Consolidated Financial Statements of Bank Gospodarki Żywnościowej S.A. Group for the year ended 31 December 2014

Warsaw, 2nd March 2015

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- in PLN thousand

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of profit or loss

	Note	12 months ended 31.12.2014	12 months ended 31.12.2013
Interest income	5	1 795 097	1 899 414
Interest expense	5	(676 813)	(895 424)
Net interest income		**1 118 284**	**1 003 990**
Fee and commission income	6	357 243	333 712
Fee and commission expense	6	(46 744)	(45 782)
Net fee and commission income		**310 499**	**287 930**
Dividend income	7	3 303	2 848
Net trading income	8	63 723	80 424
Result on investing activities	9	24 465	39 223
Result on hedge accounting	23	(156)	(1 077)
Other operating income	10	37 937	49 940
Net impairment losses on financial assets and contingent liabilities	12	(310 966)	(248 650)
General administrative expenses	13,14	(930 525)	(880 963)
Depreciation and amortization	11	(100 995)	(99 219)
Other operating expenses	15	(37 393)	(21 146)
Operating results		**178 176**	**213 300**
Share in profit/ loss of associates	27	-	(11 079)
Profit before income tax		**178 176**	**202 221**
Income tax expense	16	(40 145)	(42 077)
Net profit for the period		**138 031**	**160 144**
– attributable to equity holders of the Bank		138 031	160 144
Earnings per share (in PLN per share)	**17**		
Basic		2,56	3,14
Diluted		2,56	3,14

- in PLN thousand

Consolidated statement of other comprehensive income

	Note	12 months ended 31.12.2014	12 months ended 31.12.2013
Net profit for the period		**138 031**	**160 144**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss		**167 795**	**(123 888)**
Net change in valuation of available for sale financial assets	25	215 554	(139 491)
Net change in valuation of cash flow hedges	23	(8 400)	(13 457)
Deferred tax		(39 359)	29 060
Items that will not be reclassified to profit or loss		**(3 895)**	**-**
Actuarial valuation of employee benefits		(4 808)	-
Deferred tax		913	-
Other comprehensive income (net of tax)		**163 900**	**(123 888)**
Total comprehensive income for the period		**301 931**	**36 256**
– attributable to equity holders of the Bank		301 931	36 256
Total comprehensive income per share			
Basic		5,61	0,68
Dilluted		5,61	0,68

Notes presented on pages 11-129 are integral part of this financial statement.

- in PLN thousand

Consolidated statement of financial position

	Note	31.12.2014	31.12.2013
ASSETS			
Cash and balances with the Central Bank	18	1 790 160	1 617 713
Loans and advances to banks	19	404 724	269 757
Reverse repo transactions	20	100 668	309 255
Debt securities held for trading	21	199 404	1 018 701
Derivative financial instruments	22	420 152	363 260
Hedging instruments	23	-	57 387
Loans and advances to customers	24	29 631 923	26 297 916
Available for sale financial assets	25	7 084 017	4 826 073
Investment property	26	54 627	62 524
Investments in associates	27	-	35 052
Intangible assets	28	165 307	158 589
Property, plant and equipment	29	411 063	449 139
Deferred tax assets	38	173 828	142 792
Current tax assets		-	12 519
Other assets	30	60 702	156 464
TOTAL ASSETS		**40 496 575**	**35 777 141**

Notes presented on pages 11-129 are integral part of this financial statement.

- in PLN thousand

Consolidated statement of financial position (continued)

	Note	31.12.2014	31.12.2013
LIABILITIES			
Amounts due to banks	31	1 546 739	3 271 414
Repo transactions	32	45 364	-
Financial liabilities held for trading	21	-	271 288
Derivative financial instruments	22	448 908	336 950
Amounts due to customers	33	32 804 444	26 492 716
Debt securities issued	34	762 311	1 191 158
Subordinated liabilities	35	320 951	304 817
Other liabilities	36	325 751	326 041
Provision for deferred tax		9 639	-
Deferred income tax liabilities	38	8 052	9 552
Provisions	37	68 112	64 015
TOTAL LIABILITIES		**36 340 271**	**32 267 951**

EQUITY			
Share capital	45	56 139	51 137
Other supplementary capital	46	3 430 785	3 085 059
Other reserve capital	46	527 221	206 463
Retained earnings:		142 159	166 531
- Net profit from previous period		4 128	6 387
- Net profit for the period		138 031	160 144
TOTAL EQUITY		**4 156 304**	**3 509 190**
TOTAL LIABILITIES AND EQUITY		**40 496 575**	**35 777 141**

- in PLN thousand

Consolidated statement of changes in equity

	Share capital	Other supplementary capital	Other reserve capital	Retained earnings: Net profit for previous period	Retained earnings: Net profit for the period	Total
Balance at 1 January 2014	**51 137**	**3 085 059**	**206 463**	**6 387**	**160 144**	**3 509 190**
Total comprehensive income for the period	**-**	**-**	**163 900**	**-**	**138 031**	**301 931**
Net profit for the period	-	-	-	-	138 031	138 031
Other comprehensive income for the period	-	-	163 900	-	-	163 900
Appropriation of retained earnings	**-**	**162 403**	**-**	**(2 259)**	**(160 144)**	**-**
Appropriation of retained earnings to other supplementary capital	-	162 403	-	(2 259)	(160 144)	-
Merge	**5 002**	**183 323**	**156 858**	**-**	**-**	**345 183**
Issued shares of H series	5 002	-	-	-	-	5 002
Equity as a result of the merge	-	183 323	156 858	-	-	340 181
Balance at 31 December 2014	**56 139**	**3 430 785**	**527 221**	**4 128**	**138 031**	**4 156 304**

	Share capital	Other supplementary capital	Other reserve capital	Retained earnings: Net profit for previous period	Retained earnings: Net profit for the period	Total
Balance at 1 January 2013	**51 137**	**2 950 716**	**330 351**	**10 364**	**130 049**	**3 472 617**
Total comprehensive income for the period	**-**	**-**	**(123 888)**	**-**	**160 144**	**36 256**
Net profit for the period	-	-	-	-	160 144	160 144
Other comprehensive income for the period	-	-	(123 888)	-	-	(123 888)
Appropriation of retained earnings	**-**	**134 343**	**-**	**(4 294)**	**(130 049)**	**-**
Appropriation of retained earnings to other supplementary capital	-	134 343	-	(4 294)	(130 049)	-
Other	**-**	**-**	**-**	**317**	**-**	**317**
Balance at 31 December 2013	**51 137**	**3 085 059**	**206 463**	**6 387**	**160 144**	**3 509 190**

Notes presented on pages 11-129 are integral part of this financial statement.

- in PLN thousand

Consolidated statement of cash flows

	Note	12 months ended 31.12.2014	12 months ended 31.12.2013
CASH FROM OPERATING ACTIVITIES:			
Net profit for the period		**138 031**	**160 144**
Adjustments for:		**2 982 904**	**(1 350 714)**
Income tax expense from income statement		40 145	42 077
Depreciation and amortization		100 995	99 219
Dividends received		(3 303)	(2 848)
Interest income		(1 795 097)	(1 899 414)
Interest expense		676 813	895 424
Change in provisions		(711)	(1 486)
Change in loans and advances to banks		(5 048)	(175)
Change in reverse repo transactions		208 558	(205 009)
Change in debt securities held for trading		801 388	(789 043)
Change in derivative financial instruments (assets)		(56 892)	17 213
Change in loans and advances to customers		(3 322 947)	31 063
Change in amounts due to banks		(1 407 664)	(115 807)
Change in repo transactions		45 357	(32 220)
Change in financial liabilities held for trading		(271 288)	199 283
Change in derivative financial instruments (liabilities)		111 958	10 735
Change in amounts due to customers		6 348 585	(343 847)
Change in other assets and current tax assets		95 762	43 901
Change in other liabilities and deferred tax liability		(290)	(53 166)
Other adjustments	**50**	368 159	5 968
Interest received		1 773 459	1 735 455
Interest paid		(635 706)	(961 430)
Income tax expense		(89 329)	(36 925)
Taxes returned		-	10 318
NET CASH FROM OPERATING ACTIVITIES		**3 120 935**	**(1 190 570)**

- in PLN thousand

Consolidated statement of cash flows (continued)

	Note	12 months ended 31.12.2014	12 months ended 31.12.2013
CASH FLOW FROM INVESTING ACTIVITIES:			
Investing activities inflows		**145 183 381**	**190 650 673**
Sale of shares in affiliates companies		35 005	-
Sale of financial assets available for sale		145 132 659	190 643 517
Proceeds and interest from sale of investment securities available for sale		12 414	4 308
Dividends received and other investing activities inflows		3 303	2 848
Investing activities outflows		**(147 182 616)**	**(188 683 737)**
Purchase of financial assets available for sale		(147 100 570)	(188 594 255)
Purchase of intangible assets, and property, plant and equipment		(82 046)	(89 482)
NET CASH FROM INVESTING ACTIVITIES		**(1 999 235)**	**1 966 936**
CASH FLOW FROM FINANCING ACTIVITIES:			
Financing activities inflows		**-**	**910 736**
Long-term loans received		-	-
Issue of debt securities		-	601 721
Change in subordinated liabilities		-	309 015
Net inflows from issue of shares and capital contributions		-	-
Financing activities outflows		**(822 359)**	**(2 009 759)**
Repayment of long-term loans and advances received		(390 926)	(703 604)
Redemption of debt securities issued		(431 433)	(1 306 155)
NET CASH FROM FINANCING ACTIVITIES		**(822 359)**	**(1 099 023)**
TOTAL NET CASH		**299 341**	**(322 657)**
Cash and cash equivalents at the beginning of the period		**1 881 640**	**2 204 297**
Cash and cash equivalents at the end of the period, of which:	**49**	**2 180 981**	**1 881 640**
- effect of exchange rate fluctuations on cash and cash equivalents held		21 418	(410)
- of restricted use		1 524	1 619

EXPLANATORY INFORMATION TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Information about Bank Gospodarki Żywnościowej S.A. Group

Bank Gospodarki Żywnościowej Spółka Akcyjna is dominant entity within the Capital Group of Bank Gospodarki Żywnościowej Spółka Akcyjna (The Group).

Bank Gospodarki Żywnościowej Spółka Akcyjna ('the Bank' or 'Bank BGŻ'), 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 dominant entity and other entities included in the Group is defined as unlimited.

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 2014, the average number of employees of BGŻ S.A. was 5 581.54 while the number of employees of the Group equaled to 5 582.54 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),
- performing activity not constituting brokerage operations, consisting in:
    - accepting and forwarding orders to buy or sell financial instruments which have not be admitted to organised trading, and securities issued by the State Treasury or the National Bank of Poland,
    - executing orders to buy or sell financial instruments not admitted to organized trade, for the account of the ordering party,
    - buying or selling, for the Bank's own account, financial instruments not admitted to organized trade, including options, forward contracts, swaps, and contracts for difference and securities, issued by the State Treasury or the National Bank of Poland,
- conducting acquisition activities within the meaning of the regulations concerning the organizing and functioning of open-ended pension funds,
- 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 in trading of investment funds participation units and shares in foreign funds.
- 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 leases,
- trading treasury stamps and numismatic items.

As at 31 December 2014, the Bank's Management Board was comprised of the following members:

Józef Wancer	– President
Gerardus Cornelis Embrechts	– First 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

Since the balance sheet date till the day of the preparation of the consolidated financial statement 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 BNP PARIBAS SA Group, with headquarter in Paris.

As at 31 December 2014 the Group was composed of parent company Bank Gospodarki Żywnościowej Spółka Akcyjna and subsidiary - **Bankowy Fundusz Nieruchomościowy Actus Sp.**

z o.o. (“Actus”) with headquarter in Warsaw at Kasprzaka 10/16 Street. The core activities of an entity are:

- acquisition and disposal of real estate and limited property rights relating to real estate,
- management of own and third-party’s construction real estates,
- real estate trading intermediary services and lease of premises,
- lease of real estate and rental of premises,
- services relating to real estate valuation, advisory and management for real estate (real estate management agency activities).

The company is registered in the National Court Register maintained by the District Court for the capital city of Warsaw, XIII Economic Department of the National Court Register, Entry no. 0000023062.

BGŻ S.A. holds 100% of shares in the share capital of this company and 100% of the votes at the Shareholders’ Meeting.

Consolidated financial statement consolidates all subsidiaries as at 31 December 2014.

Approval of the financial statements

These financial statements were prepared as at 31 December 2014 and for the year then ended, and were approved for publication by the Management Board on 2 March 2015.

The stand-alone financial statements of the Bank were prepared as at 31 December 2014 and for the year then ended, and were approved for publication by the Management Board on 2 March 2015.

The above financial statements include data for the year ended 31 December 2014 and comparable data for the year ended 31 December 2013.

2 Basis for the preparation of the consolidated financial statements

2.1 Basis for the preparation of the consolidated financial statement

These consolidated financial statements were prepared based on following rules of valuation:

- available-for-sale financial assets and financial assets classified as measured at fair value through profit or loss, which are valued at fair value.
- depreciated cost for other financial assets including loans and advances and other financial liabilities
- historical cost basis for assets and non-financial liabilities

2.2 Going concern

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

2.3 Statement of compliance with IFRS

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

These consolidated financial statements include the requirements, all approved by the European Union, of International Accounting Standards ("IAS"), International Financial Reporting Standards ("EU IFRS") 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 have been or will enter into force only after the balance sheet date.

In the period covered by the financial statements, the Group has not decided for early application of the standards and interpretations which have been endorsed by the European Union, but will enter into force after the balance sheet date.

Standards, Interpretations and amendments to published Standards as adopted by the EU that are not yet effective for annual periods ending on 31 December 2014

- IFRIC Interpretation 21 *Levies* – binding for annual periods beginning on or after 17 June 2014 *(the IASB effective date is 1 January 2014),*
- Amendments to IAS 19 *Employee Benefits* entitled *Defined Benefit Plans: Employee Contributions* – binding for annual periods beginning on or after 1 February 2015 *(the IASB effective date is 1 July 2014,*
- Improvements to IFRS (2010-2012)- binding for annual periods beginning on or after 1 February 2015 *(the IASB effective date is 1 July 2014),*
- Improvements to IFRS (2011-2013)- binding for annual periods beginning on or after 1 January 2015 *(the IASB effective date is 1 July 2014).*

Standards and interpretations not yet endorsed by the European Union

- IFRS 9 *Financial Instruments (2014)* binding for annual periods beginning on or after 1 January 2018,
- IFRS 14 *Regulatory Deferral Accounts* - binding for annual periods beginning on or after 1 January 2016,
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11 *Joint Arrangements*) - binding for annual periods beginning on or after 1 January 2016,
- Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*)- binding for annual periods beginning on or after 1 January 2016,
- IFRS 15 *Revenue from Contracts with Customers* - binding for annual periods beginning on or after 1 January 2017,
- Agriculture: Bearer Plants (Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture*) - binding for annual periods beginning on or after 1 January 2016,
- Equity Method in Separate Financial Statements (Amendments to IAS 27 *Separate Financial Statements*) - binding for annual periods beginning on or after 1 January 2016,
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 Consolidated Financial Statements or to IAS 28 Investments in Associates and Joint Ventures) - binding for annual periods beginning on or after 1 January 2016,
- Improvements to IFRS (2012-2014) - binding for annual periods beginning on or after 1 January 2016,
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures*) - binding for annual periods beginning on or after 1 January 2016,
- Disclosure initiative (Ammendments to IAS 1 *Presentation of Financial Statements*) - binding for annual periods beginning on or after 1 January 2016.

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. The Group did not analyze the impact of new Standards on its financial situation and financial result yet.

2.4 Recognizing business combinations of entities under common control

The accounting treatment for business combinations of entities under common control is excluded from the scope of IFRS. In accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, in the absence of any specific guidance within IFRS, BGŻ applied an accounting policy which is consistently used to recognize such business combinations of entities under common control within the Group, of which the Bank is a member, being the book value accounting method.

The applied accounting method is that the acquirer recognizes the assets and liabilities of the acquiree at their book value adjusted only to align the accounting policy of the merged entities. No goodwill or negative goodwill is recognized.

The difference between the carrying amount of the acquired assets and the fair value of the consideration paid is recognized in the equity of the acquirer. With the book value accounting method applied, the figures for the comparable period are not restated.

If the transaction results in the acquisition of minority interests, the acquisition of any minority interest is accounted for separately.

2.5 Consolidation

Subsidiaries are all such entities, including special purpose entities (SPEs), in respect of which the Group has the power to govern the financial and operating policies, which usually means that it has the majority of votes in the company's governing bodies. In assessing whether or not the Group exercises control over a given entity, the existence and influence of potential voting rights that at a given moment in time can be realized or exchanged is taken into account. Subsidiary companies are fully consolidated from the day when the control was taken by the Group until such time as control ends.

Transactions, settlements and unrealized profits with subsidiaries on inter-company transactions within the Group are eliminated. Unrealized losses are also eliminated, unless the transaction provides evidence that an impairment of the transaction asset has taken place. The accounting policies applied by subsidiaries for the purpose of preparing the Group's consolidated financial statements are consistent with those of the Group.

2.6 Changes in accounting policies and changes in financial data presentation

In these consolidated financial statements, the Group has not changed the accounting policies.

In addition, in these financial statements the Group took into account the following amendments to standards and interpretations adopted by the European Union and effective for annual periods beginning on or after January 1, 2014:

- IAS 27 *Separate Financial Statements* - binding for annual periods beginning on or after 1 January 2014. None of these changes are expected to have a significant impact on the consolidated financial statements of the Group,
- IAS 28 *Investments in Associates and Joint Ventures* - binding for annual periods beginning on or after 1 January 2014. None of these changes are expected to have a significant impact on the consolidated financial statements of the Group,
- IAS 36 *Impairment of Assets*. Amendments for recoverable amount disclosures for non-financial assets - binding for annual periods beginning on or after 1 January 2014. None of these changes are expected to have a significant impact on the consolidated financial statements of the Group,
- IAS 39 *Financial Instruments: Recognition and Measurement.* Amendments of Novation of Derivatives and Continuation of Hedge Accounting - binding for annual periods beginning on or

after 1 January 2014. None of these changes are expected to have a significant impact on the consolidated financial statements of the Group,

- IFRS 10 *Consolidated Financial Statements* - binding for annual periods beginning on or after 1 January 2014. None of these changes are expected to have a significant impact on the consolidated financial statements of the Group,
- IFRS 11 *Joint Arrangements* - binding for annual periods beginning on or after 1 January 2014. None of these changes are expected to have a significant impact on the consolidated financial statements of the Group,
- IFRS 12 *Disclosure of Interests in Other Entities* - binding for annual periods beginning on or after 1 January 2014. None of these changes are expected to have a significant impact on the consolidated financial statements of the Group.

The Group implemented the below described changes in presentation of financial data. In order to keep the comparability of financial data, the appropriate changes in data regarding 31.12.2013 were introduced in comparison to previous Standalone Financial Statement of Bank Gospodarki Żywnościowej S.A. for year ended 31.12.2013. The changes concerned the method of grouping and presentation of financial data in standalone stamen of profit and loss and do not have any impact on financial result.

Consolidated statement of profit and loss

		12 months ended 31.12.2013 before changes	Change in presentation	12 months ended 31.12.2013 after changes
Interest income	1	1 910 852	(11 438)	1 899 414
Interest expense	1	(57 220)	11 438	(45 782)

The Group changed the method of presentation of income and expenses regarding sale of insurance products. After the change of presentation income from insurance products is presented net (i.e. net value of received commission mitigated by return of premium from early ending of insurance) in the position of interest income, for the prducts bonded with financial instrument and in commission income for products not bonded with financial instrument.

2.7 Valuation of foreign currency items

a) Functional and presentation currency

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

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.

- in PLN thousand

The main foreign currency exchange rates used in the preparation of these financial statements, available on 31 December 2014 and 31 December 2013, were as follows:

	31.12.2014	31.12.2013
1 EUR	4.2623	4.1472
1 USD	3.5072	3.0120
1 GBP	5.4648	4.9828
1 CHF	3.5447	3.3816
100 JPY	2.9353	2.8689

2.8 Interest income and expense

In the statement of profit or loss, the Group 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 Group 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 Group 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).

2.9 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 Group'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 Group 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 Group offers "bancassurance" products, i.e. sold through the Group'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 Group (cash loan or mortgage). Contractually specified portion of the fees received by the Group 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 Group, inter alia, as a reward for insurance intermediary services. At the same time, during the insurance coverage, the Group 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 Group 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 Group each time analyzes economic content of a transaction of loan and insurance agreement for the same clients in reference to meeting connection criteria. The Group 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 Group always with an insurance product,
- Insurance product is offered by the Group 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 Group,
- 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 Group'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 Group 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 Group 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 Group does not provide any additional services during the time of insurance and when there is no risk of full or partial return of the Group'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 Group 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.

2.10 Dividend income

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

2.11 Result on trading activity

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

The result also includes gains and losses on conversions of foreign currency assets and liabilities.

2.12 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.

2.13 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 Group 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 Group's main business activities.

2.14 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 liability method, on all temporary positive differences, as at the reporting date, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognized for all deductible 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 apply in the period when the asset is realized or the 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 Group 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 2014 and 2013, the current tax expense and the deferred tax liability were calculated using the 19% rate.

2.15 Classification and valuation of financial assets and liabilities

The Group 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.

2.15.1 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 Group 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 Group 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.

2.15.2 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 2014 and 31 December 2013, 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 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), the Group 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 a 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.

2.15.3 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 Group 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.

2.15.4 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, which the Group 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 Group 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.

2.15.5 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 Income Statement under investing activities, at the time the entity's right to receive the dividend is determined.

2.15.6 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 Group has a legally enforceable right to set off the recognized amounts and if the Group intends either to settle this using net amount, or to realize the asset and simultaneously settle the liability.

2.15.7 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.

2.15.8 Investments in associates

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

2.16 Impairment of financial assets

2.16.1 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 loss 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 is impaired may include information obtained by the Group 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 concession1;
c) significant financial difficulties of the borrower2;
d) termination of the loan agreement by the Group;
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.
k) unknown location and counterparty undisclosed property

List describing in points a-k of impairment triggers is the starting point for the research of objective evidence of impairment for each financial asset. For the correctness and completeness impairment triggers identification are also responsible the Group's services (credit inspectors and relationship

[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

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

Uncollectible loans are written off and charged against the impairment allowance account. 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).

2.16.2 Forborne receivables

In case when a modification in favor of the borrower does not change substantially significant terms and conditions and expected future cash flows of existing financial asset, then expected future cash flows from changed financial asset are included in the valuation of the existing financial asset on the basis of expected period of execution and amount discounted with the primary interest rate for the existing financial asset.

In case when a modification in favor of the borrower does change the significant terms and conditions or expected future cash flows, then existing financial asset is excluded from balance, and new financial asset is recognized in balance at its fair value as at the day of initial recognition and the difference between the carrying amount of the original asset and the fair value of the newly recognized asset in profit or loss. Recognition is independent from the change or lack of change of legal form of transaction and is based on its economical substance.

2.16.3 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 acquisition cost and the current fair value less any impairment loss previously recognized in 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 profit or loss. 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..

2.17 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 the Group 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.

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

2.18 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.

2.19 Intangible assets

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

The Group 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 Group, 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.

- in PLN thousand

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.

2.20 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 systems	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.

2.21 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 Group 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 Group 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 Group 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 the Group 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 Group 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.

2.22 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.

2.23 Provisions

Provisions are charged when the Group 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 Group 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 Group 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.

2.24 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:

a) fulfilment of the contract depends on the use of specific asset or assets, and
b) 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.

2.25 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.

2.26 Employee benefits

The Group creates a provision for future liabilities towards employees in respect of retirement, pension and death benefits and provision for unused holidays. Provisions for retirement, pension and death benefits are created using the actuarial method, as described in Note 37 to these financial statements.

The Group employees are entitled to the following employee benefits:

2.26.1 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 with all employers based on employment contracts.

2.26.2 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'.

2.26.3 Benefits resulting from program of variable components of remuneration

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

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 calculated according to IAS 19 "Employee benefits" 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) calculated according to IFRS 2 "Share-based payment"

The cash part of benefits is paid:

- in non-deferred part - immediately after year of work, for which evaluation of employess' performance is created
- 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 acquisition by employees 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 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 statement of profit or loss.

2.27 Share capital

2.27.1 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.

2.27.2 Own shares

When the Banks' own shares are re-acquired by the Bank or other entities of the Group the amount of consideration paid is recognized as a charge to equity, and is reported in the statement of financial position as treasury shares until share cancellation. In the event of a disposal or re-allocation of these shares, the consideration received is recognized in equity.

2.28 Statutory reserve capital

Statutory reserve capital consists of distributions 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 to shareholders. The Annual General Meeting decides on the appropriation of the statutory reserve capital.

2.29 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 the result of the revaluation of financial assets available for sale.

2.30 General banking risk reserve from net profit distribution

The general banking risk reserve was established in accordance with the Banking Act 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".

2.31 Trust activities

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

Biuro Maklerskie BGŻ S.A. (brokerage office) 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 Group's assets.

2.32 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

The Group 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 re-measured to fair value. The Group 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 Group as individually significant.

Assessment of the impairment of individually significant assets

Financial assets are assessed for verification whether there is an objective impairment trigger. An individual assessment is carried out by the Group'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.

Collective (group) assessment

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 event resulting in client's impairment to the moment of actual classification of client as impaired. LIP period 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 quarantine period, 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 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 backtest). 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 internal audit of the Bank.

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 beforeimplementation, 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 active 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, credit spread is unobservable parameter

d) Impairment of property, plant and equipment

At the end of each reporting period, the Group assesses the existence of evidence indicating impairment of property, plant and equipment. If such evidence is identified, the Group 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 Group can achieved from particular asset and other circumstances need to be made. While estimating fair value less costs to sell the Group 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 quarter.

4 Business unit combination

Transaction details

On 30 May 2014, the General Shareholders' Meeting of the Bank adopted a resolution on a merger with Rabobank Polska S.A. (hereinafter 'Rabobank Polska').

On 18 June 2014 the District Court in Warsaw, XII Commercial Division of the National Court Register entered the merger between Rabobank Polska S.A. (an acquiree) and BGŻ S.A. (an acquirer). The merger was executed based on art. 492 § 1 of the Commercial Companies Code, by transferring all assets and liabilities from Rabobank Polska, as an acquired company, to BGŻ through the issue of 5 002 000 shares of BGŻ H series, which have been issued to the current shareholder of Rabobank Polska. All rights and obligations of Rabobank Polska S.A. were transferred to BGŻ.

Bank BGŻ was the acquirer and following the transfer date i.e. 18 June 2014 both institutions operate as one Bank under the name and logo of Bank BGŻ. Rabobank Polska functions in the scructures of Bank BGŻ within isolated division of Global Corporate Clients and Products.

The merger is a fulfillment of the Polish Financial Supervision Authority requirement as to the consolidation of banking operations conducted in Poland by the Rabobank Group.

Accounting policies adopted for the transaction

Bank BGŻ and Rabobank Polska are subsidiaries in Rabobank Group, whereas parent company is the Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. - entities under common control.

The merger of BGŻ with Rabobank Polska S.A. was settled using book value accounting method. In applying the book value accounting method, BGŻ recognized the assets and liabilities of Rabobank Polska S.A. at their carrying value as at the transfer date i.e. 18 June 2014, adjusted only to unify the accounting policy applied by BGŻ. The carrying value of Rabobank Polska as at 18 June 2014 amounted to PLN 3 328 619 thousand.

The application of the book value accounting method to the merger transaction did not generate goodwill and any excess of the fair value of the net assets over the cost of the business combination.

The difference between the carrying amount of Rabobank Polska's net assets transferred, being PLN 341 720 thousand, and the nominal value of the shares issued by BGŻ, being PLN 5 002 thousand, was recognized in the equity of the Bank.

The results of operations of Rabobank Polska have been consolidated in the consolidated financial statement prospectively starting from 18 June 2014.

Comparative data of the Bank from the previous periods was not restated.

- in PLN thousand

Shareholders' equity instruments issued for the transaction

On the merger date Bank BGŻ issued ordinary shares of BGŻ to the shareholders of Rabobank Polska. As a result of this transaction the share capital of BGŻ S.A. was increased from PLN 51 136 764 to PLN 56 138 764, which is by PLN 5 002 000 and is divided into 56 138 764 registered shares and ordinary bearer shares of nominal value of PLN 1.0 each.

The amount of PLN 341 720 thousand, representing the difference between the carrying amount of Rabobank Polska's net assets transferred and the nominal value of the H series shares was recognized in the Bank's equity.

Assets and liabilities recognized on the merger date

Following assets and liabilities were transferred from Rabobank Polska S.A. to BGŻ Bank on 18 June 2014

	18.06.2014
ASSETS	
Cash and balances with the Central Bank	51 973
Loans and advances to banks	50 015
Derivative financial instruments	14 587
Loans and advances to customers	2 097 157
Available for sale financial assets	1 095 175
Intangible assets	1 348
Property, plant and equipment	2 910
Deferred tax assets	8 250
Current tax assets	3 295
Other assets	3 909
TOTAL ASSETS	**3 328 619**
LIABILITIES	
Amounts due to banks	2 592 364
Derivative financial instruments	17 702
Amounts due to customers	339 034
Other liabilities	22 735
Provision	10 062
TOTAL LIABILITIES	**2 981 897**
TOTAL EQUITY	**346 722**
TOTAL LIABILITY AND EQUITY	**3 328 619**

- in PLN thousand

Total statement of profit or loss for the twelve months ended 31 December 2014

The following table presents information about the result of the merged Bank BGŻ. The combined financial information was prepared by adding financial result generated by Bank BGŻ for the twelve months ended 31 December 2014 and result generated by Rabobank Polska for the period from 1 January to 18 June 2014, adjusted only by elimination of mutual transactions carried out in this period.

Income Statement	Period from 01.01.2014 to 31.12.2014
Interest income	1 851 741
Interest expense	(702 488)
Net interest income	**1 149 253**
Fee and commission income	359 957
Fee and commission expense	(49 420)
Net fee and commission income	**310 537**
Dividend income	3 303
Net trading income	53 594
Result on investing activities	25 194
Result on hedge accounting	(156)
Other operating income	48 530
Net impairment losses on financial assets and contingent liabilities	(315 676)
General administrative expenses	(958 504)
Depreciation and amortization	(101 876)
Other operating expenses	(37 449)
Operating result	**176 750**
Share of profit (loss) of associates and jointly controlled entities	-
Profit before income tax for the period	**176 750**
Income tax expenses	(38 748)
Net profit for the period	**138 002**

Combined financial information for the 12-month period ended 31 December 2014 has been prepared for the illustrative purposes only, as they contain the result of Rabobank Polska achieved when it was an independently operating entity. As a result, the financial information presented above cannot be regarded as reflecting the result of operation or financial result of Rabobank Polska in a situation, if the activity was integrated with BGŻ from 1 January 2014, since presented financial information does not reflect the strategy or organizational structure within which the Bank operates from the day of the merge.

- in PLN thousand

5 Net interest income

	12 months ended 31.12.2014	12 months ended 31.12.2013
Interest income		
Loans and advances to banks	28 790	32 290
Loans and advances to customers in current accounts	285 181	275 191
Loans and advances to customers, in this:	1 195 057	1 222 924
– corporate	333 563	391 275
– households	849 232	815 810
– budget entities	8 350	11 813
– other entities	3 912	4 026
Hedging instruments	9 024	24 424
Reverse repo transactions	55 797	38 746
Debt securities, in this:	221 248	305 839
– held for trading	10 716	45 375
– available for sale	210 532	260 464
	1 795 097	**1 899 414**
Interest expense		
Amounts due to banks	(59 409)	(65 989)
Debt securities issued	(32 269)	(79 598)
Amounts due to customers:	(529 140)	(676 383)
– corporate	(110 402)	(138 781)
– households	(336 583)	(454 880)
– budget entities	(14 967)	(19 475)
– other entities	(67 188)	(63 247)
Repo transactions	(55 995)	(73 454)
	(676 813)	**(895 424)**
Net interest income	**1 118 284**	**1 003 990**

In 2014, 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 1 775 357 thousand (PLN 1 829 615 thousand for the 12-month period ended 31 December 2013), 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 676 813 thousand (PLN 895 424 thousand for the 12-month period ended 31 December 2013).

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 2014 amounts to PLN 106 115 thousand and for 2013 amounted to PLN 111 827 thousand.

- in PLN thousand

6 Net fee and commission income

	12 months ended 31.12.2014	12 months ended 31.12.2013
Fee and commission income		
– loans and advances	103 939	95 877
– settlements	16 921	17 563
– account maintenance	105 789	91 803
– guarantee commitments	7 914	10 557
– brokerage operations	23 383	14 810
– payment cards	79 993	82 107
– insurance activity	11 600	15 101
– other	7 704	5 894
	357 243	**333 712**
Fee and commission expense		
– loans and advances	(4 383)	(735)
– payment cards	(33 944)	(33 300)
– insurance activity	(269)	(2 160)
– other	(8 148)	(9 587)
	(46 744)	**(45 782)**
Net fee and commission income	**310 499**	**287 930**

Net commission income for 2014 includes PLN 23 383 thousand arising from fiduciary activities, while for the year 2013 it includes PLN 14 810 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 2014 in the amount of PLN 221 328 thousand., while for the year 2013 in the amount of PLN 202 781 thousand and commission expenses for the year 2014 in the amount of PLN 4 652 thousand and for the year 2013 in the amount of PLN 2 895 thousand.

7 Dividend income

	12 months ended 31.12.2014	12 months ended 31.12.2013
Available for sale financial assets	3 303	2 848
	3 303	**2 848**

8 Net trading income

	12 months ended 31.12.2014	12 months ended 31.12.2013
Debt instruments	(1 705)	(13 226)
Derivative financial instruments	(77 423)	22 056
Foreign currency exchange result	142 851	71 594
Net trading income	**63 723**	**80 424**

- in PLN thousand

9 Net investing income

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

	12 months ended 31.12.2014	12 months ended 31.12.2013
Available for sale financial assets	24 552	39 223
Other debt securities	(40)	-
Impairment	(47)	-
Total	**24 465**	**39 223**

10 Other operating income

	12 months ended 31.12.2014	12 months ended 31.12.2013
Profit from sales or liquidation fixed assets, intangible assets	3 060	-
Profit form sales of goods and services	8 163	9 076
Release of provisions for litigation and claims, and other liabilities	5 669	9 251
Recovery of debt collection costs	2 624	2 114
Recovered receivables - expired, written off and uncollectible, excluded from the statement of financial position	5 502	17 531
Investment property valuation	-	223
Other	12 919	11 745
Total other operating income	**37 937**	**49 940**

11 Depreciation and amortization

	12 months ended 31.12.2014	12 months ended 31.12.2013
Property, plant and equipment	(51 230)	(51 716)
Intangible assets	(49 765)	(47 503)
Total depreciation and amortization	**(100 995)**	**(99 219)**

12 Net impairment losses on financial assets and contingent liabilities

	12 months ended 31.12.2014	12 months ended 31.12.2013
Loans and advances to banks	99	37
Loans and advances to customers	(307 051)	(237 388)
Contingent commitments granted	(4 014)	(11 299)
Total impairment losses on financial assets and contingent liabilities	**(310 966)**	**(248 650)**

- in PLN thousand

13 General administrative expenses

	12 months ended 31.12.2014	12 months ended 31.12.2013
Personnel expenses (Note 14)	(522 290)	(475 363)
Marketing	(47 558)	(65 177)
IT and telecommunications	(81 811)	(84 992)
Rental expenses	(90 416)	(94 040)
Other non-personnel expenses	(45 311)	(43 979)
Other external services	(101 582)	(83 876)
Bank Guarantee Fund fee	(37 731)	(29 432)
Polish Financial Supervision Authority fee	(3 826)	(4 104)
Total general administrative expenses	**(930 525)**	**(880 963)**

14 Wages and salaries

	12 months ended 31.12.2014	12 months ended 31.12.2013
Payroll	(434 375)	(379 531)
Salary overheads	(61 819)	(56 508)
Fringe benefits	(4 515)	(5 446)
Provision for restructuring (Note 37)	1 886	(7 746)
The costs of the provision for future liabilities for unused holidays and retirement benefits	(4 852)	(8 271)
Costs related to Company Social Benefits Fund	(6 291)	(6 072)
Other	(12 324)	(11 789)
Total employee benefits	**(522 290)**	**(475 363)**

15 Other operating expenses

	12 months ended 31.12.2014	12 months ended 31.12.2013
Loss from sale or liquidation of property, plant and equipment, intangible assets	(3 368)	(2 083)
Impairment charges on other receivables	(4 177)	(2 551)
Provisions for litigation and claims, and other liabilities	(2 866)	(2 658)
Debt collection	(10 749)	(7 556)
Donations made	(3 105)	(3 200)
Investment property valuation	(7 897)	-
Other	(5 231)	(3 098)
Total other operating expenses	**(37 393)**	**(21 146)**

- in PLN thousand

16 Income tax expense

	12 months ended 31.12.2014	12 months ended 31.12.2013
Current tax	(102 892)	(24 948)
Deferred tax	62 747	(17 129)
Income tax	**(40 145)**	**(42 077)**
Profit before income tax	178 176	202 221
Statutory tax rate	19%	19%
Income tax on gross profit	**(33 853)**	**(38 422)**
Debt write-offs	(3 336)	(2 074)
Non-tax-deductible overheads	569	(1 384)
PFRON	(765)	(738)
Prudential fee in respect of BFG	(1 928)	(463)
Operating risk write-offs	(298)	(1 461)
Write-offs adjusting receivables	100	(531)
Other differences	(634)	2 996
Charge / relief of the financial result of the Bank due to income tax	**(40 145)**	**(42 077)**

17 Earnings per share

	12 months ended 31.12.2014	12 months ended 31.12.2013
Basic:		
Earnings attributable to the Bank's shareholders	138 031	160 144
Weighted average number of ordinary shares (in units)	53 836 474	51 136 764
Basic earnings per share (presented in PLN per share)	2.56	3.14
Diluted earnings per share (presented in PLN per share)	2.56	3.14

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'.

18 Cash and balances with the Central Bank

	12 months ended 31.12.2014	12 months ended 31.12.2013
Cash in hand (treasury)	696 292	713 043
Cash in current account	1 093 868	904 670
Cash and balances with the Central Bank	**1 790 160**	**1 617 713**

During the day, the Group 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 2014, the interest rate for funds on the obligatory reserve account was 2.025% (as at December 2013 it was 2.475%).

- in PLN thousand

The balance of cash and balances in the Central Bank contains an obligatory reserve held on the Bank's account in the NBP (the National Bank of Poland). The reserve declared to be maintained in December 2014 amounted to PLN 1 086 490 thousand (as of December 2013: PLN 896 724 thousand).

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

19 Loans and advances to banks

	12 months ended 31.12.2014	12 months ended 31.12.2013
Current accounts	334 295	130 453
Interbank placements	60 043	128 563
Loans and advances	10 873	11 325
Total loans and advances to banks (gross)	**405 211**	**270 341**
Impairment allowances on loans and advances to banks	(487)	(584)
Total loans and advances to banks (net)	**404 724**	**269 757**

As at 31 December 2014, variable interest rate loans and placements with other banks amounted to PLN 10 475 thousand (2013: PLN 10 867 thousand) while those of fixed interest rate as at 31 December 2014 amounted to PLN 394 736 thousand (2013: 259 474 thousand).

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

	12 months ended 31.12.2014	12 months ended 31.12.2013
Impairment allowances on loans and advances to banks at the beginning of the period	**584**	**1 012**
Impairment charges	117	135
Release of impairment charges	(216)	(172)
Write-off	-	(408)
Other changes	2	17
Impairment allowances on loans and advances to banks at the end of the period	**487**	**584**

- in PLN thousand

Amounts due from other banks, classified as individually and collectively assessed:

31.12.2014	Assessed individually with impairment loss	Assessed collectively	Total
Current accounts	-	334 295	334 295
Interbank placements	-	60 043	60 043
Loans and advances	398	10 475	10 873
Total loans and advances to banks (gross)	**398**	**404 813**	**405 211**
31.12.2013			
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**

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

	31.12.2014	31.12.2013
Assessed individually	353	405
Assessed collectively	134	179
Total impairment allowances	**487**	**584**

Gross amounts due from other banks by maturity date

	31.12.2014	31.12.2013
Up to 1 month	394 607	259 389
From 1 month to 3 months	8	5
From 3 months to 1 year	451	50
From 1 year to 5 years	8 827	9 396
Over 5 years	1 318	1 501
Total impairment allowances on loans and advances to banks Banked by individual and collective assessment	**405 211**	**270 341**

20 Reverse repo transactions

	31.12.2014	31.12.2013
Receivables from banks	-	232 882
Receivables from customers	100 668	76 373
Total reverse repo transactions	**100 668**	**309 255**

- in PLN thousand

21 Debt securities held for trading

	31.12.2014		31.12.2013	
	Assets	Liabilities	Assets	Liabilities
Securities issued by government:				
- T-bonds	199 404	-	1 018 701	271 288
Total debt securities held for trading	**199 404**	**-**	**1 018 701**	**271 288**
of which: valued using the market quotation method	*199 404*	-	*1 018 701*	*271 288*

Change in held for trading financial assets is as follows:

	12 months ended 31.12.2014	12 months ended 31.12.2013
As at 1 January	**1 018 701**	**219 051**
Purchase of securities	25 311 360	86 409 922
Redemption of securities	(263 271)	(46 101)
Disposal of securities	(25 858 382)	(85 571 296)
Change of re-measurement to fair value	(927)	(832)
Change in discount and premium adjustment, interest due, FX differences	(8 077)	7 957
As at 31 December carrying amount	**199 404**	**1 018 701**

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

	31.12.2014	31.12.2013
Up to 1 month	6 225	28 570
From 1 month to 3 months	-	-
From 3 months to 1 year	44 771	199 251
From 1 year to 5 years	145 148	515 110
Over 5 years	3 260	275 770
TOTAL	**199 404**	**1 018 701**

- in PLN thousand

22 Derivative financial instruments

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

31.12.2014	Nominal value	Fair value	
		Assets	Liabilities
Trading derivatives			
Currency derivatives:			
- Foreign Exchange Spot (FX Spot)	190 396	498	(191)
- Non-deliverable Forward (NDF)	841 374	9 177	(430)
- Foreign Exchange Forward (FX Forward)	537 120	2 454	(3 826)
- Currency Swaps (FX Swap)	11 427 943	94 871	(145 844)
- OTC currency options	389 790	2 884	(1 492)
Total OTC currency derivatives	**13 386 623**	**109 884**	**(151 783)**
Interest rate derivatives:			
- Interest Rate Swaps (IRS)	19 876 888	288 944	(276 630)
- Currency Interest Rate Swaps (CIRS)	152 243	1 848	(440)
- Forward Rate Agreements (FRA)	7 950 000	9 733	(12 028)
- OTC interest rate options	167 657	1 091	(1 193)
- Other	243 535	66	(38)
Total OTC interest rate derivatives	**28 390 323**	**301 682**	**(290 329)**
OTC options	433 628	7 898	(6 215)
Total interest rate derivatives in trade	**433 628**	**7 898**	**(6 215)**
OTC options	-	-	-
OTC commodity swaps	25 528	688	(581)
OTC commodity derivatives	**25 528**	**688**	**(581)**
TOTAL	**42 236 102**	**420 152**	**(448 908)**
of which: - valued using the market quotation method	-	-	-
- valued using model-based method	*42 236 102*	*420 152*	*(448 908)*

- in PLN thousand

31.12.2013	Nominal value	Fair value	
		Assets	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)*

Fair value of BGŻ S.A. derivatives by maturity date (in PLN thousand)

31.12 2014	Fair value of asset						Fair value of liability					
	Total	<= 1 months	> 1 month <= 3 months	> 3 months <= 12 months	> 1 year <= 5 years	> 5 years	Total	<= 1 months	> 1 month <= 3 months	> 3 months <= 12 months	> 1 year <= 5 years	> 5 years
Derivatives												
Currency derivatives:												
– FX Spot transactions	**498**	498	-	-	-	-	**(191)**	(191)	-	-	-	-
– NDF transactions	**9 177**	1 325	3 057	4 791	4	-	**(430)**	(270)	(54)	(106)	-	-
– FX Forward transactions	**2 454**	664	481	225	1 084	-	**(3 826)**	(532)	(769)	(1 311)	(1 214)	-
– FX swap contracts	**94 871**	70 691	19 931	4 249	-	-	**(145 844)**	(140 160)	(2 893)	(2 791)	-	-
– FX options purchased and sold in FX transactions	**2 884**	210	-	1 629	1 045	-	**(1 492)**	(212)	-	(1 264)	(16)	-
Total currency derivatives from OTC transactions	**109 884**	**73 388**	**23 469**	**10 894**	**2 133**	**-**	**(151 783)**	**(141 365)**	**(3 716)**	**(5 472)**	**(1 230)**	**-**
Interest rates derivatives												
– interest rate swap contracts	**288 944**	1 822	29 952	42 382	139 452	75 336	**(276 630)**	(5 205)	(24 964)	(14 577)	(153 934)	(77 950)
– inter-currency interest rate swap contracts	**1 848**	-	-	1 568	280	-	**(440)**	-	-	-	(440)	-
– FRA contracts	**9 733**	571	2 082	7 080	-	-	**(12 028)**	(2 023)	(1 671)	(6 270)	(2 064)	-
– OTC options for interest rates	**1 091**	-	9	1 082	-	-	**(1 193)**	-	(83)	(1 110)	-	-
– other interest rate contracts	**66**	66	-	-	-	-	**(38)**	(38)	-	-	-	-
Total interest rate derivatives from OTC transactions:	**301 682**	**2 459**	**32 043**	**52 112**	**139 732**	**75 336**	**(290 329)**	**(7 266)**	**(26 718)**	**(21 957)**	**(156 438)**	**(77 950)**
Options purchased and sold in OTC transactions	**7 898**	-	-	5 708	2 190	-	**(6 215)**	-	-	(5 125)	(1 090)	-
Total equity derivatives from OTC transactions	**7 898**	**-**	**-**	**5 708**	**2 190**	**-**	**(6 215)**	**-**	**-**	**(5 125)**	**(1 090)**	**-**
Options purchased and sold in OTC transactions	**-**	-	-	-	-	-	-	-	-	-	-	-
FX swaps purchased and sold in OTC transactions	**688**	336	301	51	-	-	**(581)**	(237)	(294)	(50)	-	-
Total commodity derivatives from OTC transactions	**688**	**336**	**301**	**51**	**-**	**-**	**(581)**	**(237)**	**(294)**	**(50)**	**-**	**-**
TOTAL	**420 152**	**76 183**	**55 813**	**68 765**	**144 055**	**75 336**	**(448 908)**	**(148 868)**	**(30 728)**	**(32 604)**	**(158 758)**	**(77 950)**

- in PLN thousand

31.12 2013	Fair value of asset						Fair value of liability					
	Total	<= 1 months	> 1 month <= 3 months	> 3 months <= 12 months	> 1 year <= 5 years	> 5 years	Total	<= 1 months	> 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)**

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 thousand

23 Hedge accounting

Starting from 2012 to April 2014, the Group had been applying cash flow hedge accounting against volatility of interest cash flows on granted preferential loans.

<table>
<tr><td>Description of hedging relationship</td><td colspan="4">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.</td></tr>
<tr><td>Hedged items</td><td colspan="4">Highly probable future cash flows arising from a portion of preferential loans portfolio.</td></tr>
<tr><td rowspan="4">Hedging instruments</td><td rowspan="2">PLN IRS Transactions</td><td rowspan="2">Nominal value</td><td colspan="2">Fair value</td></tr>
<tr><td>Assets</td><td>Liabilities</td></tr>
<tr><td>31.12.2014</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>31.12.2013</td><td>1 500 000</td><td>57 387</td><td>-</td></tr>
<tr><td>Presentation of the result on the hedged and hedging transactions</td><td colspan="4">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.</td></tr>
</table>

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

	31.12.2014	31.12.2013
Revaluation reserves (deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge - gross value)	-	8 400
Interest income on hedging derivatives	9 024	24 424
Ineffective part of change in fair value of hedging transactions recognized in the Result on hedge accounting	(156)	(1 077)

Change in revaluation reserve for cash flow hedge accounting

	12 months to 31.12.2014	12 months to 31.12.2013
As at the beginning of the period	**8 400**	**21 857**
Deferral - in the revaluation reserve – of changes in fair value of hedging instruments in part recognized as an effective hedge (gross)	780	12 044
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	(9 024)	(24 424)
The ineffective portion of changes in fair value of hedging transactions recognized in the Result on hedge accounting	(156)	(1 077)
As at the end of the period	**-**	**8 400**

- in PLN thousand

24 Loans and advances to customers

	31.12.2014	31.12.2013
Current accounts, in this:	**5 268 652**	**4 272 536**
- corporate	2 118 862	1 907 354
- households:	3 144 797	2 343 342
- individual customers	106 328	103 674
- individual entrepreneurs	375 241	313 552
- farmers	2 663 228	1 926 116
- budget entities	617	1 407
- other entities	4 376	20 433
Non-current loans and advances:	**25 793 660**	**23 241 349**
- corporate, in this:	7 970 809	6 892 196
- investment loans	4 622 665	4 238 097
- revolving loans	2 222 940	1 752 067
- other	1 125 204	902 032
- households:	17 533 570	15 942 148
- individual customers, in this:	10 087 819	9 465 521
- mortgage loans	8 340 820	8 038 380
- individual entrepreneurs	1 414 479	1 259 146
- farmers	6 031 272	5 217 481
- budget entities	215 802	251 572
- other entities	73 479	155 433
Total loans and advances to customers (gross)	**31 062 312**	**27 513 885**
Impairment allowances	(1 430 389)	(1 215 969)
Total loans and advances to customers (net)	**29 631 923**	**26 297 916**

As at 31 December 2014, receivables at variable interest rate amounted to PLN 29 458 097 thousand (as at 31 December 2013 - PLN 26 288 283 thousand) and receivables at fixed interest rate amounted to PLN 1 604 215 thousand (as at 31 December 2013 - PLN 1 225 602 thousand).

- in PLN thousand

Impairment allowances on loans and advances

	31.12.2014	31.12.2013
Current accounts, in this:	**256 124**	**176 542**
- corporate	163 515	102 927
- households:	92 483	73 473
- individual customers	7 271	9 684
- individual entrepreneurs	54 925	45 109
- farmers	30 287	18 680
- budget entities	-	1
- other entities	126	141
Non-current loans and advances:	**1 174 265**	**1 039 427**
- corporate, in this:	585 301	449 676
- investment loans	140 369	79 684
- revolving loans	328 322	268 907
- other	116 610	101 085
- households:	587 507	582 435
- individual customers, in this:	312 821	362 829
- mortgage loans	157 257	205 702
- individual entrepreneurs	129 195	90 839
- farmers	145 491	128 767
- budget entities	215	260
- other entities	1 242	7 056
Total Impairment allowances	**1 430 389**	**1 215 969**

- in PLN thousand

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

31.12.2014	Assessed individually with impairment loss	Assessed collectively	Total
Current accounts, in this:	**162 964**	**5 105 688**	**5 268 652**
- corporate	150 618	1 968 244	2 118 862
- households:	12 346	3 132 451	3 144 797
- individual customers	-	106 328	106 328
- individual entrepreneurs	7 718	367 523	375 241
- farmers	4 628	2 658 600	2 663 228
- budget entities	-	617	617
- other entities	-	4 376	4 376
Non-current loans and advances:	**1 167 387**	**24 626 273**	**25 793 660**
- corporate	855 662	7 115 147	7 970 809
- households:	310 990	17 222 580	17 533 570
- individual customers	99 122	9 988 697	10 087 819
- individual entrepreneurs	85 158	1 329 321	1 414 479
- farmers	126 710	5 904 562	6 031 272
- budget entities	68	215 734	215 802
- other entities	667	72 812	73 479
Total loans and advances to customers (gross)	**1 330 351**	**29 731 961**	**31 062 312**

31.12.2013			
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
- budget entities	-	1 407	1 407
- other entities	-	20 433	20 433
Non-current loans and advances:	**1 130 355**	**22 110 994**	**23 241 349**
- corporate	820 809	6 071 387	6 892 196
- 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)	**1 226 932**	**26 286 953**	**27 513 885**

- in PLN thousand

Impairment losses on loans and advances assessed individually and collectively

31.12.2014	Assessed individually	Assessed collectively*	Total
Current accounts, in this:	**84 412**	**171 712**	**256 124**
- corporate	80 601	82 914	163 515
- households:	3 811	88 672	92 483
- individual customers	-	7 271	7 271
- individual entrepreneurs	3 639	51 286	54 925
- farmers	172	30 115	30 287
- budget entities	-	-	-
- other entities	-	126	126
Non-current loans and advances:	**567 560**	**606 705**	**1 174 265**
- corporate	443 928	141 373	585 301
- households:	123 061	464 446	587 507
- individual customers	33 267	279 554	312 821
- individual entrepreneurs	39 280	89 915	129 195
- farmers	50 514	94 977	145 491
- budget entities	66	149	215
- other entities	505	737	1 242
Total impairment allowances	**651 972**	**778 417**	**1 430 389**
31.12.2013			
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
- budget entities	-	1	1
- other entities	-	141	141
Non-current loans and advances:	**462 656**	**576 771**	**1 039 427**
- corporate	344 593	105 083	449 676
- 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	**500 559**	**715 410**	**1 215 969**

** Impairment allowance for loans and advances without impairment and with impairment assessed collectively*

12 months ended 31.12.2014	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	**176 542**	**1 039 427**	**449 676**	**582 435**	**260**	**7 056**	**1 215 969**
Allowance recognized	208 139	1 248 717	476 762	770 241	303	1 411	1 456 856
Allowance reversed	(152 828)	(996 977)	(349 998)	(645 714)	(348)	(917)	(1 149 805)
Write-off	(5 013)	(143 082)	(8 353)	(128 421)	-	(6 308)	(148 095)
Impairment acquired as a result of the merge	29 688	16 540	16 540	-	-	-	46 228
Other changes (exchange differences)	(404)	9 640	674	8 966	-	-	9 236
Impairment allowances at the end of the period	**256 124**	**1 174 265**	**585 301**	**587 507**	**215**	**1 242**	**1 430 389**

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	1 202 313	577 527	623 737	373	676	1 432 663
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**	**1 039 427**	**449 676**	**582 435**	**260**	**7 056**	**1 215 969**

** 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 thousand

Loans and advances (gross) by maturity date

	31.12.2014	31.12.2013
Up to 1 month	784 665	158 027
From 1 to 3 months	538 196	603 300
From 3 to 1 year	2 775 447	3 037 673
From 1 year to 5 years	7 196 506	5 447 987
Over 5 years	18 669 334	17 321 483
Exposures past due	1 098 164	945 415
Total	**31 062 312**	**27 513 885**

The exposure to credit risk from loans and advances according to impairment trigger

	31.12.2014	31.12.2013
Exposures with recognized impairement		
Gross carrying amount	2 270 336	1 957 987
Impairment allowance	(1 275 538)	(1 115 752)
Total net carrying amount	**994 798**	**842 235**
Exposures with impairment triggers for which no impairment has been identified		
Gross carrying amount, in this:	182 631	242 132
Exposures with collateral value included in expected discounted cash flow, in this:	*182 631*	*242 132*
Past due exposures	*106 219*	*174 327*
IBNR provision	(3 327)	-
Total net carrying amount	**179 304**	**242 132**
The exposure without impairement trigger		
gross book value	28 609 345	25 313 766
IBNR allowance	(151 524)	(100 217)
Total net	**28 457 821**	**25 213 549**

In 2014, the Bank concluded three contracts for the sale of loans portfolio. The amount of receivables sold under agreements amounted to PLN 205 308 thousand (the amount of principal, interest and other receivables). The contract price of sale of the portfolio was fixed at PLN 36 534 thousand. The net impact on the Banks' result from the sale of the portfolio amounted to PLN 9 378 thousand and is presented in lines: impairment charges and release of impairment charges due to impairment allowances on loans and advances.

- in PLN thousand

25 Available for sale financial assets

	31.12.2014	31.12.2013
Debt securities available for sale:	7 078 943	4 820 672
- issued by central banks - NBP bills	3 199 654	1 349 738
- issued by governments - T-bonds	3 860 027	3 441 851
- issued by financial institutions – bonds	-	5 074
- issued by budget entities – municipal bonds	19 262	24 009
Equity securities available for sale	5 074	5 401
Total available for sale financial assets	**7 084 017**	**4 826 073**
of which:		
- valued using the market quotation method	*3 863 688*	*3 446 373*
- valued using model-based method	*3 220 329*	*1 379 700*

Valuation of debt securities available for sale is prepared using a 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 in available for sale financial assets are as follows:

	12 months ended 31.12.2014	12 months ended 31.12.2013
As at 1 January	**4 826 073**	**6 867 557**
Purchase of securities	147 100 570	188 594 255
Re-purchase of securities	(144 796 896)	(189 787 478)
Disposal of securities	(335 763)	(856 040)
Change in re-measurement to fair value	215 554	(139 492)
Change in interest due, FX differences, discount and premium adjustments	74 479	147 271
As at 31 December	**7 084 017**	**4 826 073**

The carrying amount of fixed interest rate debt securities classified as available for sale is PLN 6 378 362 thousand (as at 31 December 2013 - PLN 4 534 761 thousand), while that of variable interest rate debt securities is PLN 700 581 thousand (as at 31 December 2013 - PLN 285 911 thousand).

In accordance with the Act on the Bank Guarantee Fund (BFG) from 14 December 1994, as of 31 December 2014 the Bank possessed treasury bills presented in the statement of financial position in the amount of PLN 198 301 thousand (nominal value of PLN 175 000 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) (as of 31 Secember 2014 these treasury bills amounted to PLN 161 857 thousand with nominal value of PLN 165 000 thousand).

- in PLN thousand

Available for sale financial assets (gross amounts) by maturity

	31.12.2014	31.12.2013
Without fixed maturity	5 074	5 401
Up to 1 month	3 655 230	1 354 731
From 1 month to 3 months	-	5 074
From 3 months to 1 year	148 777	88 048
From 1 year to 5 years	1 576 180	1 456 798
Over 5 years	1 698 756	1 916 021
Total financial assets available for sale	**7 084 017**	**4 826 073**

26 Investment properties

As at 31 December 2014, the Group had investment property in the form of not-built-up land with an area of 46.85 hectares in Wroclaw.

Fair value in amount 54 627 thousand results from the appraisal report made at 27 Nowember 2014 by an external valuer in amount of 60 697 thousand and additional risks regarding investment property.

	12 months ended 31.12.2014	12 months ended 31.12.2013
Opening balance	**62 524**	**62 301**
Revaluation	(7 897)	223
Sale	-	-
Closing balance, of which:	**54 627**	**62 524**
- purchase price	12 246	12 246
- revaluation to fair value	42 381	50 278

27 Investments in associates

	31.12.2014	31.12.2013
In financial sector entities	-	35 052
Total investments	**-**	**35 052**

Shares in associates as at 31 December 2014

31.12.2014 Entity name	Shares purchase price	Write-downs	Carrying amount	BGŻS.A.'s % share in the entity's equity	Equity	Financial result for year 2014	Total revenue
BGŻ Leasing Sp. z o.o.	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**

31.12.2013 Entity name	Shares purchase price	Write-downs	Carrying amount	BGŻS.A.'s % share in the entity's equity	Equity	Financial result for year 2013	Total revenue
BGŻ Leasing Sp. z o.o.	42 373	(7 321)	35 052	49%	71 534	(22 610)	63 040
Razem	**42 373**	**(7 321)**	**35 052**	**-**	**-**	**-**	**-**

- in PLN thousand

On 10 September 2014 BGŻ and De Lage Landen International B.V. signed a sale agreement of shares of BGŻ Leasing Sp. z o.o. with headquarter in Warsaw. By agreement BGŻ disposed of 42 373 shares with total net nominal value of PLN 42 373 000 (nominal value of one share amounts to PLN 1 000) which accounted for 49% of share capital of BGŻ Leasing. The sale price amounted to PLN 35 005 thousand. The transfer of ownership of shares occurred on 11 September 2014 as a result of signing an agreement of termination of cooperation between BGŻ S.A., BGŻ Leasing and De Lage Landen International.

28 Intangible assets

	31.12.2014	31.12.2013
Licenses	136 872	131 651
Other intangible assets	599	583
Expenditures on intangible assets	27 836	26 355
Total intangible assets	**165 307**	**158 589**

12 months ended 31.12.2014	Licenses	Other intangible assets	Expenditure on intangible assets	Total
CARRYING VALUE				
As at 1 January	**427 699**	**4 323**	**26 355**	**458 377**
Increases:	*62 688*	*341*	*56 998*	*120 027*
- transfer from/to expenditures	54 258	253	-	54 511
- purchases	-	-	56 998	56 998
merge	8 430	88	-	8 518
- other	*(24 902)*	*(149)*	*(55 517)*	*(80 568)*
Decreases:	-	-	(54 511)	(54 511)
- transfer from expenditures	(24 902)	(149)	-	(25 051)
- sale, liquidation, donation, shortage	-	-	(1 006)	(1 006)
As at 31 December	**465 485**	**4 515**	**27 836**	**497 836**
ACCUMULATED AMORTIZATION				
As at 1 January	**296 048**	**3 740**	**-**	**299 788**
Movements:	*32 565*	*176*	-	*32 741*
- amortization charge for the year	49 509	256	-	49 765
- sale, liquidation, donation, shortage	(24 048)	(148)	-	(24 196)
merge	7 104	68	-	7 172
As at 31 December	**328 613**	**3 916**	**-**	**332 529**
NET CARRYING AMOUNT				
As at 1 January	**131 651**	**583**	**26 355**	**158 589**
As at 31 December	**136 872**	**599**	**27 836**	**165 307**

- in PLN thousand

12 months ended 31.12.2013	Licenses	Other intangible assets	Expenditure on intangible assets	Total
CARRYING VALUE				
As at 1 January	**431 983**	**4 158**	**20 412**	**456 553**
Increases:	*48 771*	*306*	*54 992*	*104 069*
- transfer from/to expenditures	48 771	278	-	49 049
- purchases	-	1	54 992	54 993
- 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**	**4 345**	**26 355**	**458 399**
ACCUMULATED AMORTIZATION				
As at 1 January	**300 339**	**3 540**	**-**	**303 879**
Movements:	*(4 291)*	*222*	*-*	*(4 069)*
- amortization charge for the year	47 162	340	-	47 502
- sale, liquidation, donation, shortage	(51 453)	(118)	-	(51 571)
As at 31 December	**296 048**	**3 762**	**-**	**299 810**
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**

In reference to intangible assets that are not yet available for use, i.e. are in construction, the Group 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 2014 or 31 December 2013.

As at 31 December 2014 and 31 December 2013 the Group does not have any significant contractual commitments for the acquisition of intangible assets.

29 Property, plant and equipment

	31.12.2014	31.12.2013
Non-current assets, in this:	404 471	442 137
- land and buildings	254 379	263 220
- IT equipment	36 140	40 352
- office equipment	50 060	62 283
-other	63 892	76 282
Assets under construction	6 592	7 002
Total property, plant and equipment	**411 063**	**449 139**

- in PLN thousand

Movements in tangible fixed assets in 2014 and 2013 are presented below:

12 months ended 31.12.2014	Land and building	Tangible fixed assets	Assets under construction	Total
Carrying value				
As at 1 January	**436 982**	**567 193**	**7 002**	**1 011 177**
Increases:	*3 553*	*22 215*	*20 794*	*46 562*
- transfer from assets under construction	3 553	17 628	-	21 181
- purchases	-	-	20 794	20 794
merge	-	4 582	-	4 582
- other	-	5	-	5
Decreases:	*(12 442)*	*(57 062)*	*(21 204)*	*(90 708)*
- transfer from assets under construction	-	-	(21 181)	(21 181)
- sale, liquidation, donation, shortage, theft	(12 442)	(57 062)	-	(69 504)
- other	-	-	(23)	(23)
As at 31 December	**428 093**	**532 346**	**6 592**	**967 031**
ACCUMULATED DEPRECIATION				
As at 1 January	**165 906**	**388 271**	**-**	**554 177**
Movements	*5 141*	*(6 286)*	-	*(1 145)*
- depreciation charge for the year	10 538	40 692	-	51 230
- sale, liquidation, donation, shortage	(5 397)	(48 653)	-	(54 050)
merge	-	1 675	-	1 675
As at 31 December	**171 047**	**381 985**	**-**	**553 032**
DEPRECIATION WRITE-OFF				
As at 1 January	**7 856**	**5**	**-**	**7 861**
Movements	*(5 189)*	*264*	-	*(4 925)*
-impairment allowance	324	270	-	594
-sale	(6 472)	(4)	-	(6 476)
-other	959	(2)	-	957
As at 31 December	**2 667**	**269**	**-**	**2 936**
NET CARRYING AMOUT				
Balance as at 1 January	**263 220**	**178 917**	**7 002**	**449 139**
As at 31 December	**254 379**	**150 092**	**6 592**	**411 063**

- in PLN thousand

12 months ended 31.12.2013	Land and building	Tangible fixed assets	Assets under construction	Total
Carrying value				
As at 1 January	**432 726**	**572 469**	**15 021**	**1 020 216**
Increases:	*5 992*	*36 490*	*34 489*	*76 971*
- transfer from assets under construction	5 992	36 489	-	42 481
- purchases	-	1	34 489	34 490
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**	**567 289**	**7 002**	**1 011 273**
ACCUMULATED DEPRECIATION				
As at 1 January	**155 988**	**387 558**	**-**	**543 546**
Movements	*9 918*	*809*	-	*10 727*
- depreciation charge for the year	10 381	41 336	-	51 717
- sale, liquidation, donation, shortage	(463)	(40 520)	-	(40 983)
- other	-	(7)	-	(7)
As at 31 December	**165 906**	**388 367**	**-**	**554 273**
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**

As at 31 December 2014 and 31 December 2013, the Bank does not have any significant contractual commitments for the acquisition of tangible assets.

- in PLN thousand

30 Other assets

	31.12.2014	31.12.2013
Other assets		
– other debtors	73 958	81 059
– interbank and intersystem settlements	-	7 860
– prepaid expenses	9 761	10 679
– accrued income	6 789	7 184
– cards settlements	2 554	77 854
– other	1 156	1 625
Total other assets (gross)	**94 218**	**186 261**
Impairment allowances on other receivables	(33 516)	(29 797)
Total other assets (net)	**60 702**	**156 464**

31 Amounts due to banks

	31.12.2014	31.12.2013
Current accounts	108 994	61 544
Term deposits	15 208	274 266
Loans and advances received	1 327 121	2 860 839
Other liabilities	95 416	74 765
Total amounts due to banks	**1 546 739**	**3 271 414**

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. In accordance to annex from 28 May 2013, the Bank made premature repayment of CHF 90 million on 3 June 2013. Simultaneously, by agreement from 28 May 2013, this cash was transfered to the Bank by Rabobank in the form of subordinated loan. By agreement signed with Societe Anonyme De Gestion D´Investissements Et De Participations ('Sagip'), BNP Paribas S.A. and Rabobank, Sagip acquired from Rabobank debt under the above agreement in amount of remained principal and interests accrued as at 23 September 2014, i.e. CHF 669 535 thousand. As at 31 December 2014 the loan principal amounted to PLN 2 286 332 thousand. Due to the fact that Sagip is financial institution, the above mentioned loan received is presented in note "Amounts due to clients".

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 first half of 2010, whereas the second one in August 2011. On 12 September 2014 EBOiR agreed on overtaking the control of Bank by BNP Paribas S.A. and resigned from possibility to ask Bank to prepay the above mentioned loans before their maturity date. As at 31 December 2014, the loan capital amounted to PLN 91 335 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. On 25 September EBI agreed on change of control of the Bank by BNP Paribas S.A. and resigned from possibility to ask the Bank to prepay the above mentioned loan before its maturity date and released Rabobank from guaranteeing liabilities of the Bank due to above mentioned loan, simultaneously accepting in this place the guarantee of BNP Paribas S.A. on 23 September 2014. Above mentioned guarantee of Rabobank expired on 25 September 2014. As at 31 December 2014 loan principal amounted to PLN 199 215 thousand.

- in PLN thousand

On 18 June 2014 the Bank has entered into a credit line agreement ('Agreement') with Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. up to the total sum of EUR 700 000 000, which is an equivalent to PLN 2 897 860 000 according to the National Bank of Poland EUR/PLN fixing rate as of 17 June 2014. The credit line's purpose is to provide funding matched to current and future loan activity of Rabobank Polska, who merged with the Bank as at the signing date of the Agreement. The agreement includes all loans and credit lines granted till the date of control takeover by BNP Paribas S.A.

As of the date of signing the Agreement, the line was disbursed in several sub-loans and in various currencies: PLN, USD, EUR, CHF, CZK, HUF; with floating interest rates based on reference rates appropriate for given currency and margin on top of that rate. Existing loans are matched to general liquidity and interest rate risk profile of underlying client loans. Full repayment of loans disbursed under the Agreement should happen on 31 December 2023 the latest. As at 31 December 2014 loan principal of above mentioned loans amounted to PLN 1 035 360 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 2014 and 2013.

Amounts due to banks by maturity

	31.12.2014	31.12.2013
Up to 1 month	754 997	436 983
From 1 month to 3 months	48 332	38 163
From 3 months to 1 year	133 264	327 307
From 1 year to 5 years	490 492	1 217 919
Over 5 years	119 654	1 251 042
Total amounts due to banks	**1 546 739**	**3 271 414**

32 Repo transactions

	31.12.2014	31.12.2013
Due to bank	45 364	-
Due to customers	-	-
Total repo transactions	**45 364**	**-**

- in PLN thousand

33 Amounts due to customers

	31.12.2014	31.12.2013
Other financial institutions:	**4 222 120**	**1 046 953**
Current accounts	24 015	9 894
Term deposits	1 906 525	1 037 048
Loans and advances received	2 291 569	-
Other liabilities, in this:	11	11
- other	11	11
Individual customers:	**18 539 420**	**16 377 174**
Current accounts	9 670 397	10 100 652
Term deposits	8 811 831	6 208 272
Other liabilities, in this:	57 192	68 250
- cash collaterals	10 766	7 965
- other	46 426	60 285
Corporate:	**9 448 772**	**8 466 523**
Current accounts	4 847 839	4 891 038
Term deposits	4 471 291	3 510 860
Other liabilities, in this:	129 642	64 625
- cash collaterals	128 084	63 488
- other	1 558	1 137
Of which farmers:	**1 195 840**	**1 200 404**
Current accounts	882 206	1 040 784
Term deposits	307 626	152 923
Other liabilities, in this:	6 008	6 697
- cash collaterals	5 920	6 667
- other	88	30
Budget entities:	**594 132**	**602 066**
Current accounts	384 526	458 346
Term deposits	209 475	143 593
Other liabilities, in this:	131	127
- cash collaterals	131	127
Total amounts due to customers	**32 804 444**	**26 492 716**

Increase of amounts due to other financial institutions in 2014 was caused by the fact of acquiring from Rabobank liabilities from loan to Sagip. Details of transaction are described in note 31.

Amounts due to costumers, by maturity

	31.12.2014	31.12.2013
Up to 1 month	19 796 519	19 419 423
From 1 month to 3 months	4 494 182	1 953 129
From 3 months to 1 year	5 792 495	4 041 709
From 1 year to 5 years	1 737 960	1 066 302
Over 5 years	983 288	12 153
Total amounts due to customers	**32 804 444**	**26 492 716**

- in PLN thousand

34 Debt securities issued

Changes in debt securities issued

	12 months ended 31.12.2014	12 months ended 31.12.2013
Balance at the beginning of the period	**1 191 158**	**1 852 931**
Issuance of certificates of deposit	-	601 721
Redemption of certificates of deposit	(431 433)	(1 306 155)
Sold discount from certificates of deposit, repurchased interest from certificates of deposit, commission and other fees on certificates of deposit amortized using EIR	2 586	42 661
Balance of debt securities issued at the end of the period	**762 311**	**1 191 158**

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 Group.

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 755 000 thousand (nominal value) as at 31 December 2014 and PLN 1 184 000 thousand (nominal value) as at 31 December 2013.

35 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 2.01%.

By agreement from 12 September 2014, BNP Paribas S.A. granted the Bank a subordinated loan in amount of CHF 90 million for 10 years tenor, i.e. since 17 September 2014 till 17 September 2024 with balloon payment on maturity date with interest rate set at CHF Libor 6M + 2% margin.

On 23 September 2014, the Polish Financial Services Authority agreed to include the amount from BNP Paribas SA of above mentioned subordinated loan to the Bank's supplementary funds and on pre-mature repayment of the subordinated loan granted by Rabobank, which occurred on 24 September 2014.

As at 31 December 2014, the carrying amount of subordinated liabilities amounted to PLN 320 951 thousand (as at 31 December 2013 amounted to PLN 304 817 thousand).

- in PLN thousand

36 Other liabilities

	31.12.2014	31.12.2013
Interbank and intersystem settlements	67 322	55 217
Other creditors	63 718	58 060
Card settlements	13 776	93 033
Provisions for non-personnel expenses	34 812	28 466
Provisions for other employee-related liabilities	80 630	40 974
Provisions for unused holidays	19 544	15 275
Deferred income	19 087	14 102
Other public settlements	26 862	20 914
Total other liabilities	**325 751**	**326 041**

37 Provisions

	31.12.2014	31.12.2013
Provision for restructuring	-	4 310
Provision for retirement benefits	26 859	19 966
Provision for guarantees, surety ships and undrawn credit facilities	23 200	18 338
Provision for litigation and claims	16 457	18 845
Other provisions	1 596	2 556
Total provisions	**68 112**	**64 015**

Provision for restructuring	12 months ended 31.12.2014	12 months ended 31.12.2013
Opening balance	**4 310**	**13 515**
Provision charges	-	7 746
Provision utilization	(2 424)	(16 951)
Provision release	(1 886)	-
Closing balance	**-**	**4 310**

Provision for retirement benefits and similar obligation	12 months ended 31.12.2014	12 months ended 31.12.2013
Opening balance	**19 966**	**14 407**
Provision charges	6 968	6 718
Provision release	(75)	(1 159)
Closing balance	**26 859**	**19 966**

- in PLN thousand

Provisions for guarantees, surety ships and undrawn credit facilities	12 months ended 31.12.2014	12 months ended 31.12.2013
Opening balance	**18 338**	**7 257**
Provision charges	33 189	34 293
Provision release	(29 175)	(22 994)
Provision acquired Ina business unit combination	1 977	-
Other changes	(1 129)	(218)
Closing balance	**23 200**	**18 338**

Provision for litigation and claims	12 months ended 31.12.2014	12 months ended 31.12.2013
Opening balance	**18 845**	**28 736**
Provision charges	2 866	1 122
Provision utilization	(545)	(1 915)
Provision releases	(4 709)	(9 251)
Other changes	-	153
Closing balance	**16 457**	**18 845**

Other provisions	12 months ended 31.12.2014	12 months ended 31.12.2013
Opening balance	**2 556**	**1 586**
Provision charges	-	1 537
Provision utilization	-	(89)
Provision releases	(960)	-
Other changes	-	(478)
Closing balance	**1 596**	**2 556**

1. As at 31 December 2014, the total value of court proceedings, under which the Group is a defendant, amounted to PLN 40 735 thousand, while the value of claims initiated by the Group amounted to PLN 75 744 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 Group 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 Group’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. Participants in the proceedings appealed against the latter decision. The court did not set a date of the case. As of 31 December 2014 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 Group'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 Group appealed against the decision. The Court rejected appeal from Bank. On 22 December 2014 Bank appealed against the decision. Files have not yet been transferred to the Court of Appeal. As at 31 December 2014 provision for the case amounted to PLN 1 374 thousand.
4. Subsidiary Bank Real Estate Fund Actus Sp. z o.o. (The Company) was involved in the litigation brought by SM INCO, for "the removal of discrepancies between the legal status of real property located in Wroclaw (Marszowice) and the actual legal status of the property" by means of registering the SM INCO as the owner of the property in the place of revealed actually BFN ACTUS Sp. z o.o.. On 16 March 2011 the District Court in Wrocław (Fabryczna) dismissed the action of SM INCO, and on 20 January 2012, the District Court dismissed the appeal in Wroclaw by SM INCO. On 14 March 2013 the Supreme Court refused to hear an cassation appeal by SM INCO. In 2014 BFN ACTUS was not involved in any case.
5. The Group creates provisions for retirement, post-employment and deach 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 of conditioning the 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.

Sensitivity analysis

The table below presents what impact on liabilities for retirement, pension and death benefits would have changes in actuarial assumptions by 1 percentage point as at 31 December 2014.

	Increase by 1 percentage point	Decrease by 1 percentage point
discount rate	(3 304)	4 074
rate of increase in salaries	4 035	(3 337)

- in PLN thousand

38 Deferred tax

The following movements were recorded on the deferred tax account:

Deferred tax assets

	Base for deferred tax as at 31.12.2014	Base for deferred tax as 31.12.2013	Charge resulting from assets changes in 2014
Interest payable on liabilities, including interests and discount on certificates of deposit	185 050	139 628	8 630
Valuation of derivative financial instruments and securities to fair value	582 339	334 671	47 057
Impairment allowances on financial assets and provisions for contingent liabilities (non-tax-deductible), of which utilization is probable	705 091	582 913	23 214
Fees calculated in advance and settled at amortized cost using the effective interest rate method	311 314	283 310	5 321
Provision for jubilee bonuses, retirement benefits, unused holiday and restructuring	23 647	39 551	(3 022)
Other provisions for other employee-related liabilities	100 220	41 011	11 250
Provisions for non-personnel expenses	35 293	28 350	1 319
Valuation of available for sale financial assets	4 991	20 435	(2 934)
Other deductible temporary differences	4 499	2 553	370
Total:	**1 952 444**	**1 472 422**	**91 205**
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	1 947 453	1 451 987	94 139
Tax base of deferred tax assets recognized in the revaluation reserve and charge resulting from the asset change	4 991	20 435	(2 934)

Unrecognised 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 2014 amounted to PLN 47 512 thousand, and as at 31 December 2013 it was PLN 51 582 thousand.

- in PLN thousand

Deferred tax liabilities

	Base for deferred tax as at 31.12.2014	Base for deferred tax as at 31.12.2013	Charge resulting from assets change in 2014
Interest receivable	(118 994)	(136 107)	3 251
Valuation of derivative financial instruments and securities to fair value	(534 040)	(394 733)	(26 468)
Land valuation	(42 381)	(50 278)	1 501
Transaction costs on granting loans	(64 272)	(56 694)	(1 440)
Valuation of available for sale financial assets	(320 253)	(133 351)	(35 511)
Total:	**(1 079 940)**	**(771 163)**	**(58 667)**
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	(759 687)	(637 812)	(23 156)
Tax base of deferred tax liability recognized in the revaluation reserve (in the current and previous years) and charge resulting from the liabilities change	(320 253)	(133 351)	(35 511)

Presented as:

Deferred tax assets	**370 964**	**279 760**
Deferred tax liabilities	**(205 188)**	**(146 520)**
Total	**165 776**	**133 240**
Net asset due to deferred tax	173 828	142 792
Net provision due to deferred tax	(8 052)	(9 552)

39 Discontinued operations

No operations were discontinued during 2014 or 2013.

40 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 a rational, sustainable and subject to control remuneration policy, consistent with acceptable level of risk, with the standards and values of BGZ and with the relevant laws and regulations, in particular with Resolution No. 258/2011 of the Financial Supervision Authority of 4 October 2011 and recommendation included in Directive CRD4.

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 instruments (phantom shares) and remaining part - in cash.

Variable remuneration granted in phantom shares is paid in cash equivalent of the value corresponding to the number of shares granted. Payment is followed by retention.

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

- in PLN thousand

Variable remuneration for year 2012, 2013 and 2014 – 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 For year 2014: 1 January 2014
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 Risk Takers (the entry into force of the Resolution of the Management Board) For year 2013: 1 April 2014 - in case of members of the Management Board (entry into force of the Resolution of the Supervisory Board) 31 March 2014 - in case Risk Takers (the entry into force of the Resolution of the Management Board) For year 2014: In case of members of the Management Board - the date of the Resolution by the Supervisory Board In case of Risk Takers - 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 did not acquire rights)- 20 011 For year 2013: non-deferred part (to which employees did not acquire rights)- 18 226 deferred part – (to which employees did not acquire rights) - 17 670 For year 2014: 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: non-deferred part – PLN 1 318 thousand deferred part - PLN 1 278 thousand For year 2014 Will be determined at the granting date
Maturity date	For year 2012: 31 August 2016 For year 2013: 31 August 2017 For year 2014: 31 August 2018
Vesting date for financial instruments	For year 2012: in case of Members of the Management Board: non-deferred part – 12 March 2013

	deferred part -1 April 2016 in case of other employees covered by the program: non-deferred part – 26 March 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 - 1 April 2014 deferred part - 1 May 2017 in case of other employees covered by the program: non-deferred part – 31 March 2014 deferred part - 1/3 – 1 April 2015 1/3 – 1 April 2016 1/3 – 1 April 2017 For year 2014: In case of member of the Management Board: non-deferred part – March 2015 deferred part – March 2018 in case of other employees covered by the program: non-deferred part – March 2015 deferred part – 1/3 - March 2016 1/3 - March 2017 1/3 - March 2018
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

	2014		Mid-day median share price of Bank*
	number	value (PLN thousand)	
Balance at the beginning of the period	**41 810**	**2 895**	**69,23**
Granted (for year 2013)	35 896	2 596	72.335
Exercised (for year 2012)	(21 799)	(1 577)	72.335
Lost	-	-	-
Terminated	-	-	-
Balance at the end of period	**55 907**	**4 454**	**79,67**

** 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 2014, there were payments made in respect to acquired rights to the phantom shares (under program for 2012) amounted to PLN 1 577 thousand (number of phantom shares - 21 799).
As at 31 December 2014, the provision for share-based payments amounted to PLN 6 431 thousand, while as at 31 December 2013 – PLN 3 063 thousand.

- in PLN thousand

41 Contingent liabilities

The table below presents the balances of liabilities granted and received

	31.12.2014	31.12.2013
Contingent commitments granted	**5 694 336**	**4 605 578**
- Financial commitments	4 999 624	3 852 656
- Guarantees	694 712	752 922
Contingent commitments received	**1 573 710**	**16 789**
- Financial commitments	942 883	10 378
- Guarantees	630 827	6 411

Liabilities granted and received by maturity date

	31.12.2014	31.12.2013
Up to 1 month	3 844 611	3 549 895
From 1 month to 3 months	195 156	140 877
From 3 months to 1 year	936 595	559 560
From 1 year to 5 years	594 530	350 671
Over 5 years	123 444	4 575
Total liabilities granted	**5 694 336**	**4 605 578**
Up to 1 month	55 102	9 628
From 1 month to 3 months	40	2 800
From 3 months to 1 year	223 495	3 914
From 1 year to 5 years	291 892	447
Over 5 years	1 003 181	-
Total liabilities received	**1 573 710**	**16 789**

Additionally, as at 31 December 2014, the Group had liabilities due to issued promises of granting loans to the amount of PLN 765 610 thousand (PLN 588 378 thousand as at 31 December 2013).

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

Assets securing liabilities of the Bank

	31.12.2014
Banking Guarantee Fund BFG	
– nominal value of collateral	175 000
– type of collateral	Treasury bonds
– maturity date of collateral	25.10.2023
– carrying amount of collateral	197 181
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	1 524
Collateral for settlement of derivative financial instruments	
– nominal value of collateral	90 743
– type of collateral	call deposits (due from banks)
Collateral for liabilities arising from repo transaction (sell-buy-back transactions)	
- Treasury bonds	45 322

- in PLN thousand

	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
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	-

42 Fair value of financial assets and financial liabilities

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

Level 1

Assets and liabilities are valued based on market quotations and 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 Group 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 Group shall transfer assets or liabilities to the appropriate level of valuation in the reporting period in which this change occurred.

In 2014 and 2013, the Group 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.

- in PLN thousand

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

31.12.2014	Level 1	Level 2	Level 3	Total
Assets re-measured to fair value	**4 063 092**	**3 611 523**	**83 585**	**7 758 200**
Debt securities held for trading	199 404	-	-	199 404
Derivative financial instruments	-	411 869	8 283	420 152
Available for sale financial assets	3 863 688	3 199 654	20 675	7 084 017
Investment property	-	-	54 627	54 627
Liabilities re-measured to fair value	**-**	**(442 677)**	**(6 231)**	**(448 908)**
Derivative financial instruments	-	(442 677)	(6 231)	(448 908)
31.12.2013				
Assets re-measured to fair value	**4 465 074**	**1 765 635**	**97 236**	**6 327 945**
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
Investment property	-	-	62 524	62 524
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

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

To level 2, the Group 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 Group classifies options embedded in investment deposits 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 correlation between foreign exchange rates and stock indices implied volatility of shares on the WSE and WIG30 index. In case of extreme correlation changes, the maximum estimated change in valuation amounted to PLN 258 thousand as at 31 December 2014).

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 case of investment property, data used for valuation are bids on comparable premises, real prices of transactions and other data regarding real estate market condition in the area.

Considering other estimates then those used for 31 December 2014 could lead to a significant change of the investment property valuation, although the Group has no realizable proofs on its impact on the fair value of the property.

- in PLN thousand

The valuation was executed by an external certified property appriaser by hybrid approach, residual method.

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 other comprehensive income:

	Derivative financial instruments (assets)	Available for sale financial assets	Investment property	Derivative financial instruments (liabilities)
Balance as at 01.01.2014	**9 823**	**24 889**	**62 524**	**(7 159)**
Total gains or losses recognized in:	(9 579)	587	(7 897)	3 872
- Net interest income	-	*797*	-	-
- Net trading income	*(9 579)*	-	-	*3 872*
- Other operating income/expenses	-	-	*(7 897)*	-
- Statement of other comprehensive income	-	*(210)*	-	-
Purchase	8 039	-	-	(2 944)
Settlement	-	(4 801)		-
Balance as at 31.12.2014	**8 283**	**20 675**	**54 627**	**(6 231)**
Unrealized gains or losses relating to assets and liabilities held at the end of the reporting period, recognized in:	**(9 579)**	**6**	**(7 897)**	**3 872**
Net interest income	-	6	-	-
Net trading income	(9 579)	-	-	3 872
Statement of other operating income	-	-	(7 897)	-

- in PLN thousand

	Derivative financial instruments (assets)	Available for sale financial assets	Investment property	Derivative financial instruments (liabilities)
Balance as at 01.01.2013	**-**	**26 548**	**62 301**	**-**
Total gains or losses recognized in:	(570)	1 154	223	2 137
- Net interest income	-	*1 196*		-
- Net trading income	*(570)*	-		*2 137*
- Other operating income/expenses	-	-	*223*	-
- Statement of other comprehensive income	-	*(42)*	-	-
Purchase	10 393	-	-	5 022
Settlement	-	(2 813)	-	-
Balance as at 31.12.2013	**9 823**	**24 889**	**62 524**	**7 159**
Unrealized gains or losses relating to assets and liabilities held at the end of the reporting period, recognized in:	**(570)**	**11**	**223**	**2 137**
Net interest income	-	11		-
Net trading income	(570)	-		2 137
Statement of other operating income	-	-	223	-

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, unobservable parameters are current credit risk margin and liquidity margin, their value are not quoted on the active market.

31.12.2014	Carrying amount	Fair value	Level
Financial assets			
Loans and advances to banks	404 724	402 216	3
Reverse repo transactions	100 668	100 668	3
Loans and advances to customers	29 631 923	29 619 745	3
Financial liabilities			
Amounts due to banks	1 546 739	1 536 443	3
Repo transactions	45 364	45 364	
Amounts due to customers	32 804 444	32 865 106	3
Debt securities issued	762 311	764 634	3
Subordinated liabilities	320 951	322 250	3

- in PLN thousand

31.12.2013	Carrying amount	Fair value	Level
Financial assets			
Loans and advances to banks	269 757	266 562	3
Reverse repo transactions	309 255	309 255	3
Investments in associates	35 052	35 052	3
Loans and advances to customers	26 297 916	26 371 088	3
Financial liabilities			
Amounts due to banks	3 271 414	3 192 076	3
Repo transactions	-		
Amounts due to customers	26 492 716	26 474 438	3
Debt securities issued	1 191 158	1 175 352	3
Subordinated liabilities	304 817	309 382	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 a discounted value of future cash-flows to be received by using current market interest rates and are adjusted by actual or estimated margins achieved during last 3 months.

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.

d) Investments in associates

The fair value of the investments in 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 actual cost of obtaining funding during last 3 months. 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.

- in PLN thousand

The table below presents information regarding financial instruments compensation as at 31 December 2014 and 31 December 2013.

31.12.2014	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	418 961	-	418 961	(293 048)	(100 696)	25 217
BSB, securities loans, and similar contracts	100 668	-	100 668	(100 668)	-	-
Total	**519 629**	**-**	**519 629**	**(393 716)**	**(100 696)**	**25 217**
Financial liabilities						
Trading derivative instruments	435 154	-	435 154	(293 048)	(90 743)	51 363
SBB, securities loans, and similar contracts	45 364	-	45 364	(45 364)	-	-
Total	**480 518**	**-**	**480 518**	**(338 412)**	**(90 743)**	**51 363**

31.12.2013	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.

43 Operating lease

The Group as a leasee

The Group incurs cost of leasing of cars and leasing of printing equipment. The Group 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.

- in PLN thousand

Lease payments by maturity

	31.12.2014	31.12.2013
Up to 1 year	24 084	56 286
From 1 year to 5 years	53 552	115 592
Over 5 years	3 561	11 064
Total	**81 197**	**182 942**

The Group as a lessor

The Group 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

	31.12.2014	31.12.2013
Up to 1 year	3 204	3 184
From 1 year to 5 years	191	5
Over 5 years	89	-
Total	**3 484**	**3 189**

44 Fiduciary activities

The Bank provides trustee services including maintaining securities accounts. Because of those services, the Bank: records clients state of the financial instruments leads clients settlements of transactions in financial instruments, supports rights and benefits from financial instruments, executes clients and performs recording operations on financial instruments which are deposited in securities customer accounts. Additionally Bank has function Issuing Agent for municipal bonds and corporate bonds.

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 on interbank and regulated market. 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 securites turnover on behalf of clients amounted on average per month in 2014 to PLN 52 931 thousand and in 2013 to PLN 92 374 thousand. These transactions included treasury bills and bonds, and non-treasury debt securities.

- in PLN thousand

45 Equity

Shareholders of the Bank

Shareholder	31.12.2014		31.12.2013	
	Number of shares held	Share (%)	Number of shares held	Share (%)
BNP Paribas SA	49 952 737	88.98	-	-
Rabobank International Holding B.V.*	5 613 875	9.99	45 942 004	89.84
Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.*	-	-	4 303 695	8.42
Remaining shareholders	572 152	1.03	891 065	1.74
TOTAL	**56 138 764**	**100.00**	**51 136 764**	**100.00**

***** *Rabobank Group*

Share capital of the Bank as at 31 December 2014 amounted to PLN 56 139 thousand. The nominal value of each share is PLN 1.00.

As at 31 December 2014 and 31 December 2013 none of the members of Management Board or Supervisory Board held the Bank's shares directly.

46 Other supplementary capital and other reserve capital

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

Other supplementary capital	**12 months ended 31.12.2014**	**12 months ended 31.12.2013**
Balance at the beginning of the period	**3 085 059**	**2 950 716**
Issue of shares	162 403	134 343
Appropriation of retained earnings	183 323	-
Balance at the end of the period	**3 430 785**	**3 085 059**

Other reserve capital	**12 months ended 31.12.2014**	**12 months ended 31.12.2013**
General banking risk reserve	120 640	90 000
Revaluation reserve	255 363	91 463
Other reserves	151 218	25 000
Total	**527 221**	**206 463**

General banking risk reserve created of net profit	**12 months ended 31.12.2014**	**12 months ended 31.12.2013**
Balance at the beginning of the period	**90 000**	**90 000**
Equity resulting from the merge	30 640	-
Balance at the end of the period	**120 640**	**90 000**

- in PLN thousand

Revaluation reserve	**12 months ended 31.12.2014**	**12 months ended 31.12.2013**
Balance at the beginning of the period	**91 463**	**215 351**
Net gain/ loss on re-measurement to fair value	207 154	(152 948)
Actuary valuation of employee benefits	(4 808)	-
Deferred tax	(38 446)	29 060
Balance at the end of the period	**255 363**	**91 463**

Other reserve capital	**12 months ended 31.12.2014**	**12 months ended 31.12.2013**
Balance at the beginning of the period	**25 000**	**25 000**
Equity resulting from the merge	126 218	**-**
Balance at the end of the period	**151 218**	**25 000**

Result from previous year	**12 months ended 31.12.2014**	**12 months ended 31.12.2013**
Balance at the beginning of the period	**6 387**	**10 364**
Transfer to reserve capital	(2 259)	(4 294)
Other	-	317
Balance at the end of the period	**4 128**	**6 387**

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

	2014		**2013**	
	Gross value	**Deferred tax**	**Gross value**	**Deferred tax**
Balance at the beginning of the period	**104 516**	**(19 858)**	**244 008**	**(46 362)**
Gain/loss on re-measurement of available for sale financial assets recognised in other comprehensive income	240 106	(45 620)	(105 004)	19 951
Amount reclassified from equity to profit or loss due to selling available for sale financial assets	(24 552)	4 665	(34 488)	6 553
Balance at the end of the period	**320 070**	**(60 813)**	**104 516**	**(19 858)**

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

	2014		**2013**	
	Gross value	**Deferred tax**	**Gross value**	**Deferred tax**
Balance at the beginning of the period	**8 400**	**(1 596)**	**21 857**	**(4 153)**
Effective portion of cash flow hedging	(8 400)	1 596	(13 457)	2 557
Balance at the end of the period	**-**	**-**	**8 400**	**(1 596)**

47 Dividends paid

In 2013, the Bank did not pay out the dividend. The Bank's Management Board will not recommend payment of dividends for 2014.

- in PLN thousand

48 Appropriation of profit

The net profit of the Bank for 2013, amounting to PLN 162 403 thousand, was transferred to other supplementary capital according to the decision of the Bank's Ordinary General Meeting dated 30 May 2014. The Management Board will recommend to the Annual General Meeting the net profit for the year 2014 to be fully transferred to other supplementary capital in order to strengthen the capital base. The final decision on the appropriation of profit for 2014 will be made by the Annual General Meeting.

49 Cash and cash equivalents

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

	31.12.2014	31.12.2013
Cash and balances with the Central Bank (Note 18)	1 790 160	1 617 713
Current accounts and other receivables	335 821	135 364
Bank deposits	55 000	128 563
Total cash and cash equivalents	**2 180 981**	**1 881 640**

50 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 31.12.2014	12 months ended 31.12.2013
Resulting from statement of financial position balances	(134 967)	(165 722)
Excluding change in cash and cash equivalents	129 919	165 547
Total change in amounts due from banks	**(5 048)**	**(175)**

Change in amounts due to banks	12 months ended 31.12.2014	12 months ended 31.12.2013
Resulting from statement of financial position balances	(1 719 072)	(819 411)
Payment of long-term loans received	311 408	703 604
Total change in amounts due to banks	**(1 407 664)**	**(115 807)**

Change in amounts due to customers	12 months ended 31.12.2014	12 months ended 31.12.2013
Change resulting from statement of financial position balances	6 269 067	(343 847)
Payment of long-term loans received	79 518	-
Total change in amounts due to customers	**6 348 585**	**(343 847)**

- in PLN thousand

Cash flow from operating activities – other adjustments	12 months ended 31.12.2014	12 months ended 31.12.2013
Balance adjustments as a result of the merge with Rabobank Polska (Note 4)	346 722	-
Cash and cash equivalents	*99 698*	-
Loans and advances to banks	*2 290*	-
Derivative financial instruments	*14 587*	-
Loans and advances to customers	*2 097 157*	-
Available for sale financial assets	*1 095 175*	-
Intangible assets	*1 348*	-
Property, plant and equipment	*2 910*	-
Deferred tax assets	*8 250*	-
Current tax assets	*3 295*	-
Other assets	*3 909*	-
Amounts due to banks	*(2 592 364)*	-
Derivative financial instruments	*(17 702)*	-
Amounts due to customers	*(339 034)*	-
Other liabilities	*(22 735)*	-
Provisions	*(10 062)*	-
Change in valuation of the company consolidated using equity method	-	11 079
Investment property valuation	7 897	-
Currency difference on subordinated liabilities	14 679	(4 671)
Other adjustments	(1 139)	(440)
Cash flow from operating activity – total other adjustments	**368 159**	**5 968**

51 Related party transactions

Bank Gospodarki Żywnościowej S.A. is a subsidiary of BNP PARIBAS SA Group.

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.

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 thousand

Transactions with BGZ S.A shareholders and related parties as at 31 December 2014

31.12.2014	BNP PARIBAS SA GROUP	KEY PERSONNEL	COöPERATIEVE CENTRALE RAIFFEISEN-BOERENLEENBANK B.A.*	SUBORDINATES OF RABOBANK*	TOTAL
Assets	**8 243**	**19**	**-**	**-**	**8 262**
Current account	105	19	-	-	124
Derivative financial instruments	8 115	-	-	-	8 115
Other assets	23	-	-	-	23
Liabilities	**2 620 901**	**3 283**	**-**	**-**	**2 624 184**
Loans received	2 291 561	-	-	-	2 291 561
Current accounts, deposits	554	3 283	-	-	3 837
Subordinated liabilities	320 944	-	-	-	320 944
Derivative financial instruments	7 839	-	-	-	7 839
Other liabilities	3	-	-	-	3
Contingent liabilities					
Financial commitments granted	-	31	-	-	31
Guarantees granted	-	-	-	-	-
Commitments received	-	-	-	-	-
Derivative financial instruments (face value)	851 851	-	-	-	851 851
12 months ended 31.12.2014					
Income Statement	**(21 262)**	**(79)**	**(73 234)**	**19**	**(94 556)**
Interest income			2 324	-	2 324
Interest expense	(17 127)	(79)	(36 737)	(32)	(53 975)
Fees and commission income			540	50	590
Fees and commission expense	-	-	(3 116)	-	(3 116)
Result on trading activities	(4 135)	-	(24 425)	-	(28 560)
Other operating income			246	1	247
Other operating expense			(12 066)	-	(12 066)

** On 27 October 2014 Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.ceased to be an affiliate. Due to this fact the data concern transactions from 01.01.2014 until 27.10.2014.*

- in PLN thousand

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

31.12.2013	COöPERATIEVE CENTRALE RAIFFEISEN-BOERENLEENBANK B.A.	SUBSIDIARIES OF RABOBANK	KEY PERSONNEL	TOTAL
Assets	**71 681**	**134 303**	**21**	**206 005**
Current account	166	128 563	21	128 750
Derivative financial instruments	71 084	5 740	-	76 824
Other assets	431	-	-	431
Liabilities	**2 788 799**	**5 773**	**3 136**	**2 797 708**
Loans received	2 447 145	-	-	2 447 145
Current accounts, deposits	2 096	32	3 136	5 264
Subordinated liabilities	304 819	-	-	304 819
Derivative financial instruments	23 539	5 741	-	29 280
Other liabilities	11 200	-	-	11 200
Contingent liabilities				
Financial commitments granted	-	-	59	59
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)**	**(17 655)**
Interest income	838	529	-	1 367
Interest expense	(43 233)	(2)	(58)	(43 293)
Fees and commission income	1	-	-	1
Fees and commission expense	(2 347)	-	-	(2 347)
Result on trading activities	45 681	(4 472)	-	41 209
Other operating income	2 967	-	-	2 967
Other operating expenses	(17 559)	-	-	(17 559)

- in PLN thousand

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

Management Board	31.12.2014	31.12.2013
Short-term employee benefits	14 476	14 741
Long-term benefits	1 251	474
Benefits due to termination of employment	-	3 300
Share-based payments	1 251	1 339
Total	**16 978**	**19 854**

Supervisory Board	31.12.2014	31.12.2013
Short-term employee benefits	574	596
Long-term benefits	-	-
Benefits due to termination of employment	-	-
Share-based payments	-	-
Total	**574**	**596**

Provision for Management Board bonuses amounts to PLN 6 644 thousand (in 2013 it amounted to PLN 4 407 thousand).

Provision, created accordingly to the Bank's variable renumeration policy, includes accumulated but yet not paid bonuses for years 2012, 2013 and 2014.

52 Information on operating segments

Segment reporting

The Group 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 (results including an offer for banking channel – BGŻ Optima, private banking and offer for micro companies), Corporate Banking (including starting from 18 June 2014 the results of Global Corporate Clients segment, i.e. customers of ex-Rabobank Polska), Financial Markets and Assets and Liabilities Management ('ALCO'), and Other. For first two segments, Agro business was separated in regards to their importance for the development strategy of the Group, the significant impact they have on financial performance of the Group and also because they are differently monitored as far as management reporting of the Group is concerned. Established division reflects the principles of classification of customers into segments in accordance with the Group'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 Group 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 Group. In addition, the managerial results of segments include settlements of business lines for services provided between them - the data is assigned to particular clients of the Bank. The settlements include incomes and expenses. Under income the Group 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 Group recognizes settlements for basic banking facilities (their price is annually agreed upon by business line representatives) and settlements for counting and transportation of cash to clients.

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

The Group 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 Group 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 Group units. For each aggregate separate, tailored specifically to the aggregate allocation principles were used, that transfer their costs on revenue segments.

As part of the Corporate and Retail and Business Banking segments, Agro clients are separated, i.e. individual farmers and companies operating in food sectors. According to the principle of customer segmentation into groups, farmers include individuals, legal entities, organizational units that do not have the status of legal entities but are involved in agricultural activities within the meaning of the Act on farm tax. Segmentation of companies is made based on classification activity codes (PDK 2007).

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

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 Group'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.

Agro Clients separated from Retail and Business Banking segment contain individual farmers and companies that are classified by the Group systems, respectively as micro-farmers and micro-agro.

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, Medium enterprises and Global Corporate Clients segment. 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, (including preferential loans, revolving loans for farmers, agricultural procurement loans, loans with refinancing from the European Bank for Reconstruction and Development, overdrafts secured with mortgages on agricultural land, loans for realization of projects co-financed with the subsidies from the European Union), 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.

Agro Clients separated from Corporate Banking include individual farmers and companies that are classified as Large Agro-enterprises, Large Farmers, SME-Agro, SME-Farmers and Global Corporate Clients-Agro.

The Financial Markets and ALCO Segments cover activities in the area of financial markets performed on Group'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 Group'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 thousand

Statement by operating segments	12 months ended 31.12.2014	12 months ended 31.12.2013
Result on financial operations	19 468	41 314
Foreign exchange result	71 867	69 025
	91 335	**110 339**
Statement of profit or loss		
Dividend income	3 303	2 848
Result on trading activities	63 723	80 424
Result on investing activities	24 465	39 223
Result on hedge accounting	(156)	(1 077)
Share in profit (loss) of associated	-	(11 079)
	91 335	**110 339**
Statement by operating segments		
Result on other operations	544	28 794
	544	**28 794**
Statement of profit or loss		
Other operating income	37 937	49 940
Other operating expenses	(37 393)	(21 146)
	544	**28 794**

- in PLN thousand

12 months ended 31.12.2014	Retail and Business Banking	Including: Agro Clients*	Corporate Banking	Including: Agro Clients*	Financial Markets and Assets and Liabilities Management	Other	BGŻ S.A.
Statement of profit or loss							
Net interest income	660 133	130 448	235 748	162 757	230 392	(7 989)	**1 118 284**
external interest revenues	920 264	263 777	592 227	435 526	245 547	37 059	**1 795 097**
external interest expenses	(358 985)	(13 551)	(155 227)	(63 412)	(162 330)	(271)	**(676 813)**
internal interest revenues	645 108	37 865	224 827	104 310	(870 379)	444	**-**
internal interest expenses	(546 254)	(157 643)	(426 079)	(313 667)	1 017 554	(45 221)	**-**
Net fee and commission income	208 473	53 817	90 887	57 974	7 197	3 942	**310 499**
Result on financial operations	1 505	74	4 925	2 481	9 659	3 379	**19 468**
Foreign exchange result	39 196	3 772	32 313	17 887	4	354	**71 867**
Result on other operations	(2 796)	(314)	945	(102)	(24 754)	27 149	**544**
Net impairment losses on financial assets and contingent liabilities	(149 758)	(30 156)	(127 659)	(70 136)	6 045	(39 594)	**(310 966)**
General administrative expenses	(684 501)	(106 955)	(210 171)	(111 439)	(24 425)	(11 428)	**(930 525)**
Depreciation and amortization	(72 765)	(10 872)	(21 880)	(11 573)	(2 526)	(3 824)	**(100 995)**
Segment result	**(513)**	**39 814**	**5 108**	**47 849**	**201 592**	**(28 011)**	**178 176**
Profit before income tax	**-**		-	-	-	-	**178 176**
Income tax expense	**-**		-	-	-	-	**(40 145)**
Net profit for the year	**-**		-	-	-	-	**138 031**
Statement of financial position as at 31.12.2014							
Aktywa segmentu	17 080 948	4 998 560	13 736 150	9 845 279	6 666 122	3 013 355	**40 496 575**
Zobowiązania segmentu	22 160 955	1 189 249	8 443 936	3 527 936	4 130 671	1 604 709	**36 340 271**

** includes Retail, Corporate and Business Banking customers*

12 months ended 31.12.2013	Retail and	Including:	Corporate	Including:	Financial Markets	Other	BGŻ S.A.

	Business Banking	Agro Clients *	Banking	Agro Clients*	and Assets and Liabilities Management		
Statement of profit or loss							
Net interest income	546 876	106 014	253 119	163 521	260 220	(56 225)	**1 003 990**
external interest revenues	833 576	225 106	673 651	464 543	332 407	59 780	**1 899 414**
external interest expenses	(484 424)	(20 600)	(188 817)	(69 286)	(221 874)	(309)	**(895 424)**
internal interest revenues	751 510	45 820	272 863	116 509	(1 025 015)	642	**-**
internal interest expenses	(553 786)	(144 312)	(504 578)	(348 245)	1 174 702	(116 338)	**-**
Net fee and commission income	186 182	40 167	98 715	58 266	(4 544)	7 577	**287 930**
Result on financial operations	65	47	4 987	2 281	33 414	2 848	**41 314**
Foreign exchange result	35 280	3 540	33 463	17 767	-	282	**69 025**
Result on other operations	1 362	(155)	(146)	(86)	(3 331)	30 909	**28 794**
Net impairment losses on financial assets and contingent liabilities	(105 245)	(13 311)	(119 607)	(42 873)	8 625	(32 423)	**(248 650)**
General administrative expenses	(653 285)	(101 407)	(201 101)	(102 240)	(25 257)	(1 320)	**(880 963)**
Depreciation and amortization	(72 176)	(10 241)	(20 240)	(10 360)	(2 633)	(4 170)	**(99 219)**
Segment result	**(60 941)**	**24 654**	**49 190**	**86 276**	**266 494**	**(52 522)**	**202 221**
Profit before income tax	**-**		-	-	-	-	**202 221**
Income tax expense	**-**		-	-	-	-	**(42 077)**
Net profit for the year	**-**		-	-	-	-	**160 144**
Statement of financial position as at 31.12.2013							
Aktywa segmentu	14 962 950	3 847 475	12 019 666	8 582 093	5 435 504	3 359 021	**35 777 141**
Zobowiązania segmentu	19 722 524	1 133 366	6 832 689	3 216 315	4 293 195	1 419 543	**32 267 951**

** includes Retail, Corporate and Business Banking customers*

53 Financial risk management

Risk management in the Group is focused directly on the Bank, due to the fact that the Bank's assets represent 99.97% of the Group's assets (according to data as of 31 December 2014). Therefore, all data on individual risks are presented for the Bank except for the comparison of the carrying amount to the fair value of financial assets and liabilities and notes for credit risk.

53.1 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 also offers an 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.

53.2 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 According to the balance at the end of 2014, the limits given in article 71 of the Banking Act were not breached. At the end of December 2014, the total exposure equal or higher than 10% of the Bank's own capital amounted to 23.9% of the Bank's equity. 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.

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 2014: Headquarters – 4.8%, Central Area – 11.9%, Central-West Area – 14.7%, Southern-East Area – 9.4%, Southern-West Area – 8.7%, Southern Area – 7.0%, Northern-East Area – 10.1%, Northern-West Area – 6.8%, Northern Area – 16.4%, Eastern Area – 10.2%. As at 31 December 2013, the respective geographical concentrations were as follows: Headquarters – 0.7%, Central Area – 12.1%, Central-West Area – 15.9%, Southern-East Area – 10.4%, Southern-West Area – 8.5%, Southern Area – 7.7%, Northern-East Area – 10.0%, Northern-West Area – 6.8%, Northern Area – 17.6%, Eastern Area – 10.4%.

As a part of credit portfolio's analysis, the Bank also assesses share of credits with potential impairment triggers in the credit portfolio, for which impairment was recognized. In position headquarter recognized are exposures from restructuring of exposure with impairment loss.

- in PLN thousand

Table below presents the results of the analysis:

Share of loans with impairment identified by regions*

	Exposure		Share of exposures with impairment identified	
Regions	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
Northern	5 081 243	4 848 262	9.3%	8.0%
Central-West	4 550 677	4 371 658	8.7%	9.6%
Central	3 706 886	3 337 440	10.8%	10.6%
East	3 181 797	2 866 836	6.8%	5.8%
North-East	3 137 293	2 761 062	2.9%	3.0%
South-East	2 920 879	2 858 839	7.6%	6.8%
South-West	2 707 597	2 332 062	5.1%	6.4%
South	2 183 010	2 104 217	8.6%	9.0%
North-West	2 104 070	1 852 112	6.2%	5.4%
Headquarter	1 488 860	181 397	13.6%	87.0%
Total	**31 062 312**	**27 513 885**	**7.9%**	**8.0%**

**Loans with identified objective impairment trigger*

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 2014, similar to that at the end of 2013, is characterized by the high share of the following three industries: agriculture, wholesale trade and food production. In 2013, those 3 constituted 45.7% of the Bank's portfolio while at the end of 2014 it amounted to 44.9%. 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.

- in PLN thousand

The table below shows share impaired loans in the portfolio. At the end of 2014 and 2013, the highest share impaired loans was noted in the manufacture of electronic, optical products and electrical equipment industry.

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

Sector	Exposure		Share of exposures with impairment identified	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Agriculture	10 095 661	8 347 835	3.3%	3.3%
Wholesale trade: wholesale and retail trade in vehicles	2 208 721	2 143 544	13.3%	14.0%
Food production	1 893 130	1 854 681	16.5%	10.4%
Manufacture of cork and refined petroleum products, chemicals and chemical products, rubber and plastic products	413 551	476 901	4.8%	3.4%
Construction	466 000	467 556	39.4%	37.4%
Retail trade	544 832	555 047	16.7%	14.4%
Manufacture of products of wood and cork, paper and paper products, furniture	381 285	354 413	20.5%	19.7%
Production of metallic, other mineral nonmetallic, materials	405 944	442 625	25.2%	21.4%
Real estate activities	369 273	401 875	11.5%	7.7%
Transportation and storage	359 233	358 226	9.3%	8.7%
Other business activity	287 425	308 625	6.6%	4.5%
Manufacture of machinery and equipment motor vehicles	345 297	347 168	8.7%	6.9%
Hotels and restaurants	207 748	244 208	25.4%	16.8%
Financial and insurance activities	149 418	171 800	23.2%	19.2%
Manufacture of electronic and optical products, electrical equipment	41 153	33 831	48.6%	55.1%
Manufacture of wearing apparel, textiles, feather and related products	92 535	94 073	32.5%	28.9%
Professional, scientific and technical activities	540 486	519 431	20.6%	20.7%
Electricity, gas, steam, hot water production and supply	349 002	293 433	7.7%	4.2%
Health care and social assistance	109 358	100 423	3.1%	1.2%
Water supply, sewerage, waste management	70 696	72 599	7.9%	8.2%
Other services activity	44 121	38 668	6.7%	6.9%
Education, arts, entertainment and culture	78 022	74 027	14.4%	11.8%
Other food production	28 390	26 080	12.9%	13.9%
Forestry and logging	30 955	33 034	11.2%	8.5%
Information and communication	48 956	124 072	15.1%	5.1%
Mining and quarrying	21 224	25 300	2.9%	2.0%
Fishing	36 970	22 800	9.8%	7.0%
Other industries	1 248 780	12 451	4.7%	41.1%
Retail customers	10 194 146	9 569 159	5.3%	6.5%
Total	**31 062 312**	**27 513 885**	**7.9%**	**8.00%**

**Loans with identified objective impairment trigger*

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 2014 and 2013, no breach of concentration limits was noted.

- in PLN thousand

In case of loans assessed under individual method, the Bank expects to recover from collaterals the amount of PLN 431 million, which represents 29.2% of the total portfolio with recognized impairment loss assessed individually and 50.5% of expected recoveries from individually significant customers. As at 31 December 2013, the Bank expected to recover from collaterals amount of PLN 558 million, what represents 45.0% of the total portfolio with recognized impairment loss assessed individually and 67.8% of expected recoveries from individually significant customers.

Maximal exposures for credit risk

	31.12.2014	31.12.2013
Credit risk connected with balance sheet assets are as follows:	**37 740 220**	**32 833 094**
Loans and advances to banks	404 724	269 757
Loans in current accounts	5 012 528	4 095 994
Loans and allowances to customers	24 619 395	22 201 922
- corporate	7 385 508	6 442 520
- households	16 946 063	15 359 713
- budget entities	215 587	251 312
- other entities	72 237	148 377
Debt securities held for trading	199 404	1 018 701
Derivative financial instruments	420 152	363 260
Hedging instruments	-	57 387
Available for sale financial assets	7 084 017	4 826 073
Credit risk connected with off-balance sheet items present as follows:	**5 694 336**	**4 605 578**
Guarantees granted	694 712	752 922
Financial commitments granted	4 999 624	3 852 656

The above table shows the structure of the credit risk exposure of the Bank as at 31 December 2014 and 31 December 2013, 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 loss and with no impairment loss 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.

- in PLN thousand

Loan portfolio structure classified by impairment and delinquency 31.12.2014 (net carrying value)

portfolio	No impairment					
	0 days	1-30 days	31-60 days	61-90 days	Impaired*	Total
Limits on current account – individuals	95 162	825	271	112	2 687	99 057
Credit cards	74 790	2 829	817	669	1 868	80 973
Housing loans	7 870 201	139 290	29 620	9 288	149 074	8 197 473
Mortgage loans	95 080	5 926	497	150	3 451	105 104
Cash loans	1 147 441	52 404	9 835	3 521	26 586	1 239 787
Cash loans created through restructuring	-	-	-	-	125	125
Student loans	76 715	294	178	-	1 401	78 588
Restructured retail exposures	601	13	-	-	67 848	68 462
Other retail exposures	2 410	-	-	-	2 285	4 695
Revolving loans for farmers	2 575 048	3 443	7 230	2 586	22 112	2 610 419
Non-revolving loans for farmers	5 317 032	11 922	8 124	3 177	79 444	5 419 699
Revolving loans for companies with simplified accounting	224 045	377	613	331	5 264	230 630
Non-revolving loans for companies with simplified accounting	969 686	6 473	13 693	4 993	42 693	1 037 538
Revolving loans for companies with full accounting	4 357 359	4 296	805	2 613	149 736	4 514 809
Non-revolving loans for companies with full accounting	5 077 058	3 404	13 140	4 578	286 279	5 384 459
Financial institution	21 167	-	-	-	-	21 167
Budget entities	202 929	1 705	1 029	-	-	205 663
Restructured exposures to farmers and enterprises	26	-	-	-	333 249	333 275
Total	**28 106 750**	**233 201**	**85 852**	**32 018**	**1 174 102**	**29 631 923**

**Loans with identified objective impairment trigger*

- in PLN thousand

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	268 640	5 472 110
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**	**1 084 367**	**26 297 916**

**Loans with identified objective impairment trigger*

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 identified objective impairment triggers identified (net value in PLN thousands, value PD for 12-month term)

portfolio	31.12.2014		31.12.2013	
	value	PD	value	PD
Limits on current account – individuals	96 370	2,63%	91 067	2,90%
Credit cards	79 105	6,23%	73 208	3,04%
Housing loans	8 048 399	0,69%	7 673 671	1,15%
Mortgage loans	101 653	1,34%	111 483	2,01%
Cash loans	1 213 201	4,44%	856 480	3,63%
Cash loans created through restructuring	-	-	-	-
Student loans	77 187	0,5%	106 297	0,64%
Restructured retail exposures	614	-	411	-
Other retail exposures	2 410	1,35%	5 193	4,11%
Revolving loans for farmers	2 588 307	0,75%	1 907 226	0,81%
Non-revolving loans for farmers	5 340 255	0,83%	4 662 048	0,77%
Revolving loans for companies with simplified accounting	225 366	3,83%	188 566	3,93%
Non-revolving loans for companies with simplified accounting	994 845	4,05%	915 717	3,14%
Revolving loans for companies with full accounting	4 365 073	1,48%	3 068 350	1,78%
Non-revolving loans for companies with full accounting	5 098 180	2,19%	5 203 470	2,32%
Financial institution	21 167	-	115 369	-
Budget entities	205 663	-	234 988	-
Restructured exposures to farmers and enterprises	26	-	5	-
Total	**28 457 821**	**-**	**25 213 549**	**-**

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 a client, as well as general qualitative rating of 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 thousand

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

Internal rating*	31.12.2014		31.12.2013	
	value	share	value	share
R08	112 617	1,3%	83 983	1,0%
R09	105 580	1,2%	71 238	0,9%
R10	459 688	5,2%	176 536	2,2%
R11	496 192	5,6%	279 018	3,4%
R12	755 475	8,5%	752 478	9,2%
R13	1 322 861	14,8%	762 397	9,3%
R14	1 249 478	14,0%	964 764	11,8%
R15	1 622 695	18,2%	907 046	11,1%
R16	1 044 511	11,7%	1 347 043	16,5%
R17	811 267	9,1%	1 148 323	14,1%
R18	730 287	8,2%	1 232 127	15,1%
R19	153 176	1,7%	326 742	4,0%
R20	44 404	0,5%	115 931	1,4%

* 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 concludes that the basic collateral of 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 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 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 transaction, 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, which can be, depending inter alia on the amount of exposure, individually verified by the team of experts or corrected with internal indicators. 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. In the process of updating of property value set by Bank, external databeses, internal indicators and opinions of Bank's valuation experts are used.

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.

In the first half of year 2014 BGŻ Bank merged with Rabobank Polska, what was reflected in changes of organizational structure of BGŻ Bank Headquarter. Division of responsibilities (between Business and Risk) for particular stages of credit process was described in internal regulations. The Bank's credit decision-making system was also modified (new pairs of decision-makers in the area of Global Corporate Clients were added; Credit Comittee and Business Advisory Team were extended). Global Corporate Clients have been covered by Credit Policy rules applicable for all institutional clients and Credit Risk assessment of Global Corporate Clients shall be on the basis of common rules for all institutional clients running full reporting. Bank revaluated (specified in Risk appetite and in key credit risk limits) existing limits due to increase of Bank's loan portfolio (effect of merger with Rabobank Polska) and implemented additional limits dedicated for Global Corporate Clients (i.e. limits for sectors within sub-portfolio of Global Corporate Clients, 10 biggest exposures within portfolio of Global Corporate Clients, limits connected with rating, share of non-performing portfolio).

"Forbearance" practices

In accordance to 2012/853 document published by European Securities and Markets Authority (ESMA) and instructions published by European Central Bank on disclosures concerning "forborne" exposures, Bank in cooperation with parent entity has begun a process of adjustment to new reporting requirements binding for reports prepared as at end of year 2014.

"Forborne" exposure shall be defined as exposures, which were subject of "forbearance" practice. Forbearance practices exist when Bank recognizes that debtor, due to financial difficulties is unable to fullfil contract agreements. Taking those difficulties under consideration, the Bank changes the agreements in order to enable total or partial debt service or its refinancing. Bank recognizes as forebearance the following cases:

- cut of interest rate, capital installments, accumulated interest rates
- change in schedule of capital/interest rate payment
- extending loan period

- increase of exposure in order to fill the debtors liquidity gap
- refinancing on more preferable conditions in comparison to previous loan

Methodology concerning classification of receivables to internal risk category and on the basis of IAS classification, Bank presents “forborne” exposure on the basis of following criteria:

- “forborne” exposures without impairment included in process of centralized “soft vindication”, or exposures being serviced by restructuration and vindication entities, which were subject of “forebearance”, i.e. modifications in favour of debtors.
- “forborne” exposure with recognized impairment, which were subject of “forebearance”, i.e. modifications in favour of debtors.

Exposure shall cease to be classifiied as “forborne” in case of fullfiling following conditions:

- contract is recognized as exposure without impairment loss
- two year probation period, since acknowledging a forborne exposure as exposure without impairment loss, has expired
- regular payments of substantial capital/intrest installments occurred during at least half of the probation period
- non of debtor’s exposures is expired more than 30 days during the probation period of “forborne” exposure.

Forbearance is not applicable in case when financial difficulties are not a factor determining modification of contract agreements or refinance.

“Forbearance” contracts are monitored in terms of fulfillment of contract agreements. Management of contracts in which “forbearance” occurred and current monitoring belongs to designated Bank entities.

- in PLN thousand

The table presents values of „forborne" exposures as at 31.12.2014

Gross loan portfolio, including	Portfolio total	Including forbearance exposure	Including modification of agreements	Including refinancing
In current account:	**5 602 947**	**45 117**	**44 628**	**489**
Banks	334 295	-	-	-
Corporate	2 118 862	34 077	33 588	489
Households	3 144 797	10 967	10 967	-
Individuals	106 328	26	26	-
Indiviudal enterpreneurs	375 241	208	208	-
Farmers	2 663 228	10 733	10 733	-
Budget entities	617	73	73	-
Other entities	4 376	-	-	-
Non-current loans and advances:	**25 864 576**	**640 666**	**640 666**	**-**
Banks	70 916	398	398	-
Corporate:	7 970 809	367 625	367 625	-
Investment loans	4 622 665	183 790	183 790	-
Revolving loans	2 222 940	148 755	148 755	-
Other	1 125 204	35 080	35 080	-
Households	17 533 570	245 644	245 644	-
Individuals, including:	10 087 819	101 652	101 652	-
Mortgage loans	8 340 820	90 769	90 769	-
Individual enterpreneurs	1 414 479	67 684	67 684	-
Farmers	6 031 272	76 308	76 308	-
Budget entities	215 802	1 466	1 466	-
Other entities	73 479	25 533	25 533	-
Total loans and advances (gross)	**31 467 523**	**685 783**	**685 294**	**489**

- in PLN thousand

Value of allowances for impairment for "forborne" exposures as at 31.12.2014

Impairment loss allowance, including	Portfolio total	Including forbearance exposure	Including modification of agreements	Including refinancing
In current account:	**256 124**	**7 204**	**6 842**	**362**
Banks	-	-	-	-
Corporate	163 515	6 172	5 810	362
Households	92 483	1 032	1 032	-
Individuals	7 271	2	2	-
Indiviudal enterpreneurs	54 925	163	163	-
Farmers	30 287	867	867	-
Budget entities	-	-	-	-
Other entities	126	-	-	-
Loans and advances to customers:	**1 174 752**	**159 834**	**159 834**	**-**
Banks	487	353	353	-
Corporate:	585 301	115 080	115 080	-
Investment loans	140 369	35 612	35 612	-
Revolving loans	328 322	70 351	70 351	-
Other	116 610	9 117	9 117	-
Households	587 507	43 779	43 779	-
Individuals, including:	312 821	9 151	9 151	-
Mortgage loans	157 257	7 089	7 089	-
Individual enterpreneurs	129 195	22 667	22 667	-
Farmers	145 491	11 961	11 961	-
Budget entities	215	70	70	-
Other entities	1 242	552	552	-
Total impairment loss allowance	**1 430 876**	**167 038**	**166 676**	**362**

- in PLN thousand

Structure of forborne exposure due to impairment loss as at 31.12.2014

	Total	Including: forborne exposure
The exposure without recognized impairment		
Gross book value	29 013 979	139 832
Impairement IBNR	(151 535)	(2 277)
Total net	**28 862 444**	**137 555**
The exposure with recognized impairment *		
Gross book value, in this:	2 453 544	545 951
Individually evaluated exposure	1 513 380	496 876
Group evaluated exposure	940 164	49 075
Impairement IBNR	(1 279 341)	(164 761)
Individually evaluated exposure	(655 652)	(143 062)
Group evaluated exposure	(623 689)	(21 699)
Total net	**1 174 203**	**381 190**
Total loans and advances to customers	**30 036 647**	**518 745**

**exposures with identified objective imairment trigger*

Forborne exposures structure by impairment loss and maturity date as at 31.12.2014

	31.12.2014
Net book value without impairment, including	**137 555**
0 days	97 896
1-30 days	32 205
31-60 days	2 821
61-90 days	4 633
over 90-days	-
Net book value with impairment trigger *	**381 190**
0 days	197 621
1-30 days	75 083
31-60 days	38 982
61-90 days	11 374
over 90-days	58 130
Total net value	**518 745**

**exposures with identified objective imairment trigger*

Interest income for 2014 from exposures classified as forborne as at 31 December 2014 amounts to PLN 31 254 thousand.

Collaterals for forborne exposure as at 31 December 2014 amount to PLN 630 405 thousand.

53.3 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.

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 as part of the 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 limit 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. Independently from above mentioned process, all breaches are reported and discussed on the 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 period, 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 measure VaR, primarily 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 value of VaR in 99% of cases, in the remaining 1% of cases, the losses may be much greater than calculated 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 and advances), 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. 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.

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 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 and 2014, as well as with introduced 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 2015 this trend will hold.

As of the end of 2014, 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 3.3 month (one year ago 3.8 month), while in the case of balance sheet liabilities it equaled to 2.7 month (previously 3.3 month). More than 89% of assets and liabilities have a revaluation date lower than 6 month (90 % at the end of 2013), and almost 52% of assets and liabilities are revalued within one month (previously 53%).

- in PLN thousand

Interest rate gap 31.12.2014	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	1 093 868	-	-	-	-	1 093 868
Amounts due from banks	655 623	-	5 398	-	-	661 021
Debt securities held for trading	163 031	-	42 200	113 000	-	318 231
Loans and advances to customers	16 881 140	10 430 998	3 441 487	-	-	30 753 625
Investment securities:						
- available for sale	3 890 000	-	154 000	1 230 000	1 380 000	6 654 000
- other debt securities	-	-	-	-	-	-
Other assets	1 702 466	248 398	77 081	-	-	2 027 945
Total assets:	**24 386 128**	**10 679 396**	**3 720 166**	**1 343 000**	**1 380 000**	**41 508 690**
Liabilities						
Amounts due to banks	(1 658 691)	(46 160)	(10 220)	-	-	(1 715 071)
Amounts due to customers	(9 787 568)	(10 025 642)	(10 014 082)	(552 155)	(40 000)	(30 419 447)
Other borrowed funds	(1 446 076)	(2 259 016)	(981 171)	-	-	(4 686 263)
Other liabilities	(53 763)	-	-	(230 878)	(885 996)	(1 170 637)
Liabilities total	**(12 946 098)**	**(12 330 818)**	**(11 005 473)**	**(783 033)**	**(925 996)**	**(37 991 418)**
Off-balance sheet						
Net off-balance sheet liabilities	(1 287 869)	(444 366)	1 545 456	94 657	40 000	(52 122)
Partial interest rate gap	**10 152 161**	**(2 095 788)**	**(5 739 851)**	**654 624**	**494 004**	
Cumulated interest rate gap	**10 152 161**	**8 056 373**	**2 316 522**	**2 971 146**	**3 465 150**	

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)	-	13 310
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 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 most significant changes in the balance sheet revaluation structure results on liabilities side from the increase of clients term deposits within 1-3 month period and 3-12 month periods, partially at expense of saving account and increase of term deposits from banks (financing from Rabobank Polska) in the shortest revaluation period, and on assets side mainly from increase of loans with revaluation period of 1-3 months and from reduction of residual maturity of long-term bonds (mostlty fixed-income bonds with interest revaluation date equal to maturity date).

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 bp could lead to increase in the net interest income in one year period by around PLN 23.5 million (PLN 14.1 million increase in previous year), while gradually raising interest rates by 200 bp in one year period could lead to an increase in net interest income by around PLN 44.4 million (PLN 35.8 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 22.2 million (decrease by PLN 15.6 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 42.5 million (previously PLN 38.7 million). The differences between net interest income sensitivity to interest rates decrease and the net interest income sensitivity to interest rates increase result from 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 PLN thousands)

	31.12.2014	31.12.2013
Immediate interest rate increase by 50 bps:		
- upwards	23 518	14 128
- downwards	(22 209)	(15 637)
Gradual interest rate increase by 200 bps:		
- upwards	44 437	35 798
- downwards	(42 493)	(38 679)

The comparison of net interest income sensitivity at the end of 2014 and 2013 indicates risk increase. However, at the end of 2014 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 and less in treasury bonds (held for a short-term liquidity management purposes), and Interest Rate Swaps (OIS and IRS – transfer internal transactions to portfolio ALM).

Levels of VaR (99% confidence level, holding period 1 month) for a portfolio of Money Market in 2013 and 2014 were as follows:

Risk in Money Market port folio (PLN thousand)

	Value at Risk	average	max	min
31.12.2014	1 347	3 245	7 906	789
31.12.2013	1 897	4 544	9 288	1 575

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, formally classified in banking book). 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 and interest rate risk positions resulting from FX SWAP and FX Forward transactions. The Bank's priority was to use interbank credit limits and risk limits in order to secure structural risk of interest rate and liquidity. In the conditions of historically high market prices of bonds, the positions in debt securities remained on the low level in 2014. At the same time, the Bank continued the sale of treasury bonds for corporate clients VaR measured risk in IR Trading portfolio was significantly lower in 2014 (average PLN 369 thousand) than in 2013 (average PLN 944 thousand), mainly as a result of reduction of debt securities position. As at the of 2014 VaR reached PLN 792 thousand.

Risk portfolio of IR VaR (in PLN thousands)

	31.12.2014	31.12.2013
IR VaR[1]	**792**	**325**
average	*369*	*944*
max	*859*	*1336*
min	*173*	*302*
Stress test[2]	**2 259**	**1 805**

[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 available scenarios, including 2 week-long events with over 10 year-long history of market data updated with hypotetical simulations

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)

	31.12.2014	31.12.2013
FX VaR[1]	**4**	**23**
average	*44*	*47*
max	*188*	*230*
min	*4*	*4*

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

Concentrations of assets in the gross carrying amount of currency liabilities expressed in PLN thousands

31.12.2014	EUR	USD	CHF	GBP	SEK	Other
Assets						
Cash and balances in the Central Bank	71 921	29 393	15 662	24 376	-	-
Amounts due from banks	145 323	107 050	6 042	9 129	2 305	12 062
Loans and advances to customers	1 875 667	245 561	3 084 759	919	-	41 201
Shares	47	-	-	-	-	-
Debt securities issued	-	-	-	-	-	-
Other assets	42 963	6 505	1 285	5 322	2	6
Total assets	**2 135 921**	**388 509**	**3 107 748**	**39 746**	**2 307**	**53 269**
Liabilities						
Amounts due to banks	482 084	112 166	320 951	7	-	42 509
Amounts due to customers	1 047 741	425 458	2 297 816	29 758	473	6 593
Subordinated liabilities	-	-	-	-	-	-
Other liabilities	50 008	7 430	47	116	46	336
Total liabilities	**1 579 833**	**545 054**	**2 618 814**	**29 881**	**519**	**49 438**
Derivatives and commitments – nominal value	**6 580 278**	**5 409 171**	**406 543**	**94 951**	**1 769**	**182 256**
31.12.2013						
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**

53.4 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. 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 periods, 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 sales plan realization of loans and deposits by particular business lines is performed, as well as, simulation analyses and preparation of Stress Tests. 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 2014 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 2014, the Bank had liquid assets at PLN 7.43 billion (formerly PLN 5.80 billion):

Liquid assets (in thousands PLN)

	31.12.2014	31.12.2013
Liquid assets, including:	7 433 876	5 802 624
inter-bank deposits up to 1M	*306 008*	*128 563*
high liquid securities	*7 127 868*	*5 674 061*
Liquid assets limit	6 300 000	5 100 000
Surplus/shortage of liquid assets	**1 133 876**	**702 624**

The surplus of liquid assets held above minimal required level increased from PLN 703 million to PLN 1.13 billion in 2014, while only due to merger with Rabobank Polska S.A. minimal required level increased by more than PLN 500 million.

Similarly to the previous year, in 2014 the Bank maintained required levels of supervisory measures.

Supervisory liquidity measures

	31.12.2014	31.12.2013
M1 (in PLN thousands)	2 656 051	1 951 044
M2	1.28	1.30
M3	5.98	4.63
M4	1.12	1.11
limit	**1.00**	**1.00**

At the end of December 2014 the surplus of the sources of finance outside the interbank market over loans balance amounted to PLN 3.78 billion (of which PLN 3.49 billion unstable sources), whereas the surplus of stable sources of finance over the credit balance amounted to PLN 286 millions. The Bank has maintained safe liquidity level during the whole year.

Increase of credit portfolio at the level of PLN 3.55 billion, resulting in almost one third from incorporation of Rabobank Polska S.A. credit portfolio and from increased loan activity both in retail segment and small- and microenterprises segment, was financed with surplus – the increase of funding (mostly highly stable) amounting to PLN 4.37 billion was noted.

In 2014 the Bank has introduced optimalization of financing sources with purpose of reduction of necessary, but also expensive and unstable, financing surplus.

Dynamics of loans and their sources of finance (in thousands PLN)

	31.12.2014	31.12.2013
Stable financial sources	31 371 678	27 624 139
Unstable financial sources	3 492 587	2 870 394
Loans	31 085 787	27 539 249
Finance buffer	**3 778 478**	**2 955 284**
Stable financial sources surplus/ gap	**285 891**	**84 890**

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 from Group BNP Paribas 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. The maintenance of the highly stable sources of financing Global Corporate Clients portfolio connected with increase of stability on CDs and maintenance of high stability or retail and BGŻOptima finance sources (at the level of 93.3%) resulted in increase of Bank's stability of sources of financing to the level of 89.6% as at the end of December 2014 (from 89.4% as at the end of 2013).

- in PLN thousand

Dynamics of stability of particular sources

	31.12.2014		31.12.2013	
	balance	stable (%)	balance	stable (%)
Retail clients	18 380 187	93,3%	16 292 413	93,5%
Enterprises	9 488 340	90,3%	8 476 397	88,9%
Budget entities	585 945	78,6%	599 569	70,4%
Non-banking financial entities	1 439 354	57,3%	807 820	51,8%
Certificates of deposit	755 000	100,0%	1 184 000	97,4%
Loans from financial institutions	290 550	100,0%	412 800	100,0%
Rabo credit line in CHF	3 321 691	100,0%	2 441 515	100,0%
Banks and other unstable sources	771 212	0,0%	684 678	0,0%
Total	**35 032 279**	**89,6%**	**30 899 192**	**89,4%**

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

Contractual liquidity gap 31.12.2014	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Assets					
Loans and advances to retail customers, including:	255 609	145 559	592 061	2 416 977	6 514 229
Housing and mortgage loans	*29 892*	*68 406*	*288 313*	*1 539 074*	*6 270 318*
Corporate loans	6 932 025	605 879	1 704 518	5 929 076	4 663 462
Matured loans	1 426 034	-	-	-	-
Debt securities	3 656 149	-	186 350	1 692 061	1 390 936
Interbank deposits	55 000	-	5 000	-	-
Cash and balances with the central bank	703 663	-	-	-	1 086 490
Non-current assets	-	-	-	182 119	411 063
Other assets	243 552	-	-	-	-
Liabilities received, including:	6 856 882	1 084 293	866 324	231 568	40 000
Derivative instruments	*3 945 618*	*1 084 293*	*866 222*	*21 568*	-
Liabilities					
Deposits from retail customers	10 783 646	2 394 798	4 751 226	450 382	135
Deposits from corporate customers	7 092 487	324 137	406 710	1 105 076	930 484
Interbank deposits	-	10 000	5 000	-	-
Negotiated deposits SK	1 932 925	1 881 231	572 423	213 868	40 000
Loans from financial institutions	549 208	38 275	128 281	490 492	119 654
Certificates of deposit	-	280 000	10 000	465 000	-
Subordinated equity and liabilities	-	-	137 730	-	4 333 168
Other liabilities	56 842	-	-	-	-
Liabilities granted, including:	9 334 118	1 201 597	1 184 217	510 319	4 880
Derivative instruments	*4 013 813*	*1 062 940*	*861 371*	*23 725*	-
Total receivables	**20 128 914**	**1 835 731**	**3 354 253**	**10 451 801**	**14 106 180**
Total liabilities	**29 749 226**	**6 130 038**	**7 195 587**	**3 235 137**	**5 428 321**
Partial liquidity gap	(9 620 312)	(4 294 307)	(3 841 334)	7 216 664	8 677 859
Cumulated liquidity gap	**(9 620 312)**	**(13 914 619)**	**(17 755 953)**	**(10 539 289)**	**(1 861 430)**

- in PLN thousand

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 thousand

Realized liquidity gap 31.12.2014	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Assets					
Loans and advances to retail customers, including:	110 834	153 003	625 537	3 437 217	5 597 844
Housing and mortgage loans	*29 892*	*68 406*	*288 313*	*2 448 270*	*5 361 122*
Corporate loans	1 904 410	864 394	2 867 026	9 535 667	4 663 462
Matured loans	148 996	12 833	57 915	436 318	769 973
Debt securities	3 684 310	-	3 336 296	7 000	183 265
Interbank deposits	55 000	-	5 000	-	-
Cash and balances with the central bank	703 663	-	-	-	1 086 490
Non-current assets	-	-	-	182 119	411 063
Other assets	243 552	-	-	-	-
Liabilities received, including:	6 856 882	1 084 293	866 324	231 568	40 000
Derivative instruments	3 945 618	1 084 293	866 222	21 568	-
Liabilities					
Deposits from retail customers	2 402 355	2 838 708	5 833 087	6 067 679	1 238 359
Deposits from corporate customers	3 044 007	364 297	838 199	3 235 435	2 376 955
Interbank deposits	-	10 000	5 000	-	-
Negotiated deposits SK	1 932 925	1 881 231	572 423	213 868	40 000
Loans from financial institutions	549 208	38 275	128 281	490 492	119 654
Certificates of deposit	-	280 000	10 000	465 000	-
Subordinated equity and liabilities	-	-	137 730	-	4 333 168
Other liabilities	56 842	-	-	-	-
Liabilities granted, including:	9 334 118	1 201 597	1 184 217	510 319	4 880
Derivative instruments	4 013 813	1 062 940	861 371	23 725	-
Total receivables	**13 707 647**	**2 114 523**	**7 758 098**	**13 829 889**	**12 752 097**
Total liabilities	**17 319 455**	**6 614 108**	**8 708 937**	**10 982 793**	**8 113 016**
Partial liquidity gap	(3 611 808)	(4 499 585)	(950 839)	2 847 096	4 639 081
Cumulated liquidity gap	**(3 611 808)**	**(8 111 393)**	**(9 062 232)**	**(6 215 136)**	**(1 576 055)**

- in PLN thousand

Realized 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:	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 the above analysis of the Bank's liquidity risk profile for the year 2014, 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 2 days to 15 years for retail costumer's accounts, up to 9 years for corporate accounts and from 2 days 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 2 days 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.).

53.5 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 Bank's 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.

Country risk

The Bank continued the conservative policy in the area of taking country risk. The Bank has performed a review of its country limits, decreasing unnecessary limits, fitting them tightly to forecasted business needs and risk apettite. Since 2009 limits were reduced from PLN 29.56 billion to PLN 2.21 billion as at the end of 2014. In this period the limits for the EU countries were significantly decreased, including limits for Spain and Italy (reducing their potential use exclusively for international trade service), or withdrew limits for Greece, Ireland and Portugal (mainly because of deteriorating public finance state, their credit rating reliability and deteriorating macroeconomic indicators) and to other countries, to which the Bank was suspicious about their economic and political situation.

As at 31.12.2014 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 2014 the structure of transactions changed, mainly due to merger with Rabobank Polska S.A. (RBPL) and BGŻ S.A. in June 2014, meaning 57% of exposure on country risk was created mainly by syndicated loans to clients from Netherland and Czech Republic of former RBPL; international trade transactions (mainly RI transactions securing credit portfolio of former RBPL) amounted to 42%, and first ever derivative transaction with foreign coporate client amounted to 1%. Netherland amounted to 73% of exposure, Great Britain to 13% and Czech Republic to 5%. Other exposures focused on Denmark, Germany and the USA.

The structure of Bank's risk appetite and actual exposure is presented below:

Exposure by countries (in thousand PLN)

	31.12.2014			31.12.2013		
	Limit	Exposure	%	Limit	Exposure	%
Rating AAA - A	2 170 000	202 786	9%	1 330 000	88 104	7%
Rating BBB	40 000	213	1%	20 000	0	0%
Rating BB	-	-	-	-	-	-
Rating B	-	-	-	-	-	-

Banking and financial client risk

In 2014, the Bank continued its prudential policy referring to limits for financial institutions. Because of uncertain market situation and smaller trust towards financial counterparties in previous years the Bank has significantly reduced limits, tightening co-operation with Group's entities. The reduction of limits was made where limits were not used or the Bank had doubts regarding counterparty's financial situation. 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 31 (in 2014). In 2014 the Bank only conducted slight modifications of limits for better adjustment to business needs, the product offer and requirements connected with membership in WIBOR quote panel.

As a result, in 2014 the sum of limits granted for the transactions on financial markets insignificantly decreased by 2.12% (reduction from PLN 2.83 billion in 2013 to PLN 2.77 billion), and the relocation according to the new pattern better tailored the limits to the Bank's needs. In case of limits destined to use for trade finance transactions, the sum of limits was increased to PLN 650.68 million in order to take into account after legal merger of BGŻ S.A. and Rabobank Polska S.A. reguarantees issued by Rabobank for Rabobank Polska S.A. maturing in vast majority in December 2014.

Bank exposure (in thousand PLN)

	31.12.2014	31.12.2013
Financial market transactions		
- available limits	2 768 400	2 833 400
- used	83 621	270 168
Trade financing transactions		
- available limits	650 680	11 920
- used	106 921	3 560

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 meet client needs for the pre-agreed amount and time, in accordance with business justification.

As at the end of 2014 the majority of the financial market exposures consisted of IRS/CIRS transactions (48%), deposits (30%) and FX SWAP transactions (14%) of the exposure. In comparison, in 2013 the exposures consisted of IRS/CIRS transactions (43%), deposits (35%) and FX SWAP transactions (15%)

The cooperation of the Bank with NBFIs (non-bank financial institutions) i.e. investment, pension and insurance funds, like in previous year, is limited to transactions including debt treasury securities covered by the system delivery-vs-payment provided by the Clearing House; so although the aggregate value of the available limits amounted to PLN 443 million and was granted to 110 entities, the limits were actively used by 8 investment funds and 1 insurance company.

Non-financial counterparties' risk

Using the experiences 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 granting a credit 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 2014 the Bank had more than 397 of such limits (over 24% less than in 2013) of the total value of PLN 1.16 billion (which increase 156% realtive to 2013).

Increase of limits was mainly a result of incorporation of global corporate clients' portfolio of Rabobank Polska S.A. (RBPL), due to merger which occurred in June 2014. Increase of treasury products sale acidity was an additional indicator.

In 2014 the exposure contains mainly FX Forward/NDF transactions (45%), then IRS/CIRS (38%), FX Swap (17%) and trade swap transactions (1%). From 2013 the Bank has offered 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 2014 the Bank does not have any outstanding foreign currency options with clients. In 2014, for the clients with the highest loss at the end of 2014, all transactions have been cleared and limits closed.

Exposure to non-financial clients (in PLN thousands)

	31.12.2014	31.12.2013
Available limits	1 156 585	451 355
exposure	105 884	19 590
share %	9%	4%

53.6 Operating risk

The Bank defines operating risk as a possibility of 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 also includes the risk of 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 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 and calculation results are verified during stress tests. 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. In order to support operating risk management, the Bank uses risk assessment tool using scoring method. Risk assessment process is integrated with periodic mechanisms assessment process and with internal control procedures what allows for consistent operating risk management in the Bank.

54 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 capital ratio.

Since January 2014 banks are obliged to follow new rules concerning calculation of capital ratios, due to implementation of European Parliament and EU Council no. 575/2013 act from 26th June 2013 on prudential requirements for credit institutions and investment forms, changing act (EU) no. 648/2012.

Capital ratios, capital requriements and own funds were calculated in accordance to above mentioned act using national options consistent with assumptions used by Financial Supervisory Authority (KNF) for temporary reporting.

Minimal value of aggregated capital ratio required by law cannot be lower than 8%, while according to EBA (The European Banking Authority) recommendation and KNF solvency ratio should remain on level not lower than 12% and Tier1 indicator on the level not lower than 9%.

Both, in 2013 and in 2014, as well as at 31 December 2014 the Bank met all capital requirements.

55 Major events in 2014

Merger with Rabobank Polska S.A.

On 30 May 2014, the General Shareholders' Meeting of the Bank adopted a resolution on a merger with Rabobank Polska S.A.

On 18 June 2014 the District Court in Warsaw, XII Commercial Division of the National Court Register recorded the merger between Rabobank Polska S.A. (an acquiree) and BGŻ S.A. (an acquirer). The merger was executed based on art. 492 § 1 p. 1 of the Commercial Companies Code, by transferring all assets and liabilities from Rabobank Polska, as an acquired company, to BGŻ through the issue of 5 002 000 shares of BGŻ H series, which have been issued to the current shareholder of Rabobank Polska. All rights and obligations of Rabobank Polska S.A. were transferred to BGŻ.

Bank BGŻ was the acquirer and following the transfer date both institutions operate as one Bank under the name and logo of Bank BGŻ. Rabobank Polska functions in the structures of Bank BGŻ within isolated division of Global Corporate Clients and Products.

The merger was a fulfillment of the Polish Financial Supervision Authority requirement as to the consolidation of banking operations conducted in Poland by the Rabobank Group.

Tender offer on BGŻ S.A. Bank shares

On 25 August 2014 BNP Paribas SA announced a tender offer for the BGŻ Bank shares.

During the call, on 23 September 2014 BNP Paribas SA informed about embracing 41 872 248 (74.59%) of shares and as many votes on Bank's General Meeting. Ont 26 September 2014 Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. and Rabobank International Holding B.V announced disposal of 41 763 109 shares on favour of BNP Paribas S.A. As a result of transaction Rabobank International Holding B.V owned 13 613 875 (24.25%) of shares and entitling to the same number of votes on the Bank's General Meeting.

During the tender offer BNP Paribas SA Bank informed the Bank about embracing total amount 41 872 248 of BGŻ shares representing 74.59% of funding capital and equal number of votes on the Bank's General Meeting. Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. and Rabobank International Holding B.V announced disposal of 41 763 109 shares in favour of BNP Paribas S.A. As a result of transaction Rabobank International Holding B.V owned 13 613 875 (24.25%) of shares representing the same number of votes on the Bank's General Meeting.

Bank was informed by BNP Paribas S.A. about the purchase of 49 952 737 BGŻ shares constituting 88.98% shares and representing the same number of votes. After the conclusion of the tender offer Rabobank International, and indirectly by this entity Rabobank Nederland own 5 613 875 dematerialized shares on bank bearer corresponding to 5 613 875 (9.99%) of shares and vesting the right of votes at the Bank's General Meeting.

Merger with BNP Paribas Polska S.A.

On 2 September 2014 the Management Board adopted a resolution including a decision to start a procedure that will result in a merger of the Bank and BNP Paribas Bank Polska S.A

On 10 October 2014, the Management Board of BGŻ and the Management Board of BNPP Polska agreed and executed the merger plan of BGŻ and BNPP Polska which was prepared in compliance with Articles 498 and 499 of the Code of Commercial Companies (CCC) dated 15 September 2000.

The Merger will be effected pursuant to Article 492 §1 item 1 of the CCC by way of transferring net assets (all assets and liabilities) of BNPP Polska (the Target Bank) to BGŻ (the Bidding Bank), with a concurrent share capital increase in BGŻ from the amount of PLN 56 138 764 to the amount of PLN 84 238 318 by way of the issuance of 28 099 554 shares in BGŻ with the nominal value of PLN 1.00 (the "Merger Shares"), to be delivered by BGŻ to the existing shareholders of BNPP Polska.

In determining the share exchange ratio, the Management Board of BGŻ has taken into consideration the opinion received from PwC Polska Sp. z o.o. confirming that from a financial point of view the proposed share exchange ratio is set at fair level (fairness opinion).

As a result of the Merger, BGŻ will assume all rights and obligations of BNP Paribas Polska, and operation of BNP Paribas Polska will be ceased without liquidation proceedings.

Appointment of Bank's Supervisory Board

On 3 September 2014 General Meeting of BGŻ S.A. adopted a resolution concerning appointment of four new Supervisory Board Members (appointed: Michel Vial, Jean-Paul Sabet, Jean Lemierre oraz Jarosław Bauc) replacing previous members who made conditional resignation from the Supervisory Board (resigned: Jan Alexander Pruijs, Evert Derks Drok, Tanja Cuppen oraz Jarosław Iwanicki)

On 15 September 2014 suspensing condition included in resignations from functions in Supervisory Board members was met. Those persons were not any longer members of Supervisory Board as at 15 September 2014. At the same time, terminating condition defined in Extraordinary General Meeting act concerning appointment to membership in Supervisory Board following persons: Michel Vial, Jean-Paul Sabet, Jean Lemierre oraz Jarosław Bauc, was met.

Obligatory purchase of shares

On 3 December 2014, BNP PARIBAS and Rabobank International Holding B.V concluded the agreement, referred to in the Article 87 Section 1 Item 5 of the Public Offering Act (the "Agreement"), concerning the acquisition of the shares in Bank, by requiring all other shareholders of the Bank to sell all their shares in the Bank in accordance with the Article 82 of the Public Offering Act (the "Squeeze out").

56 Events after the reporting period

Impact of CHF appreciation on CHF loans portfolio

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On 15 January 2015 Swiss central bank announced its decision about release of exchange rate against EUR what caused significant appreciation of CHF against all main currencies.

According to the evaluation of Committee of Financial Stability announced on 20 January 2015, the situation regarding release of CHF exchange rate against EUR mentioned above, is not causing a threat for financial system in Poland, despite relatively high share of loans denominated and indexed in CHF. Moreover, in order to support debtors having loans in CHF, on 29 January 2015, banks (BGŻ among others) affilied in Self-government Organization of Banks (ZBP) accepted the proposition of ZBP, that debtors shall not pay higher installments than before the decision of Swiss Central Bank. In order to support this decision banks announced among others: taking into account negative LIBOR, decrease of currency spreads, permanent enabling to change currency from CHF to PLN without any commissions and more flexible restructuring procedures. As a response to solutions suggested by ZBP, the Bank will take into account negative LIBOR.

- in PLN thousand

Value of CHF loans portfolio as at 31.12.2014 r.

	Total portfolio	Including exposure in CHF
Loan portfolio (gross), including:		
In current account	**5 602 947**	**-**
Banks	334 295	-
Corporates	2 118 862	-
Households:	3 144 797	-
individuals	106 328	-
Individual entrepreneurs	375 241	-
farmers	2 663 228	-
Buget entities	617	-
Other entities	4 376	-
Loans and advances to customers	**25 864 576**	**3 084 764**
Banks	70 916	-
Corporate:	7 970 809	100 606
Investment loans	4 622 665	36 206
Revolving loans	2 222 940	10 490
other	1 125 204	53 910
Households	17 533 570	2 981 299
Individuals, including	10 087 819	2 902 576
Mortgage loans	8 340 820	2 882 295
Individual entrepreneurs	1 414 479	67 503
farmers	6 031 272	11 220
Budget entities	215 802	-
Other	73 479	2 859
Total loans and advances (gross)	**31 467 523**	**3 084 764**

- in PLN thousand

Impairment losses on loans and advances in CHF as at 31.12.2014 r.

	Total portfolio	Including exposure in CHF
Loan portfolio (gross), including:		
In current account	**256 124**	**-**
Banks	-	-
Borporates	163 515	-
Households:	92 483	-
individuals	7 271	-
Individual entrepreneurs	54 925	-
farmers	30 287	-
Buget entities	-	-
Other entities	126	-
Loans and advances to customers	**1 174 752**	**93 169**
Banks	487	-
Corporate:	585 301	10 188
Investment loans	140 369	212
Revolving loans	328 322	604
other	116 610	9 372
Households	587 507	82 974
Individuals, including	312 821	74 855
Mortgage loans	157 257	71 784
Individual entrepreneurs	129 195	7 012
farmers	145 491	1 107
Budget entities	215	-
Other	1 242	7
Total loans and advances (gross)	**1 430 876**	**93 169**

- in PLN thousand

CHF exposure structure by impairment loss and maturity as at 31.12.2014 r.

	31.12.2014
Net book value without impairment trigger, including	**2 870 329**
0 days	2 668 338
1-30 days	180 800
31-60 days	18 077
61-90 days	3 114
over 90-days	-
Net balance value of exposures with identified impairment trigger, not impaired	**8 421**
0 days	4 509
1-30 days	1 752
31-60 days	1 640
61-90 days	-
over 90 days	520
Net balance value of impaired exposures	**112 844**
0 days	24 993
1-30 days	24 324
31-60 days	8 260
61-90 days	4 864
over 90-days	50 403
Total net value	**2 991 594**

CHF loan portfolio collateralized with mortgage

	Retail clients		Other clients	
LTV	**not impaired**	**impaired**	**not impaired**	**impaired**
31.12.2014	**2 722 277**	**169 862**	**137 396**	**33 019**
0-50%	463 277	15 338	100 011	11 616
50 - 100%	1 301 172	60 511	20 694	9 349
>100%	957 828	94 013	16 691	12 054
31.01.2015	**3 070 805**	**193 129**	**155 304**	**37 453**
0-50%	389 070	13 822	100 476	8 824
50 - 100%	1 302 880	51 519	31 210	14 720
>100%	1 378 855	127 788	23 618	13 909

For CHF loan portfolio collteralized with mortgage, LTV in December 2014 amounts to 86.5% and in January 2015 amounts to 97.8%.

The Bank conducted a stress test which concluded that the Bank is not expecting significant impairment write-offs from housing loans in 2015.

Obligatory purchase of shares of BGŻ S.A. Bank

On 23 January 2015 Bank was informed about termination of “squeeze-out” tarnation. As a result BNP PARIBAS held 50,524,889 shares in the Bank, representing 50,524,889 votes at the Bank’s general meeting, accounting for approximately 90.0000025% of the Bank’s share capital and vesting the right to exercise approximately 90.0000025% of the total number of votes at the Bank’s general meeting. Rabobank held 5,613,875 dematerialized bearer shares in the Bank, representing 5,613,875 votes at the Bank's general meeting, accounting for approximately 9.9999975% of the Bank's share capital and vesting the right to exercise approximately 9.9999975% of the total number of votes at the Bank's general meeting.

Approval of the Information Memorandum by the Polish Financial Supervision Authority

On 16 February 2015 the Polish Financial Supervision Authority approved the information memorandum of BGŻ on Public Offering and the Conditions for Introducing Financial Instruments to Organized Trading, and Public Companies in connection with a public offering of 28,099,554 ordinary series I bearer shares of BGŻ with a nominal value of PLN 1 each (the "Merger Shares"), carried out by BGŻ in connection with the merger of BGŻ with BNP Paribas Bank Polska S.A. with its registered office in Warsaw, as well as in connection with the application for the admission and introduction of 28,099,554 Merger Shares to trading on the regulated market (main market) operated by the Warsaw Stock Exchange.

The Extraordinary General Meeting of Shareholders

On 25 February 2015 The Extraordinary General Meeting adopted resolutions concerning merger of Bank Gospodarki Żywnościowej S.A. and BNP Paribas S.A., the increase of share capital of Bank Gospodarki Żywnościowej S.A. and agreed on the change of the Bank's statute.

....
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

....
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, 2nd March 2015