **1 672 458** | **3 063 352** |
| Interbank market | 242 974 | 483 012 | 234 551 | 699 106 | 1 614 908 |
| Issuance of shares | 28 000 | 79 200 | 390 000 | 146 000 | 414 700 |
| Deposits, excluding bank deposits | 847 113 | 863 073 | 447 389 | 827 352 | 1 033 744 |
| Equity and other liabilities | 0 | 0 | 0 | 0 | 0 |
| **Off-balance sheet items** | 0 | 0 | 0 | 0 | 0 |
| **Gap** | 1 858 315 | -346 502 | 182 593 | 232 630 | -597 315 |
| **Accumulated gap** | 1 858 315 | 1 511 813 | 1 694 406 | 1 927 036 | 1 329 721 |

| | 3 years | 4 years | 5 years | Over 5 years | Non-interest | Total |
|---|---|---|---|---|---|---|
| **Assets, including:** | **1 911 162** | **1 108 374** | **381 046** | **3 152 908** | **-108 924** | **16 125 409** |
| Securities and interbank market | 560 000 | 410 000 | 0 | 0 | 0 | 2 868 737 |
| Loans granted | 1 351 162 | 698 374 | 381 046 | 3 152 908 | 1 380 156 | 14 591 863 |
| Provisions | 0 | 0 | 0 | 0 | -1 563 275 | -1 563 275 |
| Other assets | 0 | 0 | 0 | 0 | 74 195 | 228 084 |
| **Equity and liabilities, including** | **1 918 500** | **943 700** | **591 470** | **1 286 910** | **3 033 707** | **16 125 409** |
| Interbank market | 509 217 | 426 446 | 38 319 | 65 945 | 0 | 4 314 478 |
| Issuance of shares | 665 000 | 50 000 | 170 000 | 0 | 0 | 1 942 900 |
| Deposits, excluding bank deposits | 744 283 | 467 254 | 383 151 | 1 220 965 | 64 | 6 834 388 |
| Equity and other liabilities | 0 | 0 | 0 | 0 | 3 033 643 | 3 033 643 |
| **Off-balance sheet items** | 0 | 0 | 0 | 0 | 0 | 0 |
| **Gap** | -7 338 | 164 674 | -210 424 | 1 865 998 | -3 142 631 | 0 |
| **Accumulated gap** | 1 322 383 | 1 487 057 | 1 276 633 | 3 142 631 | 0 | 0 |

**Stress testing**

The Bank performs quarterly stress tests. Stress tests comprise scenario analyses and reverse stress testing. Scenario analyses are performed for seven and 30 day horizons in three versions:

- Internal (idiosyncratic) assumes that a drop in the confidence in the bank results in an increased outflow of deposits and no possibility of obtaining unsecured financing on the interbank market;
- Systemic, assuming that a situation of stress on the market results in e.g. a decrease in the quality of the credit portfolio, an increase in the number of credit lines and guarantees granted, no possibility of obtaining financing on the interbank market and the freezing of the existing credit lines;
- Combined, i.e. a combination of the two aforesaid, including a possible interaction.

Stress test results are presented at the meetings of the Market Risk Committee, Management Board and Supervisory Board. The Bank uses the stress test results mainly to determine the minimum surplus liquidity value, periodic verification of the assumptions of the liquidity contingency plan and for preparing debt financing plans.

**Liquidity risk reporting**

As regards liquidity risk management, the management information system involves monthly reporting to the Market Risk Committee, ALCO Committee, Management Board and Supervisory Board of the Bank:

- The current and short-term liquidity risk is reported daily while the mid- and long-term liquidity risk is reported on a monthly basis;
- Planning of the structure of liabilities and obtaining fixed liabilities is done weekly – plans are approved by the Supervisory Board;
- Evaluation of the liquidity against the financial plan approved by the Management Board is done weekly and presented in a meeting of the ALCO Committee;
- Once in a quarter, the Management Board and the Supervisory Board receive market and liquidity risk monitoring report.

**Liquidity contingency plan**

The contingency liquidity plan sets forth detailed procedures during a period when liquidity is threatened and in a time of a crisis. In addition, the plan provides rules on monitoring liquidity threats, identification of liquidity threats, and appoints individuals responsible for preventive actions, the scope of their activities and procedures of communication. The contingency plan assumptions are reviewed on a regular basis (at least once a year) in order to adapt it to the existing external conditions and the Bank's needs.

**c) Capital adequacy risk**

The objective of capital adequacy management in Santander Consumer Bank S.A. is to ensure that the Bank meets equity requirements adequate to its risk profile, the business model and the scale of its operations, taking market conditions into account, and enabling the Bank to meet the guidelines resulting from the following:

- Provisions of law, in particular the CRR Regulation;
- Greater supervisory requirements;
- Shared decisions on the capital;
- Capital conservation buffers.

Equity level and capital adequacy is estimated in accordance with the applicable regulations and directives of the European Parliament and EU Council, and recommendations of the Polish Financial Supervision Authority.

The Management Board of the Bank is in charge of all capital management processes and the Supervisory Board has oversight of estimation of regulatory and internal capital.

The Management Board has appointed a Capital Committee which is in charge of approval and assessment of matters regarding the Bank's capital and solvency. In particular, it supports the Management Board in implementation of the Bank's strategy and adherence to the principles of cautious and sustainable management of the Bank's capital adequacy.

The Bank is subject to prudential requirements of Regulation of the European Parliament and of the Council (EU) No. 575/2013 of 26 June 2013, (CRR Regulation) on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012.

As at as 31 December 2015, the capital requirement was determined in accordance with CRR Regulation for the following risk:

- Credit risk: standard method;
- Operational risk: standard method (STA);
- Credit valuation adjustments (CVA): standard method;
- Market risk (currency exchange risk): standard method;
- Large exposure risk;
- settlement risk.

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In addition to the regulatory methods for capital requirement calculation, the Bank uses the Internal Capital Adequacy Assessment Process.

The Bank's internal capital corresponds to the estimated amount of capital that is required to cover all identified material types of risks the Bank is exposed to. The Bank's internal capital is the sum of the regulatory capital for the identified individual risks. In order to adapt the capital to its level and type of risk exposure, and to the character, scale and level of complexity of it activities, the Bank has implemented the Internal Capital Adequacy Assessment Process (ICAAP).

The Internal Capital Adequacy Assessment Process consist of the following elements:

1. Identification of materiality of individual risks;
2. Measurement (risk quantification);
3. Allocation of internal capital;
4. Risk and capital checks and monitoring.

ICAAP also involves identification of the Bank's appetite for risk and long-term capital planning.

Internal capital adequacy is reviewed and assessed by the ICAAP Team operating in the Bank. The relevant reports are submitted to the Capital Committee, Management Board and Supervisory Board of the Bank.

The following tables present the calculation of the total capital ratio of Santander Consumer Bank SA at 31 December 2015 and 31 December 2014.

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **Tier I capital** | **2 263 244** | **1 778 429** |
| - paid capital | 520 000 | 520 000 |
| - share premium | 768 047 | 768 047 |
| - retained earnings | 236 685 | 0 |
| - accumulated other comprehensive income | 7 984 | -3 461 |
| - reserve capital | 730 528 | 493 843 |
| | | |
| **Prudence filters** | **-1 816** | **3 103** |
| | | |
| **Decrease in Tier I capital** | **-408 777** | **-371 595** |
| - intangible assets | -15 054 | -37 501 |
| - deferred tax assets based on future profitability | -361 430 | -307 584 |
| - shares in entities in the financial sector | -26 980 | -26 980 |
| - adjustments in interim period | -5 313 | 470 |
| | | |
| **Exclusion form Tier I capital reductions** | **251 617** | **201 383** |
| - deferred tax assets based on future profitability | 224 637 | 174 403 |
| - shares in entities in the financial sector | 26 980 | 26 980 |
| **Tier I capital, including reduction and prudence filters** | **2 104 268** | **1 611 320** |
| | | |
| **Tier II capital** | **19 102** | **39 080** |
| - subordinated loans | 19 102 | 39 080 |
| **Total equity for purpose of total capital ratio calculation** | **2 123 370** | **1 650 400** |

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| | **31.12.2015** | **31.12.2014** |
|---|---|---|
| **Capital adequacy** | **1 041 796** | **1 006 543** |
| - due to credit risk | 899 195 | 857 905 |
| - due to operational risk | 141 211 | 148 054 |
| - due to credit valuation adjustments (CVA) risk | 1 390 | 584 |

| | **31.12.2015** | **31.12.2014** |
|---|---|---|
| **Total capital ratio** | 16.31% | 13.12% |

When planning the structure of its capital, the Bank takes into consideration a view expressed by the Polish Financial Supervision Authority on the dividend policy of banks of 15 December 2015. On that basis, the Bank adopted the following conditions for a dividend payment:

- No restructuring proceedings are in progress;
- Total capital ratio (TCR) is above 15.32%;
- Tier I share capital ratio (CET1) is above 12.05%;
- Leverage ratio (LR) is above 5%;
- BION mark for the level of capital risk is at least 2.5.

The criteria for individual capital ratios (CET1 and TCR) should be net for each reporting period from the announcement of the Financial Supervision Authority's view (December 2015) until a resolution on profit distribution is passed.

At 31 December 2015, Santander Consumer Bank S.A. met all the aforesaid criteria.

Furthermore, the Bank maintains sufficient equity to ensure coverage of the additional capital requirement of 1.07 p.p. to secure the risk involved in consumer mortgages denominated in foreign currency. From January 2016, the Bank will keep an additional buffer of 1.25 p.p.

**d) Operational risk**

Operational risk is a probability of loss resulting from poor adjustment or low reliability of internal processes, people and systems, or from external events, including legal risk.

Regulations on operational risk adopted in Santander Consumer Bank S.A. are based on:

- The CRR Regulation;
- Banking Law of 29 August 1997; Banking Law as amended;
- Recommendation M of the PFSA of 8 January 2013;
- corporate policies of the Santander Group concerning operational risk and business continuity policy, including:
    a) Management Framework for Technological and Operational Risk, July 2008;
    b) Corporate Policy Manual for Technological and Operational Risk, March 2010;
    c) Business Continuity Policy for Santander Group, January 2008.

The Bank uses the standard method for calculating the capital adequacy ratio for the operational risk in accordance with the relevant provisions of the CRR Regulation. In the banking activity two business lines were identified as follows:

1. Retail Banking:
   - Credit cards;
   - Installment loans;
   - Cash loans;
   - Mortgages;
   - Car loans granted to individuals;
   - Deposits from individuals.

2. Corporate Banking:
   - Corporate loans;
   - Car loans granted to corporations;
   - Deposits from corporations.

At the end of December 2015, the capital requirement for the operational risk was PLN 141 211 thousand.

The operational risk management and control system in Santander Consumer Bank S.A. covers all organizational units of the Bank and subsidiaries. In relation to operational risk, the Bank separated its risk management and risk control functions. This approach allows appropriate combination and development of quality- and quantity-based assessment methods for operational risk in process of controlling this risk, and ensures independent measurement and reporting of operational risk. At the same time, supervision of operational risk lies with the operational risk management function, in particular through the use of means and methods of its mitigation, rejection or transfer.

The Management Board is responsible for supervision of operational risk management in Santander Consumer Bank S.A.
The Head of the Operational Risk Management Department is in charge of the operational risk management system in Santander Consumer Bank S.A. The Head's scope or responsibility includes: preparing policies, procedures and methodologies, as well as reports for the Management Board of the Bank, Supervisory Board and Santander Capital Group. The Head's actions are supported by Operational Risk Coordinators in business units (first line of defense against risk). All Bank employee have a duty to manage the operational risk directly as part of their daily work activities (register information about all operating events in the Bank, provide information necessary to explain these events and take part in obligatory training in respect of this risk category).

Because of the product and organization characteristics as well as the level of operational losses incurred, the Bank considers the following business areas as those generating operational risk:

1. counteracting external fraud;
2. products and the risk of their impact the relations with supervisory bodies and clients;
3. IT systems and their influence on the Bank's functioning;
4. outsourcers' activity, namely tasks performed by them for the Bank.

The basic tools for measuring the operational risk level in the Bank include:

- operational events database;
- operational risk self-assessment;
- key operational risk indicators (KRI);
- stress testing.

In order to limit the operational risk exposure, the Bank applies recovery proceedings, mitigation plans and risk transfer via insurance.

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## 6 Interest income

| **Interest income** | **2015** | **2014** |
|---|---|---|
| On banks' deposits and accounts | 3 962 | 19 109 |
| On loans and advances granted to clients | 1 276 536 | 1 273 250 |
| *Corporate loans* | *13 471* | *16 383* |
| *Car loans* | *87 823* | *131 992* |
| *Mortgages* | *106 111* | *144 150* |
| *Loans to purchase goods and services* | *107 678* | *133 623* |
| *Cash loans* | *898 746* | *767 860* |
| *Credit cards* | *58 623* | *71 814* |
| *Other* | *4 084* | *7 428* |
| On securities available for sale | 39 062 | 50 119 |
| On subordinated loans | 21 217 | 8 214 |
| On derivatives | 40 805 | 43 897 |
| **Total** | **1 381 582** | **1 394 589** |

| **Interest income on impaired financial assets** | **2015** | **2014** |
|---|---|---|
| On loans and advances granted to clients | 84 309 | 120 616 |
| **Total** | **84 309** | **120 616** |

## 7 Interest expense

| **Interest expense** | **2015** | **2014** |
|---|---|---|
| On banks' deposits, loans and advances | -37 052 | -61 286 |
| On clients' deposits, loans and advances | -194 730 | -240 364 |
| On subordinated loan | -2 697 | -4 263 |
| On own debt securities | -57 575 | -83 043 |
| On derivatives | -16 272 | -15 673 |
| On finance lease | -111 | -316 |
| On other liabilities | -39 436 | -26 809 |
| **Total** | **-347 873** | **-431 754** |

*PLN '000*

### 8 Commission income

| **Commission income** | **2015** | **2014** |
|---|---|---|
| Revenues from sale of insurance products | 109 770 | 128 952 |
| Interest in profits of insurers | 36 365 | 23 625 |
| Commission on loans granted | 5 750 | 7 302 |
| Commission on credit card servicing | 63 309 | 50 256 |
| Commission on bank account servicing | 2 137 | 2 048 |
| Banking service package | 33 675 | 31 273 |
| Commission on cash transactions | 7 519 | 7 326 |
| Commission on securitization | 1 280 | 1 001 |
| Other commissions | 918 | 697 |
| **Total** | **260 723** | **252 480** |

### 9 Commission expenses

| **Commission expenses** | **2015** | **2014** |
|---|---|---|
| Insurance agency commissions | -14 333 | -10 332 |
| Commission on loans granted | -57 552 | -60 988 |
| Commission on credit card servicing | -7 256 | -3 696 |
| Commission on bank account servicing | -1 093 | -1 282 |
| Commission on securities offering | -2 527 | -2 853 |
| Commission on securitization | -3 356 | -878 |
| Other commissions | -417 | -96 |
| **Total** | **-86 534** | **-80 125** |

### 10 Result on financial operations and FX result

| **Result on financial operations and FX result** | **2015** | **2014** |
|---|---|---|
| Dividend income | 17 340 | 32 677 |
| Revaluation of shares | 489 | -39 429 |
| Gain/loss on cash flow hedges | 26 | 762 |
| Gain/loss on fair value of financial instruments held for trading | -169 | 0 |
| Gain/loss on foreign exchange transactions | 2 188 | 5 597 |
| Proceeds from sale of financial instruments available for sale | 1 597 | 0 |
| **Total** | **21 471** | **-393** |

Under *Dividend income* the Bank presents dividend from Visa Inc. (PLN 6 thousand and PLN 8 thousand in 2015 and 2014, respectively), and from subsidiaries Santander Consumer Finanse S.A (PLN 16 812 thousand and PLN 32 669 in 2015 and 2014, respectively) and AKB Marketing-Services Sp. z o.o., in liquidation (PLN 522 thousand in 2015).
Impairment losses on shares are described in Note 23. *Shares in subsidiaries*. In 2015, under *Revaluation of shares* the Bank also presented *Revenue from redemption of shares* in Santander Consumer Finanse S.A. of PLN 46 722 thousand).

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Under *Gain/loss on cash flow hedges* the Bank presents gains/losses on measurement of hedges in the ineffective portion of cash flow hedging relationship.

*Gain/loss on foreign exchange transactions* includes profit/loss on spots and futures and translated foreign currency assets and liabilities.

The Bank classified the shares in Visa Inc. as financial assets available for sale. In 2015, the Bank sold the said shares.

### 11 Other operating income

| Other operating income | 2015 | 2014 |
|---|---|---|
| Debt collection | 0 | 6 953 |
| Revenue from release of provisions and accruals | 3 422 | 6 959 |
| Revenue from re-invoices of maintenance services | 1 376 | 1 649 |
| Revenue from overpayments | 2 812 | 2 905 |
| Revenue from IT services and other support services | 3 028 | 2 077 |
| Other operating income | 3 300 | 3 149 |
| **Total** | **13 938** | **23 692** |

### 12 Bank's operating expenses and depreciation and amortization

| Bank's operating expenses | 2015 | 2014 |
|---|---|---|
| Salaries and wages | -181 091 | -178 176 |
| Social insurance and other employee benefits | -35 230 | -34 384 |
| Marketing expenses | -64 427 | -63 178 |
| IT expenses | -44 805 | -33 738 |
| Rent | -44 062 | -46 111 |
| Taxes and charges | -63 773 | -20 788 |
| Credit Information Bureau fee | -10 631 | -11 525 |
| Postal services | -12 001 | -10 973 |
| Maintenance expenses | -14 020 | -14 876 |
| Telecommunications services | -6 867 | -6 628 |
| Advisory services | -6 479 | -5 890 |
| Credit card services | -8 587 | -5 867 |
| Business travel costs | -3 040 | -2 875 |
| Costs of training | -3 120 | -3 231 |
| Documentation services | -2 075 | -1 801 |
| Other expenses | -12 433 | -11 025 |
| **Total** | **-512 641** | **-451 066** |

In 2015, the material increase in *Taxes and charges* was mainly due to the following costs being charged to the item: estimated contribution to the Borrowers' Support Fund of PLN 15 750 thousand, obligatory payment to the Bank Guarantee Fund which guarantees repayment of guaranteed deposits of Spółdzielczy Banku Rzemiosła i Rolnictwa's depositors of PLN 13 331 thousand, as well as an increase in contributions to the Bank Guarantee Fund (annual obligatory contribution and prudential BGF charge) of PLN 13 489 thousand.

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In 2015 and 2014, the Bank incurred costs in respect of rental of fixed assets used under finance lease amounting to PLN 326 thousand and PLN 565 thousand, respectively.

| Amortization/depreciation | 2015 | 2014 |
|---|---|---|
| Amortization charges – intangible assets | -18 138 | -23 100 |
| Depreciation charges – property, plant and equipment | -16 821 | -19 889 |
| **Total** | **-34 959** | **-42 989** |

### 13 Impairment losses on financial assets

| Net impairment losses | 2015 | 2014 |
|---|---|---|
| Impairment losses on loans and advances | -122 514 | -41 124 |
| **Total** | **-122 514** | **-41 124** |

| Change in provisions in 2015 | Increase in provisions | Decrease in provisions | Total |
|---|---|---|---|
| Corporate loans | 16 053 | -7 846 | 8 207 |
| Car loans | 22 345 | -37 487 | -15 142 |
| Mortgages | 95 309 | -58 948 | 36 361 |
| Loans to purchase goods and services | 82 244 | -47 862 | 34 382 |
| Cash loans | 276 420 | -165 763 | 110 657 |
| Credit cards | 33 287 | -15 160 | 18 127 |
| Other | 59 | -75 | -16 |
| Off-balance sheet liabilities | 8 321 | -4 724 | 3 597 |
| Recovered from impaired receivables | 0 | -73 659 | -73 659 |
| **Total** | **534 038** | **-411 524** | **122 514** |

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| **Change in provisions in 2014** | **Increase in provisions** | **Decrease in provisions** | **Total** |
|---|---|---|---|
| Corporate loans | 8 200 | -18 922 | -10 722 |
| Car loans | 35 861 | -56 388 | -20 527 |
| Mortgages | 51 304 | -77 045 | -25 741 |
| Loans to purchase goods and services | 87 027 | -45 224 | 41 803 |
| Cash loans | 239 762 | -131 656 | 108 106 |
| Credit cards | 21 914 | -18 689 | 3 225 |
| Other | 75 | -101 | -26 |
| Interbank deposits | 11 | -64 | -53 |
| Off-balance sheet liabilities | 4 063 | -9 010 | -4 947 |
| Recovered from impaired receivables | 0 | -49 994 | -49 994 |
| **Total** | **448 217** | **-407 093** | **41 124** |

The item *Recovered from impaired receivables* includes revenue from receivables sold, reclassified to off-balance sheet records. The table presents the gross value of receivables sold.

| **Receivables sold** | **2015** | **2014** |
|---|---|---|
| Cash loans | 243 974 | 282 329 |
| Loans to purchase goods and services | 73 041 | 50 834 |
| Credit cards | 108 468 | 0 |
| **Total** | **425 483** | **333 163** |

## 14 Other operating expenses

| **Other operating expenses** | **2015** | **2014** |
|---|---|---|
| Debt collection | -1 517 | 0 |
| Loss on disposal of property, plant and equipment and intangible assets | -1 691 | -857 |
| Expenses related to provisions created | -7 412 | -4 038 |
| Expenses related to complaints | -62 | -976 |
| Expenses related to impairment loss on intangible assets | -10 634 | -944 |
| Expenses related to impairment loss on other assets | -373 | -7 948 |
| Cost of damages | -760 | -1 296 |
| Expenses related to overpaid and refund of underpaid loans | -742 | -781 |
| Expenses related to cooperation with agents | 0 | -999 |
| Other operating expenses | -789 | -539 |
| **Total** | **-23 980** | **-18 378** |

Impairment losses recognized on intangible assets are presented in Notes 24 *Intangible assets*.

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### 15 Income tax

| | 2015 | 2014 |
|---|---|---|
| **Gross profit/loss** | **549 213** | **604 932** |
| **Theoretical tax rate of 19%** | **104 350** | **114 937** |
| | | |
| **Permanent differences:** | **-10 277** | **-16 626** |
| Permanent differences related to operating expenses | -929 | -1 004 |
| Change in provisions for non-tax deductible expenses | -3 905 | -1 620 |
| Non-tax deductible revenue | 12 339 | 6 366 |
| Change in impairment losses on loans in tax permanent difference | -12 774 | -18 017 |
| Adjustment to tax for the previous year | -3 367 | 0 |
| Other permanent differences | -1 641 | -2 351 |
| | | |
| **Total tax** | **-114 627** | **-131 563** |

The deferred tax calculation is presented Note 27.

### 16 Proposed profit distribution

As at the date of signing these financial statements, the Management Board had not made any decision regarding a proposal to be made to the General Shareholders' Meeting in respect of distribution of the profit for 2015.
The profit for 2014 was distributed as follows: 50 percent of the profit, i.e. PLN 236 685 thousand, was earmarked for the supplementary capital, and the remaining 50 percent, i.e. PLN 236 685 thousand, was kept as retained earnings. The Management Board presented the proposal for earmarking the undistributed profit for the supplementary capital to the General Shareholders' Meeting by resolution No. 424/SCB/2015 of 17 November 2015.

### 17 Cash and balances in the Central Bank

As at 31 December 2015 and 31 December 2014, the Bank had cash in hand totaling, respectively, PLN 22 759 thousand and PLN 21 955 thousand, respectively.
The Bank was obliged to maintain an obligatory provision in the National Bank of Poland. As at 31 December 2015 and 31 December 2014, the Bank deposited funds with a value of PLN 77 548 thousand and PLN 217 454 thousand, respectively.

### 18 Accounts and deposits in other banks

| Accounts and deposits in other banks | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Checking accounts | 8 955 | 9 346 |
| Margin deposit | 57 452 | 58 533 |
| **Gross value** | **66 407** | **67 879** |
| Impairment losses on the portfolio | 0 | 0 |
| **Total net value** | **66 407** | **67 879** |

*PLN '000*

| **Gross receivables from other banks by maturity** | **31.12.2015** | **31.12.2014** |
|---|---|---|
| Current receivables | 8 955 | 9 346 |
| Non-current receivables maturing after the end of the reporting period: | 57 452 | 58 533 |
| *– within 1 month* | *57 452* | *58 533* |
| **Total** | **66 407** | **67 879** |

### 19 Financial assets available for sale

| **Financial assets available for sale** | **31.12.2015** | **31.12.2014** |
|---|---|---|
| Money bills | 749 782 | 959 947 |
| Treasury bonds | 1 242 076 | 1 244 226 |
| Securitization bonds | 119 990 | 393 747 |
| Shares | 8 523 | 1 602 |
| **Total** | **2 120 371** | **2 599 522** |

As at 31 December 2015, Santander Consumer Bank S.A. held money bills to be used as protection of the guaranteed funds in accordance with the requirements of the Bank Guarantee Fund, with a total carrying amount of PLN 49 986 thousand (31 December 2014: PLN 49 997 thousand).
The Bank also held money bills of the National Bank of Poland which did not constitute protection of the guaranteed funds with a total carrying amount of PLN 699 796 thousand and PLN 909 950 thousand as at 31 December 2015 and 31 December 2014, respectively.

The Bank has treasury bonds and securitization bonds constituting security of *repo* transaction receivables. These receivables are presented in Note 29 *Liabilities to Banks*.

**2015 data**

| **Bill type** | **Purchase date (*)** | **Maturity** | **Purchase price** | **Nominal value** | **Volume** | **Market value at 31 Dec. 2015** |
|---|---|---|---|---|---|---|
| Money bills | 31/12/2015 | 08/01/2016 | 749 750 | 750 000 | 75 000 | 749 782 |
| Treasury bonds | 23/01/2013 | 25/01/2018 | 100 330 | 100 000 | 100 000 | 100 868 |
| Treasury bonds | 23/01/2013 | 25/01/2017 | 145 609 | 145 000 | 145 000 | 146 360 |
| Treasury bonds | 25/01/2013 | 25/01/2017 | 416 743 | 415 000 | 415 000 | 418 892 |
| Treasury bonds | 28/01/2013 | 25/01/2018 | 260 959 | 260 000 | 260 000 | 262 257 |
| Treasury bonds | 28/01/2013 | 25/01/2018 | 50 185 | 50 000 | 50 000 | 50 434 |
| Treasury bonds | 16/01/2015 | 25/01/2018 | 199 920 | 200 000 | 200 000 | 201 736 |
| Treasury bonds | 16/01/2015 | 25/01/2018 | 60 976 | 61 000 | 61 000 | 61 529 |
| Securitization bonds Class B | 26/06/2014 | 20/06/2025 | 209 000 | 209 000 | 209 000 | 119 990 |
| **Total** | | | **2 193 472** | **2 190 000** | | **2 111 848** |

(*) transaction currency date specified

*PLN '000*

**2014 data**

| Bill type | Purchase date (*) | Maturity | Purchase price | Nominal value | Volume | Market value at 31 Dec. 2014 |
|---|---|---|---|---|---|---|
| Money bills | 29/12/2014 | 02/01/2015 | 959 787 | 960 000 | 96 000 | 959 947 |
| Treasury bonds | 23/01/2013 | 25/01/2015 | 10 040 | 10 000 | 10 000 | 10 132 |
| Treasury bonds | 23/01/2013 | 25/01/2015 | 103 722 | 103 268 | 103 268 | 104 631 |
| Treasury bonds | 23/01/2013 | 25/01/2018 | 100 330 | 100 000 | 100 000 | 100 980 |
| Treasury bonds | 23/01/2013 | 25/01/2017 | 145 609 | 145 000 | 145 000 | 146 755 |
| Treasury bonds | 23/01/2013 | 25/01/2015 | 147 363 | 146 732 | 146 732 | 148 669 |
| Treasury bonds | 28/01/2013 | 25/01/2018 | 260 959 | 260 000 | 260 000 | 262 548 |
| Treasury bonds | 28/01/2013 | 25/01/2018 | 50 185 | 50 000 | 50 000 | 50 490 |
| Treasury bonds | 25/01/2013 | 25/01/2017 | 416 743 | 415 000 | 415 000 | 420 022 |
| Securitization bonds Class A | 26/06/2014 | 20/06/2025 | 347 400 | 184 430 | 184 430 | 184 573 |
| Securitization bonds Class B | 26/06/2014 | 20/06/2025 | 209 000 | 209 000 | 209 000 | 209 173 |
| **Total** | | | **2 751 138** | **2 583 430** | | **2 597 920** |

(*) transaction currency date specified

As at 31 December 2015, the Bank also included shares in Visa Europe Ltd. With a value of PLN 8 523 thousand as financial assets available for sale.

According to the information from Visa Europe Ltd., as a result of the sale of 100 percent of shares in Visa Europe to Visa Inc., the Bank holding one share in Visa Europe with a nominal value of EUR 10, acquired the right to a total consideration from the aforesaid transaction with a total value of EUR 2 054 thousand, including EUR 1 522 thousand in cash and EUR 532 thousand in shares in Visa Inc.

The aforementioned consideration is not final and can be affected by transaction costs, contractual provisions and effective appeals filed by the eligible members. The final consideration due to the Bank should be confirmed on 1 March 2016 and paid by 30 June 2016. The planned transaction should be closed in Q2 2016 depending on receipt of the relevant permissions from regulators.

In the Bank's opinion, the aforesaid information constitutes a sufficient basis for reviewing the estimated fair value of the interest held. The Bank took into consideration the aforesaid uncertainty and recognized a change in the fair value of the interest held up to EUR 2 million, i.e. PLN 8.5 million. The change in the value of shares classified as available for sale is reflected in *Other comprehensive income* and takes account of the effect of the deferred income tax. The aforementioned measurement is disclosed under Level 3 of the fair value in Note 45 *Fair value of financial instruments*.

As at 31 December 2014, the Bank also classified shares in Visa Europe Ltd. and Visa Inc. with a value of PLN 1 602 thousand as financial assets available for sale. In 2015, the Bank sold the shares in Visa Inc. and earned a profit of PLN 1 597 thousand. The profit is presented in Note 10 *Gain/loss on financial transactions and foreign exchange transactions*.

## 20 Financial assets and liabilities held for trading

The Bank classifies FX SWAP derivatives as financial assets and liabilities held for trading. The Bank concludes the aforesaid transactions in order to manage nostro account liquidity. The fair values of financial derivatives are based on market prices and discounted cash flow models. Gains and losses on changes in the fair value of financial assets and liabilities held for trading are charged to the profit or loss on financial transactions and foreign exchange gains and losses.

The table below presents the basic terms and conditions of the aforesaid transactions and their fair value in PLN as at 31 December 2015.

**31.12.2015**

| Transaction | Purchased currency | Sold currency | Nominal value ('000) | Initial FX rate | | Final FX rate | | Balance sheet measurement ('000) |
|---|---|---|---|---|---|---|---|---|
| | | | | Foreign currency/PLN FX rate | Transaction date | Foreign currency/PLN FX rate | Transaction date | |
| FX SWAP | CHF | PLN | CHF 14 000 | 3.9110 | 24/12/2015 | 3.9288 | 04/03/2016 | PLN -338 |
| FX SWAP | PLN | EUR | EUR 25 000 | 4.2880 | 30/10/2015 | 4.3051 | 20/01/2016 | PLN -1 015 |
| | | | | | | **Total** | | **PLN -1 353** |

As at 31 December 2014, the Bank did not have any financial assets or liabilities held for trade.

### 21 Hedge accounting, hedging derivatives

The Bank uses FX Swaps and CIRS to hedge against the currency risk resulting mainly from mortgages and to a lesser extent from car loans denominated in CHF. The FX Swaps change specific payments in CHF to payments in PLN. The FX Swaps which change the streams in CHF to streams in PLN have been classified as hedging instruments for the purposes of hedge accounting as a portfolio cash flow hedge.
Gains and losses on measurement of hedging derivatives are presented, respectively, under *Hedging derivatives* in the assets of the statement of financial position and under *Hedging derivatives* in equity and liabilities of the statement of financial position.

The table below presents the main terms and conditions of the transactions and their fair value in PLN as at 31 December 2015 and 31 December 2014, respectively.

**31.12.2015**

| Transaction | Purchased currency | Sold currency | Nominal value ('000) | CHF/PLN exchange rate | Transaction date | | Balance sheet measurement ('000) |
|---|---|---|---|---|---|---|---|
| | | | | | Initial exchange | Final exchange | |
| CIRS | CHF | PLN | CHF 50 000 | 3.3940 | 03/06/2014 | 03/06/2016 | PLN -26 840 |
| CIRS | CHF | PLN | CHF 50 000 | 3.3940 | 03/06/2014 | 06/06/2017 | PLN -27 216 |
| CIRS | CHF | PLN | CHF 40 000 | 3.8600 | 17/07/2015 | 17/07/2019 | PLN -1 737 |
| CIRS | CHF | PLN | CHF 70 000 | 3.8700 | 31/08/2015 | 31/08/2021 | PLN -5 987 |
| CIRS | CHF | PLN | CHF 60 000 | 3.9550 | 12/11/2015 | 12/11/2020 | PLN 1 955 |
| | | | | | **Total** | | **PLN -59 825** |

**31.12.2014**

| Transaction | Purchased currency | Sold currency | Nominal value ('000) | CHF/PLN exchange rate | Transaction date | | Balance sheet measurement ('000) |
|---|---|---|---|---|---|---|---|
| | | | | | Initial exchange | Final exchange | |
| CIRS | CHF | PLN | CHF 50 000 | 3.4990 | 17/07/2012 | 17/07/2015 | PLN -2 910 |
| CIRS | CHF | PLN | CHF 35 000 | 3.4090 | 30/08/2012 | 31/08/2015 | PLN -5 169 |
| CIRS | CHF | PLN | CHF 35 000 | 3.4530 | 31/08/2012 | 31/08/2015 | PLN -3 634 |
| CIRS | CHF | PLN | CHF 25 000 | 3.4000 | 20/09/2012 | 21/09/2015 | PLN -4 007 |
| CIRS | CHF | PLN | CHF 80 000 | 3.4540 | 12/11/2012 | 12/11/2015 | PLN -8 243 |
| CIRS | CHF | PLN | CHF 50 000 | 3.3940 | 03/06/2014 | 03/06/2016 | PLN -7 759 |
| CIRS | CHF | PLN | CHF 50 000 | 3.3940 | 03/06/2014 | 06/06/2017 | PLN -8 295 |
| | | | | | **Total** | | **PLN -40 017** |

Prior to concluding a hedging transaction, the Bank defines the hedging relationship by indicating the portfolio or assets or liabilities which are to be hedged. In order to ensure high degree of accuracy of forecasts of cash flows from the portfolio of hedged loans in CHF, the hedged items are designated based on the methods used by the Bank to determine the liquidity gaps realigned to include earlier repayment of loans. Consequently, estimated future cash flows hedged are decreased by 10 percent (*haircut*). The hedged cash flows mature after the completion of the FX Swap hedging transaction.

The table below presents forecast cash flows from the portfolio of mortgage and car loans in CHF and the amount allocated as hedging instruments to FX Swap as at 31 December 2015 and 31 December 2014 (information based on the Bank's liquidity gap):

**31.12.2015**

| Forecast cash flow | Proceeds from loan repayment | Amount allocated to hedging transactions |
|---|---|---|
| Up to 1 month | 784 | 0 |
| 1 to 3 months | 1 549 | 0 |
| 3 to 6 months | 2 279 | 0 |
| 6 to 12 months | 4 403 | 50 |
| 1 to 2 years | 8 215 | 50 |
| 2 to 3 years | 7 464 | 0 |
| 3 to 4 years | 6 756 | 40 |
| 4 to 5 years | 6 089 | 60 |
| over 5 years | 38 465 | 70 |

*PLN '000*

**31.12.2014**

| Forecast cash flow | Proceeds from loan repayment | Amount allocated to hedging transactions |
|---|---|---|
| Up to 1 month | 854 | 0 |
| 1 to 3 months | 1 689 | 0 |
| 3 to 6 months | 2 483 | 0 |
| 6 to 12 months | 4 790 | 225 |
| 1 to 2 years | 8 928 | 50 |
| 2 to 3 years | 8 139 | 50 |
| 3 to 4 years | 7 409 | 0 |
| 4 to 5 years | 6 719 | 0 |
| over 5 years | 46 388 | 0 |

The Bank measured the effectiveness of the hedges with the linear regression analysis, which proved that hedging instruments and risk were matched correctly.
Statistical tests used has shown high positive correlation between the hedged risks and hedging instruments, which proved high efficiency of hedging relations as defined in IAS 39.

Change in the fair value of cash flow hedges charged to other comprehensive income (taking account of deferred tax):

| | 2015 | 2014 |
|---|---|---|
| **Opening balance** | -2 705 | -5 172 |
| Effective portion of gains/losses on a hedging instrument | 3 517 | 2 467 |
| **Closing balance** | 812 | -2 705 |

In 2015 and 2014, the Bank recognized a loss on ineffective cash flow hedge accounting of PLN 26 thousand and PLN 762 thousand, respectively. The result is presented in Note 10 *Gain/loss on financial transactions and foreign exchange transactions*.

### 22 Credit facilities and loans granted to clients

The policy adopted by the Bank aims at mitigating the risk of concentration of receivables and liabilities as well as monitoring the portfolio with the view to the risk of recoverability of receivables. Santander Consumer Bank S.A. fully complies with the standards concerning concentration of receivables defined in the Banking Law (Banking Law of 29 August 1997, *Journal of Laws* of 1997 No. 140 item 939). In its credit policy, Santander Consumer Bank S.A. consistently applies the principle of limited involvement in high risk entities, capital groups and market segments and keeps its portfolio highly diversified.

*PLN '000*

| **Structure of the portfolio of credit facilities and loans** | **31.12.2015** | **31.12.2014** |
|---|---|---|
| Corporate loans | 431 851 | 307 764 |
| Car loans | 1 021 734 | 1 382 711 |
| Mortgages | 4 794 461 | 4 922 687 |
| Loans to purchase goods and services | 2 616 171 | 2 463 355 |
| Cash loans | 4 207 240 | 3 614 168 |
| Credit cards | 849 652 | 704 063 |
| Other loans | 308 146 | 214 511 |
| Subordinated loans | 620 372 | 412 213 |
| Other receivables | 312 | 155 |
| **Total gross credit facilities and loans** | **14 849 939** | **14 021 627** |
| Impairment losses (provisions) | -1 565 443 | -1 563 275 |
| **Total net credit facilities and loans** | **13 284 496** | **12 458 352** |

All overdue loans are disclosed at the amount adjusted for impairment. The adjustment is calculated considering e.g. timeliness of payments, and loans which are overdue by more than 90 days are classified as non-performing.
The gross exposure to credit risk is recognized at the amount that represents the maximum exposure to credit risk in line with IFRS 7.36, i.e. without taking account of any collateral held.

| **Gross portfolio, by maturity** | **31.12.2015** | **31.12.2014** |
|---|---|---|
| Non-current gross receivables maturing after the end of the reporting period: | | |
| *– within 1 month* | *1 192 456* | *1 090 903* |
| *– 1 – 3 months* | *1 140 411* | *724 603* |
| *– 3 months–1 year* | *2 712 648* | *2 719 280* |
| *– 1–5 years* | *4 649 399* | *4 355 024* |
| *– 5–10 years* | *1 821 705* | *1 166 327* |
| *– 10–20 years* | *1 749 606* | *2 202 906* |
| *- over 20 years* | *403 072* | *563 775* |
| *– past due* | *1 180 642* | *1 198 809* |
| **Total** | **14 849 939** | **14 021 627** |

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**Changes in impairment losses on credit facilities, loans, interbank deposits and provisions for off-balance sheet liabilities:**

| 2015 | Impairment losses on credit facilities and loans | Impairment loss on interbank deposits | Provisions for off-balance sheet liabilities | Total |
|---|---|---|---|---|
| **Opening balance** | **1 563 275** | **0** | **17 467** | **1 580 742** |
| Increase in provisions | 525 717 | 0 | 8 321 | 534 038 |
| Decrease in provisions | -406 800 | 0 | -4 724 | -411 524 |
| FX differences | -652 | 0 | 0 | -652 |
| Applied provisions | -189 756 | 0 | 0 | -189 756 |
| Recovered from impaired receivables | 73 659 | 0 | 0 | 73 659 |
| **Closing balance** | **1 565 443** | **0** | **21 064** | **1 586 507** |

| 2014 | Impairment losses on credit facilities and loans | Impairment loss on interbank deposits | Provisions for off-balance sheet liabilities | Total |
|---|---|---|---|---|
| **Opening balance** | **1 766 617** | **53** | **22 414** | **1 789 084** |
| Increase in provisions | 444 143 | 11 | 4 063 | 448 217 |
| Decrease in provisions | -398 019 | -64 | -9 010 | -407 093 |
| Applied provisions | -299 460 | 0 | 0 | -299 460 |
| Recovered from impaired receivables | 49 994 | 0 | 0 | 49 994 |
| **Closing balance** | **1 563 275** | **0** | **17 467** | **1 580 742** |

| Portfolio of credit facilities and loans granted to clients, by estimated impairment | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **Credit facilities and loans granted to clients (gross), including:** | **14 849 939** | **14 021 627** |
| **Not impaired** | **13 464 755** | **12 636 670** |
| **Impaired** | **1 385 184** | **1 384 957** |
| – measured individually | 14 537 | 17 212 |
| – measured in a portfolio | 1 370 647 | 1 367 745 |
| **Impairment loss, including:** | **-1 565 443** | **-1 563 275** |
| **On losses incurred but not recognized** | **-298 303** | **-317 038** |
| **For impaired receivables** | **-1 267 140** | **-1 246 237** |
| – measured individually | -9 538 | -10 865 |
| – measured in a portfolio | -1 257 602 | -1 235 372 |
| **Loans granted to clients (net)** | **13 284 496** | **12 458 352** |

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| | | | | | Non-impaired rec | |
|---|---|---|---|---|---|---|
| **Structure of the portfolio** | **Gross value of receivables** | **Gross value of impaired receivables** | **Impairment losses on impaired receivables** | **Gross non-impaired receivables** | **Non-overdue loans** | **Past due by u 30 days** |
| **As at 31 December 2015** | | | | | | |
| Corporate loans | 431 851 | 14 537 | -9 538 | 417 314 | 409 870 | |
| Car loans | 1 021 734 | 201 537 | -193 700 | 820 197 | 718 034 | 9 |
| Mortgages | 4 794 461 | 342 581 | -313 732 | 4 451 880 | 4 085 041 | 27 |
| Loans to purchase goods and services | 2 616 171 | 180 487 | -167 987 | 2 435 684 | 2 335 080 | 8 |
| Cash loans | 4 207 240 | 548 732 | -491 009 | 3 658 508 | 3 401 223 | 20 |
| Credit cards | 849 652 | 97 310 | -91 174 | 752 342 | 715 299 | 3 |
| Other | 928 830 | 0 | 0 | 928 830 | 928 830 | |
| **Total** | **14 849 939** | **1 385 184** | **-1 267 140** | **13 464 755** | **12 593 377** | **70** |
| **As at 31 December 2014** | | | | | | |
| Corporate loans | 307 764 | 17 212 | -10 865 | 290 552 | 275 969 | 1 |
| Car loans | 1 382 711 | 235 729 | -221 239 | 1 146 982 | 973 908 | 14 |
| Mortgages | 4 922 687 | 402 779 | -337 248 | 4 519 908 | 4 085 202 | 32 |
| Loans to purchase goods and services | 2 463 355 | 158 991 | -148 311 | 2 304 364 | 2 199 852 | 9 |
| Cash loans | 3 614 168 | 472 105 | -436 927 | 3 142 063 | 2 891 990 | 19 |
| Credit cards | 704 063 | 98 141 | -91 647 | 605 922 | 571 196 | 2 |
| Other | 626 879 | 0 | 0 | 626 879 | 626 879 | |
| **Total** | **14 021 627** | **1 384 957** | **-1 246 237** | **12 636 670** | **11 624 996** | **80** |

In June 2014, the Bank securitized the car loan and instalment sale portfolio with a value of PLN 1 751 436 thousand. The transaction was a traditional one and consisted in transferring the right to securitized receivables to SC Poland Auto 2014-1 Limited (SPV1), with its registered office in Ireland.

On the basis of the securitized assets, the said company issued two classes of bonds with a total value of PLN 1 367 million, secured in the form of a registered pledge on the assets of SPV1. The bonds bear an interest rate comprising 1M WIBOR and margin. Initially, the bonds were taken up by the Bank in whole; then the A and B class bonds were sold to third parties in unconditional transactions and under repurchase agreements (repo). As a result of the securitization, the Bank obtained financing in return for the right to future cash flows from the securitized credit portfolio. The latest redemption date is 20 June 2025, but in the Bank's estimation, the aforesaid bonds should be redeemed within three years from the transaction date.

The Bank granted SPV1 a subordinated loan of PLN 391 728 thousand as at 31 December 2015. The loan is subordinated to preference and secured bonds. Loan interest repayment is included in the cascading payments made from the funds of SPV1, whereas the principal will be repaid after full redemption of bonds. The interest is fixed. As at 31 December 2015, the value of securitizing bonds held by the Bank was PLN 119 990 thousand.

In September 2015, the Bank securitized the instalment loan portfolio. The transaction was a traditional, revolving transaction and consisted in transferring the right to securitized receivables to SC Poland Consumer Sp. z o.o. 2015-1 (SPV2), with its registered office in Poland.

On the basis of the securitized assets, the aforesaid company issued bonds with a total value of PLN 1 051 125 000 secured in the form of a registered pledge on the assets of SPV2. The bonds bear an interest rate comprising 1M WIBOR and margin. As a result of the securitization, the Bank obtained financing in return for the right to future cash flows from the securitized credit portfolio. The latest redemption date is 19 August 2025, but in the Bank's estimation, the aforesaid bonds should be redeemed within two years from the transaction date.

The Bank granted SPV2 a subordinated loan of PLN 228 643 thousand as at 31 December 2015. The loan is subordinated to preference and secured bonds. Loan interest repayment is included in the cascading payments made from the funds of SPV2, whereas the principal will be repaid after full redemption of bonds. The interest is fixed.

In accordance with IAS 39, the terms and conditions of the securitization transaction do not require the Bank to derecognize the securitized assets from its financial statements. Consequently, at 31 December 2015, the Bank recognized securitized assets with a net value of PLN 1 586 946 thousand and liabilities in respect of securitization cash flows of PLN 1 792 283 thousand, respectively, under *Credit facilities and loans granted to clients* and *Liabilities to clients*.

The transactions with the SPV are described in Note 43 *Related party transactions*. The table presents items of a statement of financial position of SPV1 and SPV2 in respect of transactions concluded with the Bank, respectively, as at 31 December 2015 and 31 December 2014.

| SC Poland Auto 2014-1 Limited (SPV1) | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **Assets** | | |
| Current accounts and deposits at banks | 511 718 | 1 236 631 |
| **Total assets** | **511 718** | **1 236 631** |
| **Liabilities** | | |
| Liabilities arising from issue of debt securities | 119 990 | 393 747 |
| Other liabilities | 47 833 | 131 933 |
| Subordinated debt | 391 728 | 412 213 |
| **Total liabilities** | **559 551** | **937 893** |

| SC Poland Consumer 2015-1 Sp. z o.o. (SPV2) | 31.12.2015 |
|---|---|
| **Assets** | |
| Current accounts and deposits at banks | 1 280 565 |
| **Total assets** | **1 280 565** |
| **Liabilities** | |
| Other liabilities | 144 745 |
| Subordinated debt | 228 643 |
| **Total liabilities** | **373 388** |

The profit earned by SPV1 and SPV2 is zero because all revenues and expenses of SPV1 and SPV2 are offset against the revenues and expenses of the Bank.

### 23 Shares in subsidiaries

Shares in subsidiaries as at the date of approval of the financial statements by the Management Board of the Bank, as at 31 December 2015 and 31 December 2014 are presented in the tables below. The Bank controls the following entities and treats them as subsidiaries by having 100% of share capital and vote rights.

**31.12.2015**

| **1. Entity** | **AKB Marketing Services Sp. z o.o. in liquidation** |
|---|---|
| a) registered office | ul. Marcelińska 90, 60-324 Poznań |
| b) relationship | subsidiary |
| c) date of assuming control | 24.03.2006 |
| d) cost of shares in PLN '000 | 274 |
| e) % interest in the share capital | 100% |
| f) share in total number of votes at the General Shareholders' Meeting | 100% |
| **2. Entity** | **Santander Consumer Multirent Sp. z o.o.** |
| a) registered office | ul. Strzegomska 42c, 53-611 Wrocław |
| b) relationship | subsidiary |
| c) date of assuming control | 16.08.2007 |
| d) cost of shares in PLN '000 | 26 980 |
| e) % interest in the share capital | 100% |
| f) share in total number of votes at the General Shareholders' Meeting | 100% |

| | |
|---|---|
| **3. Entity** | **Santander Consumer Finanse Sp. z o.o.** |
| a) registered office | ul. Strzegomska 42c, 53-611 Wrocław |
| b) relationship | subsidiary |
| c) date of assuming control | 15.05.2013 |
| d) cost of shares in PLN '000 | 172 275 |
| e) impairment loss | -103 330 |
| f) % interest in the share capital | 100% |
| g) share in total number of votes at the General Shareholders' Meeting | 100% |
| **Total net value of shares** | **96 199** |

**31.12.2014**

| | |
|---|---|
| **1. Entity** | **AKB Marketing Services Sp. z o.o.** |
| a) registered office | ul. Marcelińska 90, 60-324 Poznań |
| b) relationship | subsidiary |
| c) date of assuming control | 24.03.2006 |
| d) cost of shares in PLN '000 | 274 |
| e) % interest in the share capital | 100% |
| f) share in total number of votes at the General Shareholders' Meeting | 100% |
| **2. Entity** | **Santander Consumer Multirent Sp. z o.o.** |
| a) registered office | ul. Strzegomska 42c, 53-611 Wrocław |
| b) relationship | subsidiary |
| c) date of assuming control | 16.08.2007 |
| d) cost of shares in PLN '000 | 26 980 |
| e) % interest in the share capital | 100% |
| f) share in total number of votes at the General Shareholders' Meeting | 100% |
| **3. Entity** | **Santander Consumer Finanse S.A.** |
| a) registered office | ul. Strzegomska 42c, 53-611 Wrocław |
| b) relationship | subsidiary |
| c) date of assuming control | 15.05.2013 |
| d) cost of shares in PLN '000 | 172 275 |
| e) impairment loss | -57 096 |
| f) % interest in the share capital | 100% |
| g) share in total number of votes at the General Shareholders' Meeting | 100% |
| **Total net value of shares** | **142 433** |

The Bank's subsidiaries are not consolidated by the Bank in accordance with IAS 10.4 and the consolidation takes place at the level of the Bank's parent.

On 7 August 2015, the Supervisory Board of Santander Consumer Finanse S.A. approved the draft plan of the company's conversion into a limited liability company. The plan was carried out in 2015.

On 31 December 2014, the Extraordinary Shareholders' Meeting of AKB Marketing Services Sp. z o.o. adopted a decision to put the company into liquidation as of 1 January 2015. As at 31 December 2015, the company's liquidation process had not been completed yet.

In 2014, indications of impairment were identified for the Company's investment in the shares in Santander Consumer Finanse S.A.

*PLN '000*

An impairment test was performed by comparing the carrying amount of the investment and the book value of the net assets, which was considered appropriate representation of the fair value of an entity whose operating activities were scant and whose net assets were primarily in the form of cash. The estimated fair value corresponded to level 3 of the fair value hierarchy used by the Bank.

The same impairment test was carried out in 2015.

As a result of the impairment tests, the fair value of the investment in the accounting records of the Bank was estimated at PLN 68,945 thousand and PLN 115,179 thousand as at 31 December 2015 and 31 December 2014, respectively. Consequently, the Bank recognized impairment losses on the investment in the shares in Santander Consumer Finanse S.A. of PLN 46,233 thousand in 2015 and PLN 39,429 thousand in 2014.

## 24 Intangible assets

| **Net intangible assets** | **31.12.2015** | **31.12.2014** |
|---|---|---|
| Computer software and other | 11 750 | 25 202 |
| Expenditures on intangible assets | 3 304 | 12 299 |
| **Total** | **15 054** | **37 501** |

As at 31 December 2015 and 31 December 2014, the Bank did not use any intangible assets under finance lease agreements.

Expenditures on intangible assets mainly include investments in development and implementation of new IT systems.

| **Material items of intangible assets as at 31 December 2015** | **Carrying amount** | **Remaining amortization period (months)** |
|---|---|---|
| Online banking system (expenditures) | 2 676 | In progress |
| System for loan handling | 2 481 | 7 |
| Documentation flow system | 1 033 | 34 |

| **Material items of intangible assets as at 31 December 2014** | **Carrying amount** | **Remaining amortization period (months)** |
|---|---|---|
| System for loan handling (expenditures) | 16 194 | In progress |
| System for loan handling | 9 824 | 19 |
| Banking system | 4 796 | 12 |
| General ledger system | 2 131 | 16 |

In 2015, the Bank recognized impairment losses of PLN 10,634 thousand comprising:

- expenditures on development of a loan handling module of PLN 9,034 thousand as a result of is discontinuation;
- computer software used at the Bank of PLN 349 thousand.

In 2014, the impairment losses recognized by the Bank amounted to PLN 944 thousand.

The aforesaid impairment losses were recognized in profit/loss and presented in Note 14 *Other operating expenses*.

*PLN '000*

| Description | Computer software and other | Expenditures on intangible assets | Total intangible assets |
|---|---|---|---|
| **Gross value as at 1 January 2015** | **195 061** | **26 094** | **221 155** |
| increases: | 5 035 | 4 148 | 9 183 |
| - purchase | 915 | 4 148 | 5 063 |
| - reclassification from expenditures on intangible assets | 4 120 | 0 | 4 120 |
| decreases: | 576 | 17 904 | 18 480 |
| - reclassification from expenditures on intangible assets | 0 | 4 120 | 4 120 |
| - liquidation | 576 | 13 619 | 14 195 |
| - other changes | 0 | 165 | 165 |
| **Gross value as at 31 December 2015** | **199 520** | **12 338** | **211 858** |
| **Accumulated amortization as at 1 January 2015** | **163 808** | **0** | **163 808** |
| increases: | 18 138 | 0 | 18 138 |
| - amortization charges | 18 138 | 0 | 18 138 |
| decreases: | 576 | 0 | 576 |
| - liquidation | 576 | 0 | 576 |
| **Accumulated amortization as at 31 December 2015** | **181 370** | **0** | **181 370** |
| **Impairment loss as at 1 January 2015** | **6 051** | **13 795** | **19 846** |
| increases: | 1 600 | 9 034 | 10 634 |
| decreases: | 1 251 | 13 795 | 15 046 |
| **Impairment loss as at 31 December 2015** | **6 400** | **9 034** | **15 434** |
| **Net value as at 1 January 2015** | **25 202** | **12 299** | **37 501** |
| **Net value as at 31 December 2015** | **11 750** | **3 304** | **15 054** |

*PLN '000*

| Description | Computer software and other | Expenditures on intangible assets | Total intangible assets |
|---|---|---|---|
| **Gross value as at 1 January 2014** | **191 879** | **21 324** | **213 203** |
| increases: | 3 235 | 8 049 | 11 284 |
| - purchase | 651 | 8 049 | 8 700 |
| - reclassification from expenditures on intangible assets | 2 584 | 0 | 2 584 |
| decreases: | 53 | 3 279 | 3 332 |
| - reclassification from expenditures on intangible assets | 0 | 2 584 | 2 584 |
| - liquidation | 53 | 0 | 53 |
| - other changes | 0 | 695 | 695 |
| **Gross value as at 31 December 2014** | **195 061** | **26 094** | **221 155** |
| **Accumulated amortization as at 1 January 2014** | **140 761** | **0** | **140 761** |
| increases: | 23 100 | 0 | 23 100 |
| - amortization charges | 23 100 | 0 | 23 100 |
| decreases: | 53 | 0 | 53 |
| - liquidation | 53 | 0 | 53 |
| **Accumulated amortization as at 31 December 2014** | **163 808** | **0** | **163 808** |
| **Impairment loss as at 1 January 2014** | **6 051** | **12 851** | **18 902** |
| increases: | 0 | 944 | 944 |
| decreases: | 0 | 0 | 0 |
| **Impairment loss as at 31 December 2014** | **6 051** | **13 795** | **19 846** |
| **Net value as at 1 January 2014** | **45 067** | **8 473** | **53 540** |
| **Net value as at 31 December 2014** | **25 202** | **12 299** | **37 501** |

## 25 Property, plant and equipment

| Property, plant and equipment – PLN net | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Leasehold improvements | 26 772 | 33 844 |
| Technical equipment | 27 301 | 20 034 |
| Vehicles | 986 | 1 737 |
| Fittings | 573 | 1 214 |
| Fixed assets under construction | 1 901 | 439 |
| **Total** | **57 533** | **57 268** |

The Bank had property, plant and equipment in the form of vehicles used under finance lease agreements with a net carrying amount of PLN 155 thousand and PLN 725 thousand at 31 December 2015 and 31 December 2014, respectively.

At 31 December 2015 and 31 December 2014, the Bank had fixed assets used under operating lease agreements (see Note 47 *Operating leases*).

*PLN '000*

| Description | Leasehold improvements | Technical equipment | Vehicles | Fittings | Fixed assets under construction | Total |
|---|---|---|---|---|---|---|
| **Gross value as at 1 January 2015** | **76 115** | **69 963** | **5 539** | **11 191** | **439** | **163 247** |
| increases: | 1 135 | 15 317 | 203 | 136 | 6 093 | 22 884 |
| - purchase | 236 | 11 662 | 203 | 61 | 6 082 | 18 244 |
| - reclassification from fixed assets under construction | 892 | 3 659 | 0 | 39 | 0 | 4 590 |
| - other | 7 | -4 | 0 | 36 | 11 | 50 |
| decreases: | 1 667 | 8 621 | 2 318 | 133 | 4 631 | 17 370 |
| - liquidation | 1 667 | 2 259 | 2 178 | 113 | 0 | 6 217 |
| - sale | 0 | 6 362 | 140 | 20 | 0 | 6 522 |
| - reclassification to fixed assets | 0 | 0 | 0 | 0 | 4 590 | 4 590 |
| - other changes | 0 | 0 | 0 | 0 | 41 | 41 |
| **Gross value as at 31 December 2015** | **75 583** | **76 659** | **3 424** | **11 194** | **1 901** | **168 761** |
| **Accumulated depreciation as at 1 January 2015** | **42 017** | **49 549** | **3 802** | **9 977** | **0** | **105 345** |
| increases: | 7 571 | 7 938 | 550 | 762 | 0 | 16 821 |
| - depreciation charges | 7 571 | 7 940 | 550 | 760 | 0 | 16 821 |
| - other | 0 | -2 | 0 | 2 | 0 | 0 |
| decreases: | 992 | 8 315 | 1 914 | 118 | 0 | 11 339 |
| - liquidation | 992 | 1 954 | 1 774 | 97 | 0 | 4 817 |
| - sale | 0 | 6 362 | 140 | 20 | 0 | 6 522 |
| - other | 0 | -1 | 0 | 1 | 0 | 0 |
| **Accumulated depreciation as at 31 December 2015** | **48 596** | **49 172** | **2 438** | **10 621** | **0** | **110 827** |
| **Impairment loss as at 1 January 2015** | **254** | **380** | **0** | **0** | **0** | **634** |
| increases: | 0 | 0 | 0 | 0 | 0 | **0** |
| decreases: | 39 | 194 | 0 | 0 | 0 | **233** |
| **Impairment loss as at 31 December 2015** | **215** | **186** | **0** | **0** | **0** | **401** |
| **Net value as at 1 January 2015** | **33 844** | **20 034** | **1 737** | **1 214** | **439** | **57 268** |
| **Net value as at 31 December 2015** | **26 772** | **27 301** | **986** | **573** | **1 901** | **57 533** |

*PLN '000*

| Description | Leasehold improvements | Technical equipment | Vehicles | Fittings | Fixed assets under construction | Total |
|---|---|---|---|---|---|---|
| **Gross value as at 1 January 2014** | **77 768** | **62 174** | **7 580** | **10 695** | **517** | **158 734** |
| increases: | 279 | 10 150 | 200 | 901 | 5 535 | 17 065 |
| - purchase | 22 | 5 196 | 200 | 505 | 5 535 | 11 458 |
| - reclassification from fixed assets under construction | 257 | 4 949 | 0 | 385 | 0 | 5 591 |
| - other | 0 | 5 | 0 | 11 | 0 | 16 |
| decreases: | 1 932 | 2 361 | 2 241 | 405 | 5 613 | 12 552 |
| - liquidation | 1 916 | 2 020 | 958 | 363 | 0 | 5 257 |
| - sale | 16 | 341 | 1 283 | 42 | 0 | 1 682 |
| - reclassification to fixed assets | 0 | 0 | 0 | 0 | 5 591 | 5 591 |
| - other changes | 0 | 0 | 0 | 0 | 22 | 22 |
| **Gross value as at 31 December 2014** | **76 115** | **69 963** | **5 539** | **11 191** | **439** | **163 247** |
| **Accumulated depreciation as at 1 January 2014** | **35 328** | **41 751** | **4 730** | **8 830** | **0** | **90 639** |
| increases: | 7 627 | 9 965 | 792 | 1 505 | 0 | 19 889 |
| - depreciation charges | 7 627 | 9 961 | 792 | 1 509 | 0 | 19 889 |
| - other | 0 | 4 | 0 | -4 | 0 | 0 |
| decreases: | 938 | 2 167 | 1 720 | 358 | 0 | 5 183 |
| - liquidation | 937 | 1 849 | 604 | 339 | 0 | 3 729 |
| - sale | 1 | 318 | 1 116 | 19 | 0 | 1 454 |
| **Accumulated depreciation as at 31 December 2014** | **42 017** | **49 549** | **3 802** | **9 977** | **0** | **105 345** |
| **Impairment loss as at 1 January 2014** | **293** | **396** | **0** | **0** | **0** | **689** |
| increases: | 0 | 0 | 0 | 0 | 0 | **0** |
| decreases: | 39 | 16 | 0 | 0 | 0 | **55** |
| **Impairment loss as at 31 December 2014** | **254** | **380** | **0** | **0** | **0** | **634** |
| **Net value as at 1 January 2014** | **42 147** | **20 027** | **2 850** | **1 865** | **517** | **67 406** |
| **Net value as at 31 December 2014** | **33 844** | **20 034** | **1 737** | **1 214** | **439** | **57 268** |

## 26 Other assets

| **Other assets** | **31.12.2015** | **31.12.2014** |
|---|---|---|
| Various debtors | 3 879 | 2 326 |
| Receivables from partners | 25 827 | 26 894 |
| Insurance receivables | 190 | 910 |
| Receivables in respect of deposits and bid bonds | 874 | 1 046 |
| Receivables from securitization companies | 192 578 | 131 933 |
| Other assets | 2 085 | 1 171 |
| **Total** | **225 433** | **164 280** |
| Impairment losses on receivables | -11 827 | -12 775 |
| **Total** | **213 606** | **151 505** |

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## 27 Net deferred tax assets

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **Deferred tax assets** | | |
| - deferred commissions | -147 612 | -119 358 |
| - impairment losses on credit facilities and loans | -162 947 | -162 603 |
| - impairment losses on other assets | -3 190 | -6 234 |
| - accrued interest on liabilities | -48 397 | -52 444 |
| - accruals and deferred income | -23 305 | -19 954 |
| - differences between balance sheet and tax amortization and depreciation | -90 | -224 |
| - temporary differences recognized in revaluation reserve | 1 873 | -812 |
| **Total deferred tax assets** | **-383 668** | **-361 629** |
| **Deferred tax provisions** | | |
| - accrued interest on credit facilities and loans and other accrued revenue | 16 882 | 32 147 |
| - temporary differences related to financial instruments charged to profit/loss | 811 | 2 031 |
| - temporary differences related to an acquired entity | 48 | 2 489 |
| - other | 4 497 | 17 378 |
| **Total deferred tax provisions** | **22 238** | **54 045** |
| **Net deferred tax assets** | **361 430** | **307 584** |
| including recognized directly in revaluation reserve | 1 873 | -812 |

All deferred tax assets were recognized.

## 28 Prepayments

Prepayments are determined at the amount of expenses related to future reporting periods. Prepayments are recognized based on the elapsed time and the settlement method depends on the nature of the expenses. Prepayments are recognized at nominal value.

| **Prepayments** | **31.12.2015** | **31.12.2014** |
|---|---|---|
| Prepaid expenses | 8 192 | 4 261 |
| Insurance commission | 14 360 | 11 083 |
| Share in profits of insurers | 27 451 | 28 119 |
| Other accrued revenue | 19 618 | 20 493 |
| **Total** | **69 621** | **63 956** |

*Other accrued revenue* includes primarily accrued revenue due to payments made by clients which are settled when the payment is made.

## 29 Liabilities to banks

| Structure of liabilities to banks | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Checking accounts | 0 | 6 497 |
| Liabilities with agreed maturity: | 2 553 276 | 2 994 569 |
| *- loans* | *1 000 685* | *707 942* |
| *- deposits* | *300 285* | *905 833* |
| *- margin deposits* | *1 204* | *1* |
| *- liabilities due to repo transactions* | *1 250 505* | *1 380 793* |
| *- other liabilities* | *597* | *0* |
| **Total** | **2 553 276** | **3 001 066** |

| Structure of liabilities by maturity | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Liabilities with agreed maturity: | 2 553 276 | 2 994 569 |
| *- within 1 month* | *22 385* | *162 022* |
| *- >1 - 3 months* | *591 685* | *332 124* |
| *- >3 months - 1 year* | *957 426* | *426 723* |
| *- >1 - 5 years* | *981 780* | *2 073 700* |
| **Total** | **2 553 276** | **2 994 569** |

Liabilities to financial institutions arising from credit facilities, loans and deposits (excluding subordinated loan) include the following types of funding:

- CHF long-term loans from the parent. As at 31 December 2015, the nominal value of liabilities in this respect was CHF 200,000 thousand;
- EUR long-term loans from the parent. As at 31 December 2015, the nominal value of liabilities in this respect was EUR 50,000 thousand;
- long-term security-based loans (repo transactions). As at 31 December 2015, the nominal value of liabilities in this respect was CHF 292,841 thousand and PLN 89,983 thousand;
- short-term and medium-term deposits from the interbank market. As at 31 December 2015, the nominal value of liabilities in this respect was PLN 300,000 thousand.

**Utilization of credit lines:**

| | 31.12.2015 | | 31.12.2014 | |
|---|---|---|---|---|
| | Available credit line in PLN '000 | Utilization in PLN '000 | Available credit line in PLN '000 | Utilization in PLN '000 |
| Santander Benelux S.A. | 0 | 0 | 2 770 495 | 0 |
| Bank Zachodni WBK S.A. | 792 500 | 0 | 0 | 0 |
| **Total** | **792 500** | **0** | **2 770 495** | **0** |

*PLN '000*

### 30 Liabilities to clients

| Structure of liabilities to clients | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Deposits | 7 049 608 | 6 962 346 |
| *- retail* | *4 961 019* | *5 295 199* |
| *- corporate* | *1 904 368* | *1 612 668* |
| *- state-owned entities* | *184 221* | *54 479* |
| Checking accounts | 598 | 1 498 |
| Repayments and overpayments of credit facilities and loans | 77 851 | 65 689 |
| Liabilities due to cash flows from securitization | 1 792 283 | 1 236 631 |
| **Total** | **8 920 340** | **8 266 164** |

| Structure of liabilities by maturity | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Liabilities with agreed maturity: | 8 920 340 | 8 266 164 |
| *- without specified maturity* | *137 093* | *187 754* |
| *- within 1 month* | *1 237 251* | *1 098 814* |
| *- >1 - 3 months* | *1 393 919* | *1 204 222* |
| *- >3 months - 1 year* | *2 385 359* | *2 829 894* |
| *- >1 - 5 years* | *1 974 435* | *1 709 908* |
| *- >5 - 10 years* | *1 792 283* | *28* |
| *- over 10 years* | *0* | *1 235 544* |
| **Total** | **8 920 340** | **8 266 164** |

### 31 Liabilities arising from issue of debt securities

| Structure of gross liabilities arising from issue of debt securities | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Certificates of deposit | 208 461 | 195 857 |
| Bonds | 1 361 890 | 1 763 201 |
| **Total** | **1 570 351** | **1 959 058** |

The Bank was never late with payment of the principal, interest and redemption of own debt securities.

| Structure of gross liabilities by maturity | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Liabilities arising from issue of debt securities, maturing: | | |
| *- commission and discount (without specified maturity)* | *-2 265* | *-1 736* |
| *- within 1 month* | *114 760* | *30 727* |
| *– >1 - 3 months* | *179 517* | *88 976* |
| *- >3 months - 1 year* | *293 339* | *541 391* |
| *- >1 - 5 years* | *985 000* | *1 299 700* |
| **Total** | **1 570 351** | **1 959 058** |

**Liabilities arising from issue of debt securities by issue as at 31 December 2015**

| Security | Number | Issue currency | Nominal value in PLN '000 | Maturity | Quotation market |
|---|---|---|---|---|---|
| Floating rate certificate of deposit | SCBP00310038 | PLN | 38 000 | 29/01/2016 | not quoted |
| Floating rate certificate of deposit | SCBP00340050 | PLN | 50 000 | 12/02/2016 | not quoted |
| Fixed rate certificate of deposit | SCB00029 | PLN | 50 000 | 13/05/2016 | not quoted |
| Fixed rate certificate of deposit | SCB00027 | PLN | 50 000 | 29/04/2016 | not quoted |
| Fixed rate certificate of deposit | SCB00028 | PLN | 20 000 | 29/04/2016 | not quoted |
| Floating rate bond | SCBP00330500 | PLN | 50 000 | 29/01/2016 | not quoted |
| Floating rate bond | SCBP00360217 | PLN | 21 700 | 12/02/2016 | not quoted |
| Floating rate bond | SCB00001 | PLN | 60 000 | 29/04/2016 | not quoted |
| Floating rate bond | SCB00002 | PLN | 10 000 | 29/04/2016 | not quoted |
| Floating rate bond | SCB00005 | PLN | 100 000 | 08/08/2016 | not quoted |
| Floating rate bond | SCB00006 | PLN | 100 000 | 07/08/2017 | not quoted |
| Floating rate bond | SCB00008 | PLN | 110 000 | 30/08/2017 | not quoted |
| Floating rate bond | SCB00010 | PLN | 20 000 | 30/08/2017 | not quoted |
| Floating rate bond | SCB00012 | PLN | 204 000 | 04/10/2017 | not quoted |
| Floating rate bond | SCB00012 | PLN | 11 000 | 04/10/2017 | not quoted |
| Floating rate bond | SCB00013 | PLN | 25 000 | 27/01/2016 | not quoted |
| Floating rate bond | SCB00014 | PLN | 10 000 | 03/02/2016 | not quoted |
| Floating rate bond | SCB00016 | PLN | 50 000 | 24/02/2016 | not quoted |
| Floating rate bond | SCB00017 | PLN | 50 000 | 18/06/2018 | not quoted |
| Floating rate bond | SCB00018 | PLN | 170 000 | 12/08/2019 | not quoted |
| Floating rate bond | SCB00019 | PLN | 220 000 | 30/10/2017 | not quoted |
| Floating rate bond | SCB00022 | PLN | 100 000 | 16/02/2018 | not quoted |
| Fixed rate bond | SCB00030 | PLN | 40 000 | 24/03/2016 | not quoted |
| | | **Total** | **1 559 700** | | |

**Liabilities arising from issue of debt securities by issue as at 31 December 2014**

| Security | Number | Issue currency | Nominal value in PLN '000 | Maturity | Quotation market |
|---|---|---|---|---|---|
| Floating rate certificate of deposit | SCBP00340050 | PLN | 50 000 | 12/02/2016 | not quoted |
| Floating rate certificate of deposit | SCBP00310038 | PLN | 38 000 | 29/01/2016 | not quoted |
| Floating rate certificate of deposit | SCBP00300111 | PLN | 106 000 | 15/12/2015 | not quoted |
| Fixed rate bond | SCB00020 | PLN | 10 000 | 05/06/2015 | not quoted |
| Fixed rate bond | SCB00020 | PLN | 7 500 | 05/06/2015 | not quoted |
| Fixed rate bond | SCB00020 | PLN | 27 500 | 05/06/2015 | not quoted |
| Fixed rate bond | SCB00020 | PLN | 10 000 | 05/06/2015 | not quoted |
| Fixed rate bond | SCB00020 | PLN | 7 500 | 05/06/2015 | not quoted |
| Fixed rate bond | SCB00020 | PLN | 27 500 | 05/06/2015 | not quoted |
| Fixed rate bond | SCB00020 | PLN | 150 000 | 05/06/2015 | not quoted |
| Floating rate bond | SCBP00350592 | PLN | 59 200 | 12/02/2015 | not quoted |
| Floating rate bond | SCBP00360217 | PLN | 21 700 | 12/02/2016 | not quoted |
| Floating rate bond | SCBB00120050 | PLN | 5 000 | 04/02/2015 | not quoted |
| Floating rate bond | SCB00001 | PLN | 60 000 | 29/04/2016 | not quoted |
| Floating rate bond | SCB00002 | PLN | 10 000 | 29/04/2016 | not quoted |
| Floating rate bond | SCB00013 | PLN | 25 000 | 27/01/2016 | not quoted |
| Floating rate bond | SCB00017 | PLN | 50 000 | 18/06/2018 | not quoted |
| Floating rate bond | SCB00018 | PLN | 170 000 | 12/08/2019 | not quoted |
| Floating rate bond | SCB00005 | PLN | 100 000 | 08/08/2016 | not quoted |
| Floating rate bond | SCB00006 | PLN | 100 000 | 07/08/2017 | not quoted |
| Floating rate bond | SCB00014 | PLN | 10 000 | 03/02/2016 | not quoted |
| Floating rate bond | SCB00008 | PLN | 110 000 | 30/08/2017 | not quoted |
| Floating rate bond | SCB00010 | PLN | 20 000 | 30/08/2017 | not quoted |
| Floating rate bond | SCB00019 | PLN | 220 000 | 30/10/2017 | not quoted |
| Floating rate bond | SCB00012 | PLN | 204 000 | 04/10/2017 | not quoted |
| Floating rate bond | SCB00012 | PLN | 11 000 | 04/10/2017 | not quoted |
| Floating rate bond | SCBP00320280 | PLN | 28 000 | 29/01/2015 | not quoted |
| Floating rate bond | SCB00021 | PLN | 40 000 | 24/12/2015 | not quoted |
| Floating rate bond | SCBP00330500 | PLN | 50 000 | 29/01/2016 | not quoted |
| Floating rate bond | SCBB00110150 | PLN | 15 000 | 04/02/2015 | not quoted |
| Floating rate bond | SCB00016 | PLN | 50 000 | 24/02/2016 | not quoted |
| Floating rate bond | SCBX00021500 | PLN | 150 000 | 13/04/2015 | not quoted |
| | | **Total** | **1 942 900** | | |

*PLN '000*

| Change in liabilities arising from issue of debt securities | 2015 | 2014 |
|---|---|---|
| **Opening balance** | **1 959 058** | **1 988 370** |
| Increases (issue) | 345 000 | 845 000 |
| Decreases (redemption) | -728 200 | -872 600 |
| Other changes | -5 507 | -1 712 |
| **Closing balance** | **1 570 351** | **1 959 058** |

### 32 Other liabilities

| Other liabilities | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Provisions for off-balance sheet liabilities | 21 064 | 17 467 |
| Liabilities to insurance institutions | 18 458 | 18 637 |
| Liabilities related to early repayment | 13 241 | 13 241 |
| Various creditors | 7 033 | 14 790 |
| Public receivables and liabilities | 9 482 | 8 454 |
| Current tax liabilities | 37 466 | 105 299 |
| **Total** | **106 744** | **177 888** |

Change in the balance of provisions for off-balance liabilities has been presented in Note 22 *Credit facilities and loans to clients*.

### 33 Accrued expenses and deferred income

| Accrued expenses and deferred income | 31.12.2015 | 31.12.2014 (restated) |
|---|---|---|
| Salaries, wages and bonuses | 30 200 | 27 173 |
| Costs of other employee benefits | 1 350 | 1 765 |
| Fee and commission expense | 191 849 | 167 090 |
| Marketing expenses | 23 175 | 28 295 |
| IT expenses | 12 287 | 6 230 |
| Costs of debt collection | 2 822 | 2 822 |
| Costs of consultation and advisory services | 6 585 | 8 675 |
| Maintenance expenses | 6 063 | 5 445 |
| Postal services costs | 1 919 | 1 851 |
| Costs of telecommunication services | 1 186 | 1 148 |
| Business travel costs | 312 | 365 |
| Service of documentation | 683 | 441 |
| Other costs | 2 036 | 1 782 |
| Contribution to the Borrowers' Support Fund | 15 750 | 0 |
| Interest received in advance | 13 241 | 14 356 |
| Revenue received in advance due to distribution of insurance products | 16 603 | 13 703 |
| Other deferred income | 6 119 | 9 871 |
| **Total** | **332 180** | **291 012** |

*PLN '000*

Under *Salaries, wages and bonuses* the Bank discloses mainly deferred expenses related to remuneration due under civil law agreements, bonuses and awards as well as overtime payments.

### 34 Restructuring and other provisions

| **Restructuring and other provisions** | **31.12.2015** | **31.12.2014** **(restated)** |
|---|---|---|
| Restructuring provision | 8 649 | 11 721 |
| Other provisions | 34 477 | 26 687 |
| *Provision for costs* | *19 590* | *12 178* |
| *Provision for disputes* | *1 412* | *1 186* |
| *Provision for retirement benefits* | *3 602* | *3 699* |
| *Provision for unused annual leave* | *9 873* | *9 624* |
| **Total** | **43 126** | **38 408** |

The restructuring provision of PLN 8,648 thousand is related to the business restructuring plan of the Santander Consumer Finance (SCF) Group in Poland adopted by the Group in 2010. The plan was introduced as a result of the SCF Group taking control over AIG Bank Polska S.A. and the subsequent restructuring initiatives in 2013-2014 (including but not limited to restructuring the business transferred from Santander Consumer Finanse S.A.). The provision is also related to the Operational Excellence Program initiated in 2015.

The provision recognized at the end of the reporting period of PLN 8 649 thousand was in respect of:

- staff restructuring at the Bank (PLN 2,944 thousand);
- liquidation of branches (PLN 5,705 thousand).

According to the forecast, a majority of the cash flows arising from the restructuring provision are likely to occur in 2016-2018.

The provision recognized at the end of the comparable period of PLN 11,721 thousand was in respect of:

- staff restructuring at the Bank (PLN 2,692 thousand);
- liquidation of branches; relocation (PLN 9,029 thousand).

The provision for costs is related to the risk of recognition of certain clauses included in some standard loan agreements and some practices as violating the interests of consumers. Estimated amounts and dates of future claims resulting in possible cash outflows are highly uncertain.

Provisions for pending disputes were estimated taking into account the probable payment amount.

*PLN '000*

| Change in provisions | 2015 | 2014 (restated) |
|---|---|---|
| **Change in restructuring provision** | | |
| Opening balance | 11 721 | 19 103 |
| Increases (recognition) | 1 806 | 4 876 |
| Decreases (reversal) | 0 | 882 |
| Decreases (use) | 4 878 | 11 376 |
| Closing balance | 8 649 | 11 721 |
| **Change in other provisions** | | |
| Opening balance | 26 687 | 20 696 |
| Increases (recognition) | 8 672 | 6 149 |
| Decreases (reversal) | 0 | 0 |
| Decreases (use) | 882 | 158 |
| Closing balance | 34 477 | 26 687 |

### 35 Subordinated debt

At 31 December 2015, the Bank had a subordinated loan of PLN 100,000 thousand under the agreement of 14 December 2006 concluded with Santander Benelux S.A./NV Rue de La Loi, 227, B-1040 Brussels. Pursuant to Article 137 of the Banking Law and resolutions of the Banking Supervision Commission, the loan was classified as the Bank's Tier 2 capital (approval of BSC of 29 December 2006). Pursuant to the loan agreement, the Bank is obliged to make a single repayment of the loan on 14 December 2016. In addition, regardless of other contractual provisions, the Bank was entitled to repay the loan on 14 December 2012 subject to the approval of the Polish Financial Supervision Authority. The Bank did not exercise the said right. The lender is not entitled to demand early repayment of the loan. If the loan had been repaid on 14 December 2012 or later, the Bank would have not incurred any costs of early repayment. The loan has a floating interest rate of 6M WIBOR plus 0.8% margin.

### 36 Share capital and share premium

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Shares issued as at 1 January (number) | 5 200 000 | 5 200 000 |
| Shares issued as at 31 December (number) | 5 200 000 | 5 200 000 |
| **Share capital** | **520 000** | **520 000** |
| **Share premium** | **768 047** | **768 047** |

*PLN '000*

| Series/Issue | Shares type | Number of shares | Value of series/issue at nominal value | Capital coverage | Date of registration |
|---|---|---|---|---|---|
| A | non-preference shares | 322 000 | 32 200 | cash | 07/09/2001 |
| B | non-preference shares | 178 000 | 17 800 | cash | 31/01/2003 |
| C1 | non-preference shares | 540 001 | 54 000 | cash | 28/07/2005 |
| C2 | non-preference shares | 59 999 | 6 000 | cash | 28/07/2005 |
| D | non-preference shares | 600 000 | 60 000 | cash | 02/01/2006 |
| E | non-preference shares | 500 000 | 50 000 | cash | 11/08/2006 |
| F | non-preference shares | 775 000 | 77 500 | cash | 26/10/2006 |
| G | non-preference shares | 225 000 | 22 500 | cash | 28/05/2008 |
| H | non-preference shares | 200 000 | 20 000 | cash | 14/10/2008 |
| I | non-preference shares | 112 000 | 11 200 | cash | 22/06/2009 |
| J | non-preference shares | 128 000 | 12 800 | cash | 09/09/2009 |
| K | non-preference shares | 1 560 000 | 156 000 | contribution in kind | 07/07/2010 |
| **Total number of shares** | | **5 200 000** | | | |
| **Total share capital** | | | **520 000** | | |
| **Nominal value of share: PLN 100.00** | | | | | |

Share capital is disclosed at nominal value of issued and registered shares. As at 31 December 2015, the Bank's share capital totaled PLN 520,000 thousand and was divided into 5,200,000 shares of equal nominal value, each of PLN 100.00.
As at 31 December 2015, the Bank's shares were non-preference registered shares. In 2015, the preference of A, B and C1 shares in respect of the voting rights was cancelled.
As at 31 December 2015, the Bank did not hold any treasury shares.

### 37 Other reserves

| Other reserves | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Other supplementary capital | 730 528 | 493 843 |
| Revaluation reserve | 7 984 | -3 463 |
| **Total** | **738 512** | **490 380** |

| Other supplementary capital | 2015 | 2014 |
|---|---|---|
| **Balance at the beginning of the year** | **493 843** | **493 843** |
| Increases due to reclassification of prior year net profit | 236 685 | 0 |
| **Balance at the end of the year** | **730 528** | **493 843** |

Other supplementary capital comprises the portion of the statutory supplementary capital which was created by means other than share premium.
The item is made up of profits generated in prior periods.
The increase recognized in 2015 resulted from reclassification of a portion of the net profit for the prior year to the supplementary capital.

*PLN '000*

| **Revaluation reserve** | **2015** | **2014** |
|---|---|---|
| **Balance at the beginning of the year** | **-3 463** | **-10 452** |
| Changes due to: | | |
| - measurement of financial assets available for sale | 9 790 | 5 583 |
| - recognition of the effective portion of hedging relationship in cash flow hedges | 4 342 | 3 045 |
| - recognition of deferred tax | -2 685 | -1 639 |
| **Balance at the end of the year** | **7 984** | **-3 463** |

The revaluation reserve refers to the measurement of financial assets available for sale and derivatives designated as hedging instruments in the cash flow hedge accounting.

The changes in the amount of the revaluation reserve in 2015 and 2014 were the effect of changes in the measurement of those instruments as well as new transactions concluded, open transactions closed and sales.

### 38 Retained earnings and dividends

| | **2015** | **2014** |
|---|---|---|
| **Retained earnings, including:** | **671 270** | **473 369** |
| - current year profit | 434 586 | 473 369 |
| - prior year profit | 236 684 | 0 |

| | **2015** | **2014** |
|---|---|---|
| **Balance at the beginning of the year** | **473 369** | **382 481** |
| Net profit attributable to equity holders | 434 586 | 473 369 |
| Dividend payment | 0 | -382 481 |
| Reclassification of profit to supplementary capital | -236 685 | 0 |
| **Balance at the end of the year** | **671 270** | **473 369** |

The Bank did not pay any dividend in 2015. On 9 July 2014, the Bank paid its shareholders a dividend of PLN 382,480,546 (PLN 73.55 per share) from the profit for 2013 after coverage of prior year losses.

As at the date of signing these financial statements, the Management Board had not made any decision regarding a proposal to be made to the General Shareholders' Meeting in respect of distribution of the profit for 2015.

### 39 Contingent liabilities

The Bank's contingent liabilities are obligations to grant loans. These obligations consist of approved but unused credit lines and unused credit card limits. The Bank also extended guarantees to borrowers using corporate loans.

*PLN '000*

| Granted off-balance sheet financial liabilities | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Open but unused credit lines | 173 746 | 166 987 |
| Credit card limits | 506 389 | 317 041 |
| Granted guarantees | 271 963 | 278 341 |

The Bank granted a guarantee of payment of loan liabilities to Santander Consumer Multirent Sp. z o.o. The value of the said guarantee was PLN 270,000 thousand as at 31 December 2015 and 31 December 2014.
Information about liabilities due to credit lines has been presented in Note 29 *Liabilities to banks*.
As regards contingent liabilities granted to the Bank, the Bank's issue of debt securities has been underwritten by Santander Consumer Finance S.A. Its value as at 31 December 2014 was PLN 2,000,000 thousand as compared to PLN 3,000,000 thousand as at 31 December 2015.
As at 31 December 2014, the Bank had a guarantee of payment of loan liabilities of PLN 160,000,000. The guarantee expired in 2015.

### 40 Assets put up as collateral

The Bank has no assets put up as collateral for liabilities or contingent liabilities, except money bills for the Bank Guarantee Fund, treasury bonds and securitization bonds for liabilities in respect of *repo* transactions (Note 19 *Financial assets available for sale*) as well as margin deposits for derivatives transactions (Note 18 *Accounts and deposits in other banks*).

### 41 Remuneration of Members of the Management Board and Supervisory Board

| | 2015 | 2014 |
|---|---|---|
| **Remuneration of the Management Board** | | |
| - base pay | 5 141 | 5 495 |
| - bonus paid | 1 802 | 1 540 |
| - employee benefits | 84 | 93 |
| – sick leave pay | 19 | 30 |
| - other | 104 | 474 |
| **Total remuneration** | **7 150** | **7 632** |
| **Social insurance – health allowance** | **35** | **0** |
| **Total** | **7 185** | **7 632** |
| **Charges** | **381** | **403** |
| **Remuneration of the Supervisory Board** | **492** | **492** |

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Receivables due to loans granted to Members of the Management Board | 604 | 622 |

*PLN '000*

### 42 Additional explanations to the cash flow statement

The Bank classified the following financial assets with maturity up to three months as cash and cash equivalents for the purpose of the cash flow statement:

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Cash and balances in the Central Bank | 100 307 | 239 409 |
| Checking accounts | 8 955 | 9 346 |
| Term deposits and margin deposits (without interest) | 57 443 | 58 518 |
| **Total** | **166 705** | **307 273** |

For the purpose of the cash flow statement, the following business activity classification was applied:

- operating activity – the core business activity related to providing services by the Bank, comprising activities aimed at profit generation, not classified as investing or financing activities. A change in the balance of other assets is recognized under *Other adjustments* in the cash flows from operating activities;
- investing activity – related to acquisition and disposal of non-current assets, in particular financial assets not classified as held for trading, shares in controlled entities as well as property, plant and equipment and intangible assets;
- financing activity – includes activities related to obtaining funds in the form of capital or liabilities, as well as servicing the funding sources.

Presented below are additional explanations to items of the statement of cash flows:

| **(Profit)/loss on investing activities** | 2015 | 2014 |
|---|---|---|
| Cost of fixed and intangible assets sold and disposed of | 15 021 | 1 757 |
| Revenue from sale of fixed and intangible assets | -75 | -547 |
| Revenue from sale of financial instruments available for sale | -1 597 | 0 |
| **(Profit)/loss on investing activities** | **13 349** | **1 210** |

| **Tax paid** | 2015 | 2014 |
|---|---|---|
| Advance payments for income tax for the current year | -109 463 | -70 383 |
| Settlement of income tax for the previous year | -129 529 | -58 693 |
| **Tax paid** | **-238 992** | **-129 076** |

| **Change in debt securities** | 2015 | 2014 |
|---|---|---|
| Balance sheet change in debt securities | 486 072 | -1 293 051 |
| Purchase of debt instruments | 29 263 020 | 20 416 130 |
| Proceeds from redemption of debt instruments | -29 745 555 | -19 127 700 |
| Measurement of debt securities charged to revaluation reserve | 2 657 | 5 180 |
| **Change in debt securities** | **6 194** | **559** |

*PLN '000*

| **Change in receivables from banks** | **2015** | **2014** |
|---|---|---|
| Balance sheet change in non-cash receivables from banks | 3 | 290 284 |
| Interest | -1 | -13 562 |
| **Change in receivables from banks** | **2** | **276 722** |

| **Change in receivables from credit facilities and loans to clients** | **2015** | **2014** |
|---|---|---|
| Balance sheet change in receivables from credit facilities and loans to clients | -826 145 | -983 082 |
| Interest | -869 672 | -1 042 632 |
| **Change in receivables from credit facilities and loans to clients** | **-1 695 817** | **-2 025 714** |

| **Change in liabilities to banks** | **2015** | **2014** |
|---|---|---|
| Balance sheet change in liabilities to banks | -447 790 | 459 568 |
| Interest | 49 754 | 68 514 |
| **Change in liabilities to banks** | **-398 036** | **528 082** |

| **Change in liabilities to clients** | **2015** | **2014** |
|---|---|---|
| Balance sheet change in liabilities to clients | 654 176 | 1 272 175 |
| Interest | 275 521 | 203 967 |
| **Change in liabilities to clients** | **929 697** | **1 476 142** |

| **Change in liabilities arising from issue of debt securities** | **2015** | **2014** |
|---|---|---|
| Balance sheet change in liabilities arising from issue of debt securities | -388 707 | -29 313 |
| Issue of debt securities | -345 000 | -845 000 |
| Redemption of debt securities | 728 200 | 872 600 |
| Interest | 61 328 | 80 385 |
| **Change in liabilities arising from issue of debt securities** | **55 821** | **78 672** |

| **Change in other liabilities** | **2015** | **2014** |
|---|---|---|
| Balance sheet change in other liabilities | -71 144 | 49 196 |
| Change in other income tax liabilities | 238 992 | 129 076 |
| Other | 2 | 0 |
| **Change in other liabilities** | **167 850** | **178 272** |

*PLN '000*

| **Change in prepayments** | **2015** | **2014** |
|---|---|---|
| Balance sheet change in net deferred tax assets | -53 846 | -41 682 |
| Change in net deferred tax assets relating to revaluation reserve | -2 686 | -1 640 |
| Balance sheet change in prepayments | -5 665 | -14 642 |
| Balance sheet change in accrued expenses deferred income | 41 168 | 23 938 |
| **Change in prepayments** | **-21 029** | **-34 026** |

| **Change in other assets** | **2015** | **2014** |
|---|---|---|
| Balance sheet change in other assets | -62 101 | -127 810 |
| Adjustment arising from sale of impaired loan receivables | -60 445 | -36 350 |
| Dividends and other payments from subsidiaries | -64 056 | -32 669 |
| Adjustment resulting from receipt of fixed assets from the warehouse | 0 | -16 |
| Other | 2 | 0 |
| **Change in other assets** | **-186 600** | **-196 845** |

| **Measurement of derivatives charged to profit/loss** | **2015** | **2014** |
|---|---|---|
| Balance sheet change in hedging derivatives | 19 808 | 80 615 |
| Measurement of hedging derivatives charged to revaluation reserve | 4 342 | 3 016 |
| Balance sheet change in derivatives held for trading | 1 353 | 0 |
| Interest | -22 601 | -24 364 |
| **Measurement of derivatives charged to profit/loss** | **2 902** | **59 267** |

| **Other adjustments** | **2015** | **2014** |
|---|---|---|
| Balance sheet change in impairment losses on intangible assets | -4 412 | 944 |
| Balance sheet change in impairment losses on fixed assets | -233 | -55 |
| Balance sheet change in impairment losses on shares | 46 231 | 39 428 |
| **Other adjustments** | **41 586** | **40 317** |

## 43 Related party transactions

Santander Consumer Bank S.A. is the parent to AKB Marketing Services Sp. z o.o., Santander Consumer Mutirent Sp. z o.o., Santander Consumer Finanse Sp. z o.o., SC Poland Auto 2014-1 Limited and SC Poland Consumer 15-1 Sp. z o.o., whereas Banco Santander S.A. is the ultimate parent. The direct parent to Santander Consumer Bank S.A. is Bank Zachodni WBK S.A.

The transactions between the Bank and related parties were standard transactions carried out in ordinary operating activities and were on arm's-length terms. They include mainly loans, expenditure to implement and service IT systems and other IT services. Values of the transactions with related parties, balances of individual items of the statement of financial position as at the end of the reporting period and related expenses and revenue for the financial year are presented in the tables below. In 2014, the Bank also bought intangible assets from ISBAN Ingenieria de Software Bancario, S.L., the value of which was PLN 2,673 thousand. No such transactions were entered into in 2015. The Bank did not recognize impairment losses on any receivables from related parties except statistical IBNR impairment loss on receivables arising from unsecured loans without any impairment identified.

**2015**

*PLN '000*

| Related party transactions | Revenue | Expenses | Receivables | Liabilities |
|---|---|---|---|---|
| **Santander Consumer Finance S.A. with its registered office in Spain** | **0** | **10 822** | **0** | **1 160 651** |
| (minority shareholder) | | | | |
| liabilities due to repo transactions | 0 | 0 | 0 | 1 153 618 |
| interest | 0 | 8 295 | 0 | 6 834 |
| securities underwriting | 0 | 2 527 | 0 | 199 |
| **Santander Consumer Multirent Sp. z o.o.** | **6 915** | **7 351** | **309 238** | **19 992** |
| (subsidiary) | | | | |
| credit facilities and loans | 0 | 0 | 308 000 | 0 |
| deposits | 0 | 0 | 0 | 12 000 |
| checking accounts | 0 | 0 | 0 | 332 |
| interest | 3 839 | 1 | 141 | 1 |
| fees and commissions | 441 | 0 | 0 | 7 653 |
| Santander brand promotion fee | 1 906 | 0 | 946 | 0 |
| license access | 285 | 0 | 0 | 0 |
| rent and utilities | 26 | 0 | 0 | 0 |
| advisory/administrative services | 246 | 0 | 151 | 0 |
| car lease | 86 | 6 588 | 0 | 0 |
| network traffic management | 23 | 0 | 0 | 0 |
| car insurance | 0 | 488 | 0 | 6 |
| SCB fleet management | 0 | 271 | 0 | 0 |
| other | 63 | 3 | 0 | 0 |
| **AKB Marketing Services Sp. z o.o. in liquidation** | **522** | **490** | **0** | **28 572** |
| (subsidiary) | | | | |
| deposits | 0 | 0 | 0 | 28 567 |
| interest | 0 | 490 | 0 | 5 |
| dividend | 522 | 0 | 0 | 0 |

*PLN '000*

| | | | | |
|---|---|---|---|---|
| **Bank Zachodni WBK S.A.** | **19 425** | **84 813** | **12 867** | **1 160 272** |
| (parent) | | | | |
| clearing accounts | 0 | 0 | 12 858 | 0 |
| deposits | 0 | 0 | 0 | 150 000 |
| loans | 0 | 0 | 0 | 1 000 955 |
| interest | 802 | 16 053 | 9 | 586 |
| derivatives | 17 955 | 65 005 | 0 | 7 128 |
| FX | 650 | 0 | 0 | 0 |
| fees and commissions | 0 | 635 | 0 | 1 294 |
| cash handling | 17 | 1 084 | 0 | 0 |
| credit card services | 0 | 122 | 0 | 0 |
| rental of server space | 0 | 1 854 | 0 | 309 |
| other | 1 | 60 | 0 | 0 |
| **ISBAN Ingenieria de Software Bancario, S.L. with its registered office in Spain** | **0** | **8 447** | **0** | **0** |
| (entity in the Santander Capital Group) | | | | |
| IT services | 0 | 8 447 | 0 | 0 |
| **Produban Servicios Informáticos Generales, S.L. with its registered office in Spain** | **0** | **3 065** | **0** | **0** |
| (entity in the Santander Capital Group) | | | | |
| IT services | 0 | 2 982 | 0 | 0 |
| clearing services | 0 | 83 | 0 | 0 |
| **Santander Benelux S.A. with its registered office in Belgium** | **0** | **2 697** | **0** | **100 127** |
| (entity in the Santander Capital Group) | | | | |
| subordinated loan | 0 | 0 | 0 | 100 000 |
| interest | 0 | 2 697 | 0 | 127 |
| **Santander Consumer Finanse Sp. z o.o.** | **63 981** | **1 849** | **3** | **72 633** |
| (subsidiary) | | | | |
| deposits | 0 | 0 | 0 | 72 371 |
| checking accounts | 0 | 0 | 0 | 259 |
| interest | 0 | 1 845 | 0 | 3 |
| dividend | 16 811 | 0 | 0 | 0 |
| share redemption | 46 722 | 0 | 0 | 0 |
| promotional campaigns | 207 | 0 | 0 | 0 |
| rent and utilities | 239 | 1 | 3 | 0 |
| other | 2 | 3 | 0 | 0 |

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| | | | | |
|---|---|---|---|---|
| **GESBAN Servicios Administrativos Globales S.L. Sp. z o.o. Branch in Poland** | **30** | **0** | **0** | **0** |
| (entity in the Santander Capital Group) | | | | |
| rent of posts | 25 | 0 | 0 | 0 |
| sale of assets | 5 | 0 | 0 | 0 |
| **Geoban S.A.** | **0** | **303** | **0** | **0** |
| (entity in the Santander Capital Group) | | | | |
| IT services | 0 | 303 | 0 | 0 |
| **Isban México, S.A. de C.V.** | **0** | **1 225** | **0** | **0** |
| (entity in the Santander Capital Group) | | | | |
| purchase of licenses | 0 | 1 225 | 0 | 0 |
| **SC Poland Auto 2014-1 Limited** | **22 649** | **26 548** | **559 550** | **511 718** |
| (securitization company) | | | | |
| securitization liabilities | 0 | 0 | 0 | 511 167 |
| securitization bonds | 0 | 0 | 119 895 | 0 |
| subordinated loan | 0 | 0 | 391 271 | 0 |
| securitization settlements | 0 | 0 | 47 833 | 0 |
| interest | 22 649 | 26 548 | 551 | 551 |
| **SC Poland Consumer 15-1 Sp. z o.o.** | **5 631** | **12 888** | **373 388** | **1 280 565** |
| (securitization company) | | | | |
| securitization liabilities | 0 | 0 | 0 | 1 279 150 |
| securitization bonds | 0 | 0 | 0 | 0 |
| subordinated loan | 0 | 0 | 228 025 | 0 |
| securitization settlements | 0 | 0 | 144 745 | 0 |
| interest | 5 631 | 12 888 | 618 | 1 415 |

**2014**

| Related party transactions | Revenue | Expenses | Receivables | Liabilities |
|---|---|---|---|---|
| **Santander Consumer Finance S.A. with its registered office in Spain** | **13 202** | **17 900** | **0** | **1 052 043** |
| (minority shareholder) | | | | |
| liabilities due to repo transactions | 0 | 0 | 0 | 1 038 034 |
| interest | 13 202 | 15 047 | 0 | 14 009 |
| securities underwriting | 0 | 2 853 | 0 | 0 |

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| | | | | |
|---|---|---|---|---|
| **Santander Consumer Multirent Sp. z o.o.** | **4 992** | **8 087** | **115 550** | **190** |
| (subsidiary) | | | | |
| credit facilities and loans | 0 | 0 | 115 000 | 0 |
| interest | 2 034 | 13 | 59 | 0 |
| fees and commissions | 1 455 | 0 | 0 | 180 |
| BIK services | 14 | 0 | 0 | 0 |
| rent and utilities | 38 | 0 | 0 | 0 |
| advisory/administrative services | 1 420 | 0 | 491 | 0 |
| car lease | 0 | 7 494 | 0 | 8 |
| network traffic management | 23 | 0 | 0 | 0 |
| car insurance | 0 | 285 | 0 | 2 |
| SCB fleet management | 0 | 295 | 0 | 0 |
| other | 8 | 0 | 0 | 0 |
| **AKB Marketing Services Sp. z o.o.** | **0** | **733** | **0** | **28 811** |
| (subsidiary) | | | | |
| deposits | 0 | 0 | 0 | 28 700 |
| interest | 0 | 733 | 0 | 111 |
| **Bank Zachodni WBK S.A.** | **26 038** | **54 679** | **29 471** | **1 350 571** |
| (parent) | | | | |
| clearing accounts | 0 | 0 | 7 955 | 6 497 |
| deposits | 0 | 0 | 21 500 | 615 473 |
| loans | 0 | 0 | 0 | 708 940 |
| interest | 65 | 13 295 | 15 | 2 180 |
| derivatives | 25 708 | 39 922 | 0 | 15 720 |
| FX | 258 | 0 | 0 | 0 |
| fees and commissions | 0 | 149 | 0 | 1 761 |
| cash handling | 7 | 409 | 1 | 0 |
| credit card services | 0 | 100 | 0 | 0 |
| rental of server space | 0 | 774 | 0 | 0 |
| other | 0 | 30 | 0 | 0 |
| **ISBAN Ingenieria de Software Bancario, S.L. with its registered office in Spain** | **0** | **8 254** | **0** | **0** |
| (entity in the Santander Capital Group) | | | | |
| IT services | 0 | 8 254 | 0 | 0 |
| **Produban Servicios Informáticos Generales, S.L. with its registered office in Spain** | **0** | **2 806** | **0** | **0** |
| (entity in the Santander Capital Group) | | | | |
| IT services | 0 | 2 722 | 0 | 0 |
| clearing services | 0 | 84 | 0 | 0 |

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| | | | | |
|---|---|---|---|---|
| **Santander Benelux S.A.<br>with its registered office in Belgium** | **0** | **22 963** | **0** | **100 133** |
| (entity in the Santander Capital Group) | | | | |
| subordinated loan | 0 | 0 | 0 | 100 000 |
| interest | 0 | 22 963 | 0 | 133 |
| **Santander Consumer Finanse S.A.** | **33 383** | **3 430** | **44** | **133 105** |
| (subsidiary) | | | | |
| deposits | 0 | 0 | 0 | 131 500 |
| checking accounts | 0 | 0 | 0 | 1 491 |
| interest | 0 | 3 384 | 0 | 114 |
| dividend | 32 669 | 0 | 0 | 0 |
| commissions and charges related to financing operations | 0 | 2 | 0 | 0 |
| promotional campaigns | 471 | 0 | 44 | 0 |
| rent and utilities | 239 | 19 | 0 | 0 |
| other | 4 | 25 | 0 | 0 |
| **GESBAN Servicios Administrativos Globales S.L. Sp. z o.o.<br>Branch in Poland** | **33** | **0** | **0** | **0** |
| (entity in the Santander Capital Group) | | | | |
| rent of posts | 33 | 0 | 0 | 0 |
| **Santander Operaciones Retail S.A.<br>with its registered office in Spain** | **0** | **12** | **0** | **0** |
| (entity in the Santander Capital Group) | | | | |
| advisory services | 0 | 4 | 0 | 0 |
| logistics services | 0 | 8 | 0 | 0 |
| **Banco Santander S.A.<br>with its registered office in Spain** | **59** | **0** | **0** | **0** |
| (ultimate parent) | | | | |
| personnel expenses | 59 | 0 | 0 | 0 |
| **Geoban S.A.** | **0** | **584** | **0** | **0** |
| (entity in the Santander Capital Group) | | | | |
| IT services | 0 | 584 | 0 | 0 |
| **Isban México, S.A. de C.V.** | **0** | **520** | **0** | **0** |
| (entity in the Santander Capital Group) | | | | |
| purchase of licenses | 0 | 520 | 0 | 0 |

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| | | | | |
|---|---|---|---|---|
| **Santander Consumer Bank AS** | **0** | **24** | **0** | **0** |
| (entity in the Santander Capital Group) | | | | |
| personnel expenses | 0 | 24 | 0 | 0 |
| **SC Poland Auto 2014-1 Limited** | **17 742** | **26 809** | **937 892** | **1 236 631** |
| (securitization company) | | | | |
| securitization liabilities | 0 | 0 | 0 | 1 235 544 |
| securitization bonds | 0 | 0 | 393 430 | 0 |
| subordinated loan | 0 | 0 | 411 776 | 0 |
| securitization settlements | 0 | 0 | 131 933 | 0 |
| interest | 17 742 | 26 809 | 753 | 1 087 |

Transactions with the Management Board and Supervisory Board are presented in note 41 *Remuneration of Members of the Management Board and Supervisory Board*.

## 44 Operating leases

The Bank has concluded an agreement to rent office space for the Bank's head offices, at. pl. Strzegomskiej 42c in Wrocław. The Bank is also party to other agreements to rent office space in Wrocław – ul. Strzegomska 2-4 and ul. Słubicka 18.
In addition, the Bank is party to the following rental agreements:

- 184 agreements to rent bank branches;
- 2 agreements to rent warehouse space;
- 11 agreements to rent mobile structure offices;
- 7 agreements to rent instalment sale structure offices;
- 80 agreements to rent instalment sale structure outlets.

Most rental agreements for premises were concluded for a definite period of 3 to 5 years. Rental agreements for offices of mobile entities were concluded for an indefinite period with period of notice of 1 to 3 months.
Amount of future liabilities in the coming year and following years as at 31 December for agreements concluded for a definite period of time:

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| - up to 1 year | 36 896 | 38 759 |
| - 1-5 years | 32 645 | 45 342 |
| - over 5 years | 0 | 0 |

As at 31 December 2015 and 31 December 2014, the Bank was also party to 9 office sublease/rental agreements. Amount of future liabilities in the coming year and following years as at 31 December for the said agreements:

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| - up to 1 year | 670 | 372 |
| - 1-5 years | 0 | 25 |

As at 31 December 2015, the Bank was party to 269 operating lease agreements for cars (31 December 2014: 274 leases). The amount of future liabilities in the coming year and following years as at 31 December for operating lease agreements for cars is presented below:

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| - up to 1 year | 2 092 | 3 172 |
| - 1-5 years | 3 559 | 3 308 |

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### 45 Fair value of financial instruments

The Bank applies the three-level structure for fair value measurement of financial instruments with the following levels:

- Level 1 – the fair value is based on stock prices (unadjusted) offered for the same assets or liabilities in active markets;
- Level 2 – the fair value is determined based on the values in the market, however, not a direct market quotation (e.g. by direct or indirect reference to similar instruments in the market);
- Level 3 - the fair value is determined on the basis of various valuation techniques which are not based on any observable market data.

**a) Financial instruments not measured at fair value in the statement of financial position**

**As at 31 December 2015**

| **ASSETS** | **Carrying amount** | **Estimated fair value** | **Difference between estimated fair value and carrying amount** |
|---|---|---|---|
| Cash and balances in the Central Bank | 100 307 | 100 307 | 0 |
| Accounts and deposits in other banks | 66 407 | 66 407 | 0 |
| Credit facilities and loans to clients | 13 284 496 | 13 313 087 | 28 591 |
| *Corporate loans* | *395 785* | *395 767* | *-18* |
| *Car loans* | *821 385* | *838 583* | *17 198* |
| *Mortgages* | *4 402 722* | *4 370 599* | *-32 123* |
| *Loans to purchase goods and services* | *2 413 536* | *2 426 377* | *12 841* |
| *Cash loans* | *3 581 009* | *3 611 702* | *30 693* |
| *Credit cards* | *741 288* | *741 288* | *0* |
| *Other* | *928 771* | *928 771* | *0* |

| **LIABILITIES** | **Carrying amount** | **Estimated fair value** | **Difference between estimated fair value and carrying amount** |
|---|---|---|---|
| Liabilities to banks (excluding subordinated loan) | 2 553 276 | 2 544 414 | -8 862 |
| Liabilities to clients | 8 920 340 | 8 947 073 | 26 733 |
| Subordinated debt | 100 000 | 100 127 | 127 |
| Liabilities arising from issue of debt securities | 1 570 351 | 1 572 063 | 1 712 |

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**As at 31 December 2014**

| **ASSETS** | **Carrying amount** | **Estimated fair value** | **Difference between estimated fair value and carrying amount** |
|---|---|---|---|
| Cash and balances in the Central Bank | 239 409 | 239 409 | 0 |
| Accounts and deposits in other banks | 67 879 | 67 879 | 0 |
| Credit facilities and loans to clients | 12 458 352 | 12 425 428 | -32 924 |
| *Corporate loans* | *278 634* | *278 190* | *-444* |
| *Car loans* | *1 141 788* | *1 161 529* | *19 741* |
| *Mortgages* | *4 496 848* | *4 468 851* | *-27 997* |
| *Loans to purchase goods and services* | *2 275 168* | *2 282 520* | *7 352* |
| *Cash loans* | *3 038 043* | *3 006 156* | *-31 887* |
| *Credit cards* | *601 067* | *601 067* | *0* |
| *Other* | *626 804* | *627 115* | *311* |

| **LIABILITIES** | **Carrying amount** | **Estimated fair value** | **Difference between estimated fair value and carrying amount** |
|---|---|---|---|
| Liabilities to banks (excluding subordinated loan) | 3 001 066 | 2 999 411 | -1 655 |
| Liabilities to clients | 8 266 164 | 8 250 237 | -15 927 |
| Subordinated debt | 100 000 | 98 450 | -1 550 |
| Liabilities arising from issue of debt securities | 1 959 058 | 1 993 747 | 34 689 |

The Bank holds financial instruments, which, in line with the adopted IFRS, are not measured at fair value. These instruments include: receivables from banks, credit facilities and loans to clients, liabilities to banks and clients as well as subordinated liabilities. According to IFRS 13, the Bank should disclose the estimated fair value of these instruments. For these instruments, market value is the best reflection of their fair value. For products and transactions whose market value is unavailable, the fair value must be estimated through the use of internal models based on discounted cash flows. Cash flows for measured instruments are defined considering their individual characteristics, while discount factors include changes in time, both regarding market interest rates and margins.

All financial instruments presented above are at level 3 in hierarchy of valuation of financial instruments. In the presented periods, the Bank made no transfers between levels.

Values at the end of 2015 and 2014 were determined using the same model.

**Receivables from banks**

The Bank holds only cash in checking accounts and short-term deposits and therefore the fair value of the receivables does not differ materially from their carrying amount due to the nature of checking accounts.

**Credit facilities and loans to clients**

The fair value of credit facilities and loans to clients with defined maturities was estimated by discounting the related cash flows using appropriate discount rates.

Cash flows are based on the contractual cash flows, taking into account early repayments (based on historical data), as well as incurred and future credit losses (based on the credit risk models).

Discount rates are based on current market interest rates of appropriate loan products.

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**Liabilities to banks, clients, subordinated liabilities and liabilities arising from issue of debt securities**

The fair value of financial liabilities measured at amortized cost was estimated through discounting related cash flows within deadlines and on terms resulting from the contracts, with application of appropriate market rates and margins regarding credit risk.

**b) Financial instruments measured at fair value in the statement of financial position**

**Valuation at fair value, data as at 31 December 2015**

| **ASSETS** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|
| Financial assets available for sale | 1 991 858 | 0 | 128 513 |
| Hedging derivatives | 0 | 1 955 | 0 |
| **LIABILITIES** | **Level 1** | **Level 2** | **Level 3** |
| Financial liabilities held for trading | 0 | 1 353 | 0 |
| Hedging derivatives | 0 | 61 780 | 0 |

**Valuation at fair value, data as at 31 December 2014**

| **ASSETS** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|
| Financial assets available for sale | 2 205 775 | 0 | 393 747 |
| **LIABILITIES** | **Level 1** | **Level 2** | **Level 3** |
| Hedging derivatives | 0 | 40 017 | 0 |

As at 31 December 2015 and 31 December 2014, in its portfolio of financial instruments measured at fair value the Bank held instruments at Level 1 (financial assets available for sale – money bills, treasury bills and quoted equity instruments), at Level 2 (derivatives), and at Level 3 (securitization bonds and shares).

Bonds are valued on the basis of quotations of BondSpot S.A. fixing. Valuation of the securitization bonds is based on estimations made by the Bank's Market Risk Department.

In the presented periods, there were no movements between levels 1, 2 and 3.

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| **Change in the balance of financial instruments whose fair value is determined on the basis of various valuation techniques which are not based on any observable market data (Level 3)**<br>**Financial assets available for sale** | **2015** | **2014** |
|---|---|---|
| **Opening balance** | **393 747** | **0** |
| Gains or losses recognized in equity | 8 523 | 0 |
| Purchases | 0 | 556 400 |
| Sales | 0 | 0 |
| Repayments/maturity | -273 535 | -162 970 |
| Impairment loss | 0 | 0 |
| Transfer | 0 | 0 |
| Other changes | -222 | 317 |
| **Closing balance** | **128 513** | **393 747** |

### 46 Auditor's fee

Below is information regarding fees payable to Deloitte Polska Spółka z ograniczoną odpowiedzialnością sp. k. for services in 2015 and 2014.

| **Auditor's gross fee for the financial year** | **2015** | **2014** |
|---|---|---|
| Statutory audit of the annual financial statements | 529 | 529 |
| Other services | 906 | 545 |
| **Total** | **1 435** | **1 074** |

### 47 Changes in presentation of financial data

In 2015, the Bank changed the presentation of the provision for disputes, the provision for retirement benefits and the provision for unused annual leave.

In the preceding periods, the related expenses were presented as *Accrued expenses and deferred income* in the statement of financial position.

As from 2015, they have been presented by the Bank as *Restructuring and other provisions*.

In the opinion of the Bank, due to the nature of such provisions, the said presentation is more appropriate and the change makes the financial statements more informative.

The aforementioned presentation changes were introduced in 2015 retrospectively and the comparative data was adjusted accordingly (as presented below).

*PLN '000*

| ASSETS | 31.12.2014 | Presentation change | 31.12.2014 (restated) |
|---|---|---|---|
| Cash and balances in the Central Bank | 239 409 | | 239 409 |
| Accounts and deposits in other banks | 67 879 | | 67 879 |
| Financial assets available for sale | 2 599 522 | | 2 599 522 |
| Financial assets held for trading | 0 | | 0 |
| Hedging derivatives | 0 | | 0 |
| Credit facilities and loans to clients | 12 458 352 | | 12 458 352 |
| Shares in subsidiaries | 142 433 | | 142 433 |
| Intangible assets | 37 501 | | 37 501 |
| Property, plant and equipment | 57 268 | | 57 268 |
| Other assets | 151 503 | | 151 503 |
| Deferred tax asset | 307 584 | | 307 584 |
| Prepayments | 63 956 | | 63 956 |
| **TOTAL ASSETS** | **16 125 407** | | **16 125 407** |

| EQUITY AND LIABILITIES | 31.12.2014 | Presentation change | 31.12.2014 (restated) |
|---|---|---|---|
| **LIABILITIES** | | | |
| Liabilities to banks | 3 001 066 | | 3 001 066 |
| Financial liabilities held for trading | 0 | | 0 |
| Hedging derivatives | 40 017 | | 40 017 |
| Liabilities to clients | 8 266 164 | | 8 266 164 |
| Liabilities arising from issue of debt securities | 1 959 058 | | 1 959 058 |
| Other liabilities, including: | 177 888 | | 177 888 |
| *- income tax liability* | *105 299* | | *105 299* |
| Accrued expenses and deferred income | 305 521 | -14 509 | 291 012 |
| Restructuring and other provisions | 23 899 | 14 509 | 38 408 |
| Subordinated debt | 100 000 | | 100 000 |
| **TOTAL LIABILITIES** | **13 873 613** | | **13 873 613** |
| **EQUITY** | | | |
| Share capital | 520 000 | | 520 000 |
| Share premium | 768 047 | | 768 047 |
| Other reserves | 490 380 | | 490 380 |
| Retained earnings | 473 369 | | 473 369 |
| **TOTAL EQUITY** | **2 251 796** | | **2 251 796** |
| **TOTAL EQUITY AND LIABILITIES** | **16 125 409** | | **16 125 409** |

### 48 Events after the end of the reporting period

Due to the entry into force of the Act of 15 January 2016 on Tax on Certain Financial Institutions (Journal of Laws, item 68), on 1 February 2016, the Bank estimated roughly the reduction in its net profit for 2016 caused by the tax imposed under the Act at ca. PLN 34 million.
At the same time, the Bank would like to emphasize that the said amount may change as the current estimate may be influenced by the following factors affecting its uncertainty: changes in the items determining the tax base, the necessity to further interpret the provisions of the Act, the position of the financial supervision authority on the items determining the tax base, the possible enactment of new legislation as well as the Bank's future decisions which may have an impact on the estimate but are not known as at the date of approval of the financial statements for 2015.

On 4 February 2016, the Bank entered into an agreement on the sale of a portfolio of its receivables reclassified to off-balance sheet records and achieved a gain on sale of PLN 51.9 million.

Wrocław, 9 February 2016

.......................................
Arkadiusz Wiktor Przybył
President of the Management Board

| | | |
|---|---|---|
| ....................................... | ....................................... | ....................................... |
| Piotr Żabski | Mariusz Klepacz | Przemysław Kończal |
| Vice-President of the Management Board | Member of the Management Board | Member of the Management Board |
| ....................................... | ....................................... | ....................................... |
| Oleksandr Krupchenko | Rafał Szmuc | Sebastian Ślanda |
| Member of the Management Board | Member of the Management Board | Member of the Management Board |

.......................................
Katarzyna Beuch
Accounting Department Director
Chief Accountant