Separate Financial Statements of Bank Gospodarki Żywnościowej S.A. for the year ended 31 December 2013

Warsaw, 3 March 2014

Table of Content

- in PLN thousands

Statement of profit or loss

	Note	12 months ended 31.12.2013	12 months ended 31.12.2012
Interest income	4	1 913 070	2 154 916
Interest expense	4	(895 579)	(1 135 111)
Net interest income		**1 017 491**	**1 019 805**
Fee and commission income	5	333 712	346 114
Fee and commission expense	5	(57 220)	(48 375)
Net fee and commission income		**276 492**	**297 739**
Dividend income	6	2 848	3 416
Net trading income	7	80 424	98 567
Result on investing activities	8	31 902	43 329
Result on hedge accounting	22	(1 077)	1 233
Other operating income	9	49 613	37 017
Net impairment losses on financial assets and contingent liabilities	11	(252 246)	(269 662)
General administrative expenses	12,13	(880 647)	(927 981)
Depreciation and amortization	10	(99 217)	(94 518)
Other operating expenses	14	(21 146)	(30 478)
Operating results		**204 437**	**178 467**
Profit before income tax		**204 437**	**178 467**
Income tax expense	15	(42 034)	(44 124)
Net profit for the period	16	**162 403**	**134 343**
– attributable to equity holders of the Bank		162 403	134 343
Earnings per share (in PLN per share)	16		
Basic		3.18	2.95
Diluted		3.18	2.95

- in PLN thousands

Statement of other comprehensive income

	Note	12 months ended 31.12.2013	12 months ended 31.12.2012
Net profit for the period		**162 403**	**134 343**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Net change in valuation of available for sale financial assets	24	(139 491)	230 867
Net change in valuation of cash flow hedges	22	(13 457)	21 857
Income tax expense on other comprehensive income		29 060	(48 018)
Other comprehensive income (net of tax)		**(123 888)**	**204 706**
Total comprehensive income for the period		**38 515**	**339 049**
- attributable to equity holders of the Bank		38 515	339 049
Total comprehensive income per share			
Basic		0.72	7.45
Diluted		0.72	7.45

- in PLN thousands

Statement of financial position

	Note	31.12.2013	31.12.2012
ASSETS			
Cash and balances with the Central Bank	17	1 617 713	2 106 657
Loans and advances to banks	18	269 757	104 035
Reverse repo transactions	19	309 255	104 369
Debt securities held for trading	20	1 018 701	219 051
Derivative financial instruments	21	363 260	380 473
Hedging instruments	22	57 387	69 179
Loans and advances to customers	23	26 330 360	26 357 522
Available for sale financial assets	24	4 826 073	6 867 557
Investments in subsidiaries and associates	25	51 645	58 720
Intangible assets	26	158 589	152 674
Property, plant and equipment	27	449 139	469 098
Deferred tax assets	36	142 792	130 818
Current tax assets		12 519	10 318
Other assets	28	156 302	200 222
TOTAL ASSETS		**35 763 492**	**37 230 693**

- in PLN thousands

Statement of financial position (continued)

	Note	31.12.2013	31.12.2012
LIABILITIES			
Amounts due to banks	29	3 271 414	4 094 436
Repo transactions	30	-	32 341
Financial liabilities held for trading	20	271 288	72 005
Derivative financial instruments	21	336 950	326 215
Amounts due to customers	31	26 492 774	26 942 029
Debt securities issued	32	1 191 157	1 852 776
Subordinated liabilities	33	304 817	-
Other liabilities	34	326 015	379 168
Provisions	35	64 015	65 176
TOTAL LIABILITIES		**32 258 430**	**33 764 146**
EQUITY			
Share capital	43	51 137	51 137
Other supplementary capital	44	3 085 059	2 950 716
Other reserve capital	44	206 463	330 351
Retained earnings:		162 403	134 343
- Net profit for the period		162 403	134 343
TOTAL EQUITY		**3 505 062**	**3 466 547**
TOTAL LIABILITIES AND EQUITY		**35 763 492**	**37 230 693**

- in PLN thousands

Statement of changes in equity

	Note	Share capital	Other supplementary capital	Other reserve capital	Retained earnings Net profit for the period	Total
Balance at 1 January 2013		**51 137**	**2 950 716**	**330 351**	**134 343**	**3 466 547**
Total comprehensive income for the period		**-**	**-**	**(123 888)**	**162 403**	**38 515**
Net profit for the period		-	-	-	162 403	162 403
Other comprehensive income for the period		-	-	(123 888)	-	(123 888)
Appropriation of retained earnings		**-**	**134 343**	**-**	**(134 343)**	**-**
Appropriation of retained earnings to other supplementary capital		-	134 343	-	(134 343)	-
Balance at 31 December 2013	**43,44**	**51 137**	**3 085 059**	**206 463**	**162 403**	**3 505 062**

	Note	Share capital	Other supplementary capital	Other reserve capital	Retained earnings Net profit for the period	Total
Balance at 1 January 2012		**43 137**	**2 332 656**	**125 645**	**126 060**	**2 627 498**
Share issue		8 000	492 000	-	-	500 000
Total comprehensive income for the period		**-**	**-**	**204 706**	**134 343**	**339 049**
Net profit for the period		-	-	-	134 343	134 343
Other comprehensive income for the period		-	-	204 706	-	204 706
Appropriation of retained earnings		**-**	**126 060**	**-**	**(126 060)**	**-**
Appropriation of retained earnings to other supplementary capital		-	126 060	-	(126 060)	-
Balance at 31 December 2012	**43,44**	**51 137**	**2 950 716**	**330 351**	**134 343**	**3 466 547**

- in PLN thousands

Statement of cash flows

	12 months ended 31.12.2013	12 months ended 31.12.2012
CASH FLOW FROM OPERATING ACTIVITIES:		
Net profit for the period	**162 403**	**134 343**
Adjustments for:	**(1 352 882)**	**3 307 263**
Income tax expense from income statement	42 034	44 134
Depreciation and amortization	99 217	94 518
Dividends received	(2 848)	(3 416)
Interest income	(1 913 070)	(2 154 916)
Interest expense	895 579	1 135 111
Change in provisions	(1 161)	6 906
Change in loans and advances to banks	(175)	1 853
Change in reverse repo transactions	(205 009)	260 790
Change in debt securities held for trading	(789 043)	1 451 940
Change in derivative financial instruments (assets)	17 213	502 636
Change in loans and advances to customers	34 660	(2 150 902)
Change in amounts due to banks	(115 807)	174 149
Change in repo transactions	(32 220)	32 220
Change in financial liabilities held for trading	199 283	72 005
Change in derivative financial instruments (liabilities)	10 735	(469 492)
Change in amounts due to customers	(343 847)	3 459 010
Change in other assets and current tax assets	43 920	(86 692)
Change in other liabilities and deferred tax liability	(53 153)	(104 697)
Other adjustments	2 110	(361)
Interest received	1 746 892	2 005 481
Interest paid	(961 585)	(948 497)
Income tax expense	(36 925)	(38 486)
Taxes returned	10 318	23 969
NET CASH FROM OPERATING ACTIVITIES	**(1 190 479)**	**3 441 606**

- in PLN thousands

Statement of cash flows (continued)

	Note	12 months ended 31.12.2013	12 months ended 31.12.2012
CASH FLOW FROM INVESTING ACTIVITIES:			
Investing activities inflows		**190 650 673**	**92 276 490**
Sale of financial assets available for sale		190 643 517	92 271 078
Proceeds and interest from sale of investment securities available for sale		4 308	1 996
Dividends received and other investing activities inflows		2 848	3 416
Investing activities outflows		**(188 683 983)**	**(95 254 481)**
Purchase of financial assets available for sale		(188 594 255)	(95 168 031)
Purchase of intangible assets, and property, plant and equipment		(89 482)	(86 198)
Other investing activities outflows		(246)	(252)
NET CASH FROM INVESTING ACTIVITIES		**1 966 690**	**(2 977 991)**
CASH FLOW FROM FINANCING ACTIVITIES:			
Financing activities inflows		**910 736**	**4 907 596**
Long-term loans received from other banks		-	205 440
Issue of debt securities		601 721	4 202 156
Change in subordinated liabilities		309 015	-
Net inflows from issue of shares and capital contributions		-	500 000
Financing activities outflows		**(2 009 604)**	**(4 759 563)**
Repayment of long-term loans and advances to banks		(703 604)	(291 358)
Redemption of debt securities issued		(1 306 000)	(4 468 205)
NET CASH FROM FINANCING ACTIVITIES		**(1 098 868)**	**148 033**
TOTAL NET CASH		**(322 657)**	**611 648**
Cash and cash equivalents at the beginning of the period		**2 204 297**	**1 592 649**
Cash and cash equivalents at the end of the period, of which:	**47**	**1 881 640**	**2 204 297**
- effect of exchange rate fluctuations on cash and cash equivalents held		(410)	(19 430)
- of restricted use		1 619	1 744

1 Information about the Bank

Bank Gospodarki Żywnościowej Spółka Akcyjna ('the Bank' or 'BGŻ S.A.'), with its registered office in Warsaw, at 10/16 Kasprzaka Street, is entered in the National Court Register maintained by the District Court for the Capital City of Warsaw, XII Economic Department, under the reference number KRS 0000011571. The duration of the Bank is defined as unlimited in the Articles of Association of the Bank.

Starting from 27 May 2011, as a result of the Board of the Warsaw Stock Exchange (WSE) decision, the Bank's shares are admitted to trading on the WSE and are qualified in the finance section – the banking sector.

In 2013, the average number of full-time employees of BGŻ S.A. was 5 537.94 and in 2012 there were 5 683.64 full-time employees.

The Bank's main area of activities includes:

- accepting demand and term deposits and maintaining deposit accounts,
- maintaining other bank accounts,
- granting loans and cash advances,
- issuing and confirming bank guarantees and letters of credit,
- issuing bank securities,
- conducting bank monetary settlements,
- cheque and bill of exchange transactions and transactions in warrants,
- issuing payment cards and performing transactions with the use of cards,
- forward financial transactions,
- purchasing and sale of debts,
- safekeeping of objects and securities and offering safety deposit box services to clients,
- purchasing and sale of foreign currencies,
- issuing and confirming guarantees,
- performing commissioned activities relating to issue of securities,
- intermediary services in cash transfers and foreign currency settlements,
- issuing e-money instruments,
- subscription and purchase of shares, allotment certificates, shares in other corporate entities or participation units in investment funds,
- incurring liabilities arising from issuing of debt securities,
- securities trading,
- exchanging amounts due from the debtor for his/her assets on terms agreed with the debtor,
- purchasing and sale of real estate,
- providing financial advisory/consulting services,
- conducting brokerage activities (operating Brokerage Office),
- conducting acquisition activities within the meaning of the regulations concerning the organizing and functioning of open-ended pension funds,

- in PLN thousands

- acting as depositary within the meaning of the regulations concerning the organizing and functioning of open-ended pension funds,
- keeping in custody assets of investment funds,
- operating securities deposit,
- intermediary services on trading in investment funds participation units,
- providing financial-settlement and advisory services in respect of financial market instruments,
- providing trust and factoring services,
- providing transport services in respect of cash and cash equivalents,
- providing insurance intermediary services within the scope allowed by the Insurance Intermediary Services Act,
- providing financial lease,
- trading treasury stamps and numismatic items.

As at 31 December 2013, the Bank's Management Board was comprised of the following members:

Józef Wancer	– President
Gerardus Cornelis Embrechts	– First Vice President
Johannes Gerardus Beuming	– Vice President
Dariusz Odzioba	– Vice President
Witold Okarma	– Vice President
Wojciech Sass	– Vice President
Andrzej Sieradz	– Vice President
Magdalena Legęć	– Vice President
Monika Nachyła	– Vice President

From the balance sheet date up to the date of the preparation of the financial statements there were no changes in the composition of the Management Board of the Bank.

Bank Gospodarki Żywnościowej Spółka Akcyjna is an entity operating as part of the Rabobank Capital Group, which parent company is Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.

Bank Gospodarki Żywnościowej Spółka Akcyjna is the parent company of the Bank Gospodarki Żywnościowej S.A. Group. The Group is composed of a subsidiary - **Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o.** - BGŻ S.A. holds 100% of shares in the share capital of this company and 100% of the votes at the Shareholders' Meeting.

BGŻ S.A. holds 49% of shares in the share capital of an associate – BGŻ Leasing Sp. z o.o. and 49% of the votes at the Shareholders' Meeting of this company.

<u>Approval of the financial statements</u>

These separate financial statements were prepared as at 31 December 2013 and for the year then ended, and were approved for publication by the Management Board on 3 March 2014.

The consolidated financial statements of the Bank Gospodarki Żywnościowej S.A. Group were prepared as at 31 December 2013 and for the year then ended, and were approved for publication by the Management Board on 3 March 2014.

The above financial statements include data for the year ended 31 December 2013 and comparable data for the year ended 31 December 2012.

2 Description of significant accounting policies

2.1 Basis for the preparation of the financial statement

These separate financial statements were prepared on a historical cost basis, except for investment properties, derivative financial instruments, available-for-sale financial assets and financial assets classified as measured at fair value through profit or loss, which are valued at fair value.

2.2 Going concern

These separate financial statements were prepared under the assumption that Bank continues as a going concern in the foreseeable future, i.e. for a period of at least 12 months following the balance sheet date. As at the date of signing the separate financial statements there are no facts or circumstances that would indicate a threat to the Bank's continued activity or a significant limitation in Bank business for the period of at least 12 months following the balance sheet date.

2.3 Statement of compliance with IFRS

These separate financial statements have been prepared in accordance with International Financial Reporting Standards, approved by the European Union ("IFRS").

These separate financial statements include the requirements, all approved by the European Union, of International Accounting Standards, International Financial Reporting Standards and related interpretations, except as listed below - standards and interpretations, which are awaiting approval by the European Union or have been approved by the European Union, but will enter into force only after the balance sheet date.

In the period covered by the financial statements, the Bank has not early adopted the standards and interpretations which have been endorsed by the European Union, but entered or will enter into force after the balance sheet date.

Standards and interpretations that have been approved by the European Union but are not yet binding or have not been adopted early:

- IFRS 10 *Consolidated Financial Statements* – binding for annual periods beginning on or after 1 January 2014,
- IFRS 11 *Joint Arrangements* – binding for annual periods beginning on or after 1 January 2014,
- IFRS 12 *Disclosure of Interests in Other Entities* – binding for annual periods beginning on or after 1 January 2014,
- Amendments to IFRS 10, IFRS 11 and IFRS 12: Consolidated Financial Statements, Joint Arrangements, Disclosure of Interests in Other Entities - binding for annual periods beginning on or after 1 January 2014,
- IAS 27 *Separate financial statements* - binding for annual periods beginning on or after 1 January 2014,
- IAS 28 *Investments in Associates and Joint Ventures* - binding for annual periods beginning on or after 1 January 2014,
- Amendments to IAS 32 *Financial Instruments – Presentation: Offsetting Financial Assets and Financial Liabilities* - binding for annual periods beginning on or after 1 January 2014,
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) - binding for annual periods beginning on or after 1 January 2014,
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*) - binding for annual periods beginning on or after 1 January 2014,

- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36 Impairment of Assets) - binding for annual periods beginning on or after 1 January 2014.

Standards and interpretations not yet approved by European Union:

- IFRS 9 *Financial Instruments (2009)* – standard available for use (no date of compulsory implementation),
- Additions to IFRS 9 *Financial Instruments* (*2010*) - standard available for use (no date of compulsory implementation),
- Amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* - standard available for use (no date of compulsory implementation),
- IFRIC Interpretation 21 *Levies* - binding for annual periods beginning on or after 1 January 2014,
- Amendments to IAS 19 *Employee Benefits* entitled De*fined Benefit Plans: Employee Contributions* - binding for annual periods beginning on or after 1 July 2014,
- Improvements to IFRS 2010-2012 - binding for annual periods beginning on or after 1 July 2014,
- Improvements to IFRS 2011-2013 - binding for annual periods beginning on or after 1 July 2014.

The Management Board does not expect the application of the above standards and interpretations have material impact on the accounting policies applied by the Bank, except for IFRS 9. As far as IFRS 9 Financial instruments are concerned, Bank is currently analyzing the impact of the application of this standard on the financial statements.

2.4 Changes in accounting policies and changes in financial data presentation

In these financial statements, Bank changed the accounting policy in respect to revenue recognition of fees for:

- distribution of insurance products, and
- loan commitments.

Upon changes made, the net fees for distribution of insurance products relating to the creation of financial assets or financial liabilities are deferred and recognized in the income statement as interest income using the effective interest rate method.
The fees for loan commitments are deferred until the loan is disbursed and then are amortized using the effective interest rate method or the straight line method, depending on the loan is with or without a defined repayment schedule.
The changes made to revenue recognition of fees for distribution of insurance products appropriately reflect the substance of the transaction and the products' characteristics.
Described changes in accounting policies and have been implemented prospectively starting from 1 January 2013 i.e. without correcting comparable data for the year 2012 due to insignificant amounts.

In addition, in these financial statements the Bank took into account the following amendments to standards and new interpretations adopted by the European Union and effective for annual periods beginning on or after January 1, 2013:

- Amendments to IAS 1 *Presentation of Financial Statements*: *Presentation of items of other comprehensive income* - effective for annual periods beginning on or after 1 July 2012,
- IAS 19 *Employee benefits* - effective for annual periods beginning on or after 1 January 2013,
- Amendments to IFRS 7 *Financial instruments: disclosures - Offsetting financial assets and liabilities* - effective for annual periods beginning on or after 1 January 2013,

- in PLN thousands

- IFRS 13 *Fair value measurement* - effective for annual periods beginning on or after 1 January 2013,
- IFRIC 20: *Stripping costs in the production phase of a Surface Mine ("stripping costs")* - effective for annual periods beginning on or after 1 January 2013,
- Amendments to IFRS 1 *First-time adoption of International Financial Reporting Standards - Government loans* - effective for annual periods beginning on or after 1 January 2013,
- Amendments to IFRS 1 *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*- effective for annual periods beginning on or after 1 January 2013,
- Amendments to IAS 12 *Income taxes - Deferred tax: Recovery of underlying assets* - effective for annual periods beginning on or after 1 January 2013,
- Amendments to International Financial Reporting Standards 2009-2011 - effective for annual periods beginning on or after 1 January 2013.

The most significant impact on the financial statements was the introduction of the new IFRS 13 and updated IAS 1, IFRS7.

IFRS 13 changed the valuation of derivative financial instruments, however the impact of these changes on these financial statements is immaterial. The implementation of IFRS 13 requirements has significantly changed the scope of fair value disclosures as presented in these financial statements.

IFRS 7 had an impact on broadening the scope of disclosures, but had no significant effect on the financial statements of the Bank.

IAS 1 requires separate presentation of other comprehensive income that may be reclassified to profit or loss and those items of other comprehensive income that will not be transferred to profit or loss.

Additionally, the Bank made the following changes in presentation of financial data. In order to ensure the comparability of financial data, the Bank made appropriate changes in the presentation of 2012 financial data in comparison to the data published in the 'Financial statements of Bank Gospodarki Żywnościowej S.A. for the year ended 31 December 2012'. These changes referred to the methods of grouping and presentation of financial data in the statement of profit or loss and statement of financial position and do not affect the net profit of the Bank.

Statement of profit or loss

		31.12.2012 prior to changes	changes in presentation	31.12.2012 after changes
Interest income	1	2 156 478	(1 562)	2 154 916
Fees and commission income	1	350 345	(4 231)	346 114
Fees and commission expense	1	(54 168)	5 793	(48 375)
Other operating income	2,3	64 487	(27 470)	37 017
General administrative expenses	2,4	(941 203)	13 222	(927 981)
Depreciation and amortization	5	-	(94 518)	(94 518)
Other operating expenses	3,4,5	(139 244)	108 766	(30 478)

- in PLN thousands

1. The Bank has changed the presentation of income and expenses from the sale of insurance products. The income is now presented on a net basis.
2. The Bank made changes to presentation of income on release of provisions for unused holidays, provisions for retirement benefits, provisions for non-personnel expenses and provisions for personnel expenses from the line 'Other operating income' to the line 'General administrative expenses'.
3. The Bank has changed presentation of the income and expenses from sale or liquidation of property, plant and equipment and intangible assets. The result is now presented on a net basis.
4. The Bank made changes to presentation of costs of provisions for unused holidays and provisions for retirement benefits from the line 'Other operating expenses' to the line 'General administrative expenses'.
5. The Bank separated the line 'Depreciation and amortization' from the line 'Other operating expenses'.

Statement of financial position

		31.12.2012 prior to changes	Changes in presentation	31.12.2012 after changes
Assets				
Derivative financial instruments	1	404 879	(24 406)	380 473
Loans and advances to customers	2	26 341 646	15 876	26 357 522
Other debt securities	2	15 876	(15 876)	-
Others assets	3	125 745	74 477	200 222
Liabilities				
Repo transactions	4	104 346	(72 005)	32 341
Financial liabilities held for trading	4	-	72 005	72 005
Derivative financial instruments	1	350 621	(24 406)	326 215
Other liabilities	3,5	292 129	87 039	379 168
Provisions	6	50 769	14 407	65 176
Liabilities arising from employee benefits	5,6	26 969	(26 969)	-

1. The Bank presented the valuation of FX Swap transactions denominated in foreign currencies on a net basis.
2. The Bank made changes to presentation of receivables from bonds issued subsidiary from 'Other debt securities' to 'Loans and advances to customers'.
3. The Bank made changes to presentation of 'Cards settlements'.
4. The Bank made changes to presentation of liabilities from short sale of debt securities held for trading from the line 'Repo transactions' to the line 'Financial liabilities held for trading'.
5. The Bank made changes to presentation of provisions for unused holidays from the line 'Liabilities arising from employee benefits' to the line 'Other liabilities'.
6. The Bank made changes to presentation of provisions for retirement benefits from the line 'Liabilities arising from employee benefits' to the line 'Provisions'.

2.5 Valuation of foreign currency items

a) Functional and presentation currency

All items presented in the financial statements of the Bank are valued in the currency of the primary economic environment in which the Bank operates ('functional currency'). The financial statements are presented in PLN thousands, which is at the same time the functional and presentation currency for the financial statements of the Bank.

b) Transactions and balances

Foreign currency transactions are calculated into the functional currency using the spot exchange rate from the date of the transaction.

At the reporting date, assets and liabilities expressed in currencies other than Polish zloty are calculated into Polish zloty using the average NBP rate that existed, for the given currency, at the year-end. Any exchange differences resulting from conversion are recorded under trading result or finance costs or – in cases defined in accounting policies – are capitalized in the cost of the assets. Non-monetary foreign currency assets and liabilities recognized at historical cost are translated at the historical exchange rate from the transaction date. Non-monetary foreign currency assets and liabilities recognized at fair value are translated to Polish zloty using the rate of exchange binding as at the date of valuation to fair value.

The main foreign currency exchange rates used in the preparation of these financial statements, available on 31 December 2013 and 31 December 2012, were as follows:

	31.12.2013	31.12.2012
1 EUR	4.1472	4.0882
1 USD	3.0120	3.0996
1 GBP	4.9828	5.0119
1 CHF	3.3816	3.3868
100 JPY	2.8689	3.6005

2.6 Interest income and expense

In the statement of profit or loss, the Bank includes all interest income from financial instruments valued at amortized cost using the effective interest rate method and debt securities classified as assets available for sale and financial instruments valued at fair value.

The effective interest rate method is a method for calculating the amortized initial cost of a financial asset or a financial liability as well as allocating the interest income or interest expense over the relevant period. The effective interest rate is a rate that discounts estimated future cash payments or receipts to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows while considering all contractual terms of the given financial instrument (i.e. prepayment options) but does not consider possible future credit losses. The calculation includes all payments and cash flows received or made by the Bank under the contract, except for future estimated credit losses.

Once a financial asset or group of similar assets has been written-off as a result of an impairment loss, interest income is accrued using the interest rate at the moment of evidence of impairment being recognized applicable to the newly determined carrying amount of the asset; determined as the difference between the gross exposure and the impairment loss (net investment value).

2.7 Net fee and commission income

Fees and commissions, which are not settled by the effective interest rate method, but are amortized, using the straight-line method, or recognized as a one-off item, are recognized under net fee and commission income.
Included in income items that are amortized using the straight-line method are, in particular,

commission on loans on credit on current account, credit cards, revolving loans and granted liabilities (guarantees, credit lines).

Fee and commission income is recognized in the profit and loss account when the service is done, relates to charges for maintaining current accounts, billing transaction charges, brokerage fees, commission for the distribution of participation units.

Fees for the Bank's commitment to grant loan or allowance (commissions from promissory notes) are deferred and in the moment of creation of financial assets they are settled, as a part of the effective interest rate or linearly.
The Bank includes, to fee and commission income, also remuneration derived from offering insurance products to third parties.

Net fee and commission income on the offering of insurance products

Bancassurance products

The Bank offers "bancassurance" products, i.e. sold through the Bank's distribution channels insurance products (such as, for example, group life insurance or unemployment insurance, property insurance, wealth insurance). These products, in certain cases, may be considered to be closely related to the credit product offered by the Bank (cash loan or mortgage). Contractually specified portion of the fees received by the Bank from the sale of the above mentioned insurance products is passed to an insurance company as premium and the remaining portion is retained by the Bank, inter alia, as a reward for insurance intermediary services. At the same time, during the insurance coverage, the Bank may provide additional services to the insurance companies.

For proper recognition of commission income and expenses from offering insurance products in the statement of profit and loss, the Bank conducts analysis, which includes the characteristics of an insurance product, as well as linking of such insurance product with other products.

When connection between two or more transactions is identified, the criteria of revenue recognition are applied for all. The Bank each time analyzes economic content of a transaction of loan and insurance agreement for the same clients in reference to meeting connection criteria. The Bank allows two or more transactions as connected, among others, on the basis of the analysis of the following factors:

- Financial instrument is offered by the Bank always with an insurance product,
- Insurance product is offered by the Bank only with financial instruments, i.e. there is no possibility of purchase of insurance product identical, as for legal form, conditions and economic content without purchase of product connected to financial instruments in the Bank,
- Insurance and financial product sale transactions are conducted at the same time or in sequence, in which each next transaction result from the previous,
- Above transactions are indeed single agreement, which purpose is to achieve agreed economical aim for the agreement considered collectively.

Existence of one of the transactions is conditional and dependent on the existence of another one.

In addition, the following factors are important in the analysis of the level of connection of insurance and financial instruments sale transactions:

- The range of sale of products combined i.e. percentage share of financial instruments with insurance protection in the total number of financial instruments contracts in the Bank's portfolio,
- The influence takes into account remuneration due to insurance and insurance intermediary expenses on profitability of particular financial instruments,
- Comparison of real average annual interest rates for particular financial instruments in the Bank's portfolio in division into including insurance protection and with insurance element,
- When there is no requirements for the customer to purchase financial instrument by the time

of settlement of insurance agreement- the number of similar conditions and rules of insurance agreements settled in institutions other than insurance companies, which products are offered by the Bank together with financial instruments,

- The number of insurance agreements after early repayment of a loan.

The analysis includes also settlement method with a client and rage of activities done by the Bank for an insurer and their period.

Deep analysis and understanding of the economic background of the transaction based on the mutual relations between a loan and insurance product offered is of significant importance for each settled transaction. Also, it is crucial to make a judgment by the Management of the Bank.

a) *Commission income due to offering insurance products combined with bank products*

In case of insurance commission collected in advance combined with financial instrument, the whole Mount of net commission for the sale of insurance is integral part of the effective interest rate of the financial instrument and is treated as an element of the effective interest rate and is recognized in the statement of profit or loss, in interest income.

b) *Commission income due to offering insurance products no combined with bank products (commissions of insurance agencies)*

In case when the Bank does not provide any additional services during the time of insurance and when there is no risk of full or partial return of the Bank's premium, the commissions are recognized at the day of beginning or renewal of the insurance, by what when there is a possibility, that the Bank will be obliged to provide further services during the time of insurance, the commission or its part is deferred and recognized as income during the time of insurance.

2.8 Dividend income

Dividend income is recognized in the income statement when the right to receive the dividend by the Bank has been determined.

2.9 Result on trading activity

The result on trading activities includes all gains and losses resulting from change in the fair value and the related interest income and expenses as well as dividends concerning financial assets and liabilities classified as financial assets and liabilities valued at fair value through profit or loss.

The result also includes gains and losses on the following types of transactions: spot, forward options, futures and conversions of foreign currency assets and liabilities.

2.10 Result on investing activity

Income and expenses relating to financial assets classified as available for sale and financial assets held to maturity, excluding interest, are presented under result on investing activities.

2.11 Other operating income and other operating expenses

Items not relating directly to operating activities are included in other operating income and other operating expenses.

The Bank mainly includes in the above mentioned position the following items: gains and losses arising from the sale or liquidation of fixed assets, revaluation of investment property, compensation received and paid, income and expenses of other services not relating to the Bank's main business activities.

2.12 Corporate income tax

The tax charge covers current tax expense and a charge/credit balance resulting from changes in deferred tax assets/deferred tax liabilities.

Current tax liabilities and current tax assets for the current and previous periods are valued at the amount of probable payment to the tax authorities (amounts due from the tax authorities), using the tax rates and tax laws that were in force, or substantively in force, as at the reporting date.

Deferred tax

Deferred tax provision is fully recognized using the balance method, on all temporary differences, as at the reporting date, between the tax value of assets and liabilities and their balance sheet values in financial statements. Deferred tax assets are recognized for all negative temporary differences and carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, assets and carry-forward of unused tax losses can be utilized. Deferred tax assets and liabilities are measured using the tax rates (and tax laws) that are expected to be applied in the period when the deferred tax asset is realized or the deferred tax liability settled, based on the tax laws in force on the reporting date.

If, however, temporary differences result from recognition of an asset or liability due to a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit (tax loss), the deferred tax is not recognized. In addition, deferred tax liabilities are recognized for all taxable temporary differences arising from investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled by the investor and it is probable that the temporary difference will not be reversed in the foreseeable future. For deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, the deferred tax assets are only recognized to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available, against which the temporary difference can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The unrecognized deferred tax asset is reassessed at each subsequent reporting date, and is recognized to the extent that it is probable that sufficient taxable profit will be available to allow the deferred tax asset to be utilized. The Bank offsets deferred tax assets and deferred tax liabilities if, and only if, it has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes that are levied by the same taxation authority on the same taxable entity.

Deferred tax relating to items recognized directly in equity is recognized in equity and in the statement of comprehensive income.

In 2013 and 2012, the current tax expense and the deferred tax liability were calculated using the 19% rate.

2.13 Classification and valuation of financial assets and liabilities

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

2.13.1 Initial recognition and de-recognition of financial assets and liabilities in the statement of financial position

Transactions that involve the acquisition and sale of financial assets valued at fair value through profit or loss, held to maturity and available for sale, as well as derivative financial instruments, are recognized at the settlement date. Loans are recognized when cash is made available/disbursed to borrower. Financial assets are initially recognized at fair value, increased by transaction costs, except for financial assets classified at fair value through profit or loss.

The initial classification of a given financial asset depends on its characteristics and the purpose behind its acquisition.

Where the price paid for the asset item on a non-active market differs from the asset's fair value observed in other similar transactions on an active market or from the value assessed based on assumptions adopted from the observed market, the Bank immediately recognizes the difference between the asset's fair value and the price paid in the income statement, under trading result.

A financial asset is de-recognized if the Bank loses control over any contractual rights attached to that asset, which usually takes place if the financial instrument is disposed of or if all cash flows attached to the instrument are transferred to an independent third party.

2.13.2 Financial assets and liabilities at fair value through profit or loss

This category covers two sub-categories:
- financial assets and liabilities held for trading (including derivative financial instruments),
- financial assets and liabilities designated upon initial recognition at fair value through profit or loss.

Upon initial recognition, financial assets or liabilities are classified at fair value through profit or loss, after the following criteria have been met: (i) such classification eliminates or materially reduces the possibility of incoherent recognition, if both valuation principles and policies for the recognition of gains and losses are subject to separate regulations; or (ii) the assets are part of a group of financial assets that are managed and measured at fair value, in accordance with documented risk management strategy; or if (iii) the financial assets include embedded derivatives that should be recognized separately. As at 31 December 2013 and 31 December 2012, and in the years then ended, none of the Bank's financial assets were classified upon initial recognition at fair value through profit or loss.

Financial assets and liabilities classified as 'held for trading' are included in the category 'Financial assets or liabilities at fair value through profit or loss', if they are acquired for the purpose of selling in the near term, or if they are classified to this category by the Management after meeting certain criteria. Derivative financial instruments are also classified as 'held for trading'.

As at the reporting date, financial assets and liabilities classified at fair value through profit or loss are measured at fair value as from the date of the transaction. Any gains or losses arising from changes in the fair value of the 'financial assets or liabilities at fair value through profit or loss' are recognized in the income statement under result on trading activities in the period in which they arose. Interest and purchased discounts or premiums are amortized to the interest result using the effective interest rate method.

The best indicator of fair value of a financial asset or liability upon its initial recognition is fair value of paid or received payment, unless fair value of this instrument can be measured by comparison with different actual market transactions concerning the same instrument (unmodified) or on the basis of valuation techniques based on measurable market data.

Following initial recognition, fair value of a financial asset or financial liability is determined on the basis of instrument quotations on active markets, i.e. on the basis of prices in recently finalized transactions. If there is no active market for the given financial asset (and in the case of non-listed securities), Bank determines the asset's fair value using valuation techniques, which include recent transactions carried out at arm's length, reference to other generally identical financial instruments, analysis of discounted cash flows, option pricing models, as well as other valuation methods commonly used by market participants.

All derivatives with positive fair value are shown in the statement of financial position as assets and those with negative fair value as liabilities.

Fair value of derivatives determined on a basis of valuation techniques takes into account the element of credit risk. The change in the fair value, which results from the level of the credit risk of derivatives, is shown in the statement of profit or loss.

Certain embedded derivatives, such as options embedded in productive investment, are treated as separate derivative instruments, if the risks related to these instruments and their characteristics are not closely related to those of the host contract, and the host contract is not classified as at fair value through profit or loss. Such embedded derivatives are measured at fair value, with changes in the fair value recognized in profit or loss.

An assessment of whether a given contract includes an embedded derivative instrument is made when the contract is signed. A reassessment is made only if there have been changes to the contract, which have a significant impact on the cash flows arising from that contract or there were changes introduced to the accounting policies.

2.13.3 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. ‘Loans and advances to customers’ and ‘Amounts due from banks’ are included in this category of financial assets.

They are created when the Bank grants cash directly to a borrower, without intention of placing created liabilities on market for trading immediately or in short-term and they were not classified as “Financial assets held for trading”, “Financial assets available for sale” or “Financial assets at fair value in the Income statement”

After initial recognition, loans and receivables are recognized as adjusted purchase price, including the loss of value (amortized cost), any difference between the fair value at initial recognition (decreased by transaction costs) corresponding to the usual amount transferred (decreased by transaction costs) and the redemption value are recognized in the Income statement over the period of the liability using the effective interest rate method.

2.13.4 Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, which the Bank has the intention and ability to hold to maturity. These are the assets other than:

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

If the Bank sells more than an insignificant amount of held to maturity investments before maturity, all the remaining assets from this category are reclassified to financial assets available for sale.

Investments held to maturity are recognized at adjusted purchase prices (amortized cost), using the effective interest rate method.

2.13.5 Available for sale assets

Available for sale financial assets are those non-derivative financial assets that are classified as available for sale or are not classified in any of the preceding categories of assets. Available for sale financial assets are measured at fair value, without deducting transaction costs, and taking into account their market value at the reporting date. Where no quoted market price from a regulated market is available and there is no possibility of reliable determination of their fair value using alternative methods, the available-for-sale financial assets are measured at purchase price, adjusted by impairment write-off. Positive and negative differences between the fair value (if quoted market price determined on the regulated market is available or if the fair value can be determined using another reliable method), and the acquisition cost, after deduction of deferred tax, are recognized in the other comprehensive income. Any decrease in the value of the financial assets available for sale resulting from impairment losses is recognized in the statement of profit or loss as financial cost.

For interest-bearing assets, interest rates charged under the effective interest rate method are recognized in the statement of profit or loss, under interest income. Dividends from available for sale equity instruments are recognized in the statement of profit or loss under investing activities; at the time the entity's right to receive the dividend is determined.

2.13.6 Offsetting of the financial instruments

Financial assets and financial liabilities are being compensated and recognized in the statement of financial position in the net amount, if the Bank has a legally enforceable right to set off the recognized amounts and if the Bank intends either to settle this using net amount, or to realize the asset and simultaneously settle the liability.

2.13.7 Sell and buy back transactions

Securities under repo or sell buy back transactions are not excluded from of the statement of financial position. Liabilities due to counterparty are recognized as financial liabilities under 'Liabilities arising from repo transactions'. Reverse repo and buy sell back transactions are recognized as 'Receivables arising from reverse repo transactions'. The difference between the selling price and the repurchase value is treated as interests, which are calculated using the effective interest rate, over the term of the underlying loan contract.

2.13.8 Investments in associates

Investments in associates are recognized in the Bank's financial statements in the purchase price, including impairment allowances.

2.14 Impairment of financial assets

2.14.1 Financial assets carried at amortized cost

An assessment is made at each reporting date to determine whether there is any objective evidence to show that a financial asset or group of financial assets may be impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ('impairment triggers') and that the event (or events) has an impact on the estimated future cash flows from the financial asset or group of assets, which can be reliably estimated. Objective impairment triggers of a financial asset or group of assets may include information obtained by the Bank about the following loss events:

a) payment of loan principal or loan interest (also penalty) delinquent for more than 90 days;
b) granting the borrower due to economic or legal reasons deriving from financial distress an economical concession[1];
c) significant financial difficulties of the borrower[2];
d) termination of the loan agreement by the Bank;
e) application for customer bankruptcy has been filed or customer has been declared bankrupt;
f) customer has filed a statement on initiation of recovery proceedings;
g) execution procedures being instituted against the customer;
h) significant deterioration of results of rating and scoring analysis;
i) the disappearance of an active market for credit exposure due to financial difficulties;
j) questioning by the counterparty credit exposure in court.

List describing in points *a-j* impairment triggers is the starting point for the research of objective evidence of impairment for each financial asset. For the correctness and completeness of impairment triggers identification are also responsible the Bank's services

[1] including debt restructuring that causes economic loss for the Bank
[2] e.g. presented in the negative assessment of borrower's financial situation (financial statement or other documents) or related to job loss, reduction of income, increase of indebtedness, not repaying the debt to other institutions

(credit inspectors and relationship managers) performing periodic evaluation and classification of the credit exposure. The overriding principle is to treat each event that changes the value of the future cash flows of credit exposure in relation to contractual terms or the latest assessment of the evidence (objective evidence) impairment of a financial asset. In accordance with IAS 39, § 59, the identification of objective evidence of impairment does not take into account future events (i.e. after the balance sheet date, at which assessment of impairment is made) no matter what is the probability of their occurrence.

Included in the group of individually significant financial assets (ISFA) are:

a) exposures for which the sum of balance and off-balance sheet exposure and interests outstanding relating to a particular account equals or exceeds PLN 1 million at the reporting date on which the assessment of the impairment is made (exposures carried in foreign currencies are analyzed as an equivalent in polish zloty, at a rate effective at the end of financial year);

b) restructured exposures with the sum of balance and off-balance sheet exposure and interests outstanding relating to a particular account of at least PLN 100 thousand (exposures carried in foreign currencies are analyzed as an equivalent in polish zloty, at a rate effective at the end of financial year);

c) exposures which have been previously considered individually significant for which an objective evidence of impairment has been identified for the prior and current reporting date. This means that the change in the approach to credit exposure based on the threshold amount may be applied only to that credit exposure for which no impairment loss has been identified;

d) debt securities (issued by the State Treasury, public sector entities and business enterprises) classified on valuation date as held to maturity;

e) credit exposures in respect of banks and non-banking entities in the financial sector;

f) credit exposures in respect of government administrative agencies.

The Bank first assesses whether objective of impairment trigger exists for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective of impairment trigger exists for an individually assessed financial asset, (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized, are not included in the collective assessment for impairment.

If there is an objective evidence that an impairment loss on loans and receivables or held to maturity investments carried at amortized cost, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the current value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through use of an impairment allowance account and the amount of loss is recognized in the statement of profit or loss.

For the purpose of collective impairment assessment, financial assets are combined in groups with similar credit risk characteristics. These characteristics are relevant to the estimation of future cash flows for the groups of assets, as they are indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being assessed.

Future cash flows relating to a group of financial assets collectively assessed for impairment are estimated on the basis of contractual cash flows and historical loss experience in respect of assets with similar risk characteristics. If necessary, the historical loss experience is adjusted on the basis of current observable data, to reflect the effects of current conditions that did not affect the period in which the historical loss experience is based, and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed on a regular basis by the Bank in order to reduce any differences between loss estimates and actual loss experience. In addition, the Bank regularly performs backtesting of risk parameters used for collective assessment.

Uncollectible loans are written off and charged against the impairment allowance. Before a loan is written off, all the required by the Bank procedures must be completed and the value of the impairment loss must be determined. In case of recovery of amounts previously written-off, in the statement of profit or loss the amount of impairment allowances and provisions for contingent liabilities is reduced.

If an amount that has been previously written off is recovered, the value of the impairment losses recognized in the income statement is reduced as appropriate. If, in a subsequent period, the value of an impairment loss decreases due to an event occurring after the impairment was recognized (i.e., an improvement in the debtor’s credit).

2.14.2 Financial assets at fair value through profit and loss or at purchase cost

An assessment is made at the end of each reporting period to determine whether there is any objective evidence showing that a financial asset or group of financial assets may be impaired. In the case of equity instruments classified as assets available for sale, in assessing impairment losses, any significant or long-term decrease in the value of the security below its initial cost is taken into consideration. If such objective evidence exists for available for sale financial assets, the cumulative loss – determined as the difference between the purchase cost and the current fair value less any impairment loss previously recognized in statement of profit or loss – is removed from equity, and recognized in profit or loss. Impairment losses for equity instruments reported in the statement of profit or loss are not reversed in the statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the value of the reversal recognized in profit or loss.

2.15 Non-current assets held for sale

Non-current assets (or disposal groups) classified as held for sale, are carried at the lower of the carrying amount and fair value, less sales costs.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction. This condition is considered to be fulfilled if and only if the sale transaction is highly probable and the non-current asset (or the disposal group) is available for immediate sale in its present condition. Classification of a given non-current asset (or a disposal group) into the held-for-sale category reflects the intention of the entity’s management to complete the sale within one year from the date of the change in the asset’s (disposal group’s) classification.

Discontinuing operation is a component of Bank that has either been disposed of or is classified as ‘held for sale’ and (a) represents a major line of business or geographical area of operations (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or (c) is a related entity acquired exclusively with a purpose of resale.

Bank presents assets taken over for debt under non-current assets held for sale, if they meet the requirements of IFRS 5 as described above.

2.16 Investment property

Investment property is the property held to earn rentals and/or for capital appreciation.

Investment property is recognized as an asset, when and only when:
- it is probable that the future economic benefits associated with the investment property will flow to the entity,
- the purchase price or construction cost of the investment property can be measured reliably.

Investment property is initially measured at cost, including transaction costs.

According to the Bank's policy, investment property is measured at fair value at each subsequent reporting date.

A gain arising from a change in the fair value of investment property is recognized in the statement of profit or loss in other operating income for the period in which it arose, loss is recognized in other operating expenses in the respective period.

Property items seized for debts are recognized as investment property, unless they meet the criteria for non-current assets held for sale.

2.17 Intangible assets

Intangible assets purchased as part of a separate transaction are initially recognized at purchase price or construction cost.

The Bank determines whether the useful life of an intangible asset is finite or indefinite. Intangible assets with finite useful lives are amortized over their useful lives and tested for impairment each time there is evidence to indicate that the asset's carrying amount may not be recoverable. The useful lives and amortization methods for intangibles with finite useful lives are reviewed at least at the end of each financial year. Changes in the expected useful life or in the expected pattern of consumption of the future economic benefits embodied in the asset are reflected in changes in the period or method of amortization, as appropriate, and are accounted for as changes in accounting estimates. Amortization charged on intangible assets with finite useful lives is recognized in the statement of profit or loss under the category that reflects the function of the intangible asset.

Except for development work, internally generated intangible assets are not recognized in the statement of financial position, and the expenditure incurred for such assets is recognized as an expense in the period in which it is incurred.

Intangible assets with indefinite useful lives and those that are no longer used are reviewed for impairment on an annual basis, at the level of the individual asset or cash-generating unit. With respect to other intangible assets, an assessment is made each year, to verify it there is any objective evidence showing that an asset may be impaired.

Purchased licenses for computer software are capitalized in the amount of the expenditure incurred for the purchase and preparation for use of the given computer software. Capitalized expenditures are amortized over the estimated period of the use of the software. Expenditure incurred for the development or maintenance of computer software is expensed when incurred. Expenditure directly relating to the development of identifiable and unique computer programs controlled by the Bank, which will probably generate economic benefits that will exceed the amount of that expenditure and that will be earned over more than one year, is recognized under intangible assets. Such directly related expenditure includes costs of employees engaged in software development and the appropriate proportion of overheads. Capitalized software development costs are amortized over the estimated period of use of the software.

Amortization of intangible assets is charged on a straight-line basis in order to allocate their initial cost or revalue amount, less residual value, on a systematic basis over their useful lives. The amortization rates for particular intangible asset groups are as follows:

- licenses	14.0 – 50.0%
- copyrights	20.0 – 50.0%

The residual values and useful lives of intangible assets are reviewed at the end of each reporting period, and amended, if necessary.

Amortized intangible assets are tested for impairment whenever there are events or circumstances that indicate that the asset’s carrying amount may not be recoverable. The carrying amount is immediately written down to the recoverable amount each time the carrying amount exceeds the estimated recoverable amount. The recoverable amount is the higher of the asset’s fair value less costs to sell, and its value in use. Value in use is calculated as the estimated future cash flows generated by the asset, discounted using market interest rate.

Gains or losses arising from the sale of an intangible asset are determined by comparison of net disposal proceeds and the carrying amount of the asset, and are recognized in the statement of profit and loss under other operating income.

2.18 Property, plant and equipment

Property, plant and equipment are measured at purchase cost or cost of production, less accumulated depreciation and impairment losses. The initial cost of an item of property, plant or equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Cost also comprises the cost of replacing significant fixed asset components, when incurred, if the recognition criteria are met. Subsequent expenditures, such as repair or maintenance costs, are expensed in the reporting period in which they were incurred.

Upon purchase, fixed assets are divided into components that represent items with a significant value that can be allocated a separate useful life. Overhauls also represent an asset component.

Land is not depreciated. Depreciation of other fixed assets is charged on a straight-line basis in order to allocate their initial cost or revalued amount, less residual value, on a systematic basis over their useful lives. The depreciation rates are as follows:

- buildings	1.5 – 10.0%
- plant and machinery	10.0 – 20.0%
- computer components	20.0%

The residual values and useful lives of fixed assets are reviewed at each reporting date, and amended, if necessary.

Depreciated fixed assets are tested for impairment whenever there are any events or circumstances that indicate that the asset’s carrying amount may not be recoverable. The carrying amount of a fixed asset is immediately written down to its recoverable amount each time the carrying amount exceeds the estimated recoverable amount. The recoverable amount is the higher of the asset‘s fair value less costs to sell, and its value in use.

If the asset recoverable amount is lower than its carrying amount, an impairment loss is recognized in the statement of profit or loss.

Gains or losses arising from the sale of a fixed asset are determined by comparison between the net disposal proceeds and the carrying amount of the asset, and are recognized in the statement of profit or loss under other operating income or other operating expenses, as appropriate.

2.19 Hedge accounting

Hedge accounting recognizes results of offsetting changes in fair value of the hedging instrument and the hedged item, which influence the statement of profit or loss. In accordance with the accepted principles of hedge accounting, the Bank designates certain derivatives as a hedge of fair value and future cash flows of specific assets under condition that certain criteria given in IAS 39 are met. Hedge accounting is used by the Bank for hedging relationship, when all the following criteria are met:

- at the time of hedge setting set, hedging relationship, as well as the goal of the Bank risk management and strategy of setting the hedge were formally designated and documented. The documentation contains identification of hedging instrument, hedged item or the transaction, the nature of the hedged risk and the way Bank will evaluate the effectiveness of the hedging instrument in offsetting the exposure to changes in the fair value of the hedged item or cash flows connected with the hedged risk;
- it is expected that hedge relationship will be highly effective in offsetting changes in fair value (or cash flows) resulting from the hedged risk, in accordance with originally documented strategy of risk management, concerning this specific hedge relationship,
- in case of cash flow hedge, a planned transaction, which is a subject of the hedge, must be highly probable and must be subjected to the risk of changes in cash flows, which as a result may influence the statement of profit or loss;
- the effectiveness of the hedge can be measured reliably, i.e. the fair value or the cash flows, connected with the hedged item and resulting from the hedged risk, as well as the fair value of hedging instrument, can be measured reliably;
- the hedge is constantly assessed and its high effectiveness is approved in all reporting periods, on which the hedge has been established.

Cash flow hedge, meeting the conditions of hedge accounting, are recognized by the Bank in the following way:

- the effective part of the profit or loss connected with the hedging instrument is directly recognized in equity;
- the ineffective part of the profit or loss connected with the hedging instrument is recognized in the statement of profit or loss.

The net result on the interest income corrects the result of the hedged positions – shown in interest income from preferential credits.

2.20 Financial liabilities valued at amortized cost

Financial liabilities – other than liabilities at fair value through profit and loss – are valued after initial recognition at amortized cost using the effective interest method. If it is not possible to estimate the schedule of cash flows, and thus calculate the effective interest rate, liability is valued at the amount due and receivable.

2.21 Provisions

Provisions are charged when the Bank has a present obligation (legal or constructive) as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Where the Bank expects some or all of the provision costs to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to provision is presented in the net of an reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the estimated future cash flows to present value, using a gross discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

The Bank recognizes a restructuring provision for documented costs of restructuring. The provision is created on the basis of a detailed, formalized and announced restructuring plan. The restructuring provision does not include future operating expenses.

2.22 Operating lease

At the conclusion of the contract, the Bank assesses whether an agreement contains lease. The assessment is made based on the substance of the contract and requires the assessment, whether:

- fulfilment of the contract depends on the use of specific asset or assets, and
- a contract conveys the right to use an asset.

An operating lease is a temporary transfer of investment property to use. An agreement is classified as an operating lease if it does not transfer substantially all the risks and rewards as a result of ownership of the leased asset.

All the agreements concluded so far are operating lease agreements. All the lease payments paid under the operating lease agreements are recognized as costs on a straight-line basis over lease term. If a lease agreement is terminated before the end of the lease term, the potential payment owed to the lessor by way of a contractual penalty increases the costs of the period in which the agreement was terminated.

2.23 Financial guarantees

After initial recognition, financial guarantees are recognized at the higher of:

- the value determined in accordance with IAS 37 *Provisions, contingent liabilities and contingent assets*, where the value of the provision for contingent liabilities arising from issued guarantees relates to the assessed value of future losses in the amount of the estimated current/ present value of future losses from unrealized receivables from guarantee realization;
- the initial value, less revenues recognized in accordance with IAS 18 *Revenues*.

2.24 Employee benefits

The Bank creates a provision for future liabilities towards employees in respect of jubilee bonuses, retirement and pension benefits and unused annual holidays. These provisions are created using the actuarial method, as described in Note 35 to these financial statements.

The Bank employees are entitled to the following employee benefits:

2.24.1 Retirement, pension and death benefits

Retirement benefits, which are post-employment benefits, are due to those employees who have retired, or have become entitled to disability benefits. The years of service used to calculate these benefits cover employment period with all employers based on employment contracts.

2.24.2 Provisions for unused holidays

Provision for unused holidays is calculated as the product of the average daily remuneration of the given employee and the number of his/her unused annual leave days as at the reporting date. Provision for unused holidays is presented in ‘Other liabilities’.

2.24.3 Benefits resulting from program of variable components of remuneration

The Bank has implemented program of variable components of remuneration, which is directed to: persons holding managerial positions having significant influence on the risk profile of the Bank (in order to fulfil the guidelines under Resolution No. 258/2011 of the Financial Supervision Authority).

The basis for determining the variable remuneration is evaluation of performance of employees covered by the program.

The benefits of the program are executed in two variants:

- part paid in cash, and
- part granted in the form of phantom shares entitling to receive cash, which final amount depends on the share price of BGŻ S.A. (i.e.: the median of closing prices of the Bank's shares on the Warsaw Stock Exchange during the relevant period).

The cash part of benefits is paid:

- in non-deferred part - immediately after year of work, for which evaluation of employees' performance is made,
- in deferred part - payments shall be made after deferral periods.

In terms of the benefits provided under the first variant, the verification of the amount of variable remuneration is made during a deferral period in accordance with the assumptions of the program.

Part of the payment in cash is recognized in accordance with the method of forecasted unit rights and is settled during the period of employees acquisition of rights to benefits (i.e., both in the assessment period understood as a year of work, for which employees receive a benefit, and in the period of the postponement of the relevant parts of this benefit). The value of the benefit is recognized as a liability to employees in the statement of profit or loss.

In the case of benefits granted in the form of phantom shares, annual term of holding of shares, which applies to both part of the year award as well as deferred part of the benefit on rules similar to cash part (i.e. for annual, two years, three years periods) is applicable. During the holding period the employee, who has been granted a benefit, cannot perform the rights associated with phantom shares granted.

The fair value of the phantom shares determined in accordance with accepted principles (i.e., based on estimates taking into account the reduction factor) is allocated over the vesting period. The value of the benefit is recognized as a liability to employees in the correspondence with the statement of profit or loss.

2.25 Share capital

2.25.1 Share issued cost

Costs directly related to the issue of new shares, net of income tax, if any decrease the amount of proceeds from the issue of shares recognized in equity.

2.25.2 Own shares

When the Bank's own shares are re-acquired by the Bank, the amount paid reduces the equity, as treasury shares until share cancellation. In the event of a disposal or re-allocation of these shares, the amount received is recognized in equity.

2.26 Statutory reserve capital

Statutory reserve capital consists of deductions made from the net profit for the year or from other sources.

Statutory reserve capital is allocated to absorb the Bank's accounting losses or for other purposes, including distribution in the form of dividends payout to shareholders. The Annual General Meeting decides on the appropriation of the statutory reserve capital.

2.27 Other reserve

The Bank may create a special fund for unidentified risks from all or part of the general banking risk reserve. This reserve can only be used to absorb the Bank's accounting losses.

Other reserves include a reserve, which is created as a result of the revaluation of financial assets available for sale.

2.28 General banking risk reserve from net profit distribution

The general banking risk reserve was established in accordance with the Banking Law dated 29 August 1997 from the net profit for the year. The general banking risk reserve can be appropriated only with the approval of the shareholders at the General Shareholders Meeting of the Bank. Fund of general banking risks is presented in the financial statements under "Other reserve capital".

2.29 Trust activities

Bank conducts trust activities in the field of Polish and foreign securities and servicing investment and open-end pension funds.

Biuro Maklerskie BGŻ S.A. conducts trust activities in the field of servicing client securities accounts.

Assets under management within the trust activities are not recognized in these financial statements, as they do not meet the definition of the Bank's assets.

2.30 Cash and cash equivalents

For statement of cash flow purposes, cash and cash equivalents include items due within three months from acquisition date, including cash on hand and balances of unrestricted use (current account with the Central Bank), the obligatory reserve account and amounts due from other banks (including nostro accounts).

3 Major estimates and judgments made in connection with application of accounting policies

Preparation of financial statement in accordance with IFRS UE requires from the Management Board making judgments, estimates and assumptions which influence the application of accounting policies and presented assets, liabilities, income and expenses, of which actual values may be different than estimated.

The Bank makes estimates and adopts assumptions that affect the value of the assets and liabilities recognized in the following period. The estimates and assumptions, which are subject to continuous valuation, are based on historical experience and other factors, including expectations regarding future developments which, in a given situation, appear justified.

a) Impairment of loans and advances

According to IFRS, the following financial assets are assessed for impairment: financial assets carried at amortized cost, financial assets carried at cost and financial assets available-for-sale, which are not measured to fair value. The Bank assesses the impairment of financial assets on an individual basis and using the collective (group) approach. Individual assessment is performed on assets classified by the Bank as individually significant.

<u>Assessment of the impairment of individually significant assets</u>

Financial assets are assessed for whether or not there is an objective evidence to show that they are impaired. An individual assessment is carried out by the Bank's employees on individually significant financial assets, and involves an individual impairment review of the financial assets. The individual assessment of impairment involves an estimate of the anticipated future cash flows, and the amount of the impairment loss is measured as the difference between the current (carrying) amount of an individually significant financial asset, and the value of any future cash flows to be derived from that financial asset, discounted using the effective interest rate from the moment of impairment recognition. Cash flows from collateral are included in the evaluation of future cash flows.

<u>Collective (group) assessment</u>

Following assets are covered by collective assessment:

- classified as assets individually insignificant, for which objective impairment trigger was identified, and
- assets individually significant and individually insignificant, for which no objective impairment trigger was indentified.

The first group contains exposures for which, an impairment trigger of hard nature has been identified, i.e. delay in payment of an significant amount of an installment exceeding 90 days or an impairment trigger of soft nature, such as financial difficulties of the customer causing the lack of timely debt servicing in accordance with its schedule of debt repayments. For this kind of exposures, impairment allowance is created by collective method (so-called collective impairment). The amount of the impairment allowance depends on the type of loan exposure, historically observed levels of recoveries by the Bank after the recognition of impairment and delay in payment.

The second group of collectively assessed exposures includes all individually significant, and individually insignificant exposures, with no objective impairment trigger identified. For this group, IBNR impairment allowance (incurred but not reported loss) is created. The amount of IBNR is dependent on the amount of probability parameters of default (PD-probability of default), the coefficients of recoveries from defaulted liability (RR - recovery rate), the conversion factors for off-balance liabilities for balance receivables (CCF - credit conversion factor) and the period of identification of the impairment of the financial asset (LIP - loss identification period).

The amount of write-offs estimated by the collective method, both for individually insignificant exposures with an objective impairment trigger recognized and individually significant and insignificant exposures without an objective impairment trigger recognized is estimated by the statistical methods for defined, homogenous from the risk credit point of view, exposures portfolio. Homogenous exposures portfolios are created taking into account customers segments, credit products types and, for the needs of IBNR write-off estimation, classes of delay in repayment, which do not exceed 90 days, and - for institutional clients with internal rating of the Bank - credit rating assigned to the client. The criteria for homogenous credit portfolios separation applied by the Bank are supposed to group exposures in possibly the most detailed way reflecting credit risk profile and, in the result, the most objective and adequate estimation of write-offs level for the impairment of financial assets.

Probability parameters of default (PD - probability of default), the coefficients of recoveries from defaulted liability (RR - recovery rate) are updated on a monthly basis, in accordance with assessment of impairment methodology in the Bank. For the assessment of these parameters, statistical analysis of historical data and observable monthly credit exposures' migration are used. The value of CCF and LIP is verified and updated annually, under the regular assessment of those parameters in accordance with the rules applied by the Bank. In case of CCF parameters, the Bank analyzes the percent of granted liabilities, which are converted into balance exposure during LIP period. LIP parameters are settled based on time analysis, which elapses from the moment of evidence of impairment recognition to the moment of actual impairment reporting, which in turn is strongly dependent on the frequency of credit exposure monitoring done by the Bank. The Bank uses different LIP parameters for given exposure portfolio depending on the results from analysis conducted.

When dividing exposures into exposures with an objective impairment trigger identified and exposures without an objective impairment trigger, the Bank takes into account the phenomenon of quarantine, according to which the loan with objective impairment trigger may be re-classified to the group without an objective impairment trigger identified only when the client timely serves his debt (no amounts past due) by the specified number of months. Required quarantine period varies depending on the type of impairment trigger, which was reported for a given credit exposure. The length of the quarantine period is determined by the Bank based on historical data, allowing an assessment time that a client needs to return to the path of timely debt service, but in order to reduce the risk of so-called re-default, i.e. a situation of an objective impairment trigger identification, the Bank shall apply the long, conservatively established quarantine periods.

The results of estimates of impairment allowances for financial assets using statistical models in the collective method of impairment evaluation, are subject to periodic historical verification (so-called backktest). Parameters used to estimate impairment losses and statistical models are also covered by management model process, for which inter alia, the rules of creation, approval, monitoring and validation, and verification of historical models are described. Validation of the models and parameters as well as a historical verification of impairment allowances / provisions set under the collective method is carried out not less than once a year. Additionally, the process of estimating impairment losses is covered by a periodical functional control and is subject to independent verification by the external auditor of the Bank.

In November 2013, based on review of the values of parameters used to determine the level of impairment allowances, the Bank has modified chosen parameters of the model. The implemented changes resulted in:

- shortening the period of historical observations to estimate PD parameters for corporate customers subject to the accounting law, to reflect more accurately the current economic situation and the level of credit risk taken by the Bank,
- changing CCF parameters for off-balance exposures, in order to better reflect the expected conversion of off-balance sheet liabilities into balance receivables for selected groups of exposures / credit products, and
- extending LIP for selected loan portfolios, based on the observations of time shaping that elapses from the moment of recognition of impairment trigger until the actual reporting of the impairment trigger and the changes in the approach and principles for credit exposures monitoring.

b) Fair value of derivative financial instruments (derivatives)

The fair value of financial instruments not listed on active markets is determined using valuation techniques (e.g. pricing models). These methods are assessed and reviewed on a regular basis by qualified independent employees, i.e., employees not involved in developing these methods. All models are approved before implementation, and adjusted to ensure that the results obtained reflect the factual data and comparable market prices. The models that the Bank currently applies are based exclusively on observable data obtained from the Reuters and/or Bloomberg information systems. Derivatives are valued based on generally acceptable models. Linear instruments are valued based on discounted cash flow method, simple (vanilla) options are valued based on the Black-Scholes model. Other options included in the structured deposits are measured either by decomposition on vanilla options or through Monte Carlo simulations.

Adjustment of CVA / DVA is estimated for all living derivatives for a given day. The adjustment is estimated based on the forecasted future exposure to a given instrument, the rating of the counterparty and complex / adopted hedges.

c) Securities

Securities for which there is no liquid market are valued at the discounted cash flow model. In case of equity securities classified by Level 3 valuation, an unobservable parameter is the credit risk spread in the amount of market margin for instruments with similar characteristics.

d) Impairment of property, plant and equipment

At the end of each reporting period, the Bank assesses the existence of evidence indicating impairment of property, plant and equipment. If such evidence is identified, the Bank shall estimate a recoverable amount. While estimating value in use of property, plant and equipment some assumptions referring to estimations of amounts and dates of future cash flows that the Bank can achieved from particular asset and other circumstances need to be made. While estimating fair value less costs to sell the Bank takes into account available market data or valuations made by independent experts, which in principle are also based on estimations.

e) Provision for retirement benefit

Provisions for retirement benefit were estimated using actuarial methods by independent actuary. All assumptions adopted for calculating provision are updated at the end of each financial year.

- in PLN thousands

4 Net interest income

	12 months ended 31.12.2013	12 months ended 31.12.2012
Interest income		
Loans and advances to banks	32 290	42 890
Loans and advances to customers in current accounts	275 191	326 276
Loans and advances to customers, in this:	1 236 580	1 482 437
– corporate	393 493	532 569
– households	827 248	926 293
– budget entities	11 813	15 709
– other entities	4 026	7 866
Hedging instruments	24 424	(1 154)
Debt securities, in this:	344 585	304 467
– held for trading	84 121	69 540
– available for sale	260 464	234 927
	1 913 070	**2 154 916**
Interest expense		
Amounts due to banks	(78 055)	(74 819)
Debt securities issued	(79 598)	(107 548)
Amounts due to customers:	(737 926)	(952 744)
– corporate	(139 305)	(220 054)
– households	(454 888)	(581 105)
– budget entities	(19 475)	(34 626)
– other entities	(124 258)	(116 959)
	(895 579)	**(1 135 111)**
Net interest income	**1 017 491**	**1 019 805**

In 2013 ,the total interest income calculated using the effective interest rate method with respect to financial assets not measured at fair value through profit or loss, is PLN 1 501 323 thousand (PLN 1 789 689 thousand for the 12-month period ended 31 December 2012), while the interest expense calculated using the effective interest rate with respect to financial liabilities not measured at fair value through profit or loss is PLN 895 579 thousand (PLN 1 135 111 thousand for the 12-month period ended 31 December 2012).

Interest income includes interest on financial assets assessed individually and on a group basis, for which impairment loss was indentified. Such interest is included in the interest income for 2013 amounts to PLN 114 045 thousand and for 2012 amounted to PLN 117 870 thousand.

- in PLN thousands

5 Net fee and commission income

	12 months ended 31.12.2013	12 months ended 31.12.2012
Fee and commission income		
– loans and advances	95 877	109 934
– settlements	17 563	20 106
– account maintenance	91 803	92 550
– guarantee commitments	10 557	11 462
– brokerage operations	14 810	11 076
– payment cards	82 107	73 972
– insurance activity	15 101	18 437
– other	5 894	8 577
	333 712	**346 114**
Fee and commission expense		
– loans and advances	(735)	(788)
– payment cards	(33 300)	(24 303)
– insurance activity	(13 598)	(13 798)
– other	(9 587)	(9 486)
	(57 220)	**(48 375)**
Net fee and commission income	**276 492**	**297 739**

Net commission income for 2013 includes PLN 14 810 thousand arising from fiduciary activities, while for the year 2012 it amounted to PLN 11 076 thousand.

Net commission income includes fee and commission income, which relate to assets and liabilities that are not measured at fair value resulting in the valuation recognized in the income statement for the year 2013 in the amount of PLN 202 781 thousand., while for the year 2012 in the amount of PLN 220 921 thousand and commission expenses for the year 2013 in the amount of PLN 14 333 thousand and for the year 2012 in the amount of PLN 14 586 thousand.

6 Dividend income

	12 months ended 31.12.2013	12 months ended 31.12.2012
Available for sale financial assets	2 848	3 416
	2 848	**3 416**

7 Net trading income

	12 months ended 31.12.2013	12 months ended 31.12.2012
Debt instruments	(13 226)	15 280
Derivative financial instruments	22 056	(143 626)
Foreign currency exchange result	71 594	226 913
Net trading income	**80 424**	**98 567**

- in PLN thousands

8 Net investing income

During the year, the Bank did not reclassify any of the financial assets carried at amortized cost to financial assets at fair value.

	12 months ended 31.12.2013	12 months ended 31.12.2012
Available for sale financial assets	39 223	43 131
Other debt securities	-	198
Net impairment losses on financial assets and contingent liabilities	(7 321)	-
Total	**31 902**	**43 329**

9 Other operating income

	12 months ended 31.12.2013	12 months ended 31.12.2012
Sales of goods and services	9 076	9 804
Release of provisions for litigation and claims, and other liabilities	9 251	5 965
Recovery of debt collection costs	2 114	2 487
Recovered receivables - expired, written off and uncollectible, excluded from the statement of financial position	17 531	6 778
Other	11 641	11 983
Total other operating income	**49 613**	**37 017**

Cash subsidies received by the Bank are accounted systematically as revenue in respective periods to ensure matching principle and to compensate incurred costs. Such donations do not increase the equity directly.

10 Depreciation and amortization

	12 months ended 31.12.2013	12 months ended 31.12.2012
Property, plant and equipment	(51 715)	(51 299)
Intangible assets	(47 502)	(43 219)
Total depreciation and amortization	**(99 217)**	**(94 518)**

11 Net impairment losses on financial assets and contingent liabilities

	12 months ended 31.12.2013	12 months ended 31.12.2012
Loans and advances to banks	37	(9)
Loans and advances to customers	(240 984)	(267 963)
Contingent commitments granted	(11 299)	(1 690)
Total impairment losses on financial assets and contingent liabilities	**(252 246)**	**269 662**

- in PLN thousands

12 General administrative expenses

	12 months ended 31.12.2013	12 months ended 31.12.2012
Personnel expenses (Note 13)	(475 129)	(501 418)
Marketing	(61 225)	(70 162)
IT	(76 067)	(79 941)
Rental expenses	(94 056)	(92 677)
Other non-personnel expenses	(47 770)	(52 768)
External services	(92 864)	(101 032)
Bank Guarantee Fund fee	(29 432)	(24 550)
Polish Financial Supervision Authority fee	(4 104)	(5 433)
Total general administrative expenses	**(880 647)**	**(927 981)**

13 Wages and salaries

	12 months ended 31.12.2013	12 months ended 31.12.2012
Payroll	(379 323)	(398 227)
Salary overheads	(56 482)	(57 997)
Fringe benefits	(5 446)	(8 659)
Provision for restructuring (Note 35)	(7 746)	(16 901)
The costs of the provision for future liabilities for unused holidays and retirement benefits	(8 271)	(1 557)
Costs related to Company Social Benefits Fund	(6 072)	(6 232)
Other	(11 789)	(11 845)
Total employee benefits	**(475 129)**	**(501 418)**

14 Other operating expenses

	12 months ended 31.12.2013	12 months ended 31.12.2012
Sale or liquidation of property, plant and equipment, intangible assets	(2 083)	(1 444)
Impairment charges on other receivables	(2 551)	(7 007)
Provisions for litigation and claims, and other liabilities	(2 658)	(8 438)
Debt collection	(7 556)	(7 693)
Donations made	(3 200)	(3 185)
Other	(3 098)	(2 711)
Total other operating expenses	**(21 146)**	**(30 478)**

- in PLN thousands

15 Income tax expense

	12 months ended 31.12.2013	12 months ended 31.12.2012
Current tax	(26 232)	(39 135)
Adjustment of tax from previous years	1 284	23 969
Deferred tax	(17 086)	(28 958)
Income tax	**(42 034)**	**(44 124)**
Profit before income tax	204 437	178 467
Statutory tax rate	19%	19%
Income tax on gross profit	**(38 843)**	**(33 909)**
Non tax deductible costs:	(4 659)	(9 119)
- Debt write-offs	(2 074)	(6 844)
- Non-tax-deductible overheads	(1 384)	(1 531)
- PFRON	(738)	(744)
- Prudential fee in respect of BFG	(463)	-
Purchased receivables write-offs	(1 461)	(1 853)
Operating risk write-offs	(521)	(1 124)
Write-offs adjusting receivables	(531)	(801)
Dividend tax	(541)	(649)
Technology relief	1 554	2 913
Other differences	2 968	418
Charge / relief of the financial result of the Bank due to income tax	**(42 034)**	**(44 124)**

16 Earnings per share

	12 months ended 31.12.2013	12 months ended 31.12.2012
Basic:		
Earnings attributable to the Bank's shareholders	162 403	134 343
Weighted average number of ordinary shares (in units)	51 136 764	45 519 278
Basic earnings per share (presented in PLN per share)	3.18	2.95
Diluted earnings per share (presented in PLN per share)	3.18	2.95

Diluted earnings per share are equal to basic earnings per share because there are no elements resulting in the dilution.
Basic earnings per share is calculated as the quotient of earnings attributable to the Bank's shareholders and the weighted average number of ordinary shares outstanding during the year; excluding ordinary shares re-acquired by the Bank and recognized as 'own shares'.

- in PLN thousands

17 Cash and balances with the Central Bank

	31.12.2013	31.12.2012
Cash in hand (treasury)	713 043	865 271
Cash in current account	904 670	1 241 386
Cash and balances with the Central Bank	**1 617 713**	**2 106 657**

During the day, the Bank may use the obligatory reserve account funds for current monetary settlements, on the basis of instructions placed with the National Bank of Poland. It must, however, ensure that the average monthly balance on that account complies with the amount arising from the obligatory reserve declaration.

The funds on the obligatory reserve account bear interest of 0.9 of the rediscount rate for bills of exchange. As at 31 December 2013, the interest rate for funds on the obligatory reserve account was 2.475% (as at December 2012 it was 4.05%).

The balance of cash and resources in the Central Bank contains an obligatory reserve held on NBP (the National Bank of Poland). The reserve declared to be maintained in December 2013 amounted to PLN 896 724 thousand (as of December 2012: PLN 924 313 thousand).

The Bank must maintain an average cash balance in month above the declared obligatory reserve.

18 Loans and advances from banks

	31.12.2013	31.12.2012
Current accounts	130 453	91 177
Interbank placements	128 563	191
Loans and advances	11 325	13 679
Total loans and advances to banks (gross)	**270 341**	**105 047**
Impairment allowances on loans and advances to banks	(584)	(1 012)
Total loans and advances to banks (net)	**269 757**	**104 035**

As at 31 December 2013, variable interest rate loans and placements with other banks amounted to a total of PLN 10 867 thousand (2012: PLN 12 647 thousand) while those of fixed interest rate as at 31 December 2013 PLN 259 474 thousand (2012: 92 400 thousand).

Movements in provisions (impairment allowances) for amounts due from other banks are as follows:

	12 months ended 31.12.2013	12 months ended 31.12.2012
Impairment allowances on loans and advances to banks at the beginning of the period	**1 012**	**1 041**
Impairment charges	135	273
Release of impairment charges	(172)	(264)
Write-off	(408)	-
Other changes	17	(38)
Impairment allowances on loans and advances to banks at the end of the period	**584**	**1 012**

- in PLN thousands

Amounts due from other banks assessed individually and collectively

31.12.2013	Assessed individually with impairment loss	Assessed collectively	Total
Current accounts	-	130 453	130 453
Interbank placements	-	128 563	128 563
Loans and advances	457	10 868	11 325
Total loans and advances to banks (gross)	**457**	**269 884**	**270 341**
31.12.2012			
Current accounts	-	91 177	91 177
Interbank placements	-	191	191
Loans and advances	908	12 771	13 679
Total loans and advances to banks (gross)	**908**	**104 139**	**105 047**

Impairment losses on amounts due from other banks, classified as individually and collectively assessed

	31.12.2013	31.12.2012
Assessed individually	405	827
Assessed collectively	179	185
Total impairment allowances	**584**	**1 012**

Gross amounts due from other banks, by maturity date

	31.12.2013	31.12.2012
Up to 1 month	259 389	91 998
From 1 month to 3 months	5	1 144
From 3 months to 1 year	50	62
From 1 year to 5 years	9 396	9 704
Over 5 years	1 501	2 139
Total impairment allowances on loans and advances to banks grouped by individual and collective assessment	**270 341**	**105 047**

19 Reverse repo transactions

	31.12.2013	31.12.2012
Receivables from banks	232 882	-
Receivables from customers	76 373	104 369
Total reverse repo transactions	**309 255**	**104 369**

- in PLN thousands

20 Debt securities held for trading

	31.12.2013		31.12.2012	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Securities issued by government:				
- T-bonds	1 018 701	271 288	219 051	72 005
Total debt securities held for trading	**1 018 701**	**271 288**	**219 051**	**72 005**
of which: valued using the market quotation method	*1 018 701*	*271 288*	*219 051*	*72 005*

Change in held for trading financial assets appears as follows:

	12 months ended 31.12.2013	**12 months ended 31.12.2012**
As at 1 January	**219 051**	**1 632 434**
Purchase of securities	86 409 922	125 523 796
Redemption of securities	(46 101)	(518 938)
Disposal of securities	(85 571 296)	(126 436 078)
Change of re-measurement to fair value	(832)	2 354
Change in discount and premium adjustment, interest due, FX differences	7 957	15 483
As at 31 December 2013	**1 018 701**	**219 051**

Held for trading financial assets (gross amount), by maturity date

	31.12.2013	**31.12.2012**
Up to 1 month	28 570	-
From 1 month to 3 months	-	29 896
From 3 months to 1 year	199 251	-
From 1 year to 5 years	515 110	89 140
Over 5 years	275 770	100 015
TOTAL	**1 018 701**	**219 051**

- in PLN thousands

21 Derivative financial instruments

The fair values of owned derivatives are presented in the table below:

31.12.2013	Nominal value	Fair value Assets	Fair value Liabilities
Trading derivatives			
Currency derivatives:			
- Foreign Exchange Spot (FX Spot)	194 774	47	(47)
- Non-deliverable Forward (NDF)	353 693	4 350	(3 245)
- Foreign Exchange Forward (FX Forward)	297 350	296	(2 462)
- Currency Swaps (FX Swap)	13 103 284	111 478	(95 744)
- OTC currency options	136 016	4 743	(2 845)
Total OTC currency derivatives	**14 085 117**	**120 914**	**(104 343)**
Interest rate derivatives:			
- Interest Rate Swaps (IRS)	18 831 771	209 080	(210 606)
- Currency Interest Rate Swaps (CIRS)	985 456	6 454	-
- Forward Rate Agreements (FRA)	656 263	176	(61)
- OTC interest rate options	334 517	10 059	(8 372)
- Other	437 265	863	(543)
Total OTC interest rate derivatives	**21 245 272**	**226 632**	**(219 582)**
OTC options	239 257	14 668	(11 997)
Total interest rate derivatives in trade	**239 257**	**14 668**	**(11 997)**
OTC options	14 615	1 021	(1 021)
OTC commodity swaps	1 379	25	(7)
OTC commodity derivatives	**15 994**	**1 046**	**(1 028)**
TOTAL	**35 585 640**	**363 260**	**(336 950)**
of which: - valued using the market quotation method	-	-	-
- valued using model-based method	*35 585 640*	*363 260*	*(336 950)*

- in PLN thousands

31.12.2012	Nominal value	Fair value Assets	Fair value Liabilities
Trading derivatives			
Currency derivatives:			
- Foreign Exchange Spot (FX Spot)	402 164	328	(430)
- Non-deliverable Forward (NDF)	583 560	10 424	(4 138)
- Foreign Exchange Forward (FX Forward)	434 854	709	(2 546)
- Currency Swaps (FX Swap)	6 653 110	24 873	(22 879)
- OTC currency options	102 992	2 342	(1 967)
Total OTC currency derivatives	**8 176 680**	**38 676**	**(31 960)**
Interest rate derivatives:			
- Interest Rate Swaps (IRS)	19 910 109	324 356	(280 164)
- Currency Interest Rate Swaps (CIRS)	711 728	4 019	(48)
- Forward Rate Agreements (FRA)	7 200 000	4 301	(7 170)
- Other	185 619	439	(142)
Total OTC interest rate derivatives	**28 007 456**	**333 115**	**(287 524)**
OTC options	116 600	6 796	(4 886)
Total OTC derivatives based on equity securities	**116 600**	**6 796**	**(4 886)**
OTC options	14 743	1 800	(1 800)
OTC commodity swaps	7 436	86	(45)
OTC commodity derivatives	**22 179**	**1 886**	**(1 845)**
TOTAL	**36 322 915**	**380 473**	**(326 215)**
of which: - valued using the market quotation method	-	-	-
- valued using model-based method	*36 322 915*	*380 473*	*(326 215)*

- in PLN thousands

Fair value of BGŻ S.A. derivatives per maturities

31.12 2013	Fair value of asset						Fair value of liability					
	Total	<= 1 month	> 1 month <= 3 months	> 3 months <= 12 months	> 1 year <= 5 years	> 5 years	Total	<= 1 month	> 1 month <= 3 months	> 3 months <= 12 months	> 1 year <= 5 years	> 5 years
Derivatives												
Currency derivatives:												
– FX Spot transactions	**47**	47	-	-	-	-	**(47)**	(47)	-	-	-	-
– NDF transactions	**4 350**	846	1 155	2 349	-	-	**(3 245)**	(567)	(896)	(1 782)	-	-
– FX Forward transactions	**296**	190	100	6	-	-	**(2 462)**	(674)	(568)	(1 106)	(114)	-
– FX swap contracts	**111 478**	32 351	7 099	72 028	-	-	**(95 744)**	(1 014)	(5 174)	(89 556)	-	-
– FX options purchased and sold in FX transactions	**4 743**	-	223	-	4 520	-	**(2 845)**	-	(136)	-	(2 709)	-
Total currency derivatives from OTC transactions	**120 914**	**33 434**	**8 577**	**74 383**	**4 520**	**-**	**(104 343)**	**(2 302)**	**(6 774)**	**(92 444)**	**(2 823)**	**-**
Interest rates derivatives												
– interest rate swap contracts	**209 080**	10 849	15 612	53 280	95 001	34 338	**(210 606)**	(12 908)	(422)	(67 505)	(93 977)	(35 794)
– inter-currency interest rate swap contracts	**6 454**	5 987	-	-	467	-	**-**	-	-	-	-	-
– FRA contracts	**176**	-	-	176	-	-	**(61)**	-	-	(61)	-	-
– OTC options for interest rates	**10 059**	-	815	5 226	4 018	-	**(8 372)**	-	(824)	(4 323)	(3 225)	-
– other interest rate contracts	**863**	863	-	-	-	-	**(543)**	(543)	-	-	-	-
Total interest rate derivatives from OTC transactions:	**226 632**	**17 699**	**16 427**	**58 682**	**99 486**	**34 338**	**(219 582)**	**(13 451)**	**(1 246)**	**(71 889)**	**(97 202)**	**(35 794)**
Options purchased and sold in OTC transactions	**14 668**	-	2 773	2 072	9 823	-	**(11 997)**	-	(2 826)	(2 012)	(7 159)	-
Total equity derivatives from OTC transactions	**14 668**	**-**	**2 773**	**2 072**	**9 823**	**-**	**(11 997)**	**-**	**(2 826)**	**(2 012)**	**(7 159)**	**-**
Options purchased and sold in OTC transactions	**1 021**	-	-	1 021	-	-	(1 021)	-	-	(1 021)	-	-
FX swaps purchased and sold in OTC transactions	**25**	-	-	25	-	-	**(7)**	-	-	(7)	-	-
Total commodity derivatives from OTC transactions	**1 046**	**-**	**-**	**1 046**	**-**	**-**	**(1 028)**	**-**	**-**	**(1 028)**	**-**	**-**
TOTAL	**363 260**	**51 133**	**27 777**	**136 183**	**113 829**	**34 338**	**(336 950)**	**(15 753)**	**(10 846)**	**(167 373)**	**(107 184)**	**(35 794)**

- in PLN thousands

31.12 2012	Fair value of asset Total	<= 1 month	> 1 month <= 3 months	> 3 months <= 12 months	> 1 year <= 5 years	> 5 years	Fair value of liability Total	<= 1 month	> 1 month <= 3 months	> 3 months <= 12 months	> 1 year <= 5 years	> 5 years
Derivatives												
Currency derivatives:												
– FX Spot transactions	**328**	328	-	-	-	-	**(430)**	(430)	-	-	-	-
– NDF transactions	**10 424**	5 023	2 128	3 273	-	-	**(4 138)**	(451)	(940)	(2 738)	(9)	-
– FX Forward transactions	**709**	268	399	42	-	-	**(2 546)**	(381)	(1 284)	(802)	(79)	-
– FX swap contracts	**24 873**	5 339	19 534	-	-	-	**(22 879)**	(21 523)	-	(1 356)	-	-
– FX options purchased and sold in FX transactions	**2 342**	14	51	2 277	-	-	**(1 967)**	-	(51)	(1 916)	-	-
Total currency derivatives from OTC transactions	**38 676**	**10 972**	**22 112**	**5 592**	**-**	**-**	**(31 960)**	**(22 785)**	**(2 275)**	**(6 812)**	**(88)**	**-**
Interest rates derivatives												
– interest rate swap contracts	**324 356**	39 301	44 595	37 876	154 577	48 007	**(280 164)**	(7 478)	(9 601)	(47 634)	(163 594)	(51 857)
– CIRS contracts	**4 019**	-	-	333	2 818	868	**(48)**	-	-	(44)	(4)	-
– FRA contracts	**4 301**	828	3 391	82	-	-	**(7 170)**	(1 299)	(5 322)	(549)	-	-
– other interest rate contracts	**439**	439	-	-	-	-	**(142)**	(142)	-	-	-	-
Total interest rate derivatives from OTC transactions:	**333 115**	**40 568**	**47 986**	**38 291**	**157 395**	**48 875**	**(287 524)**	**(8 919)**	**(14 923)**	**(48 227)**	**(163 598)**	**(51 857)**
Options purchased and sold in OTC transactions	**6 796**	**24**	**-**	**2 287**	**4 485**	**-**	**(4 886)**	**-**	**-**	**(1 521)**	**(3 365)**	**-**
Total equity derivatives from OTC transactions	**6 796**	**24**	**-**	**2 287**	**4 485**	**-**	**(4 886)**	**-**	**-**	**(1 521)**	**(3 365)**	**-**
Options purchased and sold in OTC transactions	**1 800**	**-**	**-**	**-**	**1 800**	**-**	**(1 800)**	**-**	**-**	**-**	**(1 800)**	**-**
FX swaps purchased and sold in OTC transactions	**86**	**-**	**-**	**86**	**-**	**-**	**(45)**	**-**	**-**	**(45)**	**-**	**-**
Total commodity derivatives from OTC transactions	**1 886**	**-**	**-**	**86**	**1 800**	**-**	**(1 845)**	**-**	**-**	**(45)**	**(1 800)**	**-**
TOTAL	**380 473**	**51 564**	**70 098**	**46 256**	**163 680**	**48 875**	**(326 215)**	**(31 704)**	**(17 198)**	**(56 605)**	**(168 851)**	**(51 857)**

Maturity dates:
– for NDF, Fxforward, Fxswap, Currency and index options, IRS, CIRS calculated as the difference between maturity date and carrying date
– for Fxpot, FRA, securities on off-balance calculated as between maturity date and carrying date

- in PLN thousands

22 Hedge accounting

Starting from 2012, the Group has been applying cash flow hedge accounting.

Description of hedging relationship	The Bank hedges a portion of the interest rate risk arising from interest on preferential loans with subsidies from The Agency for Restructuring and Modernization of Agriculture (ARiMR) above rediscount rate of NBP, resulting from the multiplier effect of the interest rate.
Hedged items	Highly probable future cash flows arising from a portion of preferential loans portfolio.
Hedging instruments	see table below
Presentation of the result on the hedged and hedging transactions	Effective part of change in the valuation to fair value of hedging instruments is recognized in Revaluation reserves (Other reserve capital), while ineffective part of the change is recognized in the Result on hedge accounting. Interest on both the hedged and the hedging items is recognized in Interest income.
The period in which hedged cash flows are expected	Up to April 2014

Hedging instruments:

PLN IRS Transactions	Nominal value	Fair value Assets	Fair value Liabilities
31.12.2013	1 500 000	57 387	-
31.12.2012	1 500 000	69 179	-

Amounts recognized in the income statement and revaluation reserves related to cash flow hedge accounting

	31.12.2013	**31.12.2012**
Revaluation reserves (deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge - gross value)	8 400	21 857
Interest income on hedging derivatives	24 424	(1 154)
Ineffective part of change in fair value of hedging transactions recognized in the Result on hedge accounting	(1 077)	1 233

Change in revaluation reserve for cash flow hedge accounting

	12 months to 31.12.2013	**12 months to 31.12.2012**
As at the beginning of the period	**21 857**	**-**
Deferral - in the revaluation reserve – of changes in fair value of hedging instruments in part recognized as an effective hedge (gross)	12 044	19 470
The amount of deferred changes in fair value of hedging instruments in part recognized as an effective hedge removed from the revaluation reserve and recognized in net interest income	(24 424)	1 154
The ineffective portion of changes in fair value of hedging transactions recognized in the Result on hedge accounting	(1 077)	1 233
As at the end of the period	**8 400**	**21 857**

- in PLN thousands

23 Loans and advances to customers

	31.12.2013	31.12.2012
Current accounts, in this:	4 272 536	4 292 333
- corporate	1 907 354	2 251 740
- households:	2 343 342	2 010 043
- individual customers	103 674	107 615
- individual entrepreneurs	313 552	345 581
- farmers	1 926 116	1 556 847
Non-current loans and advances:	23 277 389	23 135 125
- corporate, in this:	6 928 236	8 068 821
- investment loans	4 238 097	4 850 132
- revolving loans	1 752 067	2 088 980
- households:	15 942 148	14 689 030
- individual customers, in this:	9 465 521	8 867 163
- mortgage loans	8 038 380	7 600 490
- individual entrepreneurs	1 259 146	1 242 443
- farmers	5 217 481	4 579 424
- budget entities	251 572	313 976
- other entities	155 433	63 298
Total loans and advances to customers (gross)	**27 549 925**	**27 427 458**
Impairment allowances	(1 219 565)	(1 069 936)
Total loans and advances to customers (net)	**26 330 360**	**26 357 522**

Preferential loans and advances to corporate, farmers and individual entrepreneurs amounted to PLN 4 601 931 thousand as at 31 December 2013 and PLN 4 208 569 thousand as at 31 December 2012.

The receivables purchased amounted to PLN 231 184 thousand as at 31 December 2013 and PLN 354 991 thousand as at 31 December 2012.

Loans and advances to customers impaired and not impaired

	31.12.2013	31.12.2012
Not impaired exposures (IBNR)		
Gross exposure	25 313 766	25 457 786
Impairment allowances on receivables assessed collectively with no impairment recognized	(100 217)	(77 081)
Net exposure	**25 213 549**	**25 380 705**
Impaired exposures		
Gross exposure	2 236 159	1 969 672
Impairment allowances on receivables assessed collectively and individually	(1 119 348)	(992 855)
Net exposure	**1 116 811**	**976 817**

As at 31 December 2013, receivables at variable interest rate amounted to PLN 26 324 323 thousand (as at 31 December 2012 - PLN 26 241 884 thousand) and receivables at fixed interest rate amounted to PLN 1 225 602 thousand (as at 31 December 2012 - PLN 1 185 574 thousand).

- in PLN thousands

Impairment allowances on loans and advances

	31.12.2013	31.12.2012
Current accounts, in this:	176 542	147 457
- corporate	102 927	78 430
- households:	73 473	68 889
- individual customers	9 684	11 869
- individual entrepreneurs	45 109	38 129
- farmers	18 680	18 891
Non-current loans and advances:	1 043 023	922 479
- corporate, in this:	453 272	389 681
- investment loans	79 684	60 776
- revolving loans	268 907	232 344
- households:	582 435	525 371
- individual customers, of which:	362 829	346 013
- mortgage loans	205 702	181 958
- individual entrepreneurs	90 839	69 761
- farmers	128 767	109 597
- budget entities	260	445
- other entities	7 056	6 982
Total impairment allowances	**1 219 565**	**1 069 936**

- in PLN thousands

Accounting policies and additional explanatory notes

Loans and advances to customers (gross) assessed individually and collectively

31.12.2013	Assessed individually with impairment identified	Assessed collectively	Total
Current accounts, in this:	96 577	4 175 959	4 272 536
- corporate	89 929	1 817 425	1 907 354
- households:	6 648	2 336 694	2 343 342
- individual customers	-	103 674	103 674
- individual entrepreneurs	5 637	307 915	313 552
- farmers	1 011	1 925 105	1 926 116
Non-current loans and advances:	1 166 395	22 110 994	23 277 389
- corporate	856 849	6 071 387	6 928 236
- households:	282 403	15 659 745	15 942 148
- individual customers	90 376	9 375 145	9 465 521
- individual entrepreneurs	83 176	1 175 970	1 259 146
- farmers	108 851	5 108 630	5 217 481
- budget entities	168	251 404	251 572
- other entities	26 975	128 458	155 433
Total loans and advances to customers (gross)	**1 262 972**	**26 286 953**	**27 549 925**

31.12.2012			
Current accounts, in this:	94 792	4 197 541	4 292 333
- corporate	82 481	2 169 259	2 251 740
- households:	12 310	1 997 733	2 010 043
- individual customers	-	107 615	107 615
- individual entrepreneurs	12 204	333 377	345 581
- farmers	106	1 556 741	1 556 847
Non-current loans and advances:	965 196	22 169 929	23 135 125
- corporate	758 678	7 310 143	8 068 821
- households:	199 641	14 489 389	14 689 030
- individual customers	55 483	8 811 680	8 867 163
- individual entrepreneurs	54 493	1 187 950	1 242 443
- farmers	89 665	4 489 759	4 579 424
- budget entities	135	313 841	313 976
- other entities	6 742	56 556	63 298
Total loans and advances to customers (gross)	**1 059 988**	**26 367 470**	**27 427 458**

- in PLN thousands

Impairment losses on loans and advances assessed individually and collectively

31.12.2013	Assessed individually	Assessed collectively	Total
Current accounts, in this:	37 903	138 639	176 542
– corporate	36 910	66 017	102 927
– households:	993	72 480	73 473
– individual customers	-	9 684	9 684
– individual entrepreneurs	993	44 116	45 109
– farmers	-	18 680	18 680
Non-current loans and advances:	466 252	576 771	1 043 023
– corporate	348 189	105 083	453 272
– households:	111 158	471 277	582 435
– individual customers	32 133	330 696	362 829
– individual entrepreneurs	28 413	62 426	90 839
– farmers	50 612	78 155	128 767
– budget entities	99	161	260
– other entities	6 806	250	7 056
Total impairment allowances	**504 155**	**715 410**	**1 219 565**

31.12.2012			
Current accounts, in this:	28 014	119 443	147 457
– corporate	28 014	50 416	78 430
– households:	-	68 889	68 889
– individual customers	-	11 869	11 869
– individual entrepreneurs	-	38 129	38 129
– farmers	-	18 891	18 891
Non-current loans and advances:	394 253	528 226	922 479
– corporate	302 366	87 315	389 681
– households:	85 063	440 308	525 371
– individual customers	22 634	323 379	346 013
– individual entrepreneurs	20 365	49 396	69 761
– farmers	42 064	67 533	109 597
– budget entities	82	363	445
– other entities	6 742	240	6 982
Total impairment allowances	**422 267**	**647 669**	**1 069 936**

Impairment allowances on preferential loans and advances to corporate, farmers and individual entrepreneurs amounted to PLN 98 891 thousand as at 31 December 2013 and PLN 82 590 thousand as at 31 December 2012.

- in PLN thousands

12 months ended 31.12.2013	Amounts due under overdraft facilities	Loans and advances to customers:	corporate customers	households	public sector institutions	other entities	Total
Impairment allowances at the beginning of the period	**147 457**	**922 479**	**389 681**	**525 371**	**445**	**6 982**	**1 069 936**
Allowance recognized	230 350	1 205 909	581 123	623 737	373	676	1 436 259
Allowance reversed	(193 175)	(1 002 100)	(470 591)	(530 383)	(558)	(568)	(1 195 275)
Write-off	(8 135)	(88 308)	(37 798)	(50 476)	-	(34)	(96 443)
Other changes (exchange differences)	45	5 043	(9 143)	14 186	-	-	5 088
Impairment allowances at the end of the period	**176 542**	**1 043 023**	**453 272**	**582 435**	**260**	**7 056**	**1 219 565**

12 months ended 31.12.2012	Amounts due under overdraft facilities	Loans and advances to customers:	corporate customers	households	public sector institutions	other entities	Total
Impairment allowances at the beginning of the period	**120 013**	**762 892**	**246 855**	**502 620**	**674**	**12 743**	**882 905**
Allowance recognized	196 798	1 369 275	578 121	789 792	661	701	1 566 073
Allowance reversed	(155 044)	(1 142 295)	(424 360)	(710 841)	(890)	(6 204)	(1 297 339)
Write-off	(8 163)	(76 550)	(18 630)	(57 920)	-	-	(84 713)
Other changes (exchange differences)	(6 147)	9 157	7 695	1 720	-	(258)	3 010
Impairment allowances at the end of the period	**147 457**	**922 479**	**389 681**	**525 371**	**445**	**6 982**	**1 069 936**

* The creation and release of impairment losses on loans and advances write-offs was presented by turnover due to functional system limitations.
This presentation has no impact on the financial results of the Bank.

- in PLN thousands

In 2013, the Bank concluded four contracts for the sale of loans portfolio. The amount of receivables sold under agreements amounted to PLN 67 011 thousand (the amount of principal, interest and other receivables), covered in a substantial part by the write-offs due to impairment or entirely written off from the balance sheet of the Bank. The contract price of sale of the portfolio was fixed at PLN 5 295 thousand. As a result of these agreements, the Bank decreased by PLN 9 414 thousand write-offs adjusting impairment losses on loans and other receivables. The net impact on the Bank from the sale of the portfolio amounted to PLN 4 027 thousand and is presented in lines: impairment charges and release of impairment charges due to impairment allowances on loans and advances.

Loans and advances (gross) by maturity date

	31.12.2013	31.12.2012
Up to 1 month	317 148	475 347
From 1 to 3 months	514 059	612 443
From 3 to 1 year	2 705 412	3 136 038
From 1 year to 5 years	4 688 298	4 510 251
Over 5 years	15 278 904	14 682 282
Loans past due	4 046 104	4 011 097
Total	**27 549 925**	**27 427 458**

Loans and advances without impairment loss

	31.12.2013	31.12.2012
Loans and advances without impairment	25 313 766	25 457 786
Impaired loans and advanced	242 132	220 236
- expected cash-flows	242 132	220 236
- impaired	174 327	149 917
Gross loans and advances	**25 555 898**	**25 678 022**
Impairment allowances (IBNR)	(100 217)	(77 081)
Net loans and advances	**25 455 681**	**25 600 941**

24 Available for sale financial assets

	31.12.2013	31.12.2012
Debt securities available for sale:	4 820 672	6 863 027
- issued by central banks - NBP bills	1 349 738	3 798 533
- issued by governments - T-bonds	3 441 851	3 033 720
- issued by financial institutions – bonds	5 074	5 118
- issued by budget entities – municipal bonds	24 009	25 656
Equity securities available for sale	5 401	4 530
Total available for sale financial assets	**4 826 073**	**6 867 557**
of which:		
- valued using the market quotation method	*3 446 373*	*3 037 358*
- valued using model-based method	*1 379 700*	*3 830 199*

Valuation of debt securities available for sale is prepared in discounted cash flow model with the use of current market interest rates with consideration of issuer's credit risk corresponding to parameters observed on the market for transactions of the same credit risk and time horizon The valuation does not include assumptions, which cannot be observed directly on the market.

Movements available for sale in financial assets are as follows:

	12 months ended 31.12.2013	12 months ended 31.12.2012
As at 1 January	**6 867 557**	**3 624 750**
Purchase of securities	188 594 255	95 168 031
Re-purchase of securities	(189 787 478)	(90 634 269)
Disposal of securities	(856 040)	(1 636 809)
Change in re-measurement to fair value	(139 492)	230 867
Change in interest due, FX differences, discount and premium adjustments	147 271	114 987
As at 31 December	**4 826 073**	**6 867 557**

The carrying amount of fixed interest rate debt securities classified as available for sale is PLN 4 534 761 thousand (as at 31 December 2012 - PLN 6 828 437 thousand), while that of variable interest rate debt securities is PLN 285 911 thousand (as at 31 December 2013 - PLN 34 590 thousand).

In accordance with the Act on the Bank Guarantee Fund (BFG) from 14 December 1994, as of 31 December 2013 the Bank possessed treasury bills presented in the statement of financial position at the amount of PLN 161 857 thousand (nominal value PLN 165 000 thousand), which constituted security of the supplementary deposit cover fund within BFG and were deposited in a separated account in the National Bank of Poland (NBP) (in 2012 PLN 163 969 thousand of PLN 140 000 thousand nominal value).

Available for sale financial assets (gross amounts) by maturity

	31.12.2013	31.12.2012
Without fixed maturity	5 401	4 530
Up to 1 month	1 354 731	3 808 513
From one month to 3 months	5 074	-
From 3 months to 1 year	88 048	271 087
From 1 year to 5 years	1 456 798	1 332 086
Over 5 years	1 916 021	1 451 341
Total financial assets available for sale	**4 826 073**	**6 867 557**

- in PLN thousands

25 Investments in subsidiaries and associates

	31.12.2013	31.12.2012
In financial sector entities	35 052	42 373
In non financial sector entities	16 593	16 347
Total investments	**51 645**	**58 720**

Shares in subsidiaries and associates as at 31 December 2013

Entity name	Shares purchase price	Write-downs	Carrying amount	BGŻ S.A.'s % share in the entity's equity
Subsidiary-				
Bankowy Fundusz Nieruchomościowy ACTUS Sp. z o.o.	18 103	(1 510)	16 593	100%
Associate -				
BGŻ Leasing Sp. z o.o.	42 373	(7 321)	35 052	49%
Total	**60 476**	**(8 831)**	**51 645**	**-**

Shares in subsidiaries and associates as at 31 December 2012

Entity name	Shares purchase price	Write-downs	Carrying amount	BGŻ S.A.'s % share in the entity's equity
Subsidiary -				
Bankowy Fundusz Nieruchomościowy ACTUS Sp. z o.o.	17 857	(1 510)	16 347	100%
Associate-				
BGŻ Leasing Sp. z o.o.	42 373	-	42 373	49%
Total	**60 230**	**(1 510)**	**58 720**	**-**

26 Intangible assets

	31.12.2013	31.12.2012
Licenses	131 651	131 644
Other intangible assets	583	618
Expenditures on intangible assets	26 355	20 412
Total intangible assets	**158 589**	**152 674**

- in PLN thousands

12 months ended 31.12.2013	Licenses	Other intangible assets	Expenditure on intangible assets	Total
Carrying value				
As at 1 January	**431 983**	**4 137**	**20 412**	**456 532**
Increases:	*48 771*	*305*	*54 992*	*104 068*
- transfer from/to expenditures	48 771	278	-	49 049
- purchases	-	-	54 992	54 992
- other	-	27	-	27
Decreases:	*(53 055)*	*(119)*	*(49 049)*	*(102 223)*
- transfer from expenditures	-	-	(49 049)	(49 049)
- sale, liquidation, donation, shortage	(53 055)	(119)	-	(53 174)
As at 31 December	**427 699**	**4 323**	**26 355**	**458 377**
ACCUMULATED AMORTIZATION				
As at 1 January	**300 339**	**3 519**	**-**	**303 858**
Movements:	*(4 291)*	*221*	*-*	*(4 070)*
- amortization charge for the year	47 162	339	-	47 501
- sale, liquidation, donation, shortage	(51 453)	(118)	-	(51 571)
As at 31 December	**296 048**	**3 740**	**-**	**299 788**
NET CARRYING AMOUNT				
As at 1 January	**131 644**	**618**	**20 412**	**152 674**
As at 31 December	**131 651**	**583**	**26 355**	**158 589**

12 months ended 31.12.2012	Licenses	Other intangible assets	Expenditure on intangible assets	Total
Carrying value				
As at 1 January	**389 642**	**3 949**	**22 958**	**416 549**
Increases:	*51 819*	*332*	*49 827*	*101 978*
- transfer from/to expenditures	51 819	332	-	52 151
- purchases	-	-	49 827	49 827
Decreases:	*(9 478)*	*(144)*	*(52 373)*	*(61 995)*
- transfer from expenditures	-	-	(52 151)	(52 151)
- sale, liquidation, donation, shortage	(9 478)	(144)	(222)	(9 844)
As at 31 December	**431 983**	**4 137**	**20 412**	**456 532**
ACCUMULATED DEPRECIATION				
As at 1 January	**266 645**	**3 301**	**-**	**269 946**
Movements:	*33 694*	*218*	*-*	*33 912*
- amortization charge for the year	42 857	362	-	43 219
- sale, liquidation, donation, shortage	(9 163)	(144)	-	(9 307)
As at 31 December	**300 339**	**3 519**	**-**	**303 858**
DEPRECIATION WRITE-OFF				
As at 1 January	**-**	**-**	**160**	**160**
Movements	-	-	*(160)*	*(160)*
- write-off release	-	-	(160)	(160)
As at 31 December	**-**	**-**	**-**	**-**
NET CARRYING AMOUNT				
As at 1 January	**122 997**	**648**	**22 798**	**146 443**
As at 31 December	**131 644**	**618**	**20 412**	**152 674**

- in PLN thousands

In reference to intangible assets that are not yet available for use, i.e. are in construction, Bank continuously identifies evidence of impairment. Based on the review of expenses on intangible assets under construction, there was no impairment noted as at 31 December 2013 or 2012.

As at 31 December 2013 and 31 December 2012, the Bank does not have any significant contractual commitments for the acquisition of intangible assets.

27 Property, plant and equipment

	31.12.2013	31.12.2012
Non-current assets, in this:	442 137	454 077
- land and buildings	263 220	269 175
- office equipment	178 917	184 902
Assets under construction	7 002	15 021
Total property, plant and equipment	**449 139**	**469 098**

Movements in tangible fixed assets in 2013 and 2012 are presented below:

12 months ended 31.12.2013	Land and building	Tangible fixed assets	Assets under construction	Total
Carrying value				
As at 1 January	**432 726**	**572 374**	**15 021**	**1 020 121**
Increases:	*5 992*	*36 489*	*34 489*	*76 970*
- transfer from assets under construction	5 992	36 489	-	42 481
- purchases	-	-	34 489	34 489
Decreases:	*(1 736)*	*(41 670)*	*(42 508)*	*(85 914)*
- transfer from assets under construction	-	-	(42 481)	(42 481)
- sale, liquidation, donation, shortage, theft	(1 736)	(41 663)	-	(43 399)
- other	-	(7)	(27)	(34)
As at 31 December	**436 982**	**567 193**	**7 002**	**1 011 177**
ACCUMULATED DEPRECIATION				
As at 1 January	**155 988**	**387 463**	**-**	**543 451**
Movements	*9 918*	*808*	-	*10 726*
- depreciation charge for the year	10 381	41 335	-	51 716
- sale, liquidation, donation, shortage	(463)	(40 520)	-	(40 983)
- other	-	(7)	-	(7)
As at 31 December	**165 906**	**388 271**	**-**	**554 177**
DEPRECIATION WRITE-OFF				
As at 1 January	**7 563**	**9**	**-**	**7 572**
Movements	*293*	*(4)*	-	*289*
-impairment allowance	500	-	-	500
-sale	(206)	-	-	(206)
-other	(1)	(4)	-	(5)
As at 31 December	**7 856**	**5**	**-**	**7 861**
NET CARRYING AMOUT				
Balance as at 1 January	**269 175**	**184 902**	**15 021**	**469 098**
Balance as at 31 December	**263 220**	**178 917**	**7 002**	**449 139**

- in PLN thousands

12 months ended 31.12.2012	Land and building	Tangible fixed assets	Assets under construction	Total
Carrying value				
As at 1 January	**427 559**	**606 529**	**15 642**	**1 049 730**
Increases:	*5 470*	*31 504*	*36 113*	*73 087*
- transfer from assets under construction	5 212	31 444	-	36 656
- purchases	258	-	36 113	36 371
- other	-	60	-	60
Decreases:	*(303)*	*(65 660)*	*(36 734)*	*(102 697)*
- transfer from assets under construction	-	-	(36 656)	(36 656)
- sale, liquidation, donation, shortage, theft	(303)	(65 659)	-	(65 962)
- other	-	(1)	(78)	(79)
As at 31 December	**432 726**	**572 373**	**15 021**	**1 020 120**
ACCUMULATED DEPRECIATION				
As at 1 January	**145 867**	**410 334**	**-**	**556 201**
Movements	*10 121*	*(22 872)*	*-*	*(12 751)*
- depreciation charge for the year	10 278	41 021	-	51 299
- sale, liquidation, donation, shortage	(157)	(63 920)	-	(64 077)
- other	-	27	-	27
As at 31 December	**155 988**	**387 462**	**-**	**543 450**
DEPRECIATION WRITE-OFF				
As at 1 January	**7 564**	**22**	**-**	**7 586**
Movements:	*(1)*	*(13)*	*-*	*(14)*
-other	(1)	(13)		(14)
As at 31 December	**7 563**	**9**	**-**	**7 572**
NET CARRYING AMOUNT				
Balance as at 1 January	**274 128**	**196 173**	**15 642**	**485 943**
Balance as at 31 December	**269 175**	**184 902**	**15 021**	**469 098**

As at 31 December 2013 and 31 December 2012, the Bank does not have any significant contractual commitments for the acquisition of tangible assets.

28 Other assets

	31.12.2013	31.12.2012
Other assets		
– other debtors	81 059	110 054
– interbank and intersystem settlements	7 860	16 999
– prepaid expenses	10 679	5 786
– accrued income	7 184	5 347
– cards settlements	77 854	88 458
– other	1 463	1 905
Total other assets (gross)	**186 099**	**228 549**
Impairment allowances on other receivables	(29 797)	(28 327)
Total other assets (net)	**156 302**	**200 222**

- in PLN thousands

29 Amounts due to banks

	31.12.2013	31.12.2012
Current accounts	61 544	60 886
Term deposits	274 266	372 560
Loans and advances received	2 860 839	3 558 377
Other liabilities	74 765	102 613
Total amounts due to banks	**3 271 414**	**4 094 436**

Interbank deposits are at fixed and variable interest rates.

On 22 April 2011, the Bank and Coöperatieve Centrale Raiffeisen–Boerenleenbank B.A. (Rabobank) entered into an agreement, as a result of which the Bank received CHF 1 008 000 thousand loan for 12 years tenor, in order to finance existing mortgage portfolio denominated in CHF. The facility was disbursed in tranches from 29 April 2011 to 30 September 2011. As at 31 December 2013, the loan capital amounted to PLN 2 441 515 thousand (after early repayment of CHF 90 million in accordance with Annex of 28 May 2013).

The Bank received two loans from the European Bank of Reconstruction and Development (EBOiR) in the amount of EUR 50 000 thousand each. The first loan was disbursed in 2010, whereas the second one in 2011. As at 31 December 2013, the loan capital amounted to PLN 207 360 thousand.

In November 2012, the Bank received a loan from the European Investment Bank (EBI) in the amount of PLN 205 440 thousand (equivalent of EUR 50 million at the exchange rate set by the EBI for 2 days before disbursement of the loan) for a tenor of 10 years. The loan was secured by a guarantee issued by Rabobank. The guarantee agreement is three-sided, i.e. two agreements were signed: between Rabobank and EBI, in which Rabobank guarantees (up to 120% of the loan amount) the repayment of the loan and interest by the Bank in accordance with the schedule, and between Rabobank and the Bank, whereas the Bank agrees to pay the cost of guarantees in the amount of 0.95% on 120% of the outstanding loan amount. As at 31 December 2013, the loan capital amounted to PLN 205 440 thousand.

There have been no breaches of the loan agreements and relevant covenants relating to the financial position of the Bank and its information obligations in both 2013 and 2012.

Amounts due to banks by maturity

	31.12.2013	31.12.2012
Up to 1 month	436 983	506 575
From 1 month to 3 months	38 163	73 418
From 3 months to 1 year	327 307	367 284
From 1 year to 5 years	1 217 919	1 422 387
Over 5 years	1 251 042	1 724 772
Total amounts due to banks	**3 271 414**	**4 094 436**

30 Repo transactions

	31.12.2013	31.12.2012
Due to customers	-	32 341
Total repo transactions	**-**	**32 341**

- in PLN thousands

31 Amounts due to customers

	31.12.2013	31.12.2012
Other financial institutions:	**1 046 953**	**2 537 917**
Current accounts	9 894	9 268
Term deposits	1 037 048	2 528 638
Other liabilities, in this:	11	11
- cash collaterals	-	-
- other	11	11
Individual customers:	**16 377 174**	**15 802 420**
Current accounts	10 100 652	8 439 404
Term deposits	6 208 272	7 351 820
Other liabilities, in this:	68 250	11 196
- cash collaterals	7 965	6 671
- other	60 285	4 525
Corporate:	**8 466 581**	**7 924 618**
Current accounts	4 891 096	3 974 989
Term deposits	3 510 860	3 871 567
Other liabilities, in this:	64 625	78 062
- cash collaterals	63 488	77 184
- other	1 137	878
Of which farmers:	**1 200 404**	**1 009 139**
Current accounts	1 040 784	856 815
Term deposits	152 923	143 693
Other liabilities, in this:	6 697	8 631
- cash collaterals	6 667	8 599
- other	30	32
Budget entities:	**602 066**	**677 074**
Current accounts	458 346	484 830
Term deposits	143 593	192 118
Other liabilities, in this:	127	126
- cash collaterals	127	124
- other	-	2
Total amounts due to customers	**26 492 774**	**26 942 029**

Amounts due to costumers, by maturity

	31.12.2013	31.12.2012
Up to 1 month	19 419 481	17 668 243
From 1 month to 3 months	1 953 129	4 077 666
From 3 months to 1 year	4 041 709	4 856 765
From 1 year to 5 years	1 066 302	326 379
Over 5 years	12 153	12 976
Total amounts due to customers	**26 492 774**	**26 942 029**

- in PLN thousands

32 Debt securities issued

Changes in debt securities issued

	31.12.2013	31.12.2012
Balance at the beginning of the period	**1 852 776**	**2 033 112**
Issuance of certificates of deposit	601 721	4 202 156
Redemption of certificates of deposit and Quatro securities	(1 306 000)	(4 468 205)
Sold discount from certificates of deposit, repurchased interest from certificates of deposit and Quatro securities, commission and other fees on certificates of deposit amortized using EIR	42 660	85 713
Balance of debt securities issued at the end of the period	**1 191 157**	**1 852 776**

In 2008, the Bank signed with three financing banks a number of agreements for issue of bearer bank securities (Certificates of Deposit – 'CDs') in material form, denominated in PLN.
The Bank as the issuer of debt securities entered into the Dealers Agreement and Issuance Agreement for the execution of the Debt Securities Issuance Program ('Program') with Bank Handlowy w Warszawie S.A., Bank Pekao S.A., BRE Bank S.A. and ING Bank Śląski S.A., acting as market makers. The Program assumes multiple issuance of Certificates of Deposit ('CDs') and the Bank's bonds ('bonds') denominated in PLN for the total amount not exceeding PLN 3 500 million. The Bank will issue zero-coupon and coupon CDs for the period no longer than 5 years and zero-coupon and coupon bonds with the maximum maturity of 10 years. The agreements were signed for an indefinite period of time.

The Program is designed to finance current lending activity of the Bank.

The agreements renew and expand by inclusion of bond issuance the Debt Securities Program dated 14 March 2008.

The value of Certificates of Deposits issued equals to PLN 1 184 000 thousand (nominal value) as at 31 December 2013 and PLN 1 877 000 thousand (nominal value) as at 31 December 2012.

33 Subordinated liabilities

According to the annex of 28 May 2013 to the loan agreement of CHF 1 008 million received from Rabobank signed on 22 April 2011, on 3 June 2013, the Bank made an early repayment of CHF 90 million. At the same time, under the new agreement of 28 May 2013, Rabobank provided the Bank with the funds in the form of a subordinated loan for a period of 10 years, i.e. with the bullet payment settled for 3 June 2023 at a fixed interest rate of 6M Wibor plus margin.

Margin has been set at 2.01%, taking into account:
- the current cost of financing of Rabobank for a period of 10 years in PLN,
- the current cost of such financing subordination (based on iTraxx indices),
- half of the cost of breaking the terms of original loan in CHF (due to the difference in maturity).

Rabobank, in case of changes in the ownership structure of the Bank resulting in a reduction of Rabobank's shares in the Bank below 70%, has the ability to raise above mentioned margin up to 4%.

On 28 August 2013, the Polish Financial Services Authority agreed to include the amount of above mentioned subordinated loan to the Bank's supplementary funds.

As at 31 December 2013, the carrying amount of subordinated liabilities amounted to PLN 304 817 thousand.

- in PLN thousands

34 Other liabilities

	31.12.2013	31.12.2012
Interbank and intersystem settlements	55 217	83 512
Other creditors	58 060	74 681
Card settlements	93 033	74 477
Provisions for non-personnel expenses	28 466	31 857
Provisions for other employee-related liabilities	40 974	57 585
Provisions for unused holidays	15 275	12 563
Deferred income	14 076	15 150
Other public settlements	20 914	29 343
Total other liabilities	**326 015**	**379 168**

35 Provisions

	31.12.2013	31.12.2012
Provision for restructuring	4 310	13 515
Provision for retirement benefits	19 966	14 407
Provision for guarantees, surety ships and undrawn credit facilities	18 338	7 257
Provision for litigation and claims	18 845	28 736
Other provisions	2 556	1 261
Total provisions	**64 015**	**65 176**

Provision for restructuring	**12 months ended 31.12.2013**	**12 months ended 31.12.2012**
Opening balance	**13 515**	**-**
Provision charges	7 746	16 901
Provision utilization	(16 951)	(3 386)
Closing balance	**4 310**	**13 515**

Provision for retirement benefits and similar obligation	**12 months ended 31.12.2013**	**12 months ended 31.12.2012**
Opening balance	**14 407**	**16 459**
Provision charges	6 718	683
Provision release	(1 159)	(2 735)
Closing balance	**19 966**	**14 407**

Provisions for guarantees, surety ships and undrawn credit facilities	**12 months ended 31.12.2013**	**12 months ended 31.12.2012**
Opening balance	**7 257**	**6 018**
Provision charges	34 293	57 754
Provision release	(22 994)	(56 064)
Other changes	(218)	(451)
Closing balance	**18 338**	**7 257**

- in PLN thousands

Provision for litigation and claims	12 months ended 31.12.2013	12 months ended 31.12.2012
Opening balance	**28 736**	**34 684**
Provision charges	1 122	8 158
Provision utilization	(1 915)	(8 246)
Provision releases	(9 251)	(5 860)
Other changes	153	-
Closing balance	**18 845**	**28 736**

Other provisions	12 months ended 31.12.2013	12 months ended 31.12.2012
Opening balance	**1 261**	**1 109**
Provision charges	1 537	280
Provision utilization	(89)	(23)
Provision releases	-	(105)
Other changes	(153)	-
Closing balance	**2 556**	**1 261**

1. As at 31 December 2013, the total value of court proceedings, under which the Bank is a defendant, amounted to PLN 42 849 thousand, while the value of claims initiated by the Bank amounted to PLN 83 784 thousand (the amounts includes proceeding in which the value of the object of litigation exceeds PLN 100 thousand and employment-related cases excluding adverse claims.

   The Bank is not a party to any proceedings before the court, arbitration court or public administration institution with a value of at least 10% of the Bank's capital.

2. Based on the decision dated 29 December 2006, the President of the Office of Competition and Consumer Protection (UOKIK) imposed on the Bank a cash penalty in the amount of PLN 9 650 thousand for setting, together with other banks, fees for transactions made with the use of VISA and MasterCard payment cards, and ordered that the Bank must cease to apply thus set fees with an immediate effect. The Bank filed an appeal against this decision with the Court of the Office of Competition and Consumer Protection in Warsaw together with a complaint regarding the clause of immediate enforceability of court decision. Based on its decision dated 21 August 2008, the District Court in Warsaw being the Court of the Office of Competition and Consumer Protection in Warsaw considered the Bank's appeal and withheld execution of the decision dated 29 December 2006. As a result, the same court issued a decision dated 22 September 2008 to discontinue the proceedings concerning the immediate enforceability clause. During the hearing on 12 November 2008, the same court issued a decision changing the previous appealable decision and ascertained the lack of competition limiting practices (undue sentence). The Office of Competition and Consumer Protection appealed against the latter decision, and the Bank prepared a response. The Court of Appeal in Warsaw after an appeal hearing on 22 April 2010 overruled the judgment of the District Court and referred the case back for rehearing. On the 25 October 2012, the Court of Appeal in Warsaw changed the decision of the District Court in Warsaw and dismissed the MasterCard's application for the suspension of legal proceedings.

   After reconsidering suspended proceeding, the Court by the judgment from 21 November 2013 rejected all appeals (both from banks and MasterCard) and changed the decision of the President of the Office of Competition and Consumer Protection decreasing previous penalty on the Bank to amount of PLN 1 861 thousand. The decision is not enforceable. As of 31 December 2013, provision for that case amounted to PLN 1 861 thousand.

3. Based on his decision dated 31 July 2012, the President of the Office of Competition and Consumer Protection decided that the Bank's activities connected with usage of particular form of agreement for individual retirement accounts as impending customers' common interests imposing ban on ther usage since 10 August 2011. The President of the Office of Competition and Consumer Protection imposed penalty of PLN 1 374 thousand. The decision is not enforceable. On 21 August 2012, the Bank appealed against the decision. The court did not set a date of the case. As at 31 December 2013, provision for the case amounted to PLN 1 374 thousand.

4. On 16 October 2012, the Management Board concluded an agreement with trade unions on the rules of conduct regarding planned redundancies in accordance with the Article 3, paragraph 1 of the Act dated 13 March 2003 on special conditions for termination of employment out of the reasons not attributable to employees. The agreement provides for the affected workers the benefits to mitigate the effects of loss of employment. These include additional severance pays based on the length of work experience at the Bank, as well as support for the development of skills necessary for searching new possibilities of employment. As at 31 December 2013, the restructuring provision for the above amounted to PLN 4 310 thousand.

5. The Bank creates provisions for retirement, post-employment and death benefits ('employee benefit'), in accordance with IAS 19. The provision for the above is calculated using the projected unit credit actuarial method (Projected Unit Credit) by an independent actuary as the present value of future short-term and long-term liabilities of the Bank to its employees according to employment statues and wages as at the day of the update. Provisions are calculated based on a number of assumptions, both macroeconomic and assumptions concerning employees' rotation, mortality risk and other. The basis for the calculation of the provision for employees is anticipated amount of the benefit which the Bank is obliged to pay under the Remuneration Regulations in force at the Bank. The expected amount is calculated as the product of the following factors:

   – expected base amount of employee benefit, in accordance with the Regulations on Remuneration,
   – anticipated growth in the base since the valuation date to the day of benefit payment,
   – percentage ratio depending on the length of work (in accordance with the Regulations on Remuneration),
   – degree of entitlement to benefits for each individual employee and proportional to his seniority in the Bank.

   Calculated in the above mentioned way amount is actuarially discounted at the end of the year. In accordance with IAS 19, financial discount rate for calculating the present value of liabilities for employee benefits is determined based on market yields on Treasury bonds, whose currency and maturity are consistent with the currency and estimated date obligations' fulfillment arising from employment. The actuarial discount is the product of the financial discount, the probability that a person will remain until the moment of allowance payment as an employee of the Bank and the probability conditioning payment of the benefits (e.g. the likelihood of disability). The amount of annual write-offs and the likelihood is calculated on the basis of models, which takes into account the following three risks:

   – probability of dismissal from work,
   – risk of full incapacity to work,
   – risk of death.

   The possibility of dismissal from work by an employee is estimated using a probability distribution, taking into account the statistics of the Bank. The probability of an employee's dismissal is subject to the employee's age and remains constant during each year of service. The risk of death and disability was estimated on the basis of the latest statistics of Polish life expectancy tables for men and women, and historical data, published by the Central Statistical Office and Social Security. The provision resulting from actuarial valuation is updated on an annual basis based on valuation by an independent actuary, and quarterly based on quarterly forecasts.

- in PLN thousands

36 Deferred tax

The following movements were recorded on the deferred tax account:

Deferred tax assets

	Base for deferred tax as at 31.12.2013	Base for deferred tax as 31.12.2012	Charge resulting from assets change in 2013
Interest payable on liabilities, including interests and discount on certificates of deposit	139 628	227 623	(16 719)
Valuation of derivative financial instruments and securities to fair value	334 671	349 561	(2 829)
Impairment allowances on financial assets and provisions for contingent liabilities (non-tax-deductible), of which utilization is probable	582 913	521 858	11 600
Fees calculated in advance and settled at amortized cost using the effective interest rate method	283 310	248 633	6 589
Provision for jubilee bonuses, retirement benefits, unused holiday and restructuring	39 551	40 484	(177)
Other provisions for other employee-related liabilities	41 011	57 621	(3 156)
Provisions for non-personnel expenses	28 350	31 857	(667)
Valuation of available for sale financial assets	20 435	147	3 855
Other deductible temporary differences	2 553	1 190	259
Tax loss	-	105 302	(20 007)
Total	**1 472 422**	**1 584 276**	**(21 252)**
Tax base of deferred tax assets recognized in the profit or loss (in the current year and in the previous years) and charge resulting from the asset change	1 451 987	1 584 129	(25 107)
Tax base of deferred tax assets recognized in the revaluation reserve and charge resulting from the asset change	20 435	147	3 855

Unrecognized deferred tax assets are related to impairment allowances on loans and advances, which irrecoverability will not be probable in the future. The amount of unrecognized temporary differences in this respect as at 31 December 2013 amounted to PLN 51 582 thousand, and as at 31 December 2012 it was PLN 40 763 thousand.

- in PLN thousands

Deferred tax liabilities

	Base for deferred tax as at 31.12.2013	Base for deferred tax as at 31.12.2012	Charge resulting from assets change in 2013
Interest receivable	(136 107)	(146 815)	2 035
Valuation of derivative financial instruments and securities to fair value	(394 733)	(448 521)	10 219
Transaction costs on granting loans	(56 694)	(34 411)	(4 234)
Valuation of available for sale financial assets	(133 351)	(266 012)	25 206
Total:	**(720 885)**	**(895 759)**	**33 226**
Tax base of deferred tax liability recognized in the profit or loss (in the current and previous years) and charge resulting from the liabilities change	(587 534)	(629 747)	8 020
Tax base of deferred tax liability recognized in the revaluation reserve (in the current and previous years) and charge resulting from the liabilities change	(133 351)	(266 012)	25 206

Presented as:

Deferred tax assets	**279 760**	**301 012**
Deferred tax liabilities	**(136 968)**	**(179 704)**
Deferred tax (net)	**142 792**	**130 818**

37 Discontinued operations

No operations were discontinued during 2013 or 2012.

38 Share-based payments

Share-based payments (phantom shares)

The Bank applies the Remuneration Policy of Board Members and Remuneration Policy of Employees of the Bank.
The principles and assumptions mentioned there ensure the existence of rational, sustainable and subject to control remuneration policy, consistent with acceptable level of risk, with the standards and values of the Bank and with the relevant laws and regulations, in particular with Resolution No. 258/2011 of the Financial Supervision Authority of 4 October 2011.

According to the above mentioned regulations, the Bank's employees having a significant impact on the risk profile receive variable compensation, the part of which is granted in a form of financial instrument (phantom shares) and remaining part- in cash.

Variable remuneration granted in phantom shares is paid at the end of the annual period of retention in cash equivalent of the value corresponding to the number of shares granted.

The part of the monetary variable remuneration is regulated by IAS 19 and the portion of the phantom shares granted is governed by IFRS 2.

- in PLN thousands

Variable remuneration for 2012 and 2013 – phantom shares

Type of transactions in the light of IFRS 2	Cash-settled share based payments
Date of commencement of assessment period	For year 2012: 1 January 2012 For year 2013: 1 January 2013
Data of program announcement	21 June 2012 – entry into force of the Supervisory Board's resolution approving the Remuneration Policy of Board Members and Remuneration Policy of Employees of the Bank
Date of program announcement consistent with IFRS 2	For year 2012: 12 March 2013 – in case of Members of the Management Board (entry into force of the Resolution of the Supervisory Board) 26 March 2013 - in case of other employees covered by the program (the entry into force of the Resolution of the Management Board) For year 2013: In case of members of the Management Board - the date of the Resolution by the Supervisory Board In case of other employees covered by the program - the date of the Resolution by the Board
Number of instruments granted	For year 2012: non-deferred part (to which employees acquired rights) - 21 799 deferred part – (to which employees acquired rights) - 20 011 For year 2013: Will be determined at the granting date
Value of instruments granted	For year 2012: non-deferred part - PLN 1 207 thousand deferred part - PLN 1 108 thousand For year 2013: will be determined at the granting date
Maturity date	For year 2012: 30 April 2017 For year 2013 : 4 years from granting date
Vesting date	For year 2012: in case of Members of the Management Board: non-deferred part -1 April 2013 deferred part -1 April 2016 in case of other employees covered by the program: non-deferred part – 1 April 2013 deferred part - 1/3 – 1 April 2014 1/3 – 1 April 2015 1/3 – 1 April 2016

	For year 2013: In case of member of the Management Board: Non-deferred part - up to 30 June 2014 Deferred part - up to 30 June 2017 In case of other employees covered by the program: Non-deferred part – up to 30 June 2014 Deferred part - 1/3 – up to 30 June 2015 1/3 – up to 30 June 2016 1/3 – up to 30 June 2017
Vesting conditions	Individual work result assessment Financial results of the Bank Analysis of the situation's occurrence which may have an impact on the reduction of the deferred part of the variable remuneration Fulfillment of the conditions of employment in the Bank
Clearance of the program	On the clearance date, the participant will be paid the cash amount equal to the product of phantom shares held by a participant and the median of day-average price of Bank's shares on the Warsaw Stock Exchange with a period of 90 days preceding the date of clearance.

Phantom shares – changes in 2013 and 2012

	2013		2012		Mid-day median share price of Bank *
	number	value (PLN thousand)	number	value (PLN thousand)	
Balance at the beginning of the period					
granted	41 810	2 316	-	-	55 385
exercised	-	-	-	-	-
lost		-	-	-	-
terminated	-	-	-	-	-
Balance at the end of period	**41 810**	**2 895**	**-**	**-**	**69 230**

** for the settlement of the phantom shares mid-day median price of Bank's shares on the Warsaw Stock Exchange with the 90 days preceding the date of settlement was used*

In 2013, there were no payments made in respect to acquired rights to phantom shares.

In the statement of profit or loss for 2013, in line with the approved accounting policy regarding recognition of benefit costs realized under variable remuneration program, the cost of current value of employee benefits amounted to PLN 1 372 thousand.
As at 31 December 2013, the provision for share-based payments amounted to PLN 1 686 thousand, while as at 31 December 2012 – PLN 1 137 thousand.

- in PLN thousands

39 Contingent liabilities

The table below presents the balances of liabilities granted and received.

	31.12.2013	31.12.2012
Contingent commitments granted	**4 605 578**	**4 610 161**
- Financial commitments	3 852 656	3 994 542
- Guarantees	752 922	615 619
Contingent commitments received	**16 789**	**283 191**
- Financial commitments	10 378	278 855
- Guarantees	6 411	4 336

Liabilities granted and received by maturity

	31.12.2013	31.12.2012
Up to 1 month	3 549 895	3 551 872
From 1 month to 3 months	140 877	170 969
From 3 months to 1 year	559 560	552 321
From 1 year to 5 years	350 671	319 103
Over 5 years	4 575	15 896
Total liabilities granted	**4 605 578**	**4 610 161**
Up to 1 month	9 628	279 855
From 1 month to 3 months	2 800	-
From 3 months to 1 year	3 914	2 510
From 1 year to 5 years	447	826
Over 5 years	-	-
Total liabilities received	**16 789**	**283 191**

Additionally, as at 31 December 2013, the Bank had liabilities due to issued promises of granting loans to the amount of PLN 588 378 thousand (PLN 388 295 thousand as at 31 December 2012).

- in PLN thousands

The Bank had the following assets to hedge own liabilities and third party's liabilities:

Assets securing liabilities of the Bank

	31.12.2013
Banking Guarantee Fund BFG	
– nominal value of collateral	165 000
– type of collateral	Treasury bonds
– maturity date of collateral	25.10.2023
– carrying amount of collateral	161 857
Hedging of securities' operations by BM BGŻ S.A. (Brokerage House), deposited with the National Depository for Securities (KDPW) as part of the stock exchange of the guarantee fund	
– cash	1 619
BGŻ funds deposited in The Guarantee Fund for the Settlement of Stock Exchange Transactions run by the National Depository for Securities	
– cash	-
Collateral for settlement of derivative financial instruments	
– nominal value of collateral	45 027
– type of collateral	call deposits (due from banks)
Collateral for liabilities arising from repo transaction (sell-buy-back transactions)	
- Treasury bonds	-

	31.12.2012
Banking Guarantee Fund BFG	
– nominal value of collateral	140 000
– type of collateral	Treasury bonds
– maturity date of collateral	25.10.2021
– carrying amount of collateral	163 969
Hedging of securities' operations by BM BGŻ S.A. (Brokerage House), deposited with the National Depository for Securities (KDPW) as part of the stock exchange of the guarantee fund	
– cash	1 644
BGŻ funds deposited in The Guarantee Fund for the Settlement of Stock Exchange Transactions run by the National Depository for Securities	
– cash	100
Collateral for settlement of derivative financial instruments	
– nominal value of collateral	30 832
– type of collateral	call deposits (Bank's receivables)
Collateral for liabilities arising from repo transaction (sell-buy-back transactions)	
- treasury bonds	32 446

- in PLN thousands

40 Fair value of assets and financial liabilities

Based on the methods used for determining fair value, financial assets and liabilities of the Bank are classified into the following categories:

Level 1

Assets and liabilities are valued based on market quotations are available in active markets for identical instruments.

Level 2

Assets and liabilities valued using valuation techniques based on directly or indirectly observed market quotations or other information based on market quotations.

Level 3

Assets and liabilities are valued using valuation techniques for which the input data are not based on observable market data.

The Bank periodically reviews (at least once a quarter) the assignment of individual assets and liabilities to given levels of the fair value hierarchy. The basics for the classification are inputs used in the valuation i.e. market quotations or other information. The classification of assets or liabilities for a given level of the hierarchy determines the lowest level of input data used in the valuation, having significant influence on the determination of fair value.

In case of change in the input data used for the data on a different level, for example due to changes in valuation methodology or modified sources of market data, the Bank shall transfer assets or liabilities to the appropriate level of valuation in the reporting period in which this change occurred.

In 2013 and 2012, the Bank did not make any changes in the method of measurement of fair value, which would result in the transfer of assets and liabilities between levels.

The table below shows the breakdown of assets and liabilities presented in the consolidated financial statements at fair value into three categories:

31.12.2013	Level 1	Level 2	Level 3	Total
Assets re-measured to fair value	**4 465 074**	**1 765 635**	**34 712**	**6 265 421**
Debt securities held for trading	1 018 701	-	-	1 018 701
Derivative financial instruments	-	353 437	9 823	363 260
Hedging instruments	-	57 387	-	57 387
Available for sale financial assets	3 446 373	1 354 811	24 889	4 826 073
Liabilities re-measured to fair value	**271 288**	**329 791**	**7 159**	**608 238**
Financial liabilities held for trading	271 288	-	-	271 288
Derivative financial instruments	-	329 791	7 159	336 950
Hedging instruments	-	-	-	-

31.12.2012	Level 1	Level 2	Level 3	Total
Assets re-measured to fair value	**3 256 409**	**4 253 303**	**26 548**	**7 536 260**
Debt securities held for trading	219 051	-	-	219 051
Derivative financial instruments	-	380 473	-	380 473
Hedging instruments	-	69 179	-	69 179
Available for sale financial assets	3 037 358	3 803 651	26 548	6 867 557
Liabilities re-measured to fair value	**72 005**	**326 215**	**-**	**398 220**
Financial liabilities held for trading	72 005	-	-	72 005
Derivative financial instruments	-	326 215	-	326 215

To level 1, the Bank classifies debt and equity securities for which market quotations exist, or which are quoted in the public market.

To level 2, the Bank classifies financial instruments, in this swaps, FRA, foreign exchange contracts and options, as well as bills and equity securities available for sale.

To level 3, the Bank classifies options embedded in investment deposits with hedging them interbank options, municipal bonds, stocks and shares not available in the public market.

The fair value of financial instruments from level 2 and 3 is determined using valuation techniques (for example models) described in note 3.

Input data to the valuation of instruments classified in level 2 and 3 include foreign exchange, interest rate curves, reference rates, the volatility of exchange rates and reference rates, the swap points, basis spreads, stock exchange indices and futures prices.

In case of derivative financial instruments classified to level 3, non-observable parameters are correlation between stock indices (as at 31 December 2013 correlation ranged between 0.3152 and 0.4605) correlation between foreign exchange rates and stock indices (as at 31 December 2013 correlation ranged between (0.2165 and 0.3233). In case of extreme correlation changes, the maximum estimated change in valuation amounted to PLN 832 thousand as at 31 December 2013).

The municipal bonds classified to level 3, the unobservable parameter is credit risk margin equaling the value of market margin for instruments of similar characteristics. The effect of changes in credit margin on changes in fair value is considered as immaterial.

- in PLN thousands

The table below presents changes in valuation of assets and liabilities classified to level 3 and amounts that have been transferred to the statement of profit or loss and the statement of comprehensive income:

	Derivative financial instruments (assets)	Available for sale financial assets	Derivative financial instruments (liabilities)
Balance as at 01.01.2013	**-**	**26 548**	**-**
Total gains or losses recognized in:	(570)	1 154	2 137
- Net interest income	-	*1 196*	-
- Net trading income	*(570)*	-	*2 137*
- Other operating income/expenses	-	-	-
- Statement of other comprehensive income	-	*(42)*	-
Purchase	10 393	-	5 022
Settlement	-	(2 813)	-
Balance as at 31.12.2013	**9 823**	**24 889**	**7 159**
Unrealized gains or losses relating to assets and liabilities held at the end of the reporting period recognized in:	**(570)**	**11**	**2 137**
Net interest income	-	11	-
Net trading income	(570)	-	2 137
Other operating income	-	-	-

	Derivative financial instruments (assets)	Available for sale financial assets	Derivative financial instruments (liabilities)
Balance at 01.01.2012	**-**	**159 270**	**-**
Total gains or losses recognized in:	-	6 867	
- Net interest income	-	*5 422*	-
- Net trading income	-	*1 445*	-
- Other operating income/expenses	-	-	
Settlement	-	(139 589)	-
Balance at 31.12.2012	**-**	**26 548**	**-**
Unrealized gains or losses relating to assets and liabilities held at the end of the reporting period recognized in:	**-**	**402**	**-**
Net interest income	-	402	-
Net trading income	-	-	-
Other operating expenses	-	-	

- in PLN thousands

The table below presents carrying amount and fair value of those assets and financial liabilities, which were not recognized in statement of financial position of the Bank according to their fair value and the classification levels. In case of all categories, credit risk margin estimated by the internal models and liquidity margin estimated according to the market data are unobservable parameters.

31.12.2013	Carrying amount	Fair value	Level
Financial assets			
Loans and advances to banks	269 757	267 126	3
Reverse repo transactions	309 255	309 255	3
Investments in subsidiaries and associates	51 645	51 645	3
Loans and advances to customers	26 330 360	26 401 635	3
Financial liabilities			
Amounts due to banks	3 271 414	3 278 049	3
Repo transactions	-		3
Amounts due to customers	26 492 774	26 420 417	3
Debt securities issued	1 191 157	1 203 433	3
Subordinated liabilities	304 817	309 382	3

31.12.2012	Carrying amount	Fair value	Levels
Financial assets			
Loans and advances to banks	104 035	102 125	3
Reverse repo transactions	104 369	104 369	3
Investments in subsidiaries and associates	58 720	58 720	3
Loans and advances to customers	26 357 522	26 468 654	3
Financial liabilities			
Amounts due to banks	4 094 436	4 128 355	3
Repo transactions	32 341	32 341	3
Amounts due to customers	26 942 029	26 919 499	3
Debt securities issued	1 852 776	1 837 553	3

a) Amounts due to banks and amounts due from banks

Amounts due to banks and due from banks include inter-bank deposits and interbank settlements. The fair value of deposits with fixed and floating rate is based on discounted cash flows set on the interest rates observed in the money market for positions with similar credit risk and remaining period to maturity.

b) Loans and advances to customers

Estimated fair value of loans and advances is discounted value of future cash-flows to be received by using current market interest rates for asset groups of similar credit risk in order to determine their fair value. Market interest rates used for discounting are adjusted by actual cost of obtaining funding for credit activity and credit risk price for given product groups.

c) Liabilities and receivables due to BSB/SBB

The fair value of repo / reverse repo transactions was recognized in carrying amount due to short characteristics of those transactions.

- in PLN thousands

d) Investments in subsidiaries and associates

The fair value of the investments in subsidiaries and associates is a carrying amount of the investments.

e) Subordinated liabilities

Liabilities include subordinated loan of CHF 90 million. The fair value of the loan at variable interest rate is based on discounted cash flows set on interest rates observed on the money market for positions with similar credit risk and remaining period to maturity.

f) Due to customers

The fair value of loans and advances at fixed and variable interest rates is based on discounting future cash-flows set on the money market interest rates adjusted by liquidity margin. In case of a'vista deposits it is assumed that fair value is equal to their carrying value.

g) Debt securities issued

The fair value of debt securities issued is estimated using model discounting future cash flows from an investment, based on the market interest rate curves adjusted by the credit risk of the issuer.

The table below presents information regarding financial instruments compensation as at 31 December 2013.

	Gross value recognized in the financial assets / liabilities	Gross value qualified for balance compensation from IAS 32	Net value recognized in financial assets/ liabilities	Value compensated due to agreements	Cash-collateral	Net value
Financial assets						
Trading derivative instruments	354 465	-	354 465	(281 605)	(71 137)	1 723
Hedging instruments	57 387	-	57 387	(53 316)	(3 463)	608
BSB/SBB, securities loans, and similar contracts	272 149	-	272 149	(272 149)	-	-
Total	**684 001**	**-**	**684 001**	**(607 070)**	**(74 600)**	**2 331**
Financial liabilities						
Trading derivative instruments	334 921	-	334 921	(281 605)	(45 027)	8 289
Total	**334 921**	**-**	**334 921**	**(281 605)**	**(45 027)**	**8 289**

The possibility of compensating undue receivables and liabilities, as well as settlement of the transaction before maturity on the net basis results from frame agreements/ISDA with counterparties.

- in PLN thousands

41 Operating lease

The Bank as a leasee

The Bank incurs cost of leasing of cars and leasing of printing equipment. The Bank also incurs costs due to leasing of real estates. Above mentioned transactions are recognized as operating lease. Those agreements do not include provision stating that leasee will incur any contingent fees as well as no constraints arise from the provisions of the lease agreements. In some cases, the agreements provide for the possibility of prolonging the agreement using the possibility of purchase or price change.

Lease payments by maturity

	31.12.2013	31.12.2012
Up to 1 year	56 286	55 832
From 1 year to 5 years	115 592	77 231
Over 5 years	11 064	19 491
Total	**182 942**	**152 554**

The Bank as a lessor

The Bank earns income from renting real estates. Those agreements are treated as operating lease and they do not provide for any contingent fees to be paid by the lessee. No constraints arise from the lease agreements. In some cases, the agreements provide for the possibility of prolonging the agreement or changing the price.

Lease payments by maturity

	31.12.2013	31.12.2012
Up to 1 year	3 184	3 039
From 1 year to 5 years	5	1 216
Over 5 years	-	58
Total	**3 189**	**4 313**

42 Fiduciary activities

The Bank provides storage services, trustee, corporate and investment management and advisory services to third parties. Because of those services, the Bank makes decisions in the name and on behalf of customers on allocation, purchase and sale of a wide variety of financial instruments. The Bank maintains securities accounts on the basis of the authorization granted by the Securities and Exchange Commission on 14 May 2002, and pursuant to a resolution of the National Depository for Securities on 8 August 2002 as well as on the basis of the Bank's internal regulations of keeping securities accounts and of fiduciary services relating to transactions connected with bonds and treasury bills, shares, bills, debt securities other than treasury, and foreign bonds. Orders to buy / sell securities on the Warsaw Stock Exchange can be made at the Brokerage House of BGZ S.A., as well as at the selected by the client brokerage house. The bonds and non-treasury debt securities turnover on behalf of clients amounted on average per month in 2013 to PLN 92 374 thousand and increased by PLN 2 956 thousand in 2012. These transactions included treasury bills and bonds, and non-treasury debt securities.

- in PLN thousands

43 Equity

Shareholders of the Bank

Shareholder	31.12.2013 Number of shares held	31.12.2013 Share (%)	31.12.2012 Number of shares held	31.12.2012 Share (%)
Rabobank International Holding B.V.*	45 942 004	89.84	45 941 751	89.84
Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.*	4 303 695	8.42	4 303 695	8.42
Remaining shareholders	891 065	1.74	891 318	1.74
TOTAL	**51 136 764**	**100.00**	**51 136 764**	**100.00**

*Rabobank Group

Share capital of the Bank as at 31 December 2013 amounted to PLN 5 137 thousand. The nominal value of each share is PLN 1.00.

As at 31 December 2013 and 31 December 2012, none of the members of Management Board or Supervisory Board held the Bank's shares directly.

44 Other supplementary capital and other reserve capital

The table below presents changes in other supplementary capital and other reserve capital:

	12 months ended 31.12.2013	12 months ended 31.12.2012
Other supplementary capital		
Balance at the beginning of the period	**2 950 716**	**2 332 656**
Issue of shares	-	492 000
Appropriation of retained earnings	134 343	126 060
Balance at the end of the period	**3 085 059**	**2 950 716**
	31.12.2013	**31.12.2012**
Other reserve capital		
General banking risk reserve	90 000	90 000
Revaluation reserve	91 463	215 351
Other reserves	25 000	25 000
Total	**206 463**	**330 351**
	12 months ended 31.12.2013	**12 months ended 31.12.2012**
General banking risk reserve created of net profit		
Balance at the beginning of the period	**90 000**	**90 000**
Balance at the end of the period	**90 000**	**90 000**

- in PLN thousands

	12 months ended 31.12.2013	12 months ended 31.12.2012
Revaluation reserve		
Balance at the beginning of the period	**215 351**	**10 645**
Net gain/loss on re-measurement to fair value	(152 948)	252 724
Deferred tax	29 060	(48 018)
Balance at the end of the period	**91 463**	**215 351**

	12 months ended 31.12.2013	12 months ended 31.12.2012
Other reserve capital		
Balance at the beginning of the period	**25 000**	**25 000**
Balance at the end of the period	**25 000**	**25 000**

Change in revaluation reserve due to re-measurement of available for sale financial assets

	2013		2012	
	Gross value	Deferred tax	Gross value	Deferred tax
Balance at the beginning of the period	**244 008**	**(46 362)**	**13 141**	**(2 497)**
Gain/loss on re-measurement of available for sale financial assets recognised in other comprehensive income	(105 004)	19 951	260 050	(49 410)
Amount reclassified from equity to profit or loss due to selling available for sale financial assets	(34 488)	6 553	(29 183)	5 545
Balance at the end of period	**104 516**	**(19 858)**	**244 008**	**(46 362)**

Change in revaluation reserve due to re-measurement of cash flow hedging instruments

	2013		2012	
	Gross value	Deferred tax	Gross value	Deferred tax
Balance at the beginning of the period	**21 857**	**(4 153)**	**-**	**-**
Effective portion of cash flow hedging	(13 457)	2 557	21 857	(4 153)
Balance at the end of period	**8 400**	**(1 596)**	**21 857**	**(4 153)**

45 Dividends paid

In 2012, the Bank did not pay out the dividend. The Bank's Management Board will not recommend payment of dividends for 2013.

- in PLN thousands

46 Appropriation of profit

The net profit of the Bank for 2012, amounting to PLN 134 343 thousand was transferred to other supplementary capital according to the decision of the Bank's Ordinary General Meeting dated 28 June 2013. The Management Board will recommend to the Annual General Meeting the net profit for the year 2013 to be fully transferred to other supplementary capital in order to strengthen the capital base. The final decision on the appropriation of profit for 2013 will be made by the Annual General Meeting.

47 Cash and cash equivalents

For the statement of cash-flows, cash and cash equivalents balance includes balances with maturity shorter than 3 months.

	31.12.2013	31.12.2012
Cash and balances with the Central Bank (Note 16)	1 617 713	2 106 657
Current accounts and other receivables	135 364	96 692
Bank deposits	128 563	-
Loans and advances	-	948
Total cash and cash equivalents	**1 881 640**	**2 204 297**

48 Notes to the statement of cash-flows

The differences between changes in the statement of financial position and the statement of cash flows are recognized in operating activities.

Change in amounts due from banks	**12 months ended 31.12.2013**	**12 months ended 31.12.2012**
Resulting from statement of financial position balances	**(165 722)**	**117 036**
Excluding change in cash and cash equivalents	165 547	(115 183)
Total change in amounts due from banks	**(175)**	**1 853**
Change in amounts due to banks	**12 months ended 31.12.2013**	**12 months ended 31.12.2012**
Resulting from statement of financial position balances	**(819 411)**	**88 231**
Long-term loans received from other banks	703 604	(205 440)
Repayment of long – term loans from other banks	-	291 358
Total change in amounts due to banks	**(115 807)**	**174 149**
Cash flow from operating activities – other adjustments	**12 months ended 31.12.2013**	**12 months ended 31.12.2012**
Change in allowances for impairment losses on investment in associates	7 321	-
Currency difference on subordinated liabilities	(4 671)	-
Other adjustments	(540)	(361)
Cash flow from operating activity – total other adjustments	**2 110**	**(361)**

49 Related party transactions

Bank Gospodarki Żywnościowej S.A. is a subsidiary of Rabobank Group, the parent company of which is Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.

Bank Gospodarki Żywnościowej S.A.. is the parent company of Bank Gospodarki Żywnościowej S.A. Group. The Group consists of a subsidiary – **Bankowy Fundusz Nieruchomości Actus Sp. z o.o.** - BGŻ S.A. holds 100% of the share capital of the company and 100% of votes at the General Meeting of Shareholders.

BGŻ S. A. holds 49% shares in the share capital of the Company and 49% of votes at the General Meeting of Shareholders in an associate - BGŻ Leasing Sp. z o.o.

All transactions between the Bank and the associates were due to current operation activities and consisted primarily of loans, deposits, derivative transactions and income and expenses on advisory services and financial intermediation.

- in PLN thousands

Transactions with BGZ S.A shareholders and related parties as at 31 December 2013

31.12.2013	RABOBANK INTERNATIONAL HOLDING B.V.	COÖPERATIEVE CENTRALE RAIFFEISEN-BOERENLEENBANK B.A.	SUBSIDIARIES of RABOBANK	KEY PERSONNEL	BGŻ LEASING SP. Z O.O.	ACTUS SP Z O.O.	TOTAL
Assets	**-**	**71 681**	**134 303**	**21**	**90 020**	**36 040**	**332 065**
Current account	-	166	128 563	21	89 325	36 040	254 115
Derivative financial instruments	-	71 084	5 740	-	-	-	76 824
Other assets	-	431	-	-	695	-	1 126
Liabilities	**-**	**2 787 779**	**5 773**	**3 136**	**61 439**	**58**	**2 858 185**
Loans received	-	2 447 145	-	-	-	-	2 447 145
Current accounts, deposits	-	2 096	32	3 136	61 439	58	66 761
Subordinated liabilities	-	304 819	-	-	-	-	304 819
Derivative financial instruments	-	23 539	5 741	-	-	-	29 280
Other liabilities	-	10 180	-	-	-	-	10 180
Contingent liabilities							
Financial commitments granted	-	-	-	59	37 297	-	37 356
Guarantees granted	-	1 151	-	-	-	-	1 151
Commitments received	-	1 151	-	-	-	-	1 151
Derivative financial instruments (face value)	-	8 443 696	309 968	-	-	-	8 753 664
12 months ended 31.12.2013	**-**						
Income Statement	-	**(13 652)**	**(3 945)**	**(58)**	**2 206**	**2 233**	**(13 216)**
Interest income	-	838	529	-	1 532	2 218	5 117
Interest expense	-	(43 233)	(2)	(58)	(2 065)	-	(45 358)
Fees and commission income	-	1	-	-	3 257	1	3 259
Fees and commission expense	-	(2 347)	-	-	(545)	-	(2 892)
Result on trading activities	-	45 681	(4 472)	-	4	-	41 213
Other operating income	-	2 967	-	-	23	14	3 004
Other operating expenses	-	(17 559)	-	-	-	-	(17 559)

- in PLN thousands

Accounting policies and additional explanatory notes

Transactions with BGZ S.A shareholders and related parties as at 31 December 2013

31.12.2012	RABOBANK INTERNATIONAL HOLDING B.V.	COÖPERATIEVE CENTRALE RAIFFEISEN-BOERENLEENBANK B.A.	SUBSIDIARIES of RABOBANK	KEY PERSONNEL	BGŻ LEASING SP. Z O.O.	ACTUS SP Z O.O.	TOTAL
Assets	**334**	**31 778**	**6 975**	**30**	**27 976**	**33 822**	**100 915**
Current account	-	197	-	30	26 844	33 822	60 893
Derivative financial instruments	-	31 581	6 975	-	-	-	38 556
Other assets	334	-	-	-	1 132	-	1 466
Liabilities	**-**	**3 064 117**	**7 005**	**3 064**	**55 678**	**58**	**3 129 922**
Loans received	-	3 030 812	30	-	-	-	3 030 842
Current accounts, deposits		11 040	-	3 064	55 663	58	69 825
Derivative financial instruments	-	11 952	6 975	-	-	-	18 927
Other liabilities	-	10 313	-	-	15	-	10 328
Contingent liabilities							
Financial commitments granted	-	490 000	-	50	9 313	-	499 363
Guarantees granted	-	826	-	-	-	-	826
Commitments received	-	826	-	-	-	-	826
Derivative financial instruments (face value)	-	4 354 870	300 000	-	-	-	4 654 870
12 months ended 31.12.2012							
Income Statement	(345)	**43 529**	**(940)**	**(82)**	**2 379**	**2 085**	**46 626**
Interest income	-	420	741	-	585	2 070	3 816
Interest expense	-	(47 001)	(6)	(82)	(2 697)	-	(49 786)
Fees and commission income	-	-	-	-	28	1	29
Fees and commission expense	-	(35)	-	-	(202)	-	(237)
Result on trading activities	-	100 903	(1 426)	-	4 702	-	104 179
Other operating income	-	3 701	-	-	23	14	3 738
Other operating expenses	(345)	(14 459)	(249)	-	(60)	-	(15 113)

- in PLN thousands

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

Management Board	**31.12.2013**	**31.12.2012**
Short-term employee benefits	11 450	10 648
Long-term benefits	465	213
Benefits due to termination of employment	3 300	-
Share-based payments	1 339	1 156
Total	**16 554**	**12 017**

Supervisory Board	**31.12.2013**	**31.12.2012**
Short-term employee benefits	596	807
Long-term benefits	-	-
Benefits due to termination of employment	-	-
Share-based payments	-	-
Total	**596**	**807**

Short-term employee benefits include: base salary, bonuses and other benefits, which are settled within 12 months from the balance sheet date.

Provisions for deferred payment of premiums were recognized in ‘Long-term benefits’ item.

Provisions for share-based payments granted to the Management Board are recognized in ‘Share-based payments’ which also includes the Rules of the variable components of the remuneration of employees holding managerial positions in the Bank.

50 Information on operating segments

Segment reporting

The Bank has divided its operations and applied identification of income and expenses as well as assets and liabilities into the following reporting operating segments: Retail and Business Banking (including an offer for micro companies), Corporate Banking, Financial Markets and Assets and Liabilities Management (‘ALCO’), and Other. This division reflects the principles of classification of customers into segments in accordance with the Bank’s business model which is based on type of business and financial criteria as well as the type of activity.

Monitoring of managerial results in the Bank takes into account all components of the statement of profit or loss of a particular segment to the level of gross profit, i.e. for each segment revenues, expenses and net impairment losses are reported. Managerial revenues include cash flows between the customer segments and the unit responsible for assets and liabilities management, valued using internal transfer pricing of funds based on market prices and liquidity margins determined for a given maturity and currency. Managerial costs include the direct costs of their activities and costs allocated in accordance with the allocation model adopted by the Bank. In addition, the managerial results of segments include settlements of business lines for services provided between them. The settlements include incomes and expenses. Under income the Bank recognizes banknotes transactions’ commission, i.e. the commissions for the purchase of cash for the clients on the market and the net interest income referring to a transfer fund price assigned to cash balance available for clients. Under expenses the Bank recognizes settlements for basic banking facilities (their price is annually agreed upon by business line representatives), settlements for counting and transportation of cash to clients and flat fee paid to the Retail Banking segment related to the other activities performed for corporate clients.

Operating activity of the Bank is limited to Poland. No material differences are identified in risks that could be influenced by the geographical location of Bank's branches, and therefore the Bank has not disclosed geographical information.

The Bank applies unified and detailed rules for all distinguished segments. In case of revenues, apart from standard positions, the components of segments' results on interests were separated – i.e. internal and external revenues and expenses. For general expenses, the Bank allocates indirect costs to segments through separation of tens cost aggregates, homogeneous in the aspect of the area and the scope of activity of the Bank units. For each aggregate separate, tailored specifically to the aggregate allocation principles were used, that transfer their costs on revenue segments.

Within the operations of the Bank, Agro customers segment is separated due to its significance to the development of the Bank's business activity, its influence on the financial results of the institutions, and the separate level of monitoring carried for the Bank's management reporting.

Due to the nature of the Bank's activity, there is no seasonality or cyclical phenomenon. The Bank provides financial services for which demand is stable, and the impact of seasonality is negligible.

Changes in the composition of reporting segments

In the last quarter of 2012, the Bank made changes to composition of its client's reporting segments on the basis of resolutions made by the Management Board. The Bank introduced a number of financial and non-financial criteria in order to tailor the product offer to a more accurate clients' division. The Bank restated the corresponding information for 2012 to achieve their comparability.

Business segments characteristics

The Retail and Business Banking Segment includes sales of products and services performed for individuals and micro companies, including maintaining current accounts and deposit accounts, gathering term deposits, granting housing loans, cash loans, mortgage loans, revolving loans, overdrafts, loans dedicated to micro companies, issuance of debit and credit cards, service of foreign cash transfers, entering into foreign exchange transactions, sale of insurance products and other services with a minor impact on the Bank's revenue. The Retail and Business Banking Segment includes also: balances and results of direct banking channel BGŻOptima, income from brokerage services and distribution of investment funds' share units.

The services for the clients belonging to the Retail and Business Banking Segment are rendered by branches of the Bank and through alternative channels, i.e. internet banking (eBGŻ, TeleBGŻ), telephone banking (TeleBGŻ), direct banking channel BGŻOptima as well as Private Banking channel. Additionally, sale of particular products is realized through financial intermediaries, both on local and national level

The Corporate Banking Segment includes sales of products and services rendered to enterprises, companies, cooperatives, individual entrepreneurs, individual farmers, non-profit institutions and public sector entities. The Corporate Banking Segment is divided into: Large, Small and Medium enterprises. The services are rendered by Consultants working at Corporate Centers. Operational support for all segments is carried by the Group's Branches, and additionally they also have access to telephone banking (TeleBGŻ) and internet banking (eBGŻ Firma). Moreover, a sale of particular products is realized through financial intermediaries, both on local and national level.

Products and services for Corporate Clients include maintaining current and saving accounts, gathering term deposits (including negotiable deposits), issuing business-type cards, granting overdrafts, investing commercial loans and revolving loans, agro-business financing loans, insurance for farmers, issuing of debt securities, financing trading activities (including guarantees, surety ships, letters of credit, discounting of bills and factoring), leasing (in cooperation with BGŻ Leasing) and entering into foreign exchange and derivative transactions.

Within the Corporate Banking Segment and the Retail and Business Banking Segment, the Bank separated Agro Clients i.e. individual farmers and companies operating in the food and agriculture sector. According to the principles of customer segmentation in the Bank, farmers include individuals, legal persons and organizational entities not being legal persons involved in agricultural activity in accordance with the Act on Agricultural Tax, whereas the segmentation of companies is done using activities classification codes (PKD 2007).

The Financial Markets and ALCO Segments cover activities in the area of financial markets performed on Bank's own interest and in the liquidity management area as well as assets and liabilities management activity (including debt securities investment portfolio, issued certificates of deposits, loans from other banks, balance of liquidity margin, spread ask/bid between transfer prices of funds allocated to assets and liabilities).

The **Other** segment includes results that are not attributable to any of above listed segments (i.e. the loan portfolio under vindication and restructuring procedures, capital investments, results attributable to the Bank's own accounts and to clients' accounts not attributed to the specified segment). Before 1 January 2011, the loan portfolio under vindication and restructuring procedures were transferred to a separate, specialized entity.

Non-performing loans, created after 1 January 2011, are presented in the respective segments – the Retail and Business Banking or the Corporate Banking.

Reconciliation of results with financial reporting data

Result on financial operations and foreign exchange result from the statement by operating segments reconciles with the sum of the following items from the income statement:

- Dividend income
- Net trading income
- Result on investing activities
- Result on hedge accounting
- Share in profit (loss) of associates

Result on other operations from the statement by operating segments reconciles with the sum of the following items from the income statement:

- Other operating income
- Other operating expenses

- in PLN thousands

	12 months ended 31.12.2013	12 months ended 31.12.2012
Statement by operating segments		
Result on financial operations	45 072	76 755
Foreign exchange result	69 025	69 790
	114 097	**146 545**
Statement of profit or loss		
Dividend income	2 848	3 416
Result on trading activities	80 424	98 567
Result on investing activities	31 902	43 329
Result on hedge accounting	(1 077)	1 233
	114 097	**146 545**
Statement by operating segments		
Result on other operations	28 467	6 539
	28 467	**6 539**
Statement of profit or loss		
Other operating income	49 613	37 017
Other operating expenses	(21 146)	(30 478)
	28 467	**6 539**

- in PLN thousands

12 months ended 31.12.2013	Retail and Business Banking	Corporate Banking	Including: Agro Clients*	Financial Markets and Assets and Liabilities Management	Other	BGŻ S.A.
Statement of profit or loss						
Net interest income	555 677	253 120	269 534	264 934	(56 240)	**1 017 491**
external interest revenues	842 377	673 652	689 649	337 261	59 780	**1 913 070**
external interest expenses	(484 424)	(188 817)	(89 886)	(222 029)	(309)	**(895 579)**
internal interest revenues	751 510	272 863	162 328	(1 025 015)	642	**-**
internal interest expenses	(553 786)	(504 578)	(492 557)	1 174 717	(116 353)	**-**
Net fee and commission income	177 381	98 715	98 433	(7 181)	7 577	**276 492**
Result on financial operations	65	4 987	2 328	37 172	2 848	**45 072**
Foreign exchange result	35 280	33 463	21 306	-	282	**69 025**
Result on other operations	1 362	(146)	(241)	(5 995)	33 246	**28 467**
Net impairment losses on financial assets and contingent liabilities	(105 245)	(119 607)	(56 185)	(2 292)	(25 102)	**(252 246)**
General administrative expenses	(664 342)	(220 128)	(222 091)	(26 930)	30 753	**(880 647)**
Depreciation and amortization	(73 422)	(22 383)	(22 678)	(2 821)	(591)	**(99 217)**
Segment result	**(73 244)**	**28 021**	**90 406**	**256 887**	**(7 227)**	**204 437**
Profit before income tax	-	-	-	-	-	**204 437**
Income tax expense	-	-	-	-	-	**(42 034)**
Net profit for the year	-	-	-	-	-	**162 403**
Statement of financial position as at 31.12.2013						
Segment assets	14 962 950	12 019 666	12 429 568	5 306 939	3 473 937	**35 763 492**
Segment liabilities	19 722 524	6 832 689	4 349 681	4 172 823	1 530 394	**32 258 430**

* includes Retail, Business, Corporate customers

- in PLN thousands

12 months ended 31.12.2012	Retail and Business Banking	Corporate Banking	Including: Agro Clients*	Financial Markets and Assets and Liabilities Management	Other	BGŻ S.A.
Statement of profit or loss						
Net interest income	551 808	270 446	271 711	218 301	(20 750)	**1 019 805**
external interest revenues	548 697	571 542	548 586	977 204	57 473	**2 154 916**
external interest expenses	(390 159)	(198 865)	(65 253)	(546 085)	(2)	**(1 135 111)**
internal interest revenues	706 823	258 677	98 888	(965 530)	30	**-**
internal interest expenses	(313 553)	(360 908)	(310 510)	752 712	(78 251)	**-**
Net fee and commission income	181 099	111 673	97 044	(810)	5 777	**297 739**
Result on financial operations	807	5 027	1 918	67 505	3 416	**76 755**
Foreign exchange result	30 187	38 905	19 635	-	698	**69 790**
Result on other operations	(4 610)	(114)	(136)	(13 715)	24 978	**6 539**
Net impairment losses on financial assets and contingent liabilities	(119 104)	(146 010)	(51 391)	5 205	(9 753)	**(269 662)**
General administrative expenses	(657 275)	(239 038)	(208 437)	(26 739)	(4 929)	**(927 981)**
Depreciation and amortization	(69 714)	(20 378)	(16 883)	(2 842)	(1 584)	**(94 518)**
Segment result	**(86 802)**	**20 511**	**113 461**	**246 905**	**(2 147)**	**178 467**
Profit before income tax	**-**	-	-	-	-	**178 467**
Income tax expense	**-**	-	-	-	-	**(44 124)**
Net profit for the year	**-**	-	-	-	-	**134 343**
Statement of financial position at 31.12.2012						
Segment assets	13 590 572	13 076 087	12 016 961	6 890 797	3 673 237	**37 230 693**
Segment liabilities	18 668 815	8 230 400	3 491 047	5 383 390	1 481 541	**33 764 146**

* includes Retail, Corporate and Business Banking customers

51 Financial risk management

51.1 Strategy for use of financial instruments

The core business activity of the Bank concentrates on financial instruments offered to customers: retail, entrepreneurs and enterprises, public entities and non-banking financial institutions. Among liabilities, deposits at fixed interest rates and current and saving accounts are dominant. Within the assets, the Bank offers following loan products: housing loans, cash loans, credit cards, loans in current account, investment and revolving loans, preferential loans with subsidies, factoring, guarantees, foreign trade finance transactions (for example letters of credit) – vast majority of loan products is medium and long-term instruments with interest rates based on short-term market rates.

The Bank uses financial market instruments, firstly the management of following types of risks: liquidity, interest rates, foreign exchange, arising from core business, accordingly with internally accepted risk's appetite and medium/long-term market trends.

The Bank offers as well access to financial market instruments for its customers, in order to hedge against market risk, in this the risk of currency, interest rates or commodities' price-existing in their core business.

51.2 Credit risk

Credit risk is main part of the basic and core financial activity of the Bank, including both credit activeness and financing with capital market products. As a result, credit risk is identified as a risk with the greatest potential influence on the Bank's present and future profits and equity. The materiality of credit risk is confirmed by its 70% share in general economic capital evaluated by the Bank to cover main risks existing in the Bank's activity, as well as 90% share in general amount of regulatory equity.

The most basic aim of risk management is Bank's strategy realization through stable increase of credit portfolio simultaneously with retaining credit risk's profile on an acceptable level.

For credit risk management, the Bank applies following rules:

- each credit transaction requires comprehensive credit risk evaluation, expressed by internal rating or credit scoring,
- thorough and careful financial analysis is the main reason to accept customer's financial data and information regarding value of collateral as reliable; careful analysis performed by the Bank always include necessary safety margin,
- the reason for customer's financing is, according to the rule, its ability to generate cash-flows ensuring repaying liabilities to the Bank,
- risk assessment is subject to additional verification by credit risk assessment, which are independent of the business teams,
- terms of loan contracts that are offered to a client depend on the credit risk generated by the contract,
- credit risk is diversified particularly by geographical location, by industry, by product and by clients,
- loan granting decisions are made only by authorized persons,
- the Bank settles transaction only with known customers and a basis for co-operation with customers are long-term relations,
- customers and transactions between them and the Bank are monitored by method, which is clear for customers and strengthen relation with them.

Concentration of credit risk

The Bank's Management Board determines the concentration of credit risk arising from significant exposures to individual entities or groups of entities whose repayment ability depends on a common risk factor. Concentration risk is analyzed with respect to the largest entities, the largest capital groups, geographical regions and industries.

One potential source of credit risk is the high concentration of the Bank's exposure to individual entities or groups of entities related by capital or organizational structure. In order to limit such exposure, the Banking Act has set out limits for a bank's maximum exposure. In accordance with article 71.1 of the Banking Act, the total of the amounts due to a bank, the off-balance sheet liabilities granted by the bank, shares held directly or indirectly in another entity, additional payments made in respect of the share capital of a limited liability company, or contributions or limited liability amounts – depending on which of the two is the higher – in a limited partnership or a limited joint-stock partnership, in respect of a single entity or group of entities related by capital or organizational structure, must not exceed the exposure's concentration limit, which is 25% of the bank's own funds.

The Bank monitors concentration limits in accordance with article 71 of the Banking Act. At the end of 2013, the Bank's financial exposure to clients / groups of clients related by capital or organizational structure was no higher than the concentration limit of exposures. The total of the Bank's exposure to a single client/ group of clients related by capital or organizational structure did not exceed 10% of the Bank's equity. According to the balance at the end of 2012, the limits given in article 71 of the Banking Act were not breached. At the end of December 2012, the total exposure equal or higher than 10% of the Bank's own capital amounted to 27.4% of the Bank's equity.

In the monitoring of geographical concentration, the Bank analyses all of its loan exposures, including from both retail and institutional clients. As at 31 December 2013, the respective geographical concentrations were as follows: Headquarters – 0.8%, Central Area – 12.1%, Central-West Area – 15.9%, Southern-East Area – 10.4%, Southern-West Area – 8.5%, Southern Area – 7.6%, Northern-East Area – 10%, Northern-West Area – 6.7%, Northern Area – 17.6%, Eastern Area – 10.4%. As at 31 December 2012, the respective geographical concentrations were as follows: Headquarters – 0.8%, Central Area – 12.6%, Central-West Area – 15.5%, Southern-East Area – 10.3%, Southern-West Area – 8.5%, Southern Area – 7.8%, Northern-East Area – 9.7%, Northern-West Area – 6.9%, Northern Area – 17.6%, Eastern Area – 10.3%.

As a part of credit portfolio's analysis, the Bank assesses also share of credits with potential impairment triggers in the credit portfolio, for which impairment was recognized. Table below presents the results of the analysis:

- in PLN thousands

Share of loans with impairment identified by regions*

Regions	Exposure		Share of exposures with impairment identified	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Headquarters	217 437	223 778	89.1%	96.9%
Central	3 337 440	3 465 943	10.6%	8.0%
Central-West	4 371 658	4 245 792	9.6%	8.4%
Southern-East	2 858 839	2 831 449	6.8%	5.3%
Southern-West	2 332 062	2 343 855	6.4%	7.2%
Southern	2 104 217	2 142 860	9.0%	7.2%
Northern-East	2 761 062	2 648 138	3.0%	2.6%
Northern-West	1 852 112	1 888 659	5.4%	5.5%
Northern	4 848 262	4 820 630	8.0%	6.4%
East	2 866 836	2 816 354	5.8%	5.9%
Total	**27 549 925**	**27 427 458**	**8.12%**	**7.2%**

**Loans with identified impairment*

The analysis of concentration by industry covers all of the Bank's loan exposures to corporate clients. The Bank defines the industries based on the Polish Classification of Activities (2007 PCA). The industry structure of the Bank's exposures at the end of 2013, similar to that at the end of 2012, is characterized by the high share of the following three industries: agriculture, wholesale trade and food production. In 2012, those 3 constituted 65.3% of the Bank's portfolio while at the end of 2013 it amounted to 68.7%. The headquarter line includes exposures which were created by restructuring of loans due to impairment triggers identified. Because of this, the share assigned to headquarter line is high.

The table below shows share impaired loans in the portfolio. At the end of 2013 and 2012, the highest share impaired loans was noted in the apparel industry.

- in PLN thousands

Share of loans with impairment identified by industry (gross balance)*

Sector:	Exposure		Share of exposures with impairment identified	
	31.12.2013	31.12.2012	**31.12.2013**	31.12.2012
Agriculture	**8 347 835**	7 248 500	**3.3%**	3.0%
Wholesale trade: wholesale and retail trade in vehicles	**2 143 544**	2 531 983	**14.0%**	9.5%
Food production	**1 854 681**	2 276 054	**10.4%**	9.2%
Retail trade	**555 047**	612 122	**14.4%**	10.6%
Professional. scientific and technical activities	**519 431**	586 753	**20.7%**	17.8%
Manufacture of cork and refined petroleum products, chemicals and chemical products, rubber and plastic products	**476 901**	614 799	**3.4%**	6.5%
Construction	**467 556**	576 303	**37.4%**	21.5%
Production of metallic, other mineral nonmetallic materials	**442 625**	463 095	**21.4%**	18.7%
Real estate activities	**437 915**	624 679	**15.3%**	1.9%
Transportation and storage	**358 226**	395 103	**8.7%**	9.8%
Manufacture of products of wood and cork, paper and paper products, furniture	**354 413**	455 038	**19.7%**	11.9%
Manufacture of machinery and equipment motor vehicles	**347 168**	285 876	**6.9%**	6.2%
Other business activity	**308 625**	370 748	**4.5%**	1.3%
Electricity, gas, steam, hot water production and supply	**293 433**	268 353	**4.2%**	0.1%
Hotels and restaurants	**244 208**	280 245	**16.8%**	11.6%
Financial and insurance activities	**171 800**	92 808	**19.2%**	11.6%
Information and communication	**124 072**	135 962	**5.1%**	3.4%
Health care and social assistance	**100 423**	101 959	**1.2%**	0.4%
Manufacture of wearing apparel, textiles, feather and related products	**94 073**	110 135	**28.9%**	24.0%
Education, arts, entertainment and culture	**74 027**	58 583	**11.8%**	3.4%
Water supply, sewerage, waste management	**72 599**	85 152	**8.2%**	5.5%
Other services activity	**38 668**	34 397	**6.9%**	7.1%
Manufacture of electronic and optical products, electrical equipment	**33 831**	85 194	**55.1%**	37.0%
Forestry and logging	**33 034**	31 971	**8.5%**	4.8%
Other food production	**26 080**	26 266	**13.9%**	9.5%
Mining and quarrying	**25 300**	27 473	**2.0%**	2.1%
Fishing	**22 800**	19 620	**7.0%**	3.3%
Other industries	**12 451**	53 522	**41.1%**	75.1%
Retail customers	**9 569 159**	8 974 765	**6.5%**	6.6%
Total	**27 549 925**	**27 427 458**	**8.12%**	**7.2%**

** Impaired loans*

The Bank also manages the risk of collateral concentration. As a result, the Bank has introduced limits on exposures for particular kinds of collaterals, taking care of their adequate diversification. As at the end of 2013 and 2012, no breach of concentration limits was noted.

In case of loans assessed individually, the Bank expects to recover from collaterals the amount of PLN 558 million, which represents 45.0% of the total portfolio assessed individually and 67.8% of expected recoveries from individually significant customers. As at 31 December 2012, the Bank expected to recover from collaterals amount of PLN 469 million, what represents 42.6% of the total portfolio assessed individually and 65% of expected recoveries from individually significant customers.

- in PLN thousands

Maximal exposures for credit risk

	31.12.2013	31.12.2012
Credit risk connected with balance sheet assets are as follows:	**32 865 538**	**33 997 817**
Loans and advances to banks	269 757	104 035
Loans in current accounts	4 095 994	4 144 876
Loans and allowances to customers	22 234 366	22 212 646
- corporate	6 474 964	7 679 140
- households	15 359 713	14 163 659
- budget entities	251 312	313 531
- other entities	148 377	56 316
Debt securities held for trading	1 018 701	219 051
Derivative financial instruments	363 260	380 473
Hedging instruments	57 387	69 179
Available for sale financial assets	4 826 073	6 867 557
Credit risk connected with off-balance sheet items present as follows:	**4 605 578**	**4 610 161**
Guarantees granted	752 922	615 619
Financial commitments granted	3 852 656	3 994 542

The above table shows the structure of the credit risk exposure of the Bank as at 31 December 2013 and 31 December 2012, without taking into account risk mitigation instruments. For balance sheet assets exposures presented above are based on net amounts presented in statement of financial position.

Structure of receivables' delinquency

The purpose of the aging of loans and advances to customers, with no impaired triggers identified, is to show the level of any potential credit loss. The higher delinquency in payment, the higher probability of identifying an objective impairment trigger in the future. An increase of a delay in payment above zero days increases the possibility of identifying an objective impairment trigger but as such it does not constitute a basis for the identification of such trigger. In case of exposures overdue for less than 91 days, the trigger can be identified on the basis of additional information on the financial and economic position of a client.

The loan portfolio divided into exposures with identified impairment trigger and with no impairment trigger identified including the number of overdue days is presented in the tables below. For the aim of calculating impairment allowance as well as data presentation in the following tables, the loan is held as overdue not in the installment due date but in the next day.

As at 31 December 2012, the Bank used a different division of the loan portfolios than it was as at 31 December 2013. Therefore, in order to allow comparison of the data in the following table the distribution of portfolios in accordance with the rules in force as at 31 December 2013 was presented. Changing the distribution of portfolios in 2013 resulted from changes in the internal segmentation of the Bank's customers. Previously used segments are no longer assigned to the customers, what makes it impossible to rely on them when defining loan portfolios for calculating impairment allowance.

- in PLN thousands

Loan portfolio structure classified by impairment and delinquency
31.12.2013 (net carrying value)

portfolio	No impairment					
	0 days	1-30 days	31-60 days	61-90 days	Impaired	Total
Limits on current account – individuals	89 084	1 365	423	195	2 923	93 990
Credit cards	70 062	2 118	628	400	1 262	74 470
Housing loans	7 448 896	165 072	47 142	12 561	195 857	7 869 528
Mortgage loans	106 492	3 463	1 299	229	4 508	115 991
Cash loans	799 823	45 187	8 855	2 615	20 452	876 932
Cash loans created through restructuring	-	-	-	-	335	335
Student loans	105 047	860	387	3	2 018	108 315
Restructured retail exposures	399	12	-	-	48 054	48 465
Other retail exposures	5 174	16	1	2	3 910	9 103
Revolving loans for farmers	1 893 625	1 732	9 394	2 475	20 816	1 928 042
Non-revolving loans for farmers	4 647 048	8 827	4 460	1 713	77 489	4 739 537
Revolving loans for companies with simplified accounting	187 190	483	714	179	5 566	194 132
Non-revolving loans for companies with simplified accounting	896 292	4 630	9 347	5 448	39 144	954 861
Revolving loans for companies with full accounting	3 061 987	3 709	965	1 689	97 458	3 165 808
Non-revolving loans for companies with full accounting	5 191 308	4 009	5 873	2 280	301 084	5 504 554
Financial institution	115 191	178	-	-	-	115 369
Budget entities	232 209	2 779	-	-	-	234 988
Restructured exposures to farmers and enterprises	5	-	-	-	295 935	295 940
Total	**24 849 832**	**244 440**	**89 488**	**29 789**	**1 116 811**	**26 330 360**

- in PLN thousands

Loan portfolio structure classified by impairment and delinquency
31.12.2012 (net carrying value)

portfolio	No impairment					
	0 days	1-30 days	31-60 days	61-90 days	Impaired	Total
Limits on current account – individuals	91 155	683	427	292	3 175	95 732
Credit cards	60 544	2 211	610	534	1 501	65 400
Housing loans	7 046 583	186 578	43 025	13 403	193 751	7 483 340
Mortgage loans	110 501	3 708	1 262	725	4 939	121 135
Cash loans	606 682	36 411	6 231	1 491	28 028	678 843
Cash loans created through restructuring	-	-	-	-	800	800
Student loans	138 230	763	313	1	2 673	141 980
Restructured retail exposures	311	7	12	-	24 935	25 265
Other retail exposures	2 881	5	-	54	1 868	4 808
Revolving loans for farmers	1 546 388	1 132	7 101	2 439	15 547	1 572 607
Non-revolving loans for farmers	4 092 609	6 167	6 289	1 314	69 375	4 175 754
Revolving loans for companies with simplified accounting	216 210	1 830	1 474	61	7 390	226 965
Non-revolving loans for companies with simplified accounting	873 060	3 270	6 916	4 749	62 298	950 293
Revolving loans for companies with full accounting	3 807 266	4 290	2 178	2 043	173 464	3 989 241
Non-revolving loans for companies with full accounting	6 064 591	7 266	13 295	6 307	304 963	6 396 422
Financial institution	56 019	-	-	-	-	56 019
Budget entities	290 808	-	-	-	-	290 808
Restructured exposures to farmers and enterprises	-	-	-	-	82 110	82 110
Total	**25 003 838**	**254 321**	**89 133**	**33 413**	**976 817**	**26 357 522**

The level of potential credit loss on exposures without impairment triggers identified is also reflected in the values of PD (probability of default) parameters assigned to these exposures at the reporting date. These parameters describe the probability of the occurrence of event indicating an objective impairment trigger for a given loan exposure in the following 12 months.

These parameters are indicative and are not included in the calculation of allowances for impairment. For these calculations, the Bank uses parameters, which are calculated separately for different classes of risk within individual portfolios. For the calculation of impairment losses, the Bank uses various periods of LIP for different portfolios, so for the presentation purposes, to ensure comparability of the coefficients of PD, the values shown in the table were determined using a single 12-month period LIP.

The structure of loan portfolio without impairment
(net value in PLN thousands, PD for 12-month LIP)

portfolio	31.12.2013 value	31.12.2013 PD	31.12.2012 value	31.12.2012 PD
Limits on current account – individuals	91 067	2.90%	92 557	2.96%
Credit cards	73 208	3.04%	63 899	5.01%
Housing loans	7 673 671	1.15%	7 289 589	1.53%
Mortgage loans	111 483	2.01%	116 196	2.62%
Cash loans	856 480	3.63%	650 815	4.87%
Cash loans created through restructuring	-	-	-	-
Student loans	106 297	0.64%	139 307	0.69%
Restructured retail exposures	411	-	330	-
Other retail exposures	5 193	4.11%	2 940	6.11%
Revolving loans for farmers	1 907 226	0.81%	1 557 060	0.91%
Non-revolving loans for farmers	4 662 048	0.77%	4 106 379	0.74%
Revolving loans for companies with simplified accounting	188 566	3.93%	219 575	4.04%
Non-revolving loans for companies with simplified accounting	915 717	3.14%	887 995	2.72%
Revolving loans for companies with full accounting	3 068 350	1.78%	3 815 777	1.26%
Non-revolving loans for companies with full accounting	5 203 470	2.32%	6 091 459	1.99%
Financial institution	115 369	-	56 019	-
Budget entities	234 988	-	290 808	-
Restructured exposures to farmers and enterprises	5	-	-	-
Total	**25 213 549**	**-**	**25 380 705**	**-**

As at 31 December 2012, the Bank used a different division of the loan portfolios than it was as at 31 December 2013. Therefore, in order to allow comparison, the data in the above table (portfolios and PD parameters) as at 31 December 2012 were presented in accordance with segmentation valid as at 31 December 2013.

For large and SME clients with full accounting, the Bank determines internal rating classes in accordance with the accepted credit policy. Rating classes are set on the basis of risk model dedicated to this part of loan portfolio and provide a basis for estimating the amount of IBNR provision. All Bank's clients are assigned ratings from R08 (clients for which the Bank identifies the lowest credit risk) to R20 (the clients for which the Bank identifies the highest credit risk). Ratings are assigned on the basis of annual financial data presented by the client, as well as general qualitative rating of the market situation. The structure of non-impaired financial assets in respect to internal ratings of the Bank is presented in the table below:

- in PLN thousands

Loan portfolio structure for corporates with internal rating, without impairment identified (net value)

Internal rating*	31.12.2013		31.12.2012	
	value	share	value	share
R08	83 983	1.0%	312	-
R09	71 238	0.9%	57 187	0.6%
R10	176 536	2.2%	526 857	5.4%
R11	279 018	3.4%	215 478	2.2%
R12	752 478	9.2%	336 440	3.5%
R13	762 397	9.3%	1 075 333	11.1%
R14	964 764	11.8%	1 071 347	11.0%
R15	907 046	11.1%	1 965 187	20.3%
R16	1 347 043	16.5%	1 456 215	15.0%
R17	1 148 323	14.1%	1 336 822	13.8%
R18	1 232 127	15.1%	1 129 677	11.7%
R19	326 742	4.0%	321 877	3.3%
R20	115 931	1.4%	202 080	2.1%

* Customer's rating is estimated based on internal model used in the Bank, which allows for classification of customers with regard to credit quality based on financial and quality data (R08- the best rating, R20- the worst rating)

The Bank uses standard types of collateral in its loan agreements, which do not differ from those used by other banks (i.e. mortgages, transfers of ownership, registered pledges, warranties, guarantees and the assignment of receivables).

The legal protections established by the Bank are monitored by way of an assessment of the value of accepted collateral, based on documents submitted by the borrowers. In addition, when assessing the value of the collateral the Bank uses internal databases containing historical statistics relating to the realization of rights to collateral.

The Bank concludes that the basic collateral for the Bank is good customer financial standing. The acceptance of the property or personal collateral is an additional aspect mitigating risk in case of customer's insolvency.

The key principles of securing the Bank's credit exposure, including special rules for mortgage collateral, are described in the Handbook of institutional client's loan process and the Policy of risk management for retail credit exposures of BGŻ S.A., adopted by the Management Board of the Bank.

As a rule, the Bank requires that the collateral was established prior to disbursement of the loan, and the form, nature and value of collateral were proportional to the identified risks of hedged transactions. When choosing the form and the collateral, the Bank takes into account in particular:

- the nature, amount and duration of the loan transaction,
- the requirements of collateral type assigned to a given product,
- the financial-economic situation of the debtor due to collateral in case of personal collateral and the value of the collateral in case of physical collateral,
- the liquidity of the collateral, understood as a real probability of satisfying claims of the Bank out of a collateral in the shortest possible time, and without a significant reduction in the value of the collateral due to the fluctuation of prices for the collateral,
- cost connected with collateral's settlement incurred by a client,
- availability and possibility of collateral's control and time required for monitoring conducted by the Bank,
- place in order for claiming a collateral.

Bank's internal regulations shall specify the procedures for establishing, valuation and monitoring of collaterals, including requirements for the assessment of financial standing of the issuer of personal security and for collateral - rules of valuation of assets, that the Bank accepts as collateral. With regard to the mortgage collateral, the Bank sets the property value based on valuations prepared by professional appraisers, and for selected types of property, the Bank accepts internal valuations based on statistical data and transaction prices. For other collaterals (registered pledge, appropriation), the Bank sets the value of the collateral, in particular, on the basis of actual transaction prices.

The update of the value of the collateral, the evaluation of technical condition of the collateral, and control of the LtV level indicator with respect to transactions secured by a mortgage, are elements of monitoring customer’s credit risk and transaction. Limitation of the risk of changes in the value of collateral takes place among others through the relevant provisions of the credit agreements, including contractual clauses concerning the lack of possibility of charge - without consent or notification to the Bank - fixed assets or lack of disposal or without consent or notification to the Bank –in case of fixed assets.

While implementing the provisions of the regulations and supervisory recommendations, the Bank introduces internal rules complying with the regulations of the Polish Financial Supervision Authority, in particular relating to Recommendation S referring to exposures secured by mortgages.

51.3 Market risk and ALM (Assets and Liabilities Management)

Organization of market risk management process

The Bank’s operations are divided into trade book and bank’s book. The market changes of interest rates, foreign exchange rates, securities prices, option instrument volatility index result in the changes of current values of these books. The risk of adverse change of value due to the occurrence of above is recognized by the Bank as market risk and due to different characteristics of those books this risk is monitored and managed with tools and measures adjusted to characteristics of a particular risk for a given book. The management of currency risk of the Bank is centralized and is in trading book in FX trading portfolio.

Additionally, the Bank has withdrawn from any activity regarding shares that were carried out by the Brokerage House.

The Bank assigns all balance items and off-balance transactions to banking or trading book in order to properly reflect the specifics of a financial market transaction, i.e. transaction’s purpose, dominant risks and book keeping method. The precise criteria of this classification are determined by the policies introduced by the Bank’s Management Board resolutions which regulate the aim of running a given book, acceptable scale, profile and types of risks taken, methods of their measurement and limiting, rights and placement of the Bank’s organizational entities in the process of risk’s generation, measurement, limiting and reporting.

The process of transaction’s settlement, recording, risk level control and risk limits’ setting is performed by independent units. The Bank’s Supervisory Board, taking into account the Bank’s long-term strategy and financial plan, determines the risk profile, which is later, in form of risk limits, assigned to books by the Balance Sheet and Risk Management Committee (hereinafter referred to as BRMC). The Financial Markets Department is operationally responsible for the current management of trading book’s risk and the Money Market portfolio as part of banking book, acting within the accepted risk limits. The structural risk of interest rate (in the banking book area) is managed by Assets and Liabilities Management Office (hereinafter “ALM”). The Financial Risk Management Office (hereinafter “FR”) is responsible for measuring and reporting the level of risk and breaches of limit, independent valuation and calculation of management result is carried out by the Valuation of Financial Instruments Department (hereinafter “WD”) and accounting records and transactions’ settlement are carried out by The Foreign Operations Department (hereinafter “FO”). The system of acceptance of limits breaches is hierarchical, depending on the type of the limit (its “validity”) and the type of breach (technical, minor, major) and it is placed from a level of FR director to a Member of the Board supervising System Risk

Area. Regardless of the above mentioned process, all breaches are reported and discussed at monthly meetings of BRMC.

Risk measures

The core market risk and interest rates risk measures in the banking book applied by the Bank are:

- Value at Risk (VaR), which indicates the maximum projected amount of loss that may be incurred on a given item under normal market conditions within a given time horizon, that may be exceeded with a given probability. The Bank applies the parametric model with a modified variance-covariance matrix and exponential weighing of historical events, 99% confidence level, 1-day position holding period for the trading book and 1-month position for the Money Market portfolio. The Bank is aware of the limitations of VaR, primarily of the following:
  - VaR is a statistical estimate method, therefore it is possible that in a certain period a greater number of days appear on when the losses exceed the calculated value of VaR, than indicated by the level of materiality,
  - Although the Bank expects that a loss does not exceed the calculated VaR in 99% of the cases, in the remaining 1% of the cases, the losses may be much greater than VaR,
  - VaR is a measure reflecting the exposure in a specific time and should not be used to estimate the risk for another period.
- stress test analyses, which supplement the VaR model with events other than statistically predictable market events such as historical economic or political crises and theoretical scenarios,
- sensitivity measures - determining a sensitivity of a given financial measure - of valuation, interest income, net current capital - on the changes in risk factors. The Bank uses the following measures: delta/bpv, duration and additionally for the banking book: Interest at Risk (IaR - net interest income sensitivity) and Equity at Risk (EaR - net capital value sensitivity),
- nominal measures – including the volume of the FX position during a day and at the end of a day, the face value of securities,
- non-monetary limits, including acceptable kinds of instruments, currencies, currencies' pairs, highest maturity, minimal credit rating for debt securities,
- stop-loss limits for different time periods (day, month, year) at the level of portfolios and sub-portfolios.

Banking book risk (ALM)

Banking Book of the Bank consists of two elements. The first one is ALM used for managing the interest rate risk and long-term liquidity of the Bank. The second element is the Money Market portfolio, which functions as a short term liquidity management centre and, at the same time, it allows the Bank to conduct activity on monetary market.

The ALM consists of deposits and loans, strategic positions (long-term investments, debt issue), financial market hedging operations to secure the banking book (by derivatives) and non-interest positions (i.e. equity, tangible assets, intangible assets, taxes and provisions, current profit). Management over all of these elements is transferred to the Bank's Headquarters through Funds' Transfer Pricing system.

The Money Market encompasses liquid assets and the closed-up differences on client's derivatives transactions (mostly regarding currency forward/futures contracts). The aim of derivative transactions that are included in this portfolio is to stabilize the cost of financing, to meet the needs of ALM portfolio through the external market transactions, to hedge cash flows from client's transactions and to adjust the level of risk to an acceptable level.

The Bank's policy with respect to the banking book is to earn additional income in excess of product margins, while avoiding the risk of instability of client deposits, equity or net profit. The

- in PLN thousands

Bank achieves this goal by keeping or matching the natural exposure resulting from deposit and lending activities within current risk limits and consistent with middle- and long-term financial market trends.

The competitive conditions of the local financial market and the expectations of the clients are the main factors shaping the product policy of the Bank, particularly the application of variable interest rate for medium- and long-term credit products and financing such assets with short-term fixed interest deposits and accounts.

Following low interest rates' conditions in 2013, as well as with announced new liquidity requirements consistent with Basel III's standards, demand and offer of medium- and long-term deposits became increased. It is expected that in 2014 and 2015 this trend will hold.

As of the end of 2013, including contracting dates of revaluation/maturity for standard products (based on interbank rates) and replicated risk profile for products without identified maturity (current and savings accounts, loans on current account) and products, which price is determined by the Bank's Management Board or in the multiplier way that depends on the market rates (for example preferential loans with the subsidy from ARiMR), the average duration - i.e. weighted period to interest revaluation- of balance sheet assets stabilized at a level of 3.8 month (one year ago 2.9 month), while in the case of balance sheet liabilities it equaled to 3.3 month (previously 2.6 month). More than 90% of assets and liabilities have a revaluation date lower than 6 month (93 % at the end of 2012), and almost 53% of assets and liabilities are revalued within one month (previously 59%).

Interest rate gap 31.12.2013	Up to 1 month	1-3 months	3-12 months	1 - 5 years	Over 5 years	Total
Assets						
Cash and balances with the Central Bank	904 670	-	-	-	-	904 670
Amounts due from banks	270 762	-	60	397	-	271 219
Debt securities held for trading	1 328 917	-	185 000	-	-	1 513 917
Loans and advances to customers	16 057 381	8 478 134	3 126 387	-	-	27 661 902
Investment securities:						
- available – for – sale	1 625 000	5 000	103 000	1 120 000	1 775 000	4 628 000
- other debt securities	-	-	-	-	-	-
Other assets	1 093 464	237 542	88 566	12 328	-	1 431 900
Total assets:	**21 280 194**	**8 720 676**	**3 503 013**	**1 132 725**	**1 775 000**	**36 411 608**
Liabilities						
Amounts due to banks	(406 250)	(1 250)	(5 625)	-	-	(413 125)
Amounts due to customers	(9 689 335)	(7 639 845)	(8 050 713)	(1 006 654)	-	(26 386 547)
Other borrowed funds	(1 041 465)	(1 894 861)	(1 406 333)	-	-	(4 342 659)
Other liabilities	(523 690)	-	-	(468 493)	(1 065 694)	(2 057 877)
Liabilities total	**(11 660 740)**	**(9 535 956)**	**(9 462 671)**	**(1 475 147)**	**(1 065 694)**	**(33 200 208)**
Off-balance sheet						
Net off-balance sheet liabilities	(5 028 218)	646 660	4 701 005	(306 137)	-	13 311
Partial interest rate gap	**4 591 236**	**(168 620)**	**(1 258 653)**	**(648 559)**	**709 306**	
Cumulated interest rate gap	**4 591 236**	**4 422 616**	**3 163 963**	**2 515 404**	**3 224 710**	

- in PLN thousands

Interest rate gap 31.12.2012	Up to 1 month	1-3 months	3-12 months	1 - 5 years	Over 5 years	Total
Assets						
Cash and balances with the Central Bank	1 241 386	-	-	-	-	1 241 386
Amounts due from banks	100 483	-	251	458	-	101 192
Debt securities held for trading	249 040	28 618	-	26 173	8 000	311 831
Loans and advances to customers	16 626 114	7 788 791	3 258 086	-	-	27 672 991
Investment securities:						
- available – for – sale	3 830 000	-	289 600	1 195 000	1 235 000	6 549 600
- other debt securities	-	-	-	-	-	-
Other assets	1 143 979	173 233	60 634	10 502	-	1 388 348
Total assets:	**23 191 002**	**7 990 642**	**3 608 571**	**1 232 133**	**1 243 000**	**37 265 348**
Liabilities						
Amounts due to banks	(477 332)	(21 320)	(40 940)	(169 446)	-	(709 038)
Amounts due to customers	(12 036 815)	(8 697 916)	(5 882 841)	(105 867)	-	(26 723 439)
Other borrowed funds	(988 643)	(2 094 727)	(2 343 005)	-	-	(5 426 375)
Other liabilities	(129 258)	-	-	(466 057)	(1 013 807)	(1 609 122)
Liabilities total	**(13 632 048)**	**(10 813 963)**	**(8 266 786)**	**(741 370)**	**(1 013 807)**	**(34 467 974)**
Off-balance sheet						
Net off-balance sheet liabilities	(1 993 809)	861 303	(113 669)	1 254 154	(8 975)	(996)
Partial interest rate gap	**7 565 145**	**(1 962 018)**	**(4 771 884)**	**1 744 917**	**220 218**	
Cumulated interest rate gap	**7 565 145**	**5 603 127**	**831 243**	**2 576 160**	**2 796 378**	

In the above analysis of interest rate risk profile, the following assumptions are used what causes differences compared to the accounting data:

a) size of a gap is recognized in nominal values of a given transaction,
b) based on the resolution of the Management Board, variable interest rate contracts are assigned a monthly revaluation period,
c) preferential loans with the NBP rediscounting rate calculated using appropriate multiplier as an interest rate, are assigned with monthly revaluation period, the denomination of transactions is increased within the revaluation in proportion to the size of the multiplier,
d) accounts and loans in current accounts (overdrafts) are recognized in two parts: statistically designated, overlapping sediment (current accounts: 12 x 1 year, savings accounts: 3 x 3 months, overdraft: 1 x 1 month) and a fluctuating part, represented as resources with 1-day revaluation,
e) trading book items are treated as short-time and presented in the period up to 1 month, as they are evaluated at fair value and generate barely any net interest income, the Money Market' items, are recognized accordingly to their revaluation dates,
f) calculation of interest rate gap includes constant (additive) and multiplier margins over market rates for the products based on variable reference rate, e.g. WIBOR. LIBOR, EURIBOR, NBP rediscounting rate.

The Bank's cumulative interest rate gap profile is characterized by a surplus of assets in all revaluation dates. The extension of deadlines in Bank's balance sheet revaluation structure results on liabilities side from the increase of term deposits, partially at expense of saving account and on assets side mainly from long-term positions in State Treasury debt securities (following increase in equity) and limiting position in 7-days NBP money market bills.

The changes in the Bank's revaluation structure also caused changes in the sensitivity of net interest income. Immediate increase of interest rates by 50 b.p. could lead to increase in the net interest income in one year period by around PLN 14.1 million (PLN 1.3 million decrease in previous year), while gradually raising interest rates by 200 b.p. in one year period could lead to an increase in net interest income by around PLN 35.8 million (PLN 4 million in previous year). The immediate decrease of interest rates by 50 bp could lead to decrease of the net interest income in one year period by PLN 15.6 million (increase by PLN 3.5 million in previous year), while gradually lowering interest rates by 200 bp in one year period could lead to decrease in net interest income by PLN 38.7 million (previously PLN 8.8 million). The differences in sensitivity of the net interest income to decline in interest rates in comparison to the sensitivity of increase of net interest income from the lower sensitivity of selected classes of liabilities (part of cost does not change in accordance with changes in market rates) and low level of basis rates.

Net interest income sensitivity in ALM (in thousands PLN)

	31.12.2013	31.12.2012
Immediate interest rate increase by 50 bps:		
- upwards	14 128	(1 334)
- downwards	(15 637)	3 510
Gradual interest rate increase by 200 bps:		
- upwards	35 798	(4 028)
- downwards	(38 679)	8 840

The comparison of net interest income sensitivity at the end of 2013 and 2012 indicates risk increase. However, at the end of 2013 its level was consistent with the conservative limits and mid-term expectations regarding changes of interest rates.

The major Money Market portfolio exposures were the open positions in short-term treasury bills issued by NBP (held for a short-term liquidity management purposes) and Interest Rate Swaps (OIS and IRS – formation of exposure, hedging price risk) and FX Swap (bank financing in foreign currencies).

Levels of VaR (99% confidence level, holding period 1 month) for a portfolio of Money Market in 2013 and 2012 were as follows:

Risk in Money Market port folio (PLN thousand)

	Value at Risk	average	max	min
31.12.2013	1 897	4 544	9 288	1 575
31.12.2012	6 687	5 344	12 211	1 470

Market risk in the trading book

Trading activities are complementary and are carried out to support the sales of financial products to corporate, finance non-banking customers (direct sales) and retail customers (via structured products). Opening for this purpose its own positions, the Bank generates income from short-term changes in price parameters (currency rates, interest rates, and prices of securities etc,) while keeping the size of the exposure within defined risk limits.

Within the interest rate exposure, (IR VaR portfolio) being main part of the trading portfolio, the Bank could buy government securities and NBP bills. There were also other instruments used: futures on bonds, IRS, CIRS, FRA and basic swap. The Bank's priority was to use interbank credit limits and risk limits in order to secure structural risk of interest rate and liquidity. This is why the Bank has focused on current and term realization of transactions on debt instruments in its trade book, simultaneously servicing growing customer's demand. The Bank has kept relatively high exposure in Treasury bills, which under conditions of increasing volatility in market interest rates (declaration of leaving mild monetary policy in the USA) in connection with remaining exposures in the portfolio, that resulted from previous IRS transactions, led to higher level of risk expressed by a Value-At-Risk measure an stress – test. Mid-year VaR for the whole trading book has increased from PLN 866 thousands in 2012 to PLN 946 thousands in 2013. However, exposure at the end of 2013 reached much lower level of PLN 324 thousands.

Risk portfolio of IR VaR (in PLN thousands)

		31.12.2013	31.12.2012
IR VaR[1]		**325**	**586**
	average	944	867
	max	1336	1270
	min	302	457
Stress test[2]		**1 805**	**8 221**

1) The Bank uses the parametric method with kurtosis correction and exponential weighting, 99% confidence level and 1-day position holding period
2) The most harmful from 20 available historical scenarios, including 2 week-long events with over 10 year-long history of market data

At the same time very stable and low risk exposure characterized the area of foreign exchange transactions (FX VaR portfolio) which is used to manage currency position of the Bank. Client currency transactions were closed almost immediately. For this reason, the size of the foreign currency exposure of the business day (i.e. intraday) remained at a low level. Similarly, positions in foreign currency options offered to customers were, in accordance with the current policy, absolutely and immediately closed on the interbank market.

Risk portfolio of FX VaR (in PLN thousand)

		31.12.2013	31.12.2012
FX VaR[1]		**23**	**14**
	average	*47*	*18*
	max	*230*	*132*
	min	*4*	*5*

1) The Bank uses the parametric method with kurtosis correction and exponential weighting, 99% confidence level and 1-day position holding period

The table below presents gross carrying amounts of assets and liabilities by currency expressed in PLN thousands.

31.12.2013	EUR	USD	CHF	GBP	SEK	Other
Assets						
Cash and balances in the Central Bank	75 523	27 801	13 112	23 752	-	-
Amounts due from banks	143 282	78 526	281	7 253	5 928	7 950
Loans and advances to customers	1 262 241	125 828	3 212 159	136	-	-
Shares	46	-	-	-	-	-
Debt securities issued	-	28 570	-	-	-	-
Other assets	50 833	6 553	3 262	7 660	2	80
Total assets	**1 531 925**	**267 278**	**3 228 814**	**38 801**	**5 930**	**8 030**
Liabilities						
Amounts due to banks	221 065	8 383	2 453 850	6 980	-	54
Amounts due to customers	1 105 352	419 146	4 942	38 012	5 338	1 346
Subordinated liabilities	-	-	304 817	-	-	-
Other liabilities	31 655	11 270	27	1 170	277	1 084
Total liabilities	**1 358 072**	**438 799**	**2 763 636**	**46 162**	**5 615**	**2 484**
Derivatives and commitments – nominal value	**11 852 750**	**6 635 684**	**536 890**	**529 168**	**113**	**158 642**

31.12.2012	EUR	USD	CHF	GBP	SEK	Other
Assets						
Cash and balances in the Central Bank	143 077	36 734	17 991	32 784	-	-
Amounts due from banks	43 006	14 952	344	1 188	5 555	6 368
Loans and advances to customers	1 365 925	109 598	3 447 543	1 696	1	177
Shares	45	-	-	-	-	-
Debt securities issued	36 770	-	-	-	-	-
Other assets	61 477	3 938	2 450	12 499	2	5
Total assets	**1 650 300**	**165 222**	**3 468 328**	**48 167**	**5 558**	**6 550**
Liabilities						
Amounts due to banks	400 241	29 068	3 030 709	4 517	-	994
Amounts due to customers	1 069 797	408 061	4 859	29 326	1 891	1 588
Other liabilities	27 925	3 487	10	5 202	151	632
Total liabilities	**1 497 963**	**440 616**	**3 035 578**	**39 045**	**2 042**	**3 214**
Derivatives and commitments – nominal value	**2 947 771**	**3 460 134**	**1 533 708**	**21 240**	**3 096**	**15 747**

51.4 Liquidity risk

Liquidity risk – organization of risk management

The Bank has a comprehensive liquidity management system, i.e. it embraces both quick, current and short-term liquidity and structural middle- and long-term liquidity. The Bank manages its risk by shaping the structure of balance sheet, transactions and off – balance sheet liabilities to ensure that liquidity is maintained at each time, while taking into account the nature of the business conducted, the nature and behavior of the clients and the needs that may arise as a result of changes on the financial market. Used identification methods and risk measurement enable also forecasting future liquidity levels. Bank has tables of limits (so-called net of limits) which limit Bank's risk exposure. Liquidity risk monitoring and control are conducted based on the document ('Policy'), introduced with a resolution of the Management Board of the Bank, developed in accordance with Recommendation 'P' of the PFSA and the clauses of the resolution no. 386/2008 of the PFSA on determining liquidity standards for banks, including the solutions applied in the Rabobank Group – the majority shareholder. Liquidity risk limits are set by the BRMC based on the delegations of the Management Board of the Bank.

In addition, the Bank created a comprehensive emergency plan, including events scenarios and procedures to follow in the case of internal liquidity crisis and banking system crisis.

Risk measures

There are internal and external risk measures in the Bank. The internal norms include, among others, analysis of trends and variability of particular sources of finance in relation to credit portfolio, liquidity gap actualize by behavioral factors and based on it short- and long-term limits of mismatch structure, net cash outflow limits for particular currencies in different time horizons, analysis of inter-bank deposits market activity and obligatory reserves level, limits of minimal value of required liquid assets and highly liquid securities, analyses of deposit portfolio's stability and concentration, review of volume and age structure of placements made in the Bank by the biggest depositors. Additionally, a monitoring of the realization of plans of loans and deposits sales by particular business lines is performed and simulation analyses and Stress Tests are being prepared. A cost analysis of deposit database has been also conducted with a view to optimize liquidity buffer and rationalize the use of such tools as liquidity margin and price policy.

External standards include supervisory short- and long-term liquidity ratios introduced by the above mentioned resolution of the Polish Financial Supervision Authority.

Liquidity risk

In 2013 the Bank maintained safe level of financial liquidity. The financial resources held allowed timely settlement of all liabilities of the Bank. The portfolio of the most liquid securities was kept at a high level thus fully hedging a possible outflow of resources of the largest depositors. At the end of 2013, the Bank had liquid assets at PLN 5.80 billion (formerly PLN 6.96 billion):

Liquid assets (in thousands PLN)

	31.12.2013	31.12.2012
Liquid assets, including:	5 802 624	6 962 569
inter-bank deposits up to 1M	*128 563*	*60 334*
high liquid securities	*5 674 061*	*6 902 235*
Liquid assets limit	5 100 000	5 800 000
surplus/shortage of liquid assets	**702 624**	**1 162 569**

Similarly to the previous year, in 2013 the Bank was maintaining required levels of supervisory measures.

Supervisory liquidity measures (in thousands PLN)

	31.12.2013	31.12.2012
M1 (in PLN thousands)	1 951 044	2 622 253
M2	1.30	1.30
M3	4.63	4.24
M4	1.11	1.14
limit	**1.00**	**1.00**

At the end of December 2013, the surplus of the sources of finance outside the interbank market over loans balance amounted to PLN 2.96 billion (of which PLN 2.87 billion unstable sources from liabilities arising from repo transactions), whereas the surplus of stable sources of finance over the credit balance amounted to PLN 85 millions. The Bank has maintained safe liquidity level during whole year.

In 2013 the Bank has introduced optimalization of financing sources with purpose of reduction of necessary, but also expensive and unstable, financing surplus. With moderate changes of credit portfolio volume the unstable sources of financing have decreased by 18.2%. Simultaneously the volume of stable sources decreased only by 3.8%.

Dynamics of loans and their sources of finance

	31.12.2013	31.12.2012
Stable financial sources	27 624 139	28 714 300
Unstable financial sources	2 870 394	3 507 277
Loans	27 539 249	27 400 048
Finance buffer	**2 955 284**	**4 821 529**
Stable financial sources surplus/ gap	**84 890**	**1 314 252**

Intensified efforts to obtain a stable deposits from retail customers and from agriculture sector, exchange of highly concentrated sources of finance into diversified sources and a loan in the amount of PLN 3.6 billion from Rabobank allowed to significantly reduce the level of instable retail customers' deposits and replace them with sources of high stability. As a result, the Bank has covered all loans with stable sources of finance.

During the year, stability of the Bank's sources of finance remained at a high level. Overall stability of sources has increased to 89.4%, mainly thanks to retail segment, state budgetary agencies, and extended certificates of deposit.

The maintenance of the stability was mainly possible due to low fluctuation of retail deposit balances, increase of balances of resources deposited by the Micro and SME sector (excluding migration between individual products), sediment cash of large enterprises and budget entities, the increasing balance of certificates of deposit and the credit line granted by Rabobank.

- in PLN thousands

Dynamics of stability of particular sources

	31.12.2013		31.12.2012	
	balance	stable (%)	balance	stale (%)
Retail clients	16 292 413	93.5%	15 649 672	93.1%
Enterprises	8 476 397	88.9%	7 919 482	91.1%
Budget entities	599 569	70.4%	674 705	51.1%
Non-banking financial entities	807 820	51.8%	2 183 427	59.6%
Certificates of deposit	1 184 000	97.4%	1 877 000	92.0%
Loans from financial institutions	412 800	100.0%	526 656	100.0%
Rabo credit line in CHF	2 441 515	100.0%	3 022 719	100.0%
Banks and other unstable sources	684 678	0.0%	896 904	0.0%
Total	**30 899 192**	**89.4%**	**32 750 565**	**87.7%**

Detailed liquidity gap of the Bank (contractual and realized) presenting following values:

Contractual liquidity gap 31.12.2013	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Assets					
Loans and advances to retail customers, including:	165 374	208 436	519 208	2 027 617	6 291 099
Housing and mortgage loans	*30 181*	*60 469*	*258 873*	*1 330 236*	*6 170 692*
Corporate loans	5 466 780	437 142	1 574 058	5 156 781	4 364 532
Matured loans	1 382 206	-	-	-	-
Debt securities	1 382 840	5 000	273 846	1 884 807	2 091 692
Interbank deposits	128 563	-	-	-	-
Cash and balances with the central bank	720 939	-	-	-	896 724
Non-current assets	-	-	-	210 233	449 139
Other assets	85 427	-	-	-	-
Liabilities received, including:	2 190 964	514 547	4 936 614	94 482	167 000
Derivative instruments	1 696 877	514 547	4 935 814	59 532	-
Liabilities					
Deposits from retail customers	11 351 639	977 120	3 182 035	781 484	135
Deposits from corporate customers	7 007 190	66 426	96 676	16 156	-
Interbank deposits	273 739	-	-	-	-
Negotiated deposits SK	1 138 580	892 096	731 993	290 214	-
Loans from financial institutions	23 671	35 507	325 922	1 230 009	1 239 206
Certificates of deposit	150 000	213 500	65 500	755 000	-
Subordinated equity and liabilities	-	-	161 012	-	3 647 003
Other liabilities	55 393	-	-	-	-
Liabilities granted, including:	5 492 588	626 584	5 253 319	559 922	201 575
Derivative instruments	1 661 227	512 996	4 953 353	59 542	-
Total receivables	**11 523 093**	**1 165 125**	**7 303 726**	**9 373 920**	**14 260 186**
Total liabilities	**25 492 800**	**2 811 233**	**9 816 457**	**3 632 785**	**5 087 919**
Partial liquidity gap	(13 969 707)	(1 646 108)	(2 512 731)	5 741 135	9 172 267
Cumulated liquidity gap	(13 969 707)	(15 615 815)	(18 128 546)	(12 387 411)	(3 215 144)

- in PLN thousands

Contractual liquidity gap 31.12.2012	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Assets					
Loans and advances to retail customers, including:	154 170	166 144	457 513	1 839 133	6 014 778
Housing and mortgage loans	*27 203*	*46 734*	*239 205*	*1 286 059*	*5 898 652*
Corporate loans	5 868 065	354 844	1 897 695	5 060 792	4 416 272
Matured loans	1 211 321	-	-	-	-
Debt securities	3 810 000	28 617	261 600	1 305 689	1 341 092
Interbank deposits	-	-	191	-	-
Cash and balances with the central bank	1 182 296	-	-	-	924 313
Non-current assets	-	-	-	211 472	469 099
Other assets	60 336	-	-	-	-
Liabilities received, including:	3 385 465	574 205	305 710	276 792	41 779
Derivative instruments	2 853 508	574 205	305 710	186 792	79
Liabilities					
Deposits from retail customers	10 526 603	1 780 475	3 273 718	71 376	1 084
Deposits from corporate customers	5 965 895	35 016	315 445	24 939	-
Interbank deposits	315 825	20 000	35 000	-	-
Negotiated deposits SK	1 309 021	2 166 018	1 231 334	201 805	-
Loans from financial institutions	23 708	47 415	330 174	1 423 306	1 724 772
Certificates of deposit	230 000	121 000	955 000	571 000	-
Subordinated equity and liabilities	-	-	134 343	-	3 332 204
Other liabilities	54 221	-	-	-	-
Liabilities granted, including:	6 692 992	696 487	850 984	482 695	117 640
Derivative instruments	2 865 579	554 709	306 071	187 364	44
Total receivables	**15 671 653**	**1 123 810**	**2 922 709**	**8 693 878**	**13 207 333**
Total liabilities	**25 118 265**	**4 866 411**	**7 125 998**	**2 775 121**	**5 175 700**
Partial liquidity gap	(9 446 612)	(3 742 601)	(4 203 289)	5 918 757	8 031 633
Cumulated liquidity gap	(9 446 612)	(13 189 213)	(17 392 502)	(11 473 745)	(3 442 112)

- in PLN thousands

Liquidity gap realignment 31.12.2013	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**
Assets					
Loans and advances to retail customers, including:	87 810	212 361	537 159	2 986 556	5 387 848
Housing and mortgage loans	*30 181*	*60 469*	*258 873*	*2 224 986*	*5 275 942*
Corporate loans	1 450 276	640 399	2 503 569	8 040 517	4 364 532
Matured loans	144 445	12 233	56 143	422 969	746 416
Debt securities	1 877 386	5 000	3 621 895	73 483	175 092
Interbank deposits	128 563	-	-	-	-
Cash and balances with the central bank	720 939	-	-	-	896 724
Non-current assets	-	-	-	210 233	449 139
Other assets	85 427	-	-	-	-
Liabilities received, including:	2 190 964	514 547	4 936 614	94 482	167 000
Derivative instruments	1 696 877	514 547	4 935 814	59 532	-
Liabilities					
Deposits from retail customers	2 591 385	1 448 546	4 350 131	6 842 507	1 059 845
Deposits from corporate customers	2 902 832	110 249	555 838	2 235 506	1 382 023
Interbank deposits	273 739	-	-	-	-
Negotiated deposits SK	1 138 580	892 096	731 993	290 214	-
Loans from financial institutions	23 671	35 507	325 922	1 230 009	1 239 206
Certificates of deposit	150 000	213 500	65 500	755 000	-
Subordinated equity and liabilities	-	-	161 012	-	3 647 003
Other liabilities	55 393	-	-	-	-
Liabilities granted, including:	5 492 588	626 584	5 253 319	559 922	201 575
Derivative instruments	1 661 227	512 996	4 953 353	59 542	-
Total receivables	**6 685 810**	**1 384 540**	**11 655 380**	**11 828 240**	**12 186 751**
Total liabilities	**12 628 188**	**3 326 482**	**11 443 715**	**11 913 158**	**7 529 652**
Partial liquidity gap	(5 942 378)	(1 941 942)	211 665	(84 918)	4 657 099
Cumulated liquidity gap	(5 942 378)	(7 884 320)	(7 672 655)	(7 757 573)	(3 100 474)

- in PLN thousands

Liquidity gap realignment 31.12.2012	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Assets					
Loans and advances to retail customers, including:	76 929	169 920	475 521	2 759 033	5 150 335
Housing and mortgage loans	27 203	46 734	239 205	2 141 364	5 043 348
Corporate loans	1 583 983	564 293	2 896 479	8 136 642	4 416 272
Matured loans	126 587	10 357	49 565	370 677	654 135
Debt securities	3 904 558	28 617	2 861 551	26 593	151 092
Interbank deposits	-	-	191	-	-
Cash and balances with the central bank	1 182 296	-	-	-	924 313
Non-current assets	-	-	-	211 472	469 099
Other assets	60 336	-	-	-	-
Liabilities received, including:	3 385 465	574 205	305 710	276 792	41 779
Derivative instruments	2 853 508	574 205	305 710	186 792	79
Liabilities					
Deposits from retail customers	5 175 557	1 984 303	4 245 882	3 679 220	564 710
Deposits from corporate customers	2 337 261	157 169	897 959	1 868 435	1 080 470
Interbank deposits	315 825	20 000	35 000	-	-
Negotiated deposits SK	1 309 021	2 166 018	1 231 334	201 805	-
Loans from financial institutions	23 708	47 415	330 174	1 423 306	1 724 772
Certificates of deposit	230 000	121 000	955 000	571 000	-
Subordinated equity and liabilities	-	-	134 343	-	3 332 204
Other liabilities	54 221	-	-	-	-
Liabilities granted, including:	6 692 992	696 487	850 984	482 695	117 640
Derivative instruments	2 865 579	554 709	306 071	187 364	44
Total receivables	**10 320 154**	**1 347 392**	**6 589 017**	**11 781 209**	**11 807 025**
Total liabilities	**16 138 585**	**5 192 392**	**8 680 676**	**8 226 461**	**6 819 796**
Partial liquidity gap	(5 818 431)	(3 845 000)	(2 091 659)	3 554 748	4 987 229
Cumulated liquidity gap	**(5 818 431)**	**(9 663 431)**	**(11 755 090)**	**(8 200 342)**	**(3 213 113)**

In the above analysis of the Bank's liquidity risk profile for the year 2013, the following assumptions were used, which cause its departure from the accounting data:

a) liquid securities are presented in the real liquidity gap from first day to 12 months term, depending on position's characteristics and book classification (TRD/AFS); securities with short-term maturity (up to 3 months) are recognized consistent with their actual maturity,

b) current accounts and savings accounts are recognized in two parts: calculated statistical sediment (split in the period from day 2 to 15 years for retail costumer's accounts, up to 9 years for corporate accounts and from day 2 to 5 years) and fluctuating part (1 day). Based on an internal analysis, the Bank considers that the above realignment correctly reflects possible inflows from such accounts,

c) loans in current account (overdraft) and past maturity date loans are presented in two parts: calculated statistical sediment (split from day 2 to 2 years. in the case of loans due up to 10 years) and fluctuating part (1 day),

d) early repayment of housing and mortgage loans takes place in 15% of 5 year and 25% of 5-10 year loans,

e) all expected flows from financial instruments are taken into consideration, including derivative instruments based on their valuation as at the analysis day (e.g. expected settlement amounts resulting from IRS, FX Swap, FRA, FX Forward etc.).

51.5 Country and counter-party risk

Country and counter-party risk– organization of risk management system

The Bank operating locally offers mediation in entering into financial market transactions to its corporate clients. The problem of ‘toxic options’ made the Bank tighten its credit limit procedures in 2009 and 2010: the decision process regarding transaction limits was moved to the Head Office, introduced new patterns for master agreements better protecting parties’ interests and new limit structure allowing to verify compatibility of profile of settled transaction with needs declared by a client in respect of securing own business, through limiting and monitoring instrument types, currency pairs, duration of transaction or volume of open currency positions. Additionally, the Bank implemented uniform and clear rules for safeguarding of exposures. These processes coincided with the implementation of MiFID directive regulations.

In 2012, the Bank continued to widen its cooperation with non-bank finance institutions – investment funds, pension funds and insurance funds The Bank remains an active participant on the local inter-bank market.

Since the second half of 2008 the Bank has applied uniform methodology of exposure measurement for all types of counterparty and country risk which is based on the concept of potential future loss, i.e. based on historic or – if available – implied variability of risk parameters. The Bank estimates the potential counterparty loss resulting from the transactions concluded, after taking into account current market value of the instrument, its type, the base instrument (currency pair, interest rate) and residual maturity date. Since 2012 potential future loss is charged also against client’s limit. The methodology also takes into account the mechanism of net compensation, embedded into ISDA-type agreements and package deals concluded with non-banking clients.

Country risk

The Bank continued the conservative policy in the area of taking country risk. Beginning from 2010, it has performed a review of its country limits, decreasing unnecessary limits, fitting them tightly to forecasted business needs. In total limits were reduced from PLN 7.8 billion (2010) to PLN 2.18 billion (2012). In 2012 and 2011 the limits for the EU countries were decreased, including among others suspension or withdrawal of limits for Ireland, Spain, Portugal, Greece and Italy (mainly due to the deteriorating of public financial standing of these countries, their credit scoring and the deterioration of economic ratios) and also other countries, for which the Bank had suspicions regarding their economical situation. Remaining limits were decreased, adjusting them to the actual Bank’s needs and risk profile. In 2013 limits for countries were decreased from PLN 2.18 billion to PLN 1.35 billion.

In 2012 vast majority of exposures to countries resulted from treasury transactions (96%) concluded mainly with Rabobank (Netherland) while the rest 4% of the transaction were foreign trade transactions. At the end of 2013 treasury transactions accounted for 96% while the remaining 4% were foreign trade transactions. The Netherlands accounted for 61% of exposure, Germany – 18% and the UK- 9%. Other exposures focused on the following countries: USA and Finland.

Exposure by countries (in thousand PLN)

	31.12.2013			31.12.2012		
	Limit	Exposure	%	Limit	Exposure	%
Rating AAA - A	1 330 000	88 104	7%	2 155 000	109 386	5%
Rating BBB	20 000	0	0%	20 000	139	1%
Rating BB	-	-	-	1 650	1 561	95%
Rating B	-	-	-	-	-	-

Banking and financial client risk

In 2013, the Bank continued its prudential policy referring to limits for financial institutions. Because of uncertain market situation and smaller trust towards financial counterparties between 2008 and 2011 the Bank has significantly reduced limits, tightening co-operation with Rabo Group's entities. The reduction of limits was made where limits were not used or the Bank had doubts regarding counterparty's financial situation. Such approach has limited potential exposure for counterparty's risk. At last in 2012, in response for increasing business needs, news limits for new financial institutions were granted- especially number of banks has increased from 25 to 33. In 2013 the Bank has conducted only insignificant modification of limits (one additional limit to another counterparty) for better adjustment to business needs and product offer.

As a result, the sum of limits granted for the transactions on financial markets insignificantly decreased, i.e. by 1.9% (reduction from PLN 2.89 billion in 2012 to PLN 2.83 billion), and the relocation according to the new pattern better tailored the limits to the Bank's needs. The limits designated for financing the trade increased by 67% to PLN 11.92 billion.

Bank exposure (in thousand PLN)

	31.12.2013	31.12.2012
Financial market transactions		
- available limits	2 833 400	2 887 250
- used	270 168	697 309
Trade financing transactions		
- available limits	11 920	7 120
- used	3 560	4 240

In case of interbank transactions, majority of available limits are credit lines on banks operating in Poland, which are owned by the State Treasury or by branches of foreign banks. The Bank has also a restricted list of limits for foreign banks with the highest rating, that are required to execute transactions in foreign currencies to hedge own and client positions. In the area of trade financing, during the last several years the Bank has stopped financing foreign banks. Currently, the limits regarding trade financing transactions – mainly letters of credit and guarantees – are granted exclusively to realize client needs for the pre-agreed amount and time, in accordance with business justification.

As at the end of 2013 the majority of the financial market exposures consisted of IRS/CIRS transactions (43%), deposits (35%) and FX SWAP transactions (15%) of the exposure. In comparison, in 2012 the exposures consisted of deposits (65%), IRS/CIRS transactions (26%), FX SWAP transactions (7%)

The cooperation of the Bank with NBFIs (non-bank financial institutions) i.e. investment, pension and insurance funds – is limited to transactions including debt treasury securities covered by the system delivery-vs.-payment provided by the Clearing House; thus although the aggregate value of the available limits amounts to PLN 400 million granted to 124 entities, the limits were used for 3 insurance companies and 2 investment funds, with which FX Forward, FX spot, IRS transactions and one structure policy have taken place.

Non-financial counterparties' risk

Using the experiences of "toxic options" crisis in 2009, the Bank re-constructed its lending process, with a view of concluding market transactions with non-banking clients. The most basic criteria for credit granting is the existence of business need to secure finance risk in client business activity– as a result, the limit granted is suited individually to business needs of a given counterparty- expected exposure for particular risk type, including dates, currencies, chance for rolling transaction etc.

As of the end of 2013 the Bank had more than 319 of such limits (over 25% less than in 2012) but actively used were only 37% of them. In 2013 the exposure contains mainly IRS/CIRS transactions (80%) currency exchange transactions FX Spot and FX Forward/NDF (20%) and trade swap transactions (1%). From 2013 the Bank offers to its clients commodity transactions, with settlement in cash. In total, the exposure for the client's transactions on such operations does not exceed 1% of the whole exposure. The change in the distribution of exposure was mainly caused by new IRS/CIRS transactions concluded by the clients in 2013 in order to hedge currency risk and interest rate risk. As at the end of 2013 the Bank does not have any outstanding foreign currency options with clients, In 2013 for the clients with the highest loss at the end of 2013, all transactions have been cleared and limits closed.

Exposure to non-financial clients (in PLN thousands)

	31.12.2013	31.12.2012
Available limits	451 355	519 913
exposure	19 590	38 678
share %	4%	7%

51.6 Operating risk

The Bank defines operating risk as a possibility of suffering loss or unjustified costs caused by improper or unreliable internal processes, people, technical systems or influence of external factors. To the operating risk scope the Bank includes also the risk of the lack of compliance and legal risk.

The purpose of operating risk management is to limit losses and costs caused by this risk ensuring that Bank renders services of the highest quality as well as security and compliance of Bank's activities with laws and regulations.

Procedures

The operating risk management rules implemented by the Bank are consistent with supervisory regulations and market experience in this scope. The principles for operating risk management constitute Operating Risk Policy resolved by the Management Board, which is supplemented by Operating Risk Policy for information systems, Bank Security Policy, Compliance Policy and other detailed regulations.

Organization

A superior role in the organizational structure responsible for managing organizational risk is fulfilled by the Balance Sheet and Risk Management Committee as well as the Operational Risk and Conformity and Anti-Fraud Subcommittee, which act as intermediaries of the Management Board, supervising the operational risk management system and the risk level. The responsibilities of the Operational Risk Management Department in the Systematic Risk Function include among others the processes and tools related to operating risk management. There is an operational risk coordinator in each organizational unit at the Head Office of the Bank, while in the Regional Headquarters there are Posts for Operational Risk Management.

Risk management

An important element of operating risk management system is early identification of risk, precise evaluation of its size and rules that enable undertaking effective actions against risk. Operating risk identification and reporting system embraces all Bank's organizational units which ensures completeness and accuracy of data that constitute basis for risk evaluation and decision making that influence the size of the risk borne by the Bank. The Bank's employees are trained among others in identification and reporting of operating risk events and threats.

Reporting

Operating risk data supplies central risk database, which is a basis for regular reports for Bank's Management. Authorized Bank employees have an access to a special application, in which operating risk events are reported.

Economical capital and risk evaluation

Bank has over a 10-year data history of losses caused by operating risk. The data concerning operating risk losses and threats collected by the Bank are used to evaluate economic capital required to cover operating risk that strictly corresponds with Bank's operating profile. The evaluation of economical capital is based on implemented rules and statistical model. Irrespective of the above, according to the regulations in force, the Bank determines regulating capital to cover operating risk. The basic index method (BIA) is applied to calculate it.

In the process of operating risk assessment the database applies the operating self assessment method and the Key Operating Risk Indicators Method. The Key Operating Risk Indicators are the tool to monitor operating risk for selected, significant processes of the Bank using the three-grade risk evaluation scale. Information on the risk level is also provided by the results of the functional control performed by the operational units of the Bank.

52 Capital adequacy management

The purpose of capital adequacy management is to meet prudential capital requirements by the Bank in respect of the risks involved, quantified in the form of the solvency ratio. The main tools for the capital adequacy management are:

1. Selecting the optimal, in respect of size of required of capitals, methods for measuring the capital requirement for specific risks, in accordance with Resolution 76/2010 of the Financial Supervision Commission dated 10 March 2010 (as amended).
2. Internal procedures specifying: classification of new operations in the trading or banking portfolio, setting the initial position for the operations included in the trading book and the banking portfolio, setting the market result of the realized on primary positions for trading portfolio, setting the realized loss on the primary positions in the banking portfolio, using estimating techniques of prices used to calculate the result market realized on positions classified in the trading portfolio.

In accordance with Art. 128. point 1.2 of the Banking Law, the Bank is required to maintain the amount of own funds and short-term capital at level not less than the higher of the following values:

- the sum of the capital requirements for the different types of risk and capital requirements for exceeding limits and violation of other standards set out in the Act,
- estimated by the Bank amount required to cover all of the identified, significant risks existing in the Bank's operations and changes in the economic environment, including the expected level of risk (internal capital).

In 2013 and 2012, the Bank met all capital requirements in accordance with art. 128 point 1.2. of the Banking Law.

53 Major events in 2013

Changes in the Bank's Management

On 24 February 2013, the Management Board of the Bank was notified that Mr. Jacek Bartkiewicz submitted his resignation from the position of the President of the Management Board of Bank Gospodarki Żywnościowej S.A. effective from 31 March 2013.

On 1 March 2013, the Management Board of the Bank was informed about the resignation of Ms. Monika Nachyła from the position of the Supervisory Board Member effective from that day. Simultaneously, the Supervisory Board appointed Ms. Monika Nachyła as Vice President of the Management Board of the Bank coming into force since 1 April 2013 and assigned her responsibilities of President of the Management Board of the Bank. The Supervisory Board passed a resolution on the appointment of Ms. Monika Nachyła as President of the Management Board of the Bank given the approval of the Polish Financial Supervision Authority.

On 28 June 2013, the Supervisory Board has waived the resolution of 1 March 2013 on the appointment of Ms. Monika Nachyła for President. Ms. Monika Nachyła remained Vice President.

On 24 July 2013, the Supervisory Board amended resolution on the appointment to the Management Board of the Bank and revoked the entrustment of responsibilities of the President of the Management Board to Ms. Monika Nachyła.

Simultaneously, the Supervisory Board of the Bank appointed Mr. Gerardus Cornelis Embrechts, the First Vice-President of the Management Board as the acting President of the Management Board, and during his temporary absence - Mr. Witold Okarma, Vice-President of the Management Board.

On 5 September 2013, the Supervisory Board appointed Mr. Józef Wancer as Vice President of the Bank's Management Board and entrusted him with the responsibilities of the President of the Board since 16 September 2013

The Polish Financial Supervision Authority at its meeting held on 26 November 2013 unanimously approved the appointment of Mr. Józef Wancer to the position of President of the Bank's Management Board.

Merger of BGŻ S.A. and Rabobank Polska S.A.

On 31 October 2013, the Management Board of the BGŻ S.A. and the Executive Board of Rabobank Poland agreed to and signed a merger plan of BGŻ Bank and Rabobank Poland prepared in accordance with Art. 498 of the Commercial Companies Code ("CCC") and Art. 499 § 1 and § 2 of the Commercial Companies Code. The merger will be carried out by transferring all assets Rabobank Poland, as the company being acquired by BGŻ, as the acquiring company, with a simultaneous increase of the share capital through the issue of BGŻ's 5 002 000 ordinary registered shares of series H in BGŻ with a nominal value of PLN 1.00 each ('Merger Shares'), which were granted to Rabobank Poland. In connection with the merger BGŻ share capital will be increased by the amount of PLN 5 002 000 to PLN 56 138 764. As at 20 December 2013, the Polish Financial Supervision Authority has approved under Art. Paragraph 124.1 of the Banking Law, the merger of Bank BGŻ with Rabobank Poland S.A.

Sale of 98.5% shares of BGŻ S.A. in favor of BNP Paribas Group

On 5 December 2013, the Rabobank International Holding BV and Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.reached an agreement with BNP Paribas Group on the sale of 98.5% of the shares held by the Bank Rabobank in BGŻ S.A.
The transaction is subject to signing of binding agreements and to obtaining the necessary regulatory approvals.

54 Events after the reporting period

As at 3 March 2014, there were no significant events after the reporting period, which were not recognized in the financial statements.

....
Józef Wancer
President of the Management Board

....
Gerardus Cornelis Embrechts
First Vice-President of the Management Board

....
Witold Okarma
Vice-President of the Management Board

....
Andrzej Sieradz
Vice-President of the Management Board

....
Johannes Gerardus Beuming
Vice-President of the Management Board

....
Dariusz Odzioba
Vice-President of the Management Board

....
Wojciech Sass
Vice-President of the Management Board

....
Magdalena Legęć
Vice-President of the Management Board

....
Monika Nachyła
Vice-President of the Management Board

....
Katarzyna Romaszewska-Rosiak
Managing Director for the Finance and Reporting Chief Accountant

Warsaw, 3 March 2014