Bank Gospodarki Żywnościowej S.A. Financial Statements, prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2012, together with the independent auditors' opinion

Warsaw, 4 March 2013

Contents

- data in PLN thousands

Income statement

	Note	12 months ended 31.12.2012	12 months ended 31.12.2011
Interest income	4	2 156 478	1 692 151
Interest expense	4	(1 135 111)	(858 140)
Net interest income		**1 021 367**	**834 011**
Fee and commission income	5	350 345	310 860
Fee and commission expense	5	(54 168)	(40 961)
Net fee and commission income		**296 177**	**269 899**
Dividend income	6	3 416	3 554
Result on trading activities	7	98 567	101 852
Result on investing activities	8	43 329	5 389
Result on hedge accounting	21	1 233	-
Other operating income	9	64 487	61 987
Net impairment losses on loans and advances	10	(269 662)	(163 913)
General administrative expenses	11,13	(941 203)	(854 947)
Other operating expenses	12	(139 244)	(110 208)
Operating result		**178 467**	**147 624**
Profit (loss) before taxation		**178 467**	**147 624**
Income tax expense	14	(44 124)	(21 564)
Net profit (loss) for the year	15	**134 343**	**126 060**
- attributable to the shareholders of the Bank		134 343	126 060
Earnings per share (in PLN per share):	**15**	2,95	2,92
From continuing and discontinued operations:		**2,95**	**2,92**
- Basic		2,95	2,92
- Diluted		2,95	2,92
From continuing operations:		2,95	2,92
- Basic		2,95	2,92
- Diluted		2,95	2,92
		2,95	2,92

- data in PLN thousands

Statement of comprehensive income

	Note	12 months ended 31.12.2012	12 months ended 31.12.2011
Profit (loss) for the year		**134 343**	**126 060**
Other comprehensive income			
Net (loss)/gain on valuation of available-for-sale financial assets	23	230 867	18 207
Net (loss)/gain on valuation of derivatives designated as cash-flow hedge	21	21 857	-
Income tax relating to other income	14	(48 018)	(3 459)
Other comprehensive income for the year, net of tax		**204 706**	**14 748**
Total comprehensive income for the year		**339 049**	**140 808**

Notes included on pages 11-114 are an integral part of these financial statements.

- data in PLN thousands

Statement of financial position

	Note	31.12.2012	31.12.2011
ASSETS			
Cash and balances with the Central Bank	16	2 106 657	1 383 321
Amounts due from other banks	17	104 035	221 071
Receivables arising from reverse repo transactions	18	104 369	366 343
Held-for-trading financial assets (excluding derivatives)	19	219 051	1 632 434
Derivative financial instruments, including:	20	474 058	883 109
– Derivatives designated for hedging	21	69 179	-
Loans and advances to customers	22	26 341 646	24 238 267
Financial assets available for sale	23	6 867 557	3 624 750
Other debt securities	24	15 876	15 105
Investments in subsidiaries and associates	25	58 720	58 468
Intangible assets	26	152 674	146 443
Property, plant and equipment	27	469 098	485 943
Deferred tax asset	35	130 818	207 794
Receivables from current income tax		10 318	-
Other assets	28	125 745	123 848
TOTAL ASSETS		**37 180 622**	**33 386 896**

Notes included on pages 11-114 are an integral part of these financial statements.

- data in PLN thousands

Statement of financial position (continuation)

	Note	31.12.2012	31.12.2011
LIABILITIES			
Amounts owed to other banks	29	4 094 436	4 446 716
Liabilities arising from repo transactions	30	104 346	-
Derivative financial instruments and other liabilities held for trading, including	20	350 621	795 707
– Derivatives designated for hedging	21	-	-
Amounts owed to customers	31	26 942 029	22 941 728
Liabilities from issued debt securities	32	1 852 776	2 033 112
Other liabilities	33	292 129	474 912
Provisions	34	50 769	41 811
Liabilities arising from employee benefits	37	26 969	25 412
TOTAL LIABILITIES		**33 714 075**	**30 759 398**
EQUITY			
Issued share capital	40	51 137	43 137
Reserve capital	41	2 950 716	2 332 656
Other reserves	41	330 351	125 645
Undistributed profit for the year		134 343	126 060
TOTAL EQUITY		**3 466 547**	**2 627 498**
TOTAL LIABILITIES AND EQUITY		**37 180 622**	**33 386 896**

- data in PLN thousands

Statement of changes in equity

	Note	Issued share capital	Reserve capital	Other reserves	Undistributed profit for the year	Total
As at 1 January 2012		**43 137**	**2 332 656**	**125 645**	**126 060**	**2 627 498**
Issue of shares		8 000	492 000	-	-	500 000
Net profit for the year		-	-	-	134 343	134 343
Other comprehensive income for the year		-	-	204 706	-	204 706
Transfer from prior year profits		-	126 060	-	(126 060)	-
Total comprehensive income for the period		**-**	**-**	**204 706**	**134 343**	**339 049**
As at 31 December 2012	**40,41**	**51 137**	**2 950 716**	**330 351**	**134 343**	**3 466 547**
As at 1 January 2011		**43 137**	**2 220 155**	**110 897**	**112 501**	**2 486 690**
Net profit for the year		-	-	-	126 060	126 060
Other comprehensive income for the year		-	-	14 748	-	14 748
Transfer from prior year profits		-	112 501	-	(112 501)	-
Total comprehensive income for the period		**-**	**-**	**14 748**	**126 060**	**140 808**
As at 31 December 2011	**40,41**	**43 137**	**2 332 656**	**125 645**	**126 060**	**2 627 498**

- data in PLN thousands

Statement of cash flows

	Note	12 months ended 31.12.2012	12 months ended 31.12.2011
CASH FLOW FROM OPERATING ACTIVITIES:			
Net profit/loss		**134 343**	**126 060**
Total adjustments:		**3 165 609**	**(3 480 872)**
Current and deferred tax recognized in the financial result	14	44 124	21 564
Depreciation/Amortization	12	94 518	82 999
Interest and share in profits (dividends)	45	(131 239)	(35 458)
Profit/loss on investing activities		(43 131)	(6 899)
Change in provisions and liabilities arising from employee benefits		10 515	2 857
Change in amounts due from other banks	45	5 349	38 022
Change in receivables arising from reverse repo transactions		261 974	285 363
Change in held-for-trading debt securities		1 413 383	182 465
Change in positive valuation of derivative financial instruments (excluding hedge accounting)		478 230	(662 122)
Change in positive valuation of derivative financial instruments designated for hedging		(47 322)	-
Change in loans and advances to customers		(2 103 379)	(4 355 278)
Income tax paid		(38 486)	-
Income tax received	14	23 969	44 801
Change in amounts owed to other banks	45	(266 362)	45 598
Change in liabilities arising from repo transactions		104 346	(1 268 921)
Change in negative valuation of derivative financial instruments		(445 086)	63 609
Change in amounts owed to customers		4 000 301	1 890 006
Change in other assets and receivables arising from income tax		(12 215)	(45 670)
Change in other liabilities and change in income tax liability	45	(182 783)	233 057
Other adjustments	45	(1 097)	3 135
NET CASH FLOW FROM OPERATING ACTIVITIES		**3 299 952**	**(3 354 812)**

- data in PLN thousands

Statement of cash flows (continuation)

	Note	12 months ended 31.12.2012	12 months ended 31.12.2011
CASH FLOW FROM INVESTING ACTIVITIES:			
Inflows		**92 319 595**	**55 578 543**
Sale and redemption of other debt securities		-	107 564
Sale of securities available for sale		92 314 209	55 467 342
Sale of intangible assets and property, plant and equipment		-	83
Dividends received and other inflows from investing activities		5 386	3 554
Outflows		**(95 254 481)**	**(55 910 619)**
Purchase of shares in associates	25	-	(12 271)
Purchase of securities available for sale	23	(95 168 031)	(55 742 670)
Purchase of intangible assets, property, plant and equipment	26,27	(86 198)	(155 393)
Other investing outflows		(252)	(285)
NET CASH FLOW FROM INVESTING ACTIVITIES		**(2 934 886)**	**(332 076)**
CASH FLOW FROM FINANCING ACTIVITIES:			
Inflows		**5 005 440**	**8 466 397**
Long-term loans received from other banks		205 440	3 503 897
Issue of debt securities to other financial institutions	32	4 300 000	4 962 500
Net inflows from issue of shares and additional equity contributions	40	500 000	-
Outflows		**(4 758 858)**	**(4 797 698)**
Repayment of long- term loans to other banks		(291 358)	(123 198)
Redemption of debt securities issued to other financial institutions	32	(4 467 500)	(4 674 500)
TOTAL NET CASH FLOW FROM FINANCING ACTIVITIES		**246 582**	**3 668 699**
TOTAL NET CASH FLOW		**611 648**	**(18 189)**
Cash and cash equivalents at the beginning of the year	**44**	**1 592 649**	**1 610 838**
Cash and cash equivalents at the end of the year, of which:	**44**	**2 204 297**	**1 592 649**
of restricted use	38	1 744	830

Accounting policies and additional explanatory notes

1 Information about the Bank

Bank Gospodarki Żywnościowej Spółka Akcyjna (the 'Bank' or 'BGŻ S.A.'), with its registered office in Warsaw, at ul. Kasprzaka 10/16, is entered in the National Court Register maintained by the District Court for the capital city of Warsaw, XII Economic Department, Entry no. KRS 0000011571. The duration of the company is defined as unlimited in the Articles of Association of the Bank.

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 2012, the average number of employees of BGŻ S.A. was 5 683,64 FTEs (full-time employees) and in the year 2011 – 5 414,13 FTEs.

The Bank's main area of activities includes:

- accepting a-vista 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,
- taking up and purchasing shares and rights attached to shares, shares in other corporate entities or participation units in investment funds,
- raising liabilities arising from issuing of debt securities
- securities trading,
- exchanging amounts due from the debtor for his/her assets on terms agreed with the debtor,
- purchasing and sale of real estate,
- providing financial advisory/consulting services,
- conducting brokerage activities (operating Brokerage Office),
- conducting acquisition activities within the meaning of the regulations concerning the organising and functioning of open-ended pension funds,
- acting as depositary within the meaning of the regulations concerning the organising and functioning of open-ended pension funds,
- keeping in custody assets of investment funds,
- operating securities deposit,
- intermediary services in trading in participation units of investment 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 operating finance leases,

- data in PLN thousands

Accounting policies and additional explanatory notes

- trading in treasury stamps and numismatic items.

As at 31 December 2012, the Bank's Management Board composed of the following members:

Jacek Bartkiewicz	– President
Gerardus Cornelis Embrechts	– 1st Vice-president
Johannes Gerardus Beuming	– Vice-president
Dariusz Odzioba	– Vice-president
Witold Okarma	– Vice-president
Wojciech Sass	– Vice-president
Andrzej Sieradz	– Vice-president
Magdalena Legęć	– Vice-president

Since the balance sheet date till the day of the preparation of the stand-alone 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 Rabobank Capital Group, which parent company is Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.

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

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

Authorisation of the financial statements for publication

These financial statements were prepared as at 31 December 2012 and for the year then ended, and were approved for publication by the Management Board on 4 March 2013.

The consolidated financial statements of BGŻ S.A. Capital Group were prepared as at 31 December 2012, and were approved for publication by the Management Board on 4 March 2013.

The above financial statements include data for the year 2012 and 2011.

2 Description of significant accounting policies

2.1 Basis for the preparation of the financial statements

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

2.2 Going concern

These financial statements were prepared under the assumption that the Bank continues 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 financial statements, the Management Board BGŻ S.A. is not aware of any facts or circumstances that would indicate a threat to the Bank's continued activity or a significant limitation in the Bank business for the period of at least 12 months following the reporting date.

Accounting policies and additional explanatory notes

2.3 Statement of compliance with IFRS

These financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS'); in particular, in accordance with IFRS endorsed by the European Union. As of the date of the authorisation of these financial statements for issue, due to the current process of IFRS endorsement in the European Union and the nature of the Bank's activities, there is no difference between the IFRS applied by the Bank and the IFRS endorsed by the European Union

IFRS comprise standards and interpretations accepted by the International Accounting Standards Board ('IASB') and the International Financial Reporting Interpretations Committee ('IFRIC').

Implementation of new IFRSs

Presented below are the new and amended IASs and IFRSs and new IFRIC interpretations that the Bank applied in the current year. Their application did not have material effect on the financial statement of the Group.

- Amendment to IFRS 7 Financial Instruments – Disclosures: Transfer of Financial Assets - effective for financial years beginning on or after 1 July 2011. This interpretation did not have any effect on the financial position or performance of the Bank,

<u>Standards and interpretations issued but not in force:</u>

The following standards and interpretations were issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee but did not come into force:

- Amendments to IAS 1 *Presentation of Financial Statements*: *Presentation of Items of Other Comprehensive Income* - effective for the years beginning on or after 1 July 2012.
- The first phase of IFRS 9 *Financial Instruments: Classification and Measurement* – effective for financial years beginning on or after 1 January 2015 – not endorsed by EU till the date of approval of these financial statements. In subsequent phases, the IASB will address hedge accounting and impairment. The application of the first phase of IFRS 9 will have impact on classification and measurement of the financial assets of the Group. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.
- Amendments to IAS 19 Employee Benefits - effective for financial years beginning on or after 1 January 2013
- Amendments to IAS 12 *Income Tax: Deferred Tax: Recovery of Underlying Assets* – effective for financial years beginning on or after 1 January 2012 – not endorsed by EU till the date of approval of these financial statements,
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters - effective in EU for financial years beginning on or after 1 January 2013.
- IFRS 10 *Consolidated Financial Statements* – effective for financial years beginning on or after 1 January 2013 – effective in UE for financial years beginning on or after 1 January 2014.
- IFRS 11 *Joint Arrangements* – effective for financial years beginning on or after 1 January 2013 – effective for financial years beginning on or after 1 January 2014.
- IFRS 12 *Disclosure of Interests in Other Entities* – effective for financial years beginning on or after 1 January 2013 – effective for financial years beginning on or after 1 January 2014.

- Amendments to IFRS 10, IFRS 11, IFRS 12 *Transitional Provisions* - effective for financial years beginning on or after 1 January 2013 – not endorsed by EU till the date of approval of these financial statements.
- IFRS 13 *Fair Value Measurement* - effective for financial years beginning on or after 1 January 2013
- IAS 27 S*eparate financial statement* - effective for financial years beginning on or after 1 January 2013 – effective for financial years beginning on or after 1 January 2014.
- IAS 28 *Investments in Associates and Joint Ventures* - effective for financial years beginning on or after 1 January 2013 – effective for financial years beginning on or after 1 January 2014.
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine - effective for financial years beginning on or after 1 January 2013
- Amendments to IFRS 7 Financial Instruments – Disclosures: Offsetting Financial Assets and Financial Liabilities - effective for financial years beginning on or after 1 January 2013,
- Amendments to IAS 32 Financial Instruments – Presentation: Offsetting Financial Assets and Financial Liabilities - effective for financial years beginning on or after 1 January 2014
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards: Government Loans - effective for financial years beginning on or after 1 January 2013 – not endorsed by EU till the date of approval of these financial statements.
- Changes resulting from IFRS Review (published in May 2012) - effective for financial years beginning on or after 1 January 2013 - not endorsed by EU till the date of approval of these financial statements.
- Amendments to IFRS 10, IFRS 12, and IAS 27 Investment Entities - effective for financial years beginning on or after 1 January 2014 - not endorsed by EU till the date of approval of these financial statements.

The Management Board does not expect the implementation of the above standards and interpretations to have material impact on the accounting policies applied by the Bank, except for the changes resulting from modifications introduced by IFRS 9. As far as IFRS 9 *Financial instruments* is concerned, the Bank is currently analysing the impact of the implementation of this standard on the financial statement.

2.4 Changes in presentation

There were no presentation changes introduced by the Bank to these financial statements, except for the changes aimed to improve presentation of the items in the Note 47 consisting of presentation of transactions with Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. together with Coöperatieve C.R-B B.A. (Branches).

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2.5 Valuation of foreign currency items

a) Functional and presentation currency

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

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b) Transactions and balances

Transactions denominated in foreign currencies are translated to functional currency at the exchange rate prevailing on the transaction date.

At the reporting date, assets and liabilities expressed in currencies other than Polish zloty are translated into Polish zloty using the average NBP rate prevailing 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 capitalised in the cost of the assets. Non-monetary foreign currency assets and liabilities recognised at historical cost are translated at the historical exchange rate prevailing on the transaction date. Non-monetary foreign currency assets and liabilities recognised at fair value are translated to Polish zloty using the rate of exchange binding as at the date of re-measurement to fair value.

The main foreign currency exchange rates used in the preparation of these financial statements, prevailing on 31 December 2012 and 31 December 2011, were as follows:

	31.12.2012	31.12.2011
1 EUR	4,0882	4,4168
1 USD	3,0996	3,4174
1 GBP	5,0119	5,2691
1 CHF	3,3868	3,6333
100 JPY	3,6005	4,4082

2.6 Interest income and expense

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

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

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

2.7 Net fee and commission income

Fees and commissions, which are not accounted for using 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 overdraft facilities, credit cards, revolving loans and granted liabilities. In addition, the Bank includes the fee for maintaining current accounts and the income and costs related to guarantees granted, in the above items.

Income generated from offering the third parties' insurance services is included in the net fee and commission income. The method of recognition in the Financial Statement depends among others from the voluntariness of insurance, related product's profitability and from contributions level in relation to similar instruments on the market. If above commissions are recognized as one-off items, the Bank defer a part of the income as a deferred revenues, due to the possible future partial refund.

2.8 Dividend income

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

2.9 Result on trading activities

The result on trading activities includes all revenues and losses resulting from change in the fair value and the resultant interest revenues and expenses, as well as dividends relating to financial assets and liabilities classified as financial assets, and financial liabilities valued at fair value through profit or loss.

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

2.10 Result on investing activities

Revenues and costs relating to financial assets classified as available for sale, and financial assets held to maturity, except for interest, are presented under result on investing activities.

2.11 Other operating income and other operating expenses

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

The following are mainly included in the above items: gains and losses arising from the sale or liquidation of fixed assets, revaluation of investment property, compensation received and paid and revenues and costs of other services not relating to the Bank’s main business activities.

2.12 Corporate income tax

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

Current tax liabilities and current tax assets for the current and previous periods are valued at the amount of probable payment to the tax authorities and amounts due from 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 is provided in full, using the liability method, on all temporary 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 re-assessed at each subsequent reporting date, and is recognized to the extent that it is probable that sufficient taxable profit will be available to allow the deferred tax asset to be utilized. The Bank offsets deferred tax assets and deferred tax liabilities if, and only if, it has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes that are levied by the same taxation authority on the same taxable entity.

Deferred tax relating to items recognized in equity is recognized in equity and not in the income statement

In 2012 and 2011, the current tax expense and the deferred tax liability were calculated using the 19% rate.

2.13 Classification and valuation of financial assets

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

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

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

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

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

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

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

This category covers two sub-categories:

- financial assets and liabilities held for trading (including derivative financial instruments) and
- 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 2012 and 31 December 2011, and in the years then ended, none of the Group'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 Bank determines the asset's fair value using valuation techniques, which include recent transactions carried out at arm's length, reference to other generally identical financial instruments, analysis of discounted cash flows, option pricing models, as well as other valuation methods commonly used by market participants.

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

Fair value of derivatives determined based on 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 income statement

Certain embedded derivatives, such as share options embedded in a convertible bond, 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 in the introduced to the accounting policies.

2.13.3 Loans and receivables

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

Loans and receivables arise if Bank issues cash directly to the borrower with no intention of selling them immediately or in the near future, and which were not classified upon initial recognition as ‘Financial assets held for sale’. ‘Available for sale financial assets’ or as ‘Financial assets at fair value through profit or loss’.

After initial recognition, loans and receivables are classified at revised purchase price including impairment (at amortized cost), with any differences between their fair value upon initial recognition (less transaction costs), being usually the amount transferred to the borrower (less transaction costs), and their redemption value amortized to the income statement over the period of the loan term, using the effective interest rate method.

2.13.4 Held-to-maturity investments

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

- those designated upon initial recognition as at fair value through profit or loss.
- those designated as available for sale.
- those that meet the definition of loans and receivables.

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

Investments held to maturity are carried at amortized cost using the effective interest rate method.

2.13.5 Available-for-sale assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the preceding categories. 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 determining their fair value using alternative methods, the available-for-sale financial assets are measured at cost, adjusted for any impairment losses. Positive and negative differences between the fair value (if a 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, net of deferred tax, of the financial assets available for sale, are taken to the revaluation reserve. Any decrease in the value of the financial assets available for sale resulting from impairment losses is taken to the income statement and recorded under finance cost.

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

2.13.6 Offsetting of financial instruments

Financial assets and financial liabilities are offset and recognized in the statement of financial position at the net amount, if the Bank has a legally enforceable right to set off the recognised amounts and intends either to settle this on a net basis, or to realise the asset and simultaneously settle the liability.

2.13.7 Sell and buy back transactions

Securities under repo or sell-back transactions with maintaining by the Bank the risks and benefits resulting from an asset in spite of its transfer are not de-recognized in the statement of financial position. The corresponding liabilities 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 interest and calculated using the effective interest rate over the term of the underlying loan contract.

2.13.8 Investments in subsidiaries and associates

Investments in subsidiaries and associates are valued in the Bank’s financial statements at purchase price adjusted for any impairment losses.

2.14 Impairment of financial assets

2.14.1 Financial assets carried at amortized cost

An assessment is made at each reporting date to determine whether there is any objective evidence to show that a financial asset or group of financial assets may be impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) 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 evidence that a financial asset or group of assets is impaired may include information obtained by the Bank about the following loss events:

a) payment of loan principal or loan interest (also penalty) delinquent for more than 90 days;
b) granting the borrower in financial distress an economical concession. which result in the Bank’s receivable being partially written down (e.g. interest due. commission. fees. principal being partially written down. decrease in the interest charged);
c) termination of the loan agreement by the Bank;
d) application for customer bankruptcy has been filed or customer has been declared bankrupt;
e) customer has filed with the Bank a statement on initiation of (corporate) recovery proceedings;
f) execution procedures being instituted against the customer;
g) unfavourable changes In economic and financial situation of the client, resulting in a high probability of bankruptcy or financial reorganization of the contractor (changes can be observed inter alia, through significant deterioration in the results of the rating or scoring);
h) the disappearance of an active market for credit exposure due to financial difficulties;
i) questioning by the counterparty credit exposure In court.

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

a) exposures with the sum of carrying and off-balance sheet value and interests outstanding relating to a particular account is the equal or exceeds PLN 1 000 thousand at the reporting date on which the assessment of the impairment is made (for exposures carried in foreign currencies the exposure is analysed as an equivalent in polish zloty at a rate effective at the end of financial year).
b) exposures covered by restructuring procedures with the sum of carrying and off-balance sheet value and interests outstanding relating to a particular account of at least PLN 100 thousand (for exposures carried in foreign currencies the exposure is analysed 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 in the prior period. This means that the change in the approach to credit exposure based on the threshold amount may be applied only to that credit exposure for which no impairment loss has been identified;

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

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

f) credit exposures in respect of government administrative agencies.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment 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 income statement in the collective assessment for impairment.

If there is 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 allowance account and the amount of loss is taken to the income statement. In practice, the Bank may determine impairment losses using the fair value of the financial instrument, based on the current market price.

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

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

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank in order to reduce any differences between loss estimates and actual loss experience.

Uncollectible loans are written off and charged against the impairment allowance account. Before a loan is written off, all the required procedures must be completed and the value of the impairment loss must be determined. If an amount that has been previously written off is recovered, the value of the impairment losses recognised 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 rating), the value of the impairment loss previously recognized is reversed by adjusting the impairment allowance account. The value of the reversal is recognized in the income statement.

2.14.2 Financial assets at fair value through profit or loss or at 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. 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 income statement 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.

2.15 Non-current assets held for sale

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

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, rather than through continuing use. 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 Bank that has either been disposed of or is classified as ‘held for sale’ and (a) represents a major line of business or geographical area of operations (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or (c) is a subsidiary acquired exclusively with a view to resale.

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

2.16 Investment property

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

Investment property is recognized as an asset, when and only when:

- it is probable that the future economic benefits associated with the investment property will flow to the entity, and
- the 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 reporting date subsequent to initial recognition.

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

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

2.17 Intangible assets

Intangible assets purchased as part of a separate transaction are initially recognized at cost.

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

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

Amortisation 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 amortisation rates for particular intangible asset groups are as follows:

- licences	14.0 – 50.0%
- copyrights	20.0 – 50.0%

The residual values and useful lives of intangible assets are reviewed at each reporting date, 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 is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset, and is recognized in the profit and income statement under other operating income.

2.18 Property, plant and equipment

Property, plant and equipment are measured at acquisition 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 fixed asset components, when incurred, if the recognition criteria are met, Subsequent expenditures, such as repair or maintenance costs, are expensed in the reporting period in which they were incurred.

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

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

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

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

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

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

A gain or loss arising from the sale of a fixed asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset, and is recognized in the income statement under other operating income or other operating expenses, as appropriate.

2.19 Hedge Accounting

Hedge accounting recognizes results of offsetting changes in fair value of the hedging instrument and the hedged item, which influence the profit and loss statement. 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:

- when the hedge is 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 profit and loss statement;
- the effectiveness of the hedge can be measured reliably, i.e. the fair value or the cash flows, connected with the hedged item and resulting from the hedged risk, as well as the fair value of hedging instrument, can be measured reliably;

- the hedge is constantly assessed and its high effectiveness is approved in all reporting periods, on which the hedge has been established.

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

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

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

2.20 Financial liabilities valued at amortized cost

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

2.21 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Where the Bank expects some or all of the provision costs to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the net of any 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 pre-tax 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 recognised as an interest expense.

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

2.22 Operating lease

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

- Fulfilment of the contract depends on the use of specific asset or assets, and
- A contract conveys the right to use 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 charged to 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.

Accounting policies and additional explanatory notes

2.23 Financial guarantees

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

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

2.24 Employee benefits

The Bank creates a provision for future liabilities towards employees in respect of jubilee bonuses, retirement and pension benefits and unused annual leave allowance. These provisions are created using the actuarial method, as described in Note 37 to these financial statements.

Bank employees are entitled to the following employee benefits:

2.24.1 Jubilee bonuses

In accordance with IAS 19, jubilee bonuses are other long-term employee benefits. These are paid to employees for their long-term service at the Bank. The policies concerning payment of jubilee bonuses are described in the Collective Labour Agreement, dated 19 December 2005, as amended. In accordance with this agreement the employees were entitled to the jubilee bonuses till 31 March 2011.

2.24.2 Retirement 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.

2.24.3 Provision for unused annual leave

Provision for unused annual leave 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.

2.24.4 Allocation of profit for employee purposes, and special funds

The amount of profit allocated for employee purposes in the form of a contribution to the Social Fund and to other special funds, is included in the costs of the period to which the distributed profit relates, if the Bank has a legal or constructive obligation to make such allocation; or in the costs of the period in which the General Shareholders Meeting of the Bank approved the profit allocation and if the shareholders' decision does not arise from an obligation that is current as at the reporting date.

2.25 Issued share capital

2.25.1 Share issued costs

Costs directly related to the issue of new shares or the acquisition of a business entity, net of income tax, if any, decrease the amount of proceeds from the issue of shares recognised in equity.

Accounting policies and additional explanatory notes

2.25.2 Treasury shares

When the Bank's own shares are re-acquired by the Bank, 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.

2.26 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 capita.

2.27 Other reserves

The Bank may create a special fund for unidentified risks from all or part of the general banking risk reserve, including reserve charged to the income statement. 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.

2.28 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.

2.29 Trust activities

BGŻ S.A. 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 Bank's assets.

2.30 Cash and cash equivalents

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

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

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

Accounting policies and additional explanatory notes

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 Bank assesses the impairment of financial assets on an individual basis and using the collective (group) approach. Individual assessment is performed on assets classified by the Bank as individually significant. Individually significant assets include, in particular, the following: exposures for which the total of the balance sheet principal and interest liability and off-balance sheet liability granted at the valuation date, exceeds PLN 1 million (or its equivalent in a foreign currency); restructured exposures, for which the sum of the balance sheet capital and interest and off-balance sheet liability granted as at the valuation date exceeds PLN 100 thousand (or its equivalent in a foreign currency); all assets classified as individually significant in the previous period for which impairment was identified in the previous period; exposures with lower unit carrying amount if (due to the small number of such items) it is not possible to construct homogeneous and representative groups of assets, i.e. loan exposures to public sector entities and loan exposures to financial entities. All financial assets that do not meet the criteria set forth for individually significant assets are considered to be individually insignificant. The methodology has been revised in comparison to the methodology effective as at 31 December 2011. As a result of the changes implemented, the value of impairment allowances as at 31.12.2012 decreased by PLN 1.8 million.

Assessment of the impairment of individually significant assets

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

Collective (group) assessment

Collective assessment is performed for assets classified as individually insignificant and those individually significant assets for which there is no objective evidence of impairment. For such group of assets, the Bank determines the amount of the impairment loss, if objective evidence of impairment is identified on a collective basis, or it determines the amount of the IBNR (Incurred But Not Reported) allowance if no impairment evidence is identified. Future cash flows from a group of financial assets assessed for impairment on a collective basis are estimated based on the history of losses incurred on assets with similar credit risk characteristics.

In December 2012 the Bank updated parameters used in the impairment methodology. The update of:

- adjustment of portfolio segmentation to match the Bank’s current structure of receivables
- removal of assumptions regarding recoverability of exposures under restructuring (replacement of existing expert-based assumptions with estimates based on the actual data)
- introduction of the quarantine concept (exposure leaves the status of "Impaired" only after a certain period of servicing the liability by the customer in a timely manner),
- introduction of a unitary, 6-month loss identification period for all portfolios assessed under IBNR approach by extending the period for certain portfolios from 3 and 4 months,
- closer recognition of current business conditions in the estimations of impairment (the concept of "point-in-time").

The update of parameters was driven by the fact that currently the Bank has more precise data relating to the repayment of liabilities by the customers and is not compelled to maintain

Accounting policies and additional explanatory notes

conservative assumptions regarding to the repayment of exposure under restructuring. Changes led to a change in respect of impairment losses estimate (as a result, reversal of impairment loses in the amount of PLN 33 million was reflected in the income statement).

b) Fair value of derivative financial instruments (derivatives)

The fair value of financial instruments not listed on active markets is determined using valuation techniques (e.g. pricing models). These methods are assessed and reviewed on a regular basis by qualified independent employees, i.e. employees not involved in developing these methods. All models are approved before they are used, 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.

c) Impairment of equity instruments classified as available-for-sale financial assets

The Bank recognizes impairment of equity instruments available-for-sale if it has identified a significant or long-term decrease in their fair value below their initial cost. To determine whether impairment is significant or of a long-term nature, the Bank must apply judgement. In making this judgment, apart from other factors, the Bank must assess normal share price fluctuations. Furthermore, impairment losses may need to be recognised if there is evidence of deterioration in the issuer's financial standing the industry or economy sector, the technology or cash flows from operating and financing activities.

d) Financial assets held to maturity

The Bank follows IAS 39 guidance concerning the classification, as assets held-to-maturity, of non-derivative financial assets with fixed or determinable payments and fixed maturity. This classification is, to a significant extent, based on the Bank's judgement. In making this judgement, the Bank assesses its intention and ability to hold these investments to maturity. If the Bank does not hold these investments to maturity, it will have to change the classification of the entire category of these assets to assets available for sale (except for certain circumstances, such as the sale of investments of a small value shortly before maturity).

e) Impairment of property, plant and equipment

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

f) Provision for retirement benefit

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

g) Deferred tax asset

The Bank recognize deferred tax asset based on the assumption that in the future a tax gain will be generated that will allow utilizing the deferred tax asset. Deterioration in tax gains in the future would make this assumption unjustified.

h) Classification of leases agreements.

The Bank classifies leases as operating on the basis of assessment of the extent to which the risks and benefits of ownership of the leased asset are bore by the lessor and the lessee. This assessment is based on the economic sense of each transaction.

- data in PLN thousands

Accounting policies and additional explanatory notes

4 Net interest income

	12 months ended 31.12.2012	12 months ended 31.12.2011
Interest income		
Amounts due from other banks	42 890	38 996
Amounts due from customers under overdraft facilities	326 276	247 096
Loans and advances to customers after considering reversal of interest on loans with impairment losses, of which:	1 482 845	1 185 362
– companies	532 570	401 374
– households	926 700	766 675
– public institutions	15 709	11 028
– other entities	7 866	6 285
Debt securities, of which:	304 467	220 697
– at fair value through profit or loss account (trading)	69 540	35 691
– available for sale	234 927	182 848
– other debt securities	-	2 158
	2 156 478	**1 692 151**
Interest expense		
Liabilities to other banks, including:	181 870	140 076
- debt securities	107 548	81 404
Liabilities to clients, of which:	953 241	718 064
– companies	220 017	194 143
– households	581 105	404 752
– public institutions	34 625	49 801
– other entities	117 494	69 368
	1 135 111	**858 140**
Net interest income	**1 021 367**	**834 011**

In 2012 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 2 093 002 thousand (PLN 1 656 460 thousand for the 12-month period ended 31 December 2011), 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 1 135 111 thousand (PLN 858 140 thousand for the 12-month period ended 31 December 2011).

Interest income includes interest on financial assets for which impairment loss indicators were identified when both assessed individually and on a group basis. Such interest is included in the interest income for 2012 amounts to PLN 117 870 thousand and for 2011 amounted to PLN 69 352 thousand.

- data in PLN thousands

Accounting policies and additional explanatory notes

5 Net fee and commission income

	12 months ended 31.12. 2012	12 months ended 31.12.2011
Fee and commission income		
Fee and commission income from banks	15 995	14 723
Fee and commission income from customers, of which:	334 350	296 137
–loans and advances	109 934	100 181
–domestic settlements	824	1 075
–foreign settlements	4 024	5 065
–account service	93 932	100 771
–guarantee commitments	11 444	12 173
–brokerage operations	11 076	13 304
–debit cards	73 796	56 062
–sale of insurance products	22 449	1 583
– other commissions	6 871	5 923
	350 345	**310 860**
Fee and commission expense		
Fee and commission expense from banks	3 505	3 586
Fee and commission expense from customers, of which:	50 663	37 375
–loans and advances	6 160	4 283
–guarantee commitments	-	5
–debit cards	24 299	21 405
–sale of insurance products	14 016	5 775
– other commissions	6 188	5 907
	54 168	**40 961**
Net fee and commission income	**296 177**	**269 899**

6 Dividend income

	12 months ended 31.12.2012	12 months ended 31.12.2011
Available-for-sale securities	3 416	3 554
	3 416	**3 554**

- data in PLN thousands

Accounting policies and additional explanatory notes

7 Result on trading activities

	12 months ended 31.12.2012	12 months ended 31.12.2011
Debt instruments	**15 280**	**(3 339)**
– Debt instrument income	140 190	99 543
– Debt instrument expense	(124 910)	(102 882)
Derivatives	**(143 626)**	**610 365**
– Derivatives income	1 973 715	2 071 877
– Derivatives expense	(2 117 341)	(1 461 512)
Foreign exchange result*	**226 913**	**(505 174)**
Result on trading activities	**98 567**	**101 852**

* The item 'Foreign exchange result' includes differences resulting from the value of the recalculated assets and liabilities expressed in foreign currencies.

8 Result on investing activities

During the year, the Bank did not reclassify any of the financial assets carried at amortized cost to financial assets at fair value.
Gains and losses from investment securities are presented below:

	12 months ended 31.12.2012	12 months ended 31.12.2011
Assets available for sale:	**43 131**	**7 461**
– Debt securities income	43 237	8 354
– Debt securities expense	(106)	(893)
Other debt securities:	**198**	**(562)**
– Debt securities income	710	66
– Debt securities expense	(512)	(628)
Impairment loss on shares in subsidiary	**-**	**(1 510)**
Total	**43 329**	**5 389**

- data in PLN thousands

Accounting policies and additional explanatory notes

9 Other operating income

	12 months ended 31.12.2012	12 months ended 31.12.2011
From management of third-party properties	1 142	1 430
From sale or liquidation of property, plant and equipment, intangible assets and assets held-for-sale	1 169	1 956
From recovered statute –barred receivables, written off or bad debts, repayments of derecognised receivables	6 778	14 349
Sales of goods and services	9 804	10 374
Reversal of provisions for other receivables (excluding loan receivables) (Note 28)	875	847
Reversal of fixed asset impairment write-downs	173	14
Reversal of provisions for liabilities (Note 34 and 37)	17 486	8 415
From recovery of costs incurred	2 487	1 903
From compensation of PARP expenses	1 072	5 237
Reversal of unused provisions for non-personnel costs	6 303	6 104
Reversal of unused provisions for personnel costs	8 476	6 136
Surplus income	1 204	888
Other operating income *	7 518	4 334
Other operating income, total	**64 487**	**61 987**

* The 'Other operating income' line item contains sundry income

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

10 Impairment losses on loans and advances

	12 months ended 31.12.2012	12 months ended 31.12.2011
Amounts due from other banks	(9)	122
Loans and advances to customers	(268 734)	(156 650)
Liabilities granted	(1 690)	(6 614)
Securities	771	(771)
Impairment losses on loans and advances, total	**(269 662)**	**(163 913)**

- data in PLN thousands

Accounting policies and additional explanatory notes

11 General administrative expenses

	12 months ended 31.12.2012	12 months ended 31.12.2011
Employee benefit costs (Note 13)	508 337	456 249
Marketing costs	70 162	60 256
IT costs	79 941	67 935
Rents	92 677	89 392
Other non-personnel costs	50 889	48 285
Other external services costs	101 032	98 422
Other administrative costs	8 182	9 741
Contributions transferred to the Bank Guarantee Fund	24 550	20 253
Contributions transferred to the Polish Financial Supervision Authority	5433	4 414
General administrative expenses, total	**941 203**	**854 947**

12 Other operating costs

	12 months ended 31.12.2012	12 months ended 31.12.2011
Due to management of third-party assets	1 457	1 089
Due to sale or liquidation of property, plant and equipment, intangible assets and assets for sale	2 613	1 873
Due to provisions for other receivables (other than loans and advances) (Note 28)	7 007	1 082
Due to provisions for liabilities (Note 34 and 37)	21 516	11 126
Due to debt recovery	7 693	7 060
Donations	3 185	2 997
Amortisation and depreciation (Note 26 i 27)	94 518	82 999
Other operating expenses *	1 255	1 982
Other operating expenses, total	**139 244**	**110 208**

*"Other operating expenses" line includes expenses for penalties and fines.

13 Employee benefits

	12 months ended 31.12.2012	12 months ended 31.12.2011
Payroll	406 703	372 543
including: retirement benefit	192	206
Salary overheads	57 997	49 124
Fringe benefits	8 659	16 803
Provision for restructuring (Note 34)	16 901	-
Costs related to Company Social Benefits Fund	6 232	5 923
Other	11 845	11 856
Employee benefits, total	**508 337**	**456 249**

- data in PLN thousands

Accounting policies and additional explanatory notes

14 Income tax

Income tax is calculated on the basis of the accounting pre-tax profit adjusted for revenues, which - according to tax regulations - are not included in taxable profit, and for non-tax-deductible costs.

The reconciliation of the tax expense calculated as product of the profit/ (loss) before taxation and current tax rate and the real tax expense is presented in the table below.

	12 months ended 31.12.2012	12 months ended 31.12.2011
Current tax	(39 135)	(675)
Previous years' tax adjustment	23 969	-
Deferred tax	(28 958)	(20 889)
Income tax expense	**(44 124)**	**(21 564)**
Profit (loss) before taxation	178 467	147 624
Statutory tax rate	19%	19%
Income tax based on profit before taxation	**(33 909)**	**(28 049)**
Non – deductible expenses:	(9 119)	(3 493)
– receivables written-off	(6 844)	282
– non-tax-deductible material costs	(1 531)	(2 948)
– State Fund for Rehabilitation of Disabled Persons costs	(744)	(827)
Allowance for purchased receivables	(1 853)	42
Operational risk provision	(1 124)	-
Loans impairment*	(801)	11 705
Tax on dividend	(649)	(675)
Technology tax benefit	2 913	-
Other differences	418	(1 094)
Income tax charge on the Group's profit	**(44 124)**	**(21 564)**

* Impairment allowance for tax purposes was described in note 35

Impact of corporate income tax liabilities on the financial result of the Bank

Income tax charge of the Bank's profit is presented in the table below:

	12 months ended 31.12.2012	12 months ended 31.12.2011
Profit (loss) before taxation	**178 467**	**147 624**
Total current tax liability, of which:	**(15 166)**	**(675)**
– current tax liability on the Bank's income	(14 517)	-
– current tax liability on shares in profits of other companies	(649)	(675)
Deferred income tax charge of the Bank's profit	**(28 958)**	**(20 889)**
Income tax charge of the Bank's profit	(44 124)	(21 564)
Net profit (loss)	**134 343**	**126 060**

For more information on deferred tax, please see Note 35.

- data in PLN thousands

15 Earnings per share

	12 months ended 31.12.2012	12 months ended 31.12.2011
Basic:		
Earnings attributable to the Bank's shareholders	134 343	126 060
Weighted average number of ordinary shares (in units)	45 519 278	43 136 764
Basic earnings per share (presented in PLN per share)	2,95	2,92
Diluted earnings per share (presented in PLN per share)	2,95	2,92

A diluted earnings per share is equal to basic earnings per share because there is 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'.

16 Cash and balances with the Central Bank

	31.12.2012	31.12.2011
Cash in hand (treasury)	865 271	805 645
Cash in current account	1 241 386	515 660
Term placements in NBP	-	62 000
Other funds	-	16
Cash and balances with the Central Bank, total	**2 106 657**	**1 383 321**

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

The funds on the obligatory reserve account bear interest of 0.9 of the rediscount rate for bills of exchange. As at 31 December 2012, the interest rate for funds on the obligatory reserve account was 4.05% (as at December 2011 it was 4.275%).

The balance of cash and resources in the Central Bank contains an obligatory reserve held on NBP (the National Bank of Poland). The reserve declared to be maintained in December 2012 amounted to PLN 924 313 thousand (as of December 2010: PLN 773 268 thousand).

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

17 Amounts due from other banks

	31.12.2012	31.12.2011
Current accounts	91 177	197 829
Placements with other banks	191	10 244
Loans and advances	13 679	14 039
Amounts due from other banks (gross)	**105 047**	**222 112**
Impairment allowances (negative value)	(1 012)	(1 041)
Amounts due from other banks (net), total	**104 035**	**221 071**

- data in PLN thousands

Accounting policies and additional explanatory notes

As at 31 December 2012, variable interest rate loans and placements with other banks amounted to a total of PLN 12 647 thousand (2011: PLN 10 047 thousand) while those of fixed interest rate as at 31 December 2012 PLN 92 400 thousand (2011: 209 065 thousand).

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

	12 months ended 31.12.2012	12 months ended 31.12.2011
Provisions for amounts due from other banks at the beginning of the period	**1 041**	**1 105**
Creation of provisions	273	219
Reversal of provisions	(264)	(341)
Other changes	(38)	58
Provisions for amounts due from other banks at the end of the period	**1 012**	**1 041**

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

31.12.2012	Individually assessed	Collectively assessed	TOTAL
Current accounts	-	91 177	91 177
Placements with other banks	-	191	191
Loans and advances	908	12 771	13 679
Amounts due from other banks (gross)	**908**	**104 139**	**105 047**
31.12.2011			
Current accounts	-	197 829	197 829
Placements with other banks	-	10 244	10 244
Loans and advances	1 006	13 033	14 039
Total impairment losses	**1 006**	**221 106**	**222 112**

Impairment losses on amounts due from other banks, classified as individually and collectively assessed, as at 31 December 2012

	Individually assessed	Collectively assessed	TOTAL
Loans and advances	827	185	1 012
Total impairment losses	**827**	**185**	**1 012**

Impairment losses on amounts due from other banks, classified as individually and collectively assessed, as at 31 December 2011

	Individually assessed	Collectively assessed	TOTAL
Loans and advances	895	146	1 041
Total impairment losses	**895**	**146**	**1 041**

- data in PLN thousands

Accounting policies and additional explanatory notes

Gross amounts due from other banks, by maturity date

	31.12.2012	31.12.2011
Up to 1 month	91 998	208 726
From 1 month to 3 months	1 144	11
From 3 month to 1 year	62	1 280
From 1 year to 5 years	9 704	10 585
Above 5 years	2 139	1 510
Total	**105 047**	**222 112**

18 Receivables arising from reverse repo transactions

Gross receivables from securities (Treasury bonds) purchased under reverse repurchase by maturity:

	31.12.2012	31.12.2011
Up to 1 month	104 369	76 669
1 – 3 months	-	289 674
Total	**104 369**	**366 343**

19 Held-for-trading financial assets

	31.12.2012	31.12.2011
Held for trading financial assets:		
– treasury bills	-	22 899
– bonds issued by central government institutions	219 051	1 609 535
TOTAL	**219 051**	**1 632 434**
of which: valued using the market quotation method	**219 051**	**1 632 434**

Change in held for trading financial assets appears as follows:

	12 months to 31.12.2012	12 months to 31.12.2011
As at 1 January	**1 632 434**	**1 814 899**
Purchase of securities	125 523 796	361 332 383
Redemption of securities	(518 938)	(633 551)
Disposal of securities	(126 436 078)	(360 864 576)
Change of re-measurement to fair value	2 354	(1 682)
Change in discount and premium adjustments, interest due, FX differences	15 483	(15 039)
As at 31 December carrying amount	**219 051**	**1 632 434**

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

	31.12.2012	31.12.2011
Up to 1 month	-	99 750
From 1 month to 3 months	29 896	22 899
From 3 month to 1 year	-	386 433
From 1 year to 5 years	89 140	651 879
Above 5 years	100 015	471 473
TOTAL	**219 051**	**1 632 434**

- data in PLN thousands

20 Derivative financial instruments

The fair value of owned derivatives is presented in the table below:

31.12.2012	Nominal Value	Fair value of assets	Fair value of liabilities
Trading derivatives (HfT)			
Currency derivatives:			
– FX Spot transactions	402 164	328	(430)
– NDF transactions	583 560	10 424	(4 138)
– FX Forward transactions	434 854	709	(2 546)
– FX swap contracts	6 653 110	49 279	(47 285)
– FX options purchased and sold in OTC transactions	102 992	1 076	(1 702)
Total currency derivatives from OTC transactions:	**8 176 680**	**61 816**	**(56 101)**
Interest rate derivatives:			
– Interest rate swap contracts	39 820 219	324 356	(280 164)
– Inter-currency interest rate swap contracts	711 728	4 019	(48)
– FRA contracts	7 200 000	4 301	(7 170)
– Other interest rate contracts	185 619	439	(142)
Total interest rate derivatives from OTC transactions	**47 917 566**	**333 115**	**(287 524)**
Options purchased and sold in OTC transactions	116 600	3 056	(4 645)
Total equity derivatives from OTC transactions	**116 600**	**3 056**	**(4 645)**
Options purchased and sold in OTC transactions	14 743	1 116	(1 116)
FX swaps purchased and sold in OTC transactions	7 436	86	(45)
Total commodity derivatives from OTC transactions	**22 179**	**1 202**	**(1 161)**
Hedging derivatives			
Interest rates derivatives			
– Interest rate swap contracts	3 000 000	69 179	-
Total interest rate derivatives from OTC transactions	**3 000 000**	**69 179**	**-**
TOTAL	**59 233 025**	**468 368**	**(349 431)**
Including: - valued using the market quotation method	-	-	-
- valued using model-based method	*59 233 025*	*468 368*	*(349 431)*
Settlements in respect of derivative transactions	X	38	-
Settlements in respect of the purchase and sale of options	X	5 652	(1 190)
TOTAL	**59 233 025**	**474 058**	**(350 621)**

- data in PLN thousands

31.12.2011	Nominal Value	Fair value of assets	Fair value of liabilities
Trading derivatives (HfT)			
Currency derivatives:			
– FX Spot transactions	949 187	1 540	(1 128)
– NDF transactions	859 630	22 748	(796)
– FX Forward transactions	716 215	8 473	(1 964)
– FX swap contracts	21 272 064	701 215	(586 731)
– FX options purchased and sold in OTC transactions	10 152	138	(313)
Total currency derivatives from OTC transactions:	**23 807 248**	**734 114**	**(590 932)**
Interest rate derivatives:			
– Interest rate swap contracts	40 036 546	137 697	(188 456)
– Inter-currency interest rate swap contracts	739 595	2 546	(5 530)
– FRA contracts	8 250 000	2 517	(5 504)
– OTC interest rate options	-	-	-
– Other interest rate contracts	618 312	68	(94)
Total interest rate derivatives from OTC transactions:	**49 644 453**	**142 828**	**(199 584)**
Options purchased and sold in OTC transactions	66 837	2 003	(4 945)
Total equity derivatives from OTC transactions	**66 837**	**2 003**	**(4 945)**
TOTAL:	**73 518 538**	**878 945**	**(795 461)**
Including: - valued using the market quotation method	-	-	-
- valued using model-based method	*73 518 538*	*878 945*	*(795 461)*
Settlements in respect of derivative transactions	X	8	-
Settlements in respect of the purchase and sale of options	X	4 156	(246)
TOTAL	**73 518 538**	**883 109**	**(795 707)**

Accounting policies and additional explanatory notes

Fair value of BGŻ S.A. derivatives per maturities (in PLN thousand)

31.12 2012	Fair value of asset						Fair value of liability					
	Total	<= 1 month	> 1 month <= 3 months	> 3 months <= 12 months	1 year <= 5 years	> 5 years	Total	<= 1 month	> 1 month <= 3 months	> 3 months <= 12 months	1 year <= 5 years	> 5 years
Derivatives												
Currency derivatives												
- FX Spot transactions	**328**	328	-	-	-	-	**(430)**	(430)	-	-	-	-
- NDF transactions	**10 424**	5 023	2 128	3 273	-	-	**(4 138)**	(451)	(940)	(2 738)	(9)	-
- FX Forward transactions	**709**	268	399	42	-	-	**(2 546)**	(381)	(1 284)	(802)	(79)	-
- FX swap contracts	**49 279**	29 542	19 534	203	-	-	**(47 285)**	(45 726)	-	(1 559)	-	-
- FX options purchased and sold in OTC transactions	**1 076**	-	51	1 025	-	-	**(1 702)**	-	(51)	(1 651)	-	-
Total currency derivatives from OTC transactions	**61 816**	**35 161**	**22 112**	**4 543**	**-**	**-**	**(56 101)**	**(46 988)**	**(2 275)**	**(6 750)**	**(88)**	**-**
Interest rate derivatives:												
- interest rate swap contracts	**324 356**	39 301	44 595	37 876	154 577	48 007	**(280 164)**	(7 478)	(9 601)	(47 634)	(163 594)	(51 857)
- Inter-currency interest rate swap contracts	**4 019**	-	-	333	2 818	868	**(48)**	-	-	(44)	(4)	-
- FRA contracts	**4 301**	828	3 391	82	-	-	**(7 170)**	(1 299)	(5 322)	(549)	-	-
- other interest rate contracts	**439**	439	-	-	-	-	**(142)**	(142)	-	-	-	-
Total interest rate derivatives from OTC transactions:	**333 115**	**40 568**	**47 986**	**38 291**	**157 395**	**48 875**	**(287 524)**	**(8 919)**	**(14 923)**	**(48 227)**	**(163 598)**	**(51 857)**
Options purchased and sold in OTC transactions	**3 056**	-	-	1 193	1 863	-	**(4 645)**	-	-	(1 492)	(3 153)	-
Total equity derivatives from OTC transactions	**3 056**	**-**	**-**	**1 193**	**1 863**	**-**	**(4 645)**	**-**	**-**	**(1 492)**	**(3 153)**	**-**
Options purchased and sold in OTC transactions	**1 116**	-	-	-	1 116	-	**(1 116)**	-	-	-	(1 116)	-
FX swaps purchased and sold in OTC transactions	**86**	-	-	86	-	-	**(45)**	-	-	(45)	-	-
Total commodity derivatives from OTC transactions	**1 202**	**-**	**-**	**86**	**1 116**	**-**	**(1 161)**	**-**	**-**	**(45)**	**(1 116)**	**-**
Hedging derivatives												
Interest rate derivatives												
– Interest rate swap contracts	**69 179**	-	-	-	69 179	-	**-**	-	-	-	-	-
Total interest rate derivatives from OTC transactions	**69 179**	**-**	**-**	**-**	**69 179**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Settlement of derivative transactions	**38**	38	-	-	-	-	**-**	-	-	-	-	-
Settlement of purchase and sell	**5 652**	-	-	2 346	3 306	0	**(1 190)**	-	-	(294)	(896)	-
TOTAL	**474 058**	**75 767**	**70 098**	**46 459**	**232 859**	**48 875**	**(350 621)**	**(55 907)**	**(17 198)**	**(56 808)**	**(168 851)**	**(51 857)**

- data in PLN thousands

31.12 2011	Fair value of asset						Fair value of liability					
	Total	<= 1 month	> 1 month <= 3 months	> 3 months <= 12 months	1 year <= 5 years	> 5 years	Total	<= 1 month	> 1 month <= 3 months	> 3 months <= 12 months	1 year <= 5 years	> 5 years
Derivatives												
Currency derivatives												
- FX Spot transactions	**1 540**	1 540	-	-	-	-	**(1 128)**	(1 128)	-	-	-	-
- NDF transactions	**22 748**	5 953	7 712	8 868	215	-	**(796)**	(163)	(269)	(364)	-	-
- FX Forward transactions	**8 473**	2 453	3 343	2 677	-	-	**(1 964)**	(1 103)	(101)	(760)	-	-
- FX swap contracts	**701 215**	141 564	67 506	492 145	-	-	**(586 731)**	(59 975)	(29 243)	(497 513)	-	-
- FX options purchased and sold in OTC transactions	**138**	-	100	38	-	-	**(313)**	-	(259)	(54)	-	-
Total currency derivatives from OTC transactions	**734 114**	**151 510**	**78 661**	**503 728**	**215**	**-**	**(590 932)**	**(62 369)**	**(29 872)**	**(498 691)**	**-**	**-**
Interest rate derivatives:												
- interest rate swap contracts	**137 697**	17 413	11 588	7 352	72 958	28 386	**(188 456)**	(24 039)	(9 305)	(27 870)	(99 449)	(27 793)
- Inter-currency interest rate swap contracts	**2 546**	-	-	-	-	2 546	**(5 530)**	-	-	-	(5 530)	-
- FRA contracts	**2 517**	1 162	780	575	-	-	**(5 504)**	-	-	(3 833)	(1 671)	-
- other interest rate contracts	**68**	68	-	-	-	-	**(94)**	(94)	-	-	-	-
Total interest rate derivatives from OTC transactions:	**142 828**	**18 643**	**12 368**	**7 927**	**72 958**	**30 932**	**(199 584)**	**(24 133)**	**(9 305)**	**(31 703)**	**(106 650)**	**(27 793)**
Options purchased and sold in OTC transactions	**2 003**	-	-	1 838	165	-	**(4 945)**	-	-	(4 615)	(330)	-
Total interest rate derivatives from regulated market transactions:	**2 003**	**-**	**-**	**1 838**	**165**	**-**	**(4 945)**	**-**	**-**	**(4 615)**	**(330)**	**-**
Settlement of derivative transactions	**8**	8	-	-	-	-	**-**	-	-	-	-	-
Settlement of purchase and sell	**4 156**	-	183	3 642	331	-	**(246)**	-	-	(246)	-	-
Total	**883 109**	**170 161**	**91 212**	**517 135**	**73 669**	**30 932**	**(795 707)**	**(86 502)**	**(39 177)**	**(535 255)**	**(106 980)**	**(27 793)**

Maturity dates
- For NDF. Currency forwards. FX Swap, currency options and options for indices, IRS, CIRS calculated as the difference in the days between transaction maturity date and reporting date
- For FX Spot, FRA, derivatives not included in the statement of financial position calculated as the difference between the date of the currency and the reporting date

- data in PLN thousands

21 Hedge Accounting

The Bank started to apply hedge accounting in 2012. The interest rate risk connected with the future cash flows of interests from preferential loans, of which interests rates depend on the NBP rediscount rate (with a multiplier of 1.5 or 1.6) is hedged by IRS float-to-fix transactions. Above-mentioned IRS transactions exchange the interest payments based on 1M WIBOR on fixed interest income The Bank hedges the margin above the rediscount rate in such a way that the nominal value of hedging IRS transactions is equal or lower than the nominal value preferential loans portfolio being the hedged item multiplied by the margin above NBP rediscount rate in the whole period of existence of hedge relationship. IRS transactions were assigned by the Bank as hedging instruments for the purpose of applying cash flow hedge accounting.

The table below presents the basic conditions of those transactions and their fair value in PLN as at 31 December 2012.

The periods in which cash flows will occur under cash flow hedge, as well as the periods in which they will influence the financial results, have been presented below:

Type of transaction	Terms of payment- face value From	To	Frequency	Terms of payment - interests From	Do	Frequency From
IRS	n/d	n/d	n/d	April 2012	IRS	n/d

The change in fair value of cash flow hedges is recognised in equity as presented below:

	12 months ended 31.12.2012	12 months ended 31.12.2011
1. As at the beginning of the period	**-**	**-**
2. The effective part of the profit or loss connected with the hedging instrument	21 936	-
3. The amounts recognized it the income statement, of which:	79	-
– the adjustments of interest income	(1 154)	-
– the adjustments of interest costs	-	-
– the adjustments of foreign exchange profits or losses	-	-
– the adjustments of hedge inefficiency	1 233	-
As at the end of the period (1+2-3)	**21 857**	**-**

- data in PLN thousands

Accounting policies and additional explanatory notes

22 Loans and advances to customers

	31.12.2012	31.12.2011
Amounts due from customers under overdraft facilities, including:	4 292 333	3 408 551
- corporate	2 251 740	1 814 091
- households:	2 010 043	1 575 122
- individual customers	107 615	132 123
- individual entrepreneurs	345 581	313 568
- farmers	1 556 847	1 129 431
Loans and advances to customers:	23 119 249	21 712 621
- corporate, including:	8 052 945	7 657 814
- investment loans	4 850 132	4 265 207
- operating loans	2 088 980	2 366 793
- households:	14 689 030	13 651 409
- individual customers, including:	8 867 163	8 331 162
- real-estate loans	7 600 490	7 118 474
- individual entrepreneurs	1 242 443	1 173 698
- farmers	4 579 424	4 146 549
- public sector institutions	313 976	288 652
- other entities	63 298	114 746
Loans and advances to customers, gross, total	**27 411 582**	**25 121 172**
Impairment allowances (negative value)	(1 069 936)	(882 905)
Loans and advances to customers, net, total	**26 341 646**	**24 238 267**

Preferential loans and advances granted to corporate, farmers and individual entrepreneurs amounted to a total of PLN 4 208 596 thousand as at 31.12.2012 and PLN 4 057 019 thousand as at 31.12.2011.

Purchased receivables granted to customers amounted to a total of PLN 354 991 thousand as at 31.12.2012 and PLN 400 382 thousand as at 31.12.2011.

Loans and advances granted to clients divided into impaired and not impaired

	31.12.2012	31.12.2011
Losses incurred but not reported (IBNR)		
Gross statement of financial position exposure	25 457 786	23 665 232
Impairment allowance on exposures without impairment condition identified	(77 081)	(95 001)
Net exposure	**25 380 705**	**23 570 231**
Impaired exposures		
Gross statement of financial position exposure	1 953 796	1 455 940
Impairment allowance on exposures analyzed on the portfolio and individual basis	(992 855)	(787 904)
Net exposure	**960 941**	**668 036**
	31.12.2012	**31.12.2011**

As at 31 December 2012, variable interest rate loans and advances amounted to a total PLN 26 241 884 thousand (2011: PLN 23 976 467 thousand), while those of fixed interest rate - PLN 1 169 698 thousand (2011: PLN 1 144 705 thousand).

- data in PLN thousands

Impairment losses on loans and advances

	31.12.2012	31.12.2011
Amounts due from customers under overdraft facilities, including:	147 457	120 013
- corporate customers	78 430	61 695
- households:	68 889	58 174
- individual customers	11 869	15 346
- individual entrepreneurs	38 129	26 870
- farmers	18 891	15 958
Loans and advances to customers:	922 479	762 892
- corporate customers, including:	389 681	246 855
- investment loans	60 776	50 508
- operating loans	232 344	124 851
- households:	525 371	502 620
- individual customers, including:	346 013	337 595
- real-estate loans	181 958	164 744
- individual entrepreneurs	69 761	54 408
- farmers	109 597	110 617
- public sector institutions	445	674
- other entities	6 982	12 743
Impairment allowances, total	**1 069 936**	**882 905**

Individually and collectively assessed loans and advances (gross amounts), as at 31 December 2012:

	Individually assessed	Collectively assessed	TOTAL
Amounts due from customers under overdraft facilities, including:	94 792	4 197 541	4 292 333
- corporate customers	82 481	2 169 259	2 251 740
- households:	12 310	1 997 733	2 010 043
- individual customers	-	107 615	107 615
- individual entrepreneurs	12 204	333 377	345 581
- farmers	106	1 556 741	1 556 847
Loans and advances to customers:	949 320	22 169 929	23 119 249
- corporate customers	742 802	7 310 143	8 052 945
– households	199 641	14 489 389	14 689 030
- individual customers	55 483	8 811 680	8 867 163
- individual entrepreneurs	54 493	1 187 950	1 242 443
- farmers	89 665	4 489 759	4 579 424
- public sector institutions	135	313 841	313 976
- other entities	6 742	56 556	63 298
Total loans and advances to customers (Gross)	**1 044 112**	**26 367 470**	**27 411 582**

- data in PLN thousands

Accounting policies and additional explanatory notes

Individually and collectively assessed loans and advances (gross amounts), as at 31 December 2011.

	Individually assessed	Collectively assessed	TOTAL
Amounts due from customers under overdraft facilities, including:	53 845	3 354 706	3 408 551
- corporate customers	45 038	1 769 053	1 814 091
- households:	8 807	1 566 315	1 575 122
- individual customers	-	132 123	132 123
- individual entrepreneurs	8 113	305 455	313 568
- farmers	694	1 128 737	1 129 431
Loans and advances to customers:	667 276	21 045 345	21 712 621
- corporate customers	512 030	7 145 784	7 657 814
– households	141 675	13 509 734	13 651 409
- individual customers	18 133	8 313 029	8 331 162
- individual entrepreneurs	47 898	1 125 800	1 173 698
- farmers	75 644	4 070 905	4 146 549
– public sector institutions	111	288 541	288 652
– other entities	13 460	101 286	114 746
Total loans and advances to customers (Gross)	**721 121**	**24 400 051**	**25 121 172**

Impairment allowances on loans and advances, classified as individually and collectively assessed as at 31.12.2012

	Individually assessed	Collectively assessed	TOTAL
Amounts due from customers under overdraft facilities, including:	28 014	119 443	147 457
- corporate customers	28 014	50 416	78 430
- households:	-	68 889	68 889
- individual customers	-	11 869	11 869
- individual entrepreneurs	-	38 129	38 129
- farmers	-	18 891	18 891
Loans and advances to customers:	394 253	528 226	922 479
- corporate customers	302 366	87 315	389 681
– households	85 063	440 308	525 371
- individual customers	22 634	323 379	346 013
- individual entrepreneurs	20 365	49 396	69 761
- farmers	42 064	67 533	109 597
– public sector institutions	82	363	445
– other entities	6 742	240	6 982
Impairment allowances on loans and advances to customers	**422 267**	**647 669**	**1 069 936**

- data in PLN thousands

Impairment allowances on loans and advances, classified as individually and collectively assessed as at 31.12.2011

	Individually assessed	Collectively assessed	RAZEM
Amounts due from customers under overdraft facilities, including:	17 313	102 700	120 013
- corporate customers	17 313	44 382	61 695
- households:	-	58 174	58 174
- individual customers	-	15 346	15 346
- individual entrepreneurs	-	26 870	26 870
- farmers	-	15 958	15 958
Loans and advances to customers:	261 792	501 100	762 892
- corporate customers	178 279	68 576	246 855
– households	71 000	431 620	502 620
- individual customers	7 733	329 862	337 595
- individual entrepreneurs	19 466	34 942	54 408
- farmers	43 801	66 816	110 617
– public sector institutions	60	614	674
– other entities	12 453	290	12 743
Impairment allowances on loans and advances to customers	**279 105**	**603 800**	**882 905**

Impairment allowances on preferential loans and advances granted to enterprises, farmers and individual entrepreneurs as at 31.12.2012 amounted to a total PLN 82 590 thousand, while as at 31.12.2011 PLN 87 016 thousand.

- data in PLN thousands

Accounting policies and additional explanatory notes

12 months ended 2012	Amounts due under overdraft facilities	Loans and advances to customers:	corporate customers	households	public sector institutions	other entities	Total
Impairment allowances at the beginning of the period	**120 013**	**762 892**	**246 855**	**502 620**	**674**	**12 743**	**882 905**
Allowance recognised	196 798	1 369 275	578 121	789 792	661	701	1 566 073
Allowance reversed	(155 044)	(1 142 295)	(424 360)	(710 841)	(890)	(6 204)	(1 297 339)
Write-off	(8 163)	(76 550)	(18 630)	(57 920)	-	-	(84 713)
Other changes (exchange differences)	(6 147)	9 157	7 695	1 720	-	(258)	3 010
Impairment allowances at the end of the period	**147 457**	**922 479**	**389 681**	**525 371**	**445**	**6 982**	**1 069 936**

12 months ended 2011	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	**101 357**	**597 460**	**215 391**	**370 414**	**527**	**11 128**	**698 817**
Allowance recognised	177 376	977 062	305 357	666 895	245	4 565	1 154 438
Allowance reversed	(160 002)	(837 786)	(275 163)	(558 681)	(224)	(3 718)	(997 788)
Write-off	(1 229)	(19 764)	(14 869)	(4 895)	-	-	(20 993)
Other changes (exchange differences and adjustment to interest income in relation to IBNR)	2 511	45 920	16 139	28 887	126	768	48 431
Impairment allowances at the end of the period	**120 013**	**762 892**	**246 855**	**502 620**	**674**	**12 743**	**882 905**

The amount presented in the "Allowance reversed " includes, among others, revenue in the amount of PLN 7 780 thousand on sale of packages of receivables in 2012.
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- data in PLN thousands

BGŻ Bank disposed of:

- On 19 March 2012 BGŻ disposed of package of 1 047 retail receivables with the value of PLN 7 051 thousands, including the principal amount of PLN 2 879 thousands for the price of PLN 637 thousands to an investment fund.
- On 9 August 2012 BGŻ disposed of package of 9 668 retail receivables with the value of PLN 83 070 thousands, including the principal amount of PLN 33 509 thousand for the price of PLN 7 393 thousands to a securitization fund.
- On 20 December 2012 BGŻ disposed of a package of 1 281 retail receivables with the value of PLN 10 466 thousand, including principal amount of PLN 3 793 thousand for the price of PLN 773 thousand to a securitization fund.

The subject of the transactions were overdue loans (vast majority related to cash loans), overdrafts and credit card facilities.

The packages did not include any mortgage loans. The price/principal ratio amounted respectively 22.05%, 22.06% and 20.39%.

Loans and advances (gross amount), by maturity date

	31.12.2012	31.12.2011
Up to 1 month	475 347	562 467
From 1 month to 3 months	612 443	525 061
From 3 month to 1 year	3 136 038	3 263 975
From 1 year to 5 years	4 510 251	4 515 505
Above 5 years	14 682 282	14 275 389
Loans past due	3 995 221	1 978 775
TOTAL	**27 411 582**	**25 121 172**

23 Financial assets available – for – sale

	31.12.2012	31.12.2011
Debt financial assets carried at fair value	6 863 027	3 621 702
- NBP money bills	3 798 533	449 808
- bonds issued by central government institutions	3 033 720	3 008 472
- debt securities issued by financial institutions	5 118	5 104
- debt securities issued by non-financial institutions	-	128 405
- bonds issued by public sector entities	25 656	29 913
Equity securities	4 530	3 048
Total financial assets available for sale	**6 867 557**	**3 624 750**
including:		
- valued using the market quotation method	*3 037 358*	*3 010 568*
- valued using model based method	*3 830 199*	*614 182*

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

Accounting policies and additional explanatory notes

Movements in financial assets available for sale are as follows:

	12 months ended 31.12.2012	12 months ended 31.12.2011
As at 1 January	**3 624 750**	**3 290 675**
Purchase of securities	95 168 031	55 742 670
Re-purchase of securities	(90 634 269)	(54 459 542)
Disposal of securities	(1 636 809)	(1 000 339)
Change in re-measurement to fair value	230 867	18 207
Change in interest due, FX differences, discount and premium adjustments	114 987	33 079
As at 31 December carrying amount	**6 867 557**	**3 624 750**

The carrying amount of fixed interest rate debt securities available for sale is PLN 6 828 437 thousand (2011: 3 450 963 thousand), while that of variable interest rate debt securities is PLN 34 590 thousand (2011: PLN 170 739 thousand).

In accordance with the Act on the Bank Guarantee Fund (BFG) from 14 December 1994, as of 31 December 2012 the Bank possessed treasury bills presented in the statement of financial position at the amount of PLN 163 969 thousand (nominal value PLN 140 000 thousand), which constituted security of the supplementary deposit cover fund within BFG and were deposited in a separated account in the National Bank of Poland (NBP) (in 2011 PLN 89 259 thousand of PLN 85 000 thousand nominal value).

Financial assets available for sale (gross amounts), by maturity

	31.12.2012	31.12.2011
With no maturity date fixed:	4 530	3 048
Up to 1 month	3 808 513	699 183
From 1 to 3 months	-	70 512
From 3 to 1 year	271 087	77 040
From 1 to 5 years	1 332 086	1 467 742
Over 5 years	1 451 341	1 307 225
Total financial assets available for sale	**6 867 557**	**3 624 750**

24 Other debt securities

	31.12.2012	31.12.2011
Debt securities carried at amortized cost:		
- debt securities issued by non-financial entities	15 876	15 876
Gross debt securities, total	**15 105**	
Impairment losses	-	(771)
Total other debt securities	**15 876**	**15 105**

The carrying amount of fixed interest rate securities is PLN 15 876 thousand (2011: PLN 15 105 thousand). The Bank did not possess variable interest rate securities both in 2012 and 2011.

- data in PLN thousands

Accounting policies and additional explanatory notes

Movements in other debt securities are as follows:

	12 months ended 31.12.2012	12 months ended 31.12.2011
As at 1 January	**15 105**	**125 108**
Repayment of restructuring bond's installment	-	(108 126)
Change in impairment allowance	771	(771)
Change in interests due, EIR adjustments, discount and premium adjustments	-	(1 106)
As AT 31 December (book value)	**15 876**	**15 105**

The redemption of the restructuring bonds from the other debt securities portfolio in 2011 amounted to PLN 42 857 thousand.

Other securities (gross amounts), by maturity

	31.12.2012	31.12.2011
From 3 months to 1 year	-	-
Securities with expired maturity	15 876	15 876
Total other debt securities	**15 876**	**15 876**

25 Investments in subsidiaries and jointly controlled entities

	31.12.2012	31.12.2011
In financial sector entities	42 373	42 373
In non financial sector entities	16 347	16 095
Total investments	**58 720**	**58 468**

In the 4th quarter of 2011 the Ordinary Shareholder's Meeting of BGŻ Leasing Sp. z o.o. adopted a resolution to increase the company's share capital proportionally to actually subscribed shares. BGŻ S.A. acquired 12 271 of new shares with a nominal value of PLN 1 000 each.
As at 31.12.2012 the value of BGŻ Leasing Sp. z o.o. shares amounts to PLN 42 373 thousand.

Shares in subsidiaries and associates as at 31 December 2012

Entity name	Cost	Revaluation/ (impairment) adjustment	Carrying amount	BGŻ S.A. %share in the entity's capital
Subsidiary				
Bankowy Fundusz Nieruchomościowy ACTUS Sp. z o.o.	17 857	(1 510)	16 347	100%
Associated Unit				
BGŻ Leasing Sp. z o.o.	42 373	-	42 373	49%
Total	**60 230**	**(1 510)**	**58 720**	**-**

- data in PLN thousands

Accounting policies and additional explanatory notes

Shares in subsidiaries and associates as at 31 December 2011

Entity name	Cost	Revaluation/ (impairment) adjustment	Carrying amount	BGŻ S.A. %share in the entity's capital
Subsidiary				
Bankowy Fundusz Nieruchomościowy ACTUS Sp. z o.o.	17 605	(1 510)	16 095	100%
Associated Unit				
BGŻ Leasing Sp. z o.o.	42 373	-	42 373	49%
Total	**59 978**	**(1 510)**	**58 468**	

26 Intangible assets

	31.12.2012	31.12.2011
Licenses	131 644	122 997
Other intangible assets	618	648
Expenditures on intangible assets	20 412	22 798
Intangible assets, total	**152 674**	**146 443**

12 months ended 31.12.2012	Licenses	Other intangible assets	Expenditure on intangible assets	Total
CARRYING VALUE				
As at 1 January	**389 642**	**3 949**	**22 958**	**416 549**
Increases:	*51 819*	*332*	*49 827*	*101 978*
- transfer from/to expenditures	51 819	332	-	52 151
- purchases	-	-	49 827	49 827
Decreases	*(9 478)*	*(144)*	*(52 373)*	*(61 995)*
- transfer from expenditures	-	-	(52 151)	(52 151)
- sale, liquidation, donation, shortage	(9 478)	(144)	(222)	(9 844)
As at 31 December	**431 983**	**4 137**	**20 412**	**456 532**
ACCUMULATED AMORTIZATION				
As at 1 January	**266 645**	**3 301**	**160**	**270 106**
Movements:	*33 694*	*218*	*(160)*	*33 752*
- amortization charge for the year	42 857	362	-	43 219
- sale, liquidation, donation, shortage	(9 163)	(144)	-	(9 307)
- impairment losses	-	-	(160)	(160)
As at 31 December	**300 339**	**3 519**	**-**	**303 858**
NET CARRYING AMOUNT				
as at 1 January	**122 997**	**648**	**22 798**	**146 443**
as at 31 December	**131 644**	**618**	**20 412**	**152 674**

- data in PLN thousands

Accounting policies and additional explanatory notes

12 months ended 31.12.2011	Licenses	Other intangible assets	Expenditure on intangible assets	Total
CARRYING VALUE				
As at 1 January	**314 149**	**3 908**	**20 679**	**338 736**
Increases:	*80 588*	*308*	*82 770*	*163 666*
- transfer from/to expenditures	80 135	308	-	80 443
- purchases	453	-	82 770	83 223
Decreases	*(5 095)*	*(267)*	*(80 491)*	*(85 853)*
- transfer from expenditures	-	-	(80 443)	(80 443)
- sale, liquidation, donation, shortage	(5 095)	(267)	(48)	(5 410)
As at 31 December	**389 642**	**3 949**	**22 958**	**416 549**
ACCUMULATED AMORTIZATION				
As at 1 January	**238 668**	**3 121**	**160**	**241 949**
Movements:	*27 977*	*180*	-	*28 157*
- amortization charge for the year	33 072	447	-	33 519
- sale, liquidation, donation, shortage	(5 095)	(267)	-	(5 362)
- impairment losses	-	-	-	-
As at 31 December	**266 645**	**3 301**	**160**	**270 106**
NET CARRYING AMOUNT				
as at 1 January	**75 481**	**787**	**20 519**	**96 787**
as at 31 December	**122 997**	**648**	**22 798**	**146 443**

In reference to intangible assets that are not yet available for use, i.e. are in construction, the Bank continuously identifies evidence of impairment. Based on the review of expenses on intangible assets under construction, there was no impairment noted as at 31 December 2012 or 2011.

As at 31.12.2012 and 31.12.2011 the Bank did not have any significant contractual commitments for the acquisition of intangible assets.

- data in PLN thousands

Accounting policies and additional explanatory notes

27 Property, plant and equipment

	31.12.2012	31.12.2011
Fixed assets, of which:	454 077	470 301
- land and buildings	269 175	274 128
- tangible fixed assets	184 902	196 173
Assets under construction	15 021	15 642
Property, plant and equipment, total	**469 098**	**485 943**

Movements in certain items of property, plant and equipment in 2012 and 2011 are presented below:

12 months ended 31.12.2012	Land and buildings	Tangible fixed assets	Assets under construction	Total
CARRYING VALUE				
As at 1 January	**427 559**	**606 529**	**15 642**	**1 049 730**
Increases:	*5 470*	*31 505*	*36 113*	*73 088*
- transfer from assets under construction	5 212	31 444	-	36 656
- purchases	258	-	36 113	36 371
- other	-	61	-	61
Decreases:	*(303)*	*(65 660)*	*(36 734)*	*(102 697)*
- transfer from assets under construction	-	-	(36 656)	(36 656)
- sale, liquidation, donation, shortage, theft	(303)	(65 659)	-	(65 962)
- other	-	(1)	(78)	(79)
As at 31 December	**432 726**	**572 374**	**15 021**	**1 020 121**
ACCUMULATED DEPRECIATION				
As at 1 January	**153 431**	**410 356**	**-**	**563 787**
Movements:	*10 120*	*(22 884)*	*-*	*(12 764)*
- depreciation charge for the year	10 278	41 021	-	51 299
- sale, liquidation, donation, shortage	(157)	(63 920)	-	(64 077)
- impairment losses	(1)	(12)	-	(13)
- other	-	27	-	27
As at 31 December	**163 551**	**387 472**	**-**	**551 023**
NET CARRYING AMOUT				
Balance as at 1 January	**274 128**	**196 173**	**15 642**	**485 943**
Balance as at 31 December	**269 175**	**184 902**	**15 021**	**469 098**

- data in PLN thousands

Accounting policies and additional explanatory notes

12 months ended 31.12.2011	Land and buildings	Tangible fixed assets	Assets under construction	Total
CARRYING VALUE				
As at 1 January	**426 389**	**599 466**	**16 023**	**1 041 878**
Increases:	*2 344*	*70 229*	*72 085*	*144 658*
- transfer from assets under construction	2 319	70 144	-	72 463
- purchases	-	85	72 085	72 170
- other	25	-	-	25
Decreases:	*(1 174)*	*(63 166)*	*(72 466)*	*(136 806)*
- transfer from assets under construction	-	-	(72 463)	(72 463)
- sale, liquidation, donation, shortage, theft	(1 174)	(63 166)	-	(64 340)
- other	-	-	(3)	(3)
As at 31 December	**427 559**	**606 529**	**15 642**	**1 049 730**
ACCUMULATED DEPRECIATION				
As at 1 January	**143 460**	**433 600**	**-**	**577 060**
Movements:	*9 971*	*(23 244)*	-	*(13 273)*
- depreciation charge for the year	10 407	39 073	-	49 480
- sale, liquidation, donation, shortage	(263)	(62 303)	-	(62 566)
- impairment losses	(173)	(14)	-	(187)
As at 31 December	**153 431**	**410 356**	**-**	**563 787**
NET CARRYING AMOUT				
Balance as at 1 January	**282 929**	**165 866**	**16 023**	**464 818**
Balance as at 31 December	**274 128**	**196 173**	**15 642**	**485 943**

The Bank as at 31.12.2012 and 31.12.2011 did not have any contractual liabilities related to the purchase of property, plant and equipment.

28 Other assets

	31.12.2012	31.12.2011
Other assets, of which:		
- settlements with debtors	110 054	101 830
- other prepayments	5 785	6 883
- commission income receivable	5 347	6 259
- settlements of card payments	30 980	28 870
- other	853	3 861
Other assets	**153 019**	**147 703**
Impairment allowance on other liabilities (other than loans and advances)	(27 274)	(23 855)
Other assets, total	**125 745**	**123 848**

- data in PLN thousands

29 Amounts owed to other banks

	31.12.2012	31.12.2011
Cash in current accounts	157 341	199 346
Term deposits	372 560	241 140
Loans and advances	3 558 377	3 997 834
Other liabilities	6 158	8 396
Amounts owed to other banks, total	**4 094 436**	**4 446 716**

Deposits are at fixed and floating 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 Bank received CHF 1 008m for 12 years period, in order to finance existing mortgage portfolio denominated in CHF – facility was run in tranches, from 29 April 2011 to 30 September 2011. As at 31 December 2012 the balance of capital element of loan is PLN 3 022 719 thousand.

The Bank was granted a loan from the European Bank of Reconstruction and Development (EBRD) totalling EUR 50m each, the first in 1st quarter 2010, the second in August 2011. As at 31 December 2012 the balance of capital element of this loans is PLN 321 216 thousand.

In November 2012, the Bank received a loan from the European Investment Bank (EIB) in the amount of PLN 205.44 million (equivalent of EUR 50 million at the exchange rate set by the EIB for 2 days before starting the loan) for a period of 10 years. The loan was secured by a guarantee issued by Rabobank. The guarantee agreement is a tripartite, i.e. two agreements were signed: between Rabobank and the EIB, in which Rabobank guarantees (up to 120% of the loan amount) the repayment of the loan and interest by the Bank BGZ in accordance with the agreed schedule and between Rabobank and BGŻ, where BGŻ agrees to pay the cost of guarantees in the amount of 0.95% from 120% of the loan amount outstanding. As at 31 December 2012, the balance of the loan is PLN 205 440 thousand

Costs of above loans are as follows:
- CHF loan with Rabobank from 2011 - an average of 1.376% over CHF Libor 3M and 6M on the amount of capital outstanding,
- EBRD loan from 2010 - 1.25% over Euribor 6M from the amount of principal outstanding,
- EBRD loan from 2011 - 1.25% over Euribor 6M from the amount of principal outstanding,
- EIB loan 2012 - 0.367% over Wibor 3M on the amount of capital outstanding,
- Rabobank guarantee to the EIB loan from 2012 - 0.95% of 120% of the capital of the EIB loan outstanding, payable in accordance with the payment schedule.

Regarding all received loans there were no breach of the contract and covenants relating to the financial position of the Bank and to information obligations in 2012 and 2011.

Amounts owed to other banks, by maturity

	31.12.2012	31.12.2011
Up to 1 month	506 575	290 690
From 1 to 3 months	73 418	230 265
From 3 months to 1 year	367 284	323 169
From 1 to 5 years	1 422 387	1 567 823
Over 5 years	1 724 772	2 034 769
Amounts owed to other banks, total	**4 094 436**	**4 446 716**

- data in PLN thousands

Accounting policies and additional explanatory notes

30 Liabilities arising from repo transactions

	31.12.2012	31.12.2011
Liabilities arising from repo transactions	32 341	-
Liabilities arising from short sell	72 005	-
Liabilities arising from repo transactions, total	**104 346**	-

Liabilities arising from repo transactions, by maturity:

	31.12.2012	31.12.2011
Up to 1 month	104 346	-
Total	**104 346**	**-**

31 Amounts owed to customers

	31.12.2012	31.12.2011
Other financial institutions	**2 537 917**	**817 751**
Current accounts	9 268	16 842
Term deposits	2 528 638	800 898
Other liabilities	11	11
- liabilities arising from monetary collateral	-	-
- other	11	11
Retail customers	**15 802 420**	**13 433 828**
Current accounts	8 439 404	6 174 921
Term deposits	7 351 820	7 249 879
Other liabilities	11 196	9 028
- liabilities arising from monetary collateral	6 671	5 242
- other	4 525	3 786
Corporate customers	**7 924 618**	**7 901 494**
Current accounts	3 974 989	3 442 442
Term deposits	3 871 567	4 382 143
Other liabilities	78 062	76 909
- liabilities arising from monetary collateral	77 184	76 456
- other	878	453
Of which farmers:	**1 009 139**	**876 745**
Current accounts	856 815	722 838
Term deposits	143 693	149 479
Other liabilities	8 631	4 428
- liabilities arising from monetary collateral	8 599	4 409
- other	32	19

- data in PLN thousands

Accounting policies and additional explanatory notes

	31.12.2012	31.12.2011
Public sector customers:	**677 074**	**788 655**
Current accounts	484 830	413 291
Term deposits	192 118	375 241
Other liabilities	126	123
- liabilities arising from monetary collateral	124	121
- other	2	2
Amounts owed to customers, total	**26 942 029**	**22 941 728**

Amounts owed to customers by maturity

	31.12.2012	31.12.2011
Up to 1 month	17 668 243	16 995 846
From 1 to 3 months	4 077 666	2 941 850
From 3 months to 1 year	4 856 765	2 602 460
From 1 to 5 years	326 379	393 350
Over 5 years	12 976	8 222
Amounts owed to customers, total	**26 942 029**	**22 941 728**

32 Debt securities issued

In 2008, the Bank signed with three financing banks a pack of agreements for issue of bearer bank securities (Certificates of Deposit - CDs) in material form, denominated in PLN. Under the program, a short- and middle-term issue of securities is possible, in the amount not exceeding PLN 2.5 billion. CDs issued by the Bank may be purchased on the primary market exclusively by the financing banks, CDs are issued in tranches. The last issue date of the bank securities issued under this program may not be later than 30th March 2013.

	Average interest rate (%) in 2012	Average interest rate (%) in 2011	31.12.2012	31.12.2011
Certificates of deposit				
- Quatro certificate of deposit with variable interest rate and maturity date of one year from purchase date, not quoted	-	-		705
- other certificates of deposit	5,5059	4,5035	1 877 000	2 044 500
Debt securities issued, total (excluding interest)	**-**	**-**	**1 877 000**	**2 045 205**
Interest, discount, commission	-	-	(24 224)	(12 093)
Debt securities issued, total	**-**	**-**	**1 852 776**	**2 033 112**

- data in PLN thousands

Movements in debt securities issued

	12 months ended 31.12.2012	12 months ended 31.12.2011
Balance at the beginning of the period	2 033 112	1 745 043
Increases:	*4 407 755*	*5 045 516*
- issuance of certificates of deposit	4 300 000	4 962 500
- purchased discount from certificates of deposit	62 674	44 356
- accrued discount from certificates of deposit	19 530	19 390
- accrued interest from certificates of deposit	25 551	19 270
Decreases:	*(4 588 091)*	*(4 757 447)*
- redemption of certificates of deposit	(4 467 500)	(4 674 500)
- redemption of Quatro securities	(705)	(169)
- sold discount from certificates of deposit	(97 844)	(66 147)
- purchased interest from certificates of deposit	(21 443)	(16 474)
- purchased interest from Quatro securities	(43)	(13)
- commission and other fees related to certificates of deposit accounted for according to EIR	(556)	(144)
Balance of debt securities issued at the end of the period	**1 852 776**	**2 033 112**

33 Other liabilities

	31.12.2012	31.12.2011
Inter-bank settlements	83 512	206 131
Settlements with creditors	74 681	140 452
Accrued expenses*	94 532	82 517
- including employee expenses	57 585	52 098
Deferred income**	10 061	12 886
Other public settlements	29 343	32 926
Other liabilities, total	**292 129**	**474 912**

*Accrued expenses" line includes accrued non-personnel costs and accrued personnel costs with surcharges.
**"Deferred income" line includes income on fees charged in advance in respect of the Bank self management.

- data in PLN thousands

34 Provisions

	31.12.2012	31.12.2011
Restructuring provision	13 515	-
Provision for guarantees, suretyships, unused credit facilities	7 257	6 018
Provision for court cases	10 671	14 810
Other provisions, including:	19 326	20 983
- provision in accordance with UOKiK (Office of Competition and Consumer Protection) decision	12 814	11 883
- provision for potential liabilities relating to the return of subsidies to preferential loans	5 251	7 991
Total provisions	**50 769**	**41 811**

Restructuring provision	**12 months ended 31.12.2012**	**12 months ended 31.12.2011**
Carrying amount at the beginning of the period	**-**	**-**
Increases	16 901	-
Utilization	(3 386)	-
Reversal	-	-
Carrying amount at the end of the period	**13 515**	**-**

Provision for guaranties, sureties and unused credit facilities	**12 months ended 31.12.2012**	**12 months ended 31.12.2011**
Carrying amount at the beginning of the period	**6 018**	**4 050**
Increases	57 754	32 611
Reversal	(56 064)	(25 997)
Transferred to write-off on balance sheet	-	(4 517)
Other changes	(451)	(129)
Carrying amount at the end of the period	**7 257**	**6 018**

Provision for court cases	**12 months ended 31.12.2012**	**12 months ended 31.12.2011**
Carrying amount at the beginning of the period	**14 810**	**15 136**
Increases	6 693	1 348
Utilization in the period	(8 246)	(1 718)
Reversal	(3 120)	(1 098)
Reclassification/transfer and other changes	534	1 142
Carrying amount at the end of the period	**10 671**	**14 810**

Other provisions	**12 months ended 31.12.2012**	**12 months ended 31.12.2011**
Carrying amount at the beginning of the period	**20 983**	**22 358**
Increases	1 745	292
Utilization in the period	(23)	(107)
Reversal	(2 845)	(421)
Reclassification/transfer	(534)	(1 139)
Carrying amount at the end of the period	**19 326**	**20 983**

Accounting policies and additional explanatory notes

1. As at 31 December 2012 the value of court proceedings under which the Bank is a defendant amounted to PLN 105 314 thousand, while the value of claims initiated by the Bank amounted to PLN 92 129 thousand.

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

2. Based on the decision dated 29 December 2006, the President of the Office of Competition and Consumer Protection 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 cease to apply the 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 judgement 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.

   As at 31.12.2012 the provision for the above amounts to PLN 9 650 thousand.

3. Based on his decision dated 31 December 2009, the President of the Office of Competition and Consumer Protection (UOKiK) imposed on the Bank a financial penalty in the total amount of PLN 2.978 thousand claiming that the Bank violated the ban on practices breaching collective consumer interests.

   In particular, under point I of said decision, the President of the Office of Competition and Consumer Protection considered the use, in the template of mortgage and construction loan regulations, of the provisions reserving for the Bank the right to change the regulations for the loan agreements concluded for the period of more than 5 years as breaching collective consumer interests and demanded that the Bank stopped using it. In addition, in point II of this decision, the President of the Office of Competition and Consumer Protection stated that as of 24 August 2009 the Bank ceased to use the specific provisions in the PLN mortgage loan agreement template (for loans in the amount not exceeding PLN 80 thousand) and PLN construction loan agreement template (for loans in the amount not exceeding PLN 80 thousand) which had been considered by the Office as violating the provisions of the Act on consumer credit and concerning the extension of the statutory period which should lapse between the date of the consumer application for the repayment of loan before the maturity date and the actual date of loan repayment.

   The Bank appealed against this decision to the District Court in Warsaw – the court appropriate to the Office of Competition and Consumer Protection. With the judgement from 13th March 2012, the District Court in Warsaw; XVII Department of Competition and Consumer Protection (files signature XVII AmA 34/10), changed the decision of the President of the Office of Competition and Consumer Protection and decreased the penalty by PLN 1 187 thousand to PLN 1 791 thousand. The President of the Office of Competition and Consumer Protection appealed against that decision. The Bank has already responded to the appeal. The judgement of the Court of Appeals is expected in March 2013.

   As at 31 December 2012 the provision for the above amounts to PLN 1 791 thousand.

Accounting policies and additional explanatory notes

4. On 31 July 2012 the President of the Office of Competition and Consumer Protection found the Bank guilty of use of illicit provisions in agreements regarding individual pension accounts, infringing collective consumer rights, stating the abandonment of usage of illicit practices on 10 August 2011. The President of the Office of Competition and Consumer Protection (UOKiK) imposed on the Bank a financial penalty in the total amount of PLN 1 374 thousand. The decision is not final. On 21 August 2012 The Bank, lodged an appeal, which has not yet been forwarded to the District Court in Warsaw and is now considered by the UOKiK.

   As at 31 December 2012 the provision for the above amounts to PLN 1 374 thousand.

5. As at 16 December 2011 the Bank received from a beneficiary of a guarantee a draw-down request in a total amount of PLN 135 269 thousand. As at 23 December 2011 the Bank turned to the Beneficiary with a letter to explain the content of request. On 27 December, as a response to the Bank's letter, the Beneficiary renewed its draw-down request. On 30 December 2011 the Bank made a payment to the Beneficiary as a realization of guarantee and at the same day the Bank offset Bank's receivable resulting from a draw-down of guarantee with client's current account. Then on 2 January 2012 the client informed the Bank about the judgement of the Court dated 30 December 2011, where the Court granted client a collateral to non – cash claim against the Beneficiary by:
   a) Requirement for the Beneficiary, to promptly submit to the Bank a written notice of withdrawal of draw-down request from the guarantee;
   b) Prohibit the Beneficiary to make a use of the guarantee;
   c) Prohibit the Beneficiary to transfer the rights to guarantee.

   In the same letter, with reference to the provisions of judgment, the client demanded an immediate restoration of the account balance that existed as of 30 December 2011. In Bank's opinion, the client's demands are unjustified and impossible to fulfil and all actions undertaken by the Bank in order to realize the request of repayment of guarantee – should be considered valid. The guarantee is unconditional and was realized by the Bank in accordance with its terms. As of the day of this information no claim has been addressed by the client against the Bank in connection with improper execution of the Agreement.

   In the Bank's opinion, the risk of conviction leading to the client, resulting in an obligation to pay the guarantee amount is less than 50%.

6. By order of the President of the UOKiK form 23 November 2012 (delegation in Bydgoszcz), the UOKiK opened the proceedings on the application of practices infringing collective consumer interests made by BGŻ SA. The proceeding is in progress. According to the Bank's opinion, this proceeding has no significant effect on the financial statements.

7. On 16 October 2012 the Management Board concluded an agreement with trade unions on the rules of conduct regarding planned redundancies in accordance with the 3rd Article, 1st paragraph, of the Act dated 13 March 2003 on special conditions for the termination of employment for reasons not attributable to employees. Redundancies will be carried out in the period from 31 October 2012 to 30 June 2013 and will cover a total of no more than 370 employees of the Bank. The agreement provides for the affected workers the benefits to mitigate the effects of loss of employment. These include additional clearance based on the length of service with the Bank, as well as support for the development of skills.

   As at 31 December 2012 the restructuring provision for the above amounts to PLN 13 515 thousand.

- data in PLN thousands

35 Deferred tax

The following movements were recorded on the deferred tax account:

Deferred tax assets

	Base for Deferred Tax as at 31.12.2012	Base for Deferred Tax as at 31.12.2011	Charge resulting from asset change 2012
Interest payable on liabilities, including interests and discount on certificates of deposit	227 623	315 480	(16 693)
Re-measurement of derivatives and securities, to fair value	349 561	796 683	(84 953)
Amounts of impairment provisions (non-tax-deductible), of which utilisation is probable	521 858	486 709	6 678
Fees calculated in advance and settled at amortized cost using the effective interest rate method	248 633	249 696	(202)
Provision for jubilee bonuses, retirement benefits, unused annual leave and restructuring provision	40 484	25 410	2 864
Other provisions for personnel costs	57 621	52 139	1 042
Provisions for non-personnel costs	31 857	29 125	519
Valuation of securities available for sale	147	2 233	(396)
Other deductible temporary differences	1 190	246	179
Tax loss	105 302	269 227	(31 146)
Total:	**1 584 276**	**2 226 948**	**(122 108)**
Tax base of deferred tax assets recognized in the income statement (in the current year and in the previous years) and charge resulting from the asset change	1 584 129	2 224 715	(121 712)
Tax base of deferred tax assets recognized in the revaluation reserve and charge resulting from the asset change	147	2 233	(396)

Based on the current actions taken by the Bank in respect of charging to the costs constituting tax-deductible costs of bad debts impairment allowances on loans for the purposes of the corporate income tax, the deferred tax asset of PLN 521 858 thousand as at 31 December 2012 (with the position as at 31 December 2011 on the level of PLN 486 709 thousand) presents the best estimation of impairment losses to become probable for the purpose of income tax in the foreseeable future. In 2012 and 2011 the Bank calculated a deferred tax asset in respect of receivables' impairment write-downs based on the historical analysis of the recognition of written-off uncollectible receivables as tax-deductible costs.

Tax loss arises when the amount of deductible expenses exceed the amount of tax revenues. The Bank showed a tax loss in years 2009 and 2011 in the amount of PLN 224 208 thousand and PLN 157 123 thousand respectively. In accordance with Article 7, Paragraph 5 of the Law on Corporate Income Tax (Journal of Laws of 2011 No. 74, item. 397) a tax loss incurred in a tax year, can reduce the income of the next five consecutive fiscal years, except that the amount of reduction in any of these five years may not exceed 50% of this amount. As a result of tax adjustments for previous years, amounts of losses have changed to PLN 132 570 thousand for the year 2009 and to PLN 210 604 thousand for the year 2011. At the same time the Bank adjusted usage amount of EUR 20 467 thousand in 2010 associated with an increase in a tax loss for the year 2009. The remaining half of the loss for the year 2009 (i.e. PLN 132 570 thousand) was used in the settlement of income for the year 2012. The loss for the year 2011, i.e. PLN 210 604 thousand, is included in the half (i.e. PLN 105 302 thousand) for deferred income tax and half used in the settlement of income for the year 2012.

- data in PLN thousands

Deferred tax liabilities

	Base for Deferred Tax as at 31.12.2012	Base for Deferred Tax as at 31.12.2011	Charge resulting from a change in provision in 2012
Loan interest receivable	(146 815)	(213 217)	12 616
Re-measurement of derivatives and securities to fair value	(448 521)	(879 682)	81 921
Transaction costs on granting loans	(34 411)	(25 026)	(1 783)
Valuation of securities available for sale	(266 012)	(15 374)	(47 621)
Total:	**(895 759)**	**(1 133 299)**	**45 133**
Tax base of deferred tax liability recognized in the income statement (in the current and previous years) and charge resulting from a change in the provision	(629 747)	(1 117 925)	92 754
Tax base of deferred tax liability recognized in the revaluation reserve (in the current and previous years) and charge resulting from a change in the provision	(266 012)	(15 374)	(47 621)

Presented as:

Deferred tax asset	**301 012**	**423 120**
Deferred tax liability	**170 194**	**215 326**
Deferred tax (net)	**130 818**	**207 794**

36 Discontinued operations

No operations were discontinued during the year 2012 or in 2011.

- data in PLN thousands

37 Liabilities arising from employee benefits

Provisions for employee benefits are estimated using the actuarial method of projected unit credit cost method, as required by IAS 19, and they reflect the present value of the obligations arising from retirement benefits, disability benefits as at the reporting date.

The purpose of retirement benefits provision is an employer full protection against the risk of claims for payment of these benefits:

- at any time,
- by all entitled at the same time,
- in maximum, possible at a given time amount,

All provisions are treated as an expense of the Bank, whereas current payments of benefits under this area are made from the expenses planned for a given year.
There is no provision for jubilee benefits.

Provisions for employee benefits estimated using the actuarial method, are based on the following assumptions:

- financial assumptions with the following parameters:
  - real rate of increase in salaries/ wages,
  - inflation rate,
  - discount rate (nominal).

- demographic forecasts with the following parameters:
  - mortality of male and female population (based on data from the Central Statistical Office),
  - risk of disability,
  - employee age,
  - expected period of service at BGŻ
  - retirement age.

The unused annual leave provision is calculated based on the following:

- number of days of unused annual leave,
- amount of statutory leave days,
- number of days of used annual leave,
- average remuneration per person at BGŻ (including payroll-related expenses),
- daily rate of remuneration.

Provision for annual leave is calculated as the sum of the number of outstanding leave and the number of leave days as at the balance sheet day minus the number of used days of current leave multiplied by the average daily rate of basic remuneration with payroll – related expenses.

The amounts recognized in the statement of financial position are as follows:

	31.12.2012	31.12.2011
Retirement benefits	14 407	16 459
Unused annual leave	12 562	8 953
	26 969	**25 412**

- data in PLN thousands

Movements in the balance of liabilities from future employee benefits

	Jubilee bonuses	Retirement benefits	Unused annual leave	Total
As at 1.01.2012	**-**	**16 459**	**8 953**	**25 412**
Increases	-	683	12 395	13 078
Reversals	-	(2 735)	(8 786)	(11 521)
As at 31.12.2012	**-**	**14 407**	**12 562**	**26 969**

	Jubilee bonuses	Retirement benefits	Unused annual leave	Total
As at 1.01.2011	**324**	**15 825**	**6 673**	**22 822**
Increases	-	642	8 844	9 486
Reversals	(324)	(8)	(6 564)	(6 896)
As at 31.12.2011	**-**	**16 459**	**8 953**	**25 412**

The following amounts were recognized in the income statement:

	12 months ended 31.12.2012	12 months ended 31.12.2011
Cost of provisions recognized	(13 078)	(9 486)
Income from provisions reversed	11 521	6 896
Total, recognized in profit or loss	**(1 557)**	**(2 590)**

The following parameters, based on the available inflation rate and salary increase forecasts, were used by the Bank to adjust the provisions at year-end:

Main actuarial assumptions used	2012	2013
- discount rate	5,75%	4,05%
- forecast inflation rate	2,50%	2,50%
- forecast salary increase	2,00%	1,27%

- data in PLN thousands

38 Contingent liabilities

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

	31.12.2012	31.12.2011
Liabilities granted		
Liabilities granted to the financial institutions, including:	504 914	22 528
- financing liabilities	499 413	19 700
- guarantees	5 501	2 828
Liabilities granted to the non-financial entities, including:	4 076 475	4 197 852
- financing liabilities, including:	3 466 357	3 411 289
- corporate clients	1 867 761	2 126 449
- households	1 593 919	1 283 655
- other entities	4 677	1 185
- guarantees	610 118	786 563
Liabilities granted to the public sector	28 772	44 182
	4 610 161	**4 264 562**
Liabilities received		
Received from financial institutions	283 191	3 438
Received from non financial institutions	-	-
Received from public sector entities	-	2 000
	283 191	**5 438**
Derivative financial instruments (nominal values)		
FX transactions	1 966 172	1 921 497
Liabilities resulting from trading in securities	185 619	618 312
Liabilities resulting from operations on derivatives - hedging operations	3 000 000	-
Other derivatives sold	25 735 886	35 294 558
Other derivatives acquired	28 345 348	35 684 171
	59 233 025	**73 518 538**
Liabilities granted, liabilities received and derivative financial instruments, total	**64 126 377**	**77 788 538**
Provisions for guarantees, suretyships and unused credit lines (Note 34)	**(7 257)**	**(6 018)**

Off-balance sheet liabilities granted and received, by maturity

	31.12.2012	31.12.2011
Up to 1 month	3 551 872	3 194 538
From 1 to 3 months	170 969	168 954
From 3 months to 1 year	552 321	548 281
From 1 to 5 years	319 103	345 911
Over 5 years	15 896	6 878
Liabilities granted, total	**4 610 161**	**4 264 562**
Up to 1 month	279 855	-
From 1 to 3 months	-	2 000
From 3 months to 1 year	2 510	2 734
From 1 to 5 years	826	704
Over 5 years	-	-
Liabilities received, total	**283 191**	**5 438**

- data in PLN thousands

Accounting policies and additional explanatory notes

The table below presents liabilities granted by the Bank, splited into contingent and non-contingent:

	31.12.2012	31.12.2011
Liabilities granted		
Unused limits of granted credit facilities	**3 994 542**	**3 475 171**
- contingent	1 496 956	1 418 089
- non-contingent	2 497 586	2 057 082
Guarantees	**615 619**	**789 391**
- contingent	-	3 437
- non-contingent	615 619	785 954
Liabilities granted, total	**4 610 161**	**4 264 562**

The Bank also grants guarantee lines and other off-balance sheet lines, the value of which as at 31.12.2012 amounts to about PLN 770 million. These lines are not recognised in the liabilities granted. The Bank is in the process of implementing system changes to recognise such products in the systems. These lines do not have a material impact on the financial statements.

The Bank hold the following assets pledged as security for own and third-party liabilities.

Assets pledged as security for the Bank's own liabilities

	31.12.2012
Banking Guarantee Fund	
- nominal value of security	140 000
- type of security	Treasury bonds
- maturity date of security	25.10.2021
- carrying amount of security	163 969
Security for transactions in securities made by the BM BGŻ S.A. (Brokerage House), deposited with the National Depository for Securities (KDPW) as part of the Stock Exchange guarantee fund	
- cash	1 644
BGŻ Funds deposited in The Guarantee Fund for the Settlement of Stock Exchange Transactions run by the National Depository for Securities (KDPW)	
- cash	100
Security for derivative instruments transactions	
- nominal value of security	30 832
- type of security	„call" deposits (receivables from banks)
	31.12.2011
Banking Guarantee Fund	
- nominal value of security	85 000
- type of security	Treasury bonds
- maturity date of security	24.10.2015
- carrying amount of security	89 259
Security for transactions in securities made by the BM BGŻ S.A. (Brokerage House), deposited with the National Depository for Securities (KDPW) as part of the Stock Exchange guarantee fund	
- cash	830
Security for derivative instruments transactions	
- nominal value of security	69 208
- type of security	„call" deposits (receivables from banks)

- data in PLN thousands

39 Operating lease

Bank as a lessee

The Bank incurs cost of leasing cars and leasing printing equipment. The Bank also incurs costs due to lease of dwelling units, which is recognised as operating leasing. Those agreements do not provide for any contingent fees to be paid by the lessee; no constraints arise from the provisions of the lease agreements. In some cases the agreements provide for the possibility of prolonging the agreement, using the possibility of purchase or price change.

Lease payments by maturity

	31.12.2012	31.12.2011
Up to 1 year	55 832	59 770
1 – 5 years	77 231	102 466
Over 5 years	19 491	21 340
Total	**152 554**	**183 576**

Bank as a lessor

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

Lease payments by maturity

	31.12.2012	31.12.2011
Up to 1 year	3 039	2 993
1 – 5 years	1 216	1 416
Over 5 years	58	202
Total	**4 313**	**4 611**

40 Equity

Shareholders of the Bank Gospodarki Żywnościowej S.A.

The structure of shareholding as at 31.12.2012 and 31.12.2011

Shareholder	31.12.2012 Number of shares held	31.12.2012 Share (%)	31.12.2011 Number of shares held	31.12.2011 Share (%)
Rabobank International Holding B.V.*	45 941 751	89,84	21 298 609	49,37
Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.*	4 303 695	8,42	4 303 695	9,98
Treasury	-	-	11 015 937	25,54
Other shareholders	891 318	1,74	6 518 523	15,11
TOTAL	**51 136 764**	**100,00**	**43 136 764**	**100,00**

***** Rabobank Group

- data in PLN thousands

As at 31.12.2012 and 31.12.2011 none of the members of Management Board or Supervisory Board held the Bank's shares directly.

In 2012 the structure of the shareholders was subject of substantial changes as a result of shares tender made by Rabobank Group entities as well as in result of share capital increase – issue of 8 000 000 shares of G series. The aim of the new issue was to provide additional capital to the Bank according to the size of the current and planned activities to ensure the Bank's economic security. The issue was made to raise funds, in particular, to ensure fulfilment of the increased capital adequacy requirements under Basel II, as well as to fulfil the recommendations of the Polish Financial Supervision Authority. The whole issue of shares of Series G was offered in a private placement to Rabobank International Holding BV (RIH), and the issue price was PLN 62.50 per share. Through the issuance, the Bank's share capital was increased by EUR 8 000 thousand, to the amount of PLN 51 137 thousand. The EGM of the Bank adopted a resolution of the issue on 28 August 2012. The registration of the Bank's share capital increase took place on 17 September 2012. The whole issue has been acquired and fully paid by RIH.

As at 31 December 2012, as a result of above mentioned activities, the entities from Rabobank Group held a total of 98,26% Bank's shares, carrying equal number of votes at the AGM.

The Treasury has decreased its commitment in the bank from 25,54% to a level below 5%, as a result of Rabobank's tender offer.

As at 31.12.2012, the shares owned by the Treasury, are included in the "other shareholders".

All shares issued by the BGŻ have been paid in full.

41 Reserve capital and other reserves

The table below presents movements in reserve capital and other reserves:

	12 months ended 31.12.2012	12 months ended 31.12.2011
Reserve capital		
Balance as at 1 January	**2 332 656**	**2 220 155**
Issue of shares	492 000	-
Amounts transferred from retained earnings from previous years	126 060	112 501
Balance as at 31 December	**2 950 716**	**2 332 656**
General banking risk reserve created of net profit		
Balance as at 1 January	**90 000**	**90 000**
Amounts transferred from retained earnings from previous years	-	-
Balance as at 31 December	**90 000**	**90 000**
Revaluation reserve – available-for-sale financial instruments		
Balance as at 1 January	**10 645**	**(4 103)**
Gain/ loss on re-measurement to fair value, net	252 724	18 207
Deferred tax	(48 018)	(3 459)
Balance as at 31 December	**215 351**	**10 645**

- data in PLN thousands

	12 months ended 31.12.2012	12 months ended 31.12.2011
Other reserves		
Balance as at 1 January	**25 000**	**25 000**
Balance as at 31 December	**25 000**	**25 000**

Other reserves	12 months ended 31.12.2012	12 months ended 31.12.2011
General banking risk reserve	90 000	90 000
Revaluation reserve – available-for-sale financial assets	215 351	10 645
Other reserves	25 000	25 000
	330 351	**125 645**

42 Dividend per share

The Bank did not pay any dividend for the year 2011. The Bank's Management Board will not recommend a payment of dividend for the year 2012.

43 Appropriation of profit

The profit of the Bank for the year 2011 was transferred to the reserve capital according to the decision of the Bank's Ordinary General Meeting dated 25 June 2012. The Management Board will recommend to the Annual General Meeting that the entire net profit for the year 2012 is transferred to the reserve capital to strengthen the capital base. The final decision on the appropriation of profit for 2012 will be undertaken by the Annual General Meeting.

44 Cash and cash equivalents

Cash and cash equivalents presented in the statement of cash flows comprise the following balances, with maturity periods of 3 months or less.

	31.12.2012	31.12.2011
Cash and balances with the Central Bank (Note 16)	2 106 657	1 383 321
Current accounts of banks and other receivables	96 692	199 328
Bank deposits with maturity of up to 3 months	948	10 000
Cash and cash equivalents, total	**2 204 297**	**1 592 649**

- data in PLN thousands

45 Notes to the Statement of cash flows

The reconciliation of differences between the statement of financial position and the statement of cash flows changes in positions presented under operating activities as part of the statement of cash flows is presented below:

Interest and profit shares (dividends)	**12 months ended 31.12.2012**	**12 months ended 31.12.2011**
Dividends received	(3 416)	(3 554)
Change in interest receivable on other debt securities	-	1 106
Change in interest receivable on securities available-for-sale	(114 987)	(33 079)
Change in interest on certificates of deposit	(12 836)	69
Total change in interest and profit shares (dividends)	**(131 239)**	**(35 458)**

Change in amounts due from other banks	**12 months ended 31.12.2012**	**12 months ended 31.12.2011**
Resulting from statement of financial position balances	**117 036**	**59 796**
Elimination of movements in cash and cash equivalents	(111 687)	(21 774)
Change in amounts due from other banks, total	**5 349**	**38 022**

Change in amounts due to other banks	**12 months ended 31.12.2012**	**12 months ended 31.12.2011**
Resulting from statement of financial position balances	**(352 280)**	**3 426 297**
Long-term loans raised from other Banks	(205 440)	(3 503 897)
Re-payment of long – term loans from other Banks	291 358	123 198
Change in amounts due to other banks, total	**(266 362)**	**45 598**

Cash flow from operating activities – other adjustments	**12 months ended 31.12.2012**	**12 months ended 31.12.2011**
Change in impairment allowance on other debt securities	(771)	771
Change in impairment allowance on shares	-	1 510
Other adjustments	(326)	854
Cash flow from operating activity – other adjustments, total	**(1 097)**	**3 135**

Change in other liabilities	**12 months ended 31.12.2012**	**12 months ended 31.12.2011**
Statement of financial position change in other liabilities	**(182 783)**	**233 060**
Statement of financial position change in corporate income tax	-	(3)
Change in other liabilities, total	**(182 783)**	**233 057**

- data in PLN thousands

46 Solvency ratio

Capital adequacy risk

The objective of capital adequacy management is to ensure compliance by the Bank with the prudence regulations concerning capital adequacy, calculated as the capital adequacy ratio.

The main instruments of capital adequacy management are:

1. Selection of optimal methods for measuring capital adequacy arising from certain types of risk in accordance with Resolution no. 76/2010 of the PFSA dated 10 March 2010 (with further changes).
2. Internal Bank procedures setting the rules for classifying the banking or trading portfolio, setting the initial position for the trading and banking book transactions, determining the achieved market result on the initial position of the trading portfolio, determining the realized loss on the initial position of the banking portfolio and use of price estimation techniques for calculating the realized market result on positions included in the trading portfolio.

In accordance with art. 128 par 1. p. 2 of the Banking Law Act the Bank is obliged to maintain a total equity and short-term capital at a level not lower than the higher of the following values:
- The sum of capital requirements for individual types of risk and capital requirements for exceeding limits and violations of other standards specified in the Act,
- Estimated by the Bank amount necessary to cover all identified material risks in the Bank's operations and changes in economic environment, given the estimated level of risk (internal capital).

As at 31.12.2012 internal capital amounted to PLN 2 300 104 thousand, whereas as at 31.12.2011 it amounted to PLN 2 361 075 thousand.

The minimal capital adequacy ratio required by the Banking Act is 8%.

In 2012 and 2011, the Bank met all the capital requirements in accordance with article 128, point 1 part 2 of the Banking Act.

Capital Base and Capital Adequacy Ratio

	31.12.2012	31.12.2011
Capital requirements		
- credit risk, counterparty risk, dilution and delivery risk for derivative instruments settled in subsequent terms	1 993 346	1 813 512
- settlement – delivery risk	-	-
- equity securities price risk, risk of debt instruments prices, currency risk and commodities prices risk	-	-
- operating risk	161 386	152 894
- general interest rate risk	4 896	17 444
Total capital requirement	**2 159 628**	**1 983 850**
Own funds and short-term capital	**3 157 310**	**2 550 189**
– share capital	51 137	43 137
– reserve capital	2 950 716	2 332 656
– other reserve capital	25 000	25 000
– general banking risk reserve	90 000	90 000
– profit in the course of approving the amount verified by an auditor	40 457	59 396

- data in PLN thousands

Positions decreasing Basic Funds	**(174 408)**	**(180 499)**
–intangible assets	(152 674)	(146 443)
–unrealized losses on equity instruments classified as available for sale	(26)	(952)
–unrealized losses on debt instruments classified as available for sale	(121)	(1 281)
– commitment of capital in financial institutions	(21 587)	(31 823)
Counterpart Funds	**195 324**	**12 299**
–unrealized gains on debt instruments classified as available for sale	194 897	12 299
-unrealized gains on equity instruments classified as available for sale	427	-
Positions decreasing Counterpart Funds	**(21 587)**	**(12 299)**
-commitment of capital in financial institutions	(21 587)	(12 299)
Short term capital	**14 674**	**24 751**
TOTAL	**3 171 313**	**2 394 441**
Capital adequacy ratio (%)	**11,8%**	**9,7%**

Calculation of capital required to cover operating risk (operating risk capital adequacy)

In order to calculate capital requirement to cover operating risk the Bank uses the method of basic rate (BIA). The calculation of capital requirement is performed in accordance with annex 14 to the resolution no. 76/2010 of the PFSA dated 10 March 2010 (with further changes).

The capital required to cover operating risk is calculated as 15% of average profit from the following 3 years, with the provision that:
– profit for the year 2009 amounted to: PLN 945 164 thousand,
– profit for the year 2010 amounted to: PLN 1 053 023 thousand
– profit for the year 2011 amounted to: PLN 1 229 541 thousand

Capital required to cover operating risk in 2012 – in the stand-alone model - amounted to PLN 161 386 thousand.

Carrying amounts and liabilities granted exposed to credit risk

Type of instrument 31.12.2012	Carrying amount	Risk weighted value
Statement of financial position items	34 156 284	23 001 530
Liabilities granted	2 055 891	1 692 592
Derivatives	466 632	222 707
Total	**36 678 807**	**24 916 829**

Type of instrument 31.12.2011	Carrying amount	Risk weighted value
Statement of financial position items	29 653 278	20 795 083
Granted liabilities	4 263 307	1 745 689
Derivatives	294 886	128 125
Total	**34 211 471**	**22 668 897**

- data in PLN thousands

Accounting policies and additional explanatory notes

Maximum credit risk (net amount)

	31.12.2012	31.12.2011
Cash and balances with the Central Bank	2 106 657	1 383 321
Amounts due from other banks	104 035	221 071
Receivables arising from reverse repo transactions	104 369	366 343
Held-for-trading securities	219 051	1 632 434
Derivative financial instruments	474 058	883 109
Amounts due from customers under overdraft facilities	4 144 876	3 288 538
Loans and advances to customers	22 196 770	20 949 729
- corporate customers	7 663 264	7 410 959
- households	14 163 659	13 148 789
- public institutions	313 531	287 978
- other entities	56 316	102 003
Investment securities available for sale	6 867 557	3 624 750
Other debt securities	15 876	15 105
Other assets*	147 700	146 563
Total	**36 380 949**	**32 510 963**
Contingent irrevocable liabilities	**3 113 205**	**2 843 036**

*The item "Other assets" mainly includes investments in subsidiaries, associates and settlements with debtors.

As stated in Note 2.13.2 to these financial statements, credit risk is included in valuation of derivative instruments. In 2012 the allowance in respect of this amounted to PLN 368 thousand, (as at 31 December 2011 PLN 537 thousand). Total amount of the exposures, for which allowance was recognised, amounted to PLN 14 356 thousand as at 31 December 2012 (as at 31 December 2011 PLN 32 287 thousand), while collaterals for these transactions in the form of cash deposits amounted to a total of PLN 5 580 thousand (2011: PLN 9 365 thousand).
Where the maturity date for a derivative instrument lapses or when the instrument is settled before its maturity date, appropriate impairment allowance is recorded in the income statement. As at 31.12.2012 such impairment allowance amounted to PLN 21 019 thousand (2011: PLN 24 281 thousand).

47 Related party transactions

The Bank reports transactions with BGŻ S.A. shareholders and related parties.

- data in PLN thousands

Accounting policies and additional explanatory notes

Transactions with BGŻ S.A. shareholders and related parties as at 31.12.2012

	RABOBANK INTERNATIONAL HOLDING B.V.	COÖPERATIEVE CENTRALE RAIFFEISEN-BOERENLEENBANK B.A.	RELATED PARTIES OF RABOBANK	BGŻ LEASING SP. Z O.O.	ACTUS SP. Z O.O.	TOTAL	% share in total assets/ financial result of BGŻ S.A.
Assets	**334**	**54 344**	**6 975**	**27 976**	**33 822**	**123 451**	**0,33%**
Loans and advances	-	-	-	26 841	-	26 841	0,07%
Current account	-	197	-	-	-	197	-
Interests	-	-	-	3	23 262	23 265	0,06%
Debt securities	-	-	-	-	10 560	10 560	0,03%
Derivative financial instruments	-	54 147	6 975	-	-	61 122	0,17%
Other	334	-	-	1 132	-	1 466	-
Liabilities	**-**	**3 086 683**	**7 005**	**55 678**	**58**	**3 149 424**	**8,47%**
Loans received	-	3 022 719	-	-	-	3 022 719	8,13%
Current accounts	-	11 040	30	63	58	11 191	0,03%
Term placements	-	-	-	55 147	-	55 147	0,15%
Liabilities from interest	-	8 093	-	453	-	8 546	0,02%
Derivative financial instruments	-	34 518	6 975	-	-	41 493	0,11%
Other	-	10 313	-	15	-	10 328	0,03%
Expenses	**-**	**61 495**	**1 681**	**2 959**	**-**	**66 135**	**1,07%**
Interest cost	-	47 001	6	2 697	-	49 704	0,81%
Commissions	-	35	-	202	-	237	-
Result on derivatives	-	-	1 426	-	-	1 426	0,02%
Other	-	14 459	249	60	-	14 768	0,24%
Revenues	**345**	**105 024**	**741**	**5 338**	**2 085**	**113 533**	**1,78%**
Interest*	-	420	741	585	2 070	3 816	0,06%
Commissions	-	-	-	4 464	1	4 465	0,07%
Result on derivatives	-	100 903	-	266	-	101 169	1,59%
Other	345	3 701	-	23	14	4 083	0,06%
Contingent liabilities	**-**	**5 503 376**	**600 000**	**9 313**	**-**	**6 112 689**	**9,53%**
Granted liabilities for financing	-	490 000	-	9 313	-	499 313	0,78%
Granted guarantees	-	826	-	-	-	826	-
Liabilities received	-	247 118	-	-	-	247 118	0,38%
Derivatives	-	4 765 432	600 000	-	-	5 365 432	8,37%

- data in PLN thousands

Accounting policies and additional explanatory notes

Transactions with BGŻ S.A. shareholders and related parties as at 31.12.2011

	Treasury	RABOBANK INTERNATIONAL HOLDING B.V.	COÖPERATIEVE CENTRALE RAIFFEISEN-BOERENLEENBANK B.A.	RELATED PARTIES OF RABOBANK	BGŻ LEASING SP. Z O.O.	ACTUS SP. Z O.O.	TOTAL	% share in total assets/ financial result of BGŻ S.A.
Assets	**4 677 180**	**-**	**689 043**	**-**	**18 008**	**31 753**	**5 415 984**	**16,22%**
Loans and advances	-	-	-	-	17 030	-	17 030	0,05%
Current account	148	-	88	-	-	-	236	-
Interests	23 844	-	-	-	3	21 193	45 040	0,14%
Debt securities	4 640 906	-	-	-	-	10 560	4 651 466	13,93%
Derivative financial instruments	-	-	688 955	-	-	-	688 955	2,06%
Other	12 282		-	-	975	-	13 257	0,04%
Liabilities	**81 453**	-	**4 281 997**	**45**	**65 340**	**77**	**4 428 912**	**13,27%**
Loans received	-	-	3 547 917	-	-	-	3 547 917	10,63%
Current accounts	42 749	-	161 058	45	7 224	77	211 153	0,63%
Term placements	38 417	-	-	-	57 661	-	96 078	0,29%
Liabilities from interest	166	-	8 807	-	455	-	9 428	0,03%
Derivative financial instruments	-	-	527 846	-	-	-	527 846	1,58%
Other	121	-	36 369**	-	-	-	36 490	0,11%
Expenses	**21 228**	**123**	**160 980**	**687**	**2 128**	**-**	**185 146**	**3,60%**
Interest	21 228	-	27 584	5	2 023	-	50 840	0,99%
Commissions	-	-	1 059	-	-	-	1 059	0,02%
Result on derivatives	-	-	123 032	505	-	-	123 537	2,40%
Other	-	123	9 305	177	105	-	9 710	0,19%
Revenues	**360 310**	**527**	**1 478**	**1 030**	**4 559**	**2 079**	**369 983**	**6,98%**
Interest*	355 630	-	1 478	1 030	402	2 064	360 604	6,80%
Commissions	558	-	-	-	4 110	1	4 669	0,09%
Result on derivatives	-	-	-	-	47	-	47	-
Result on trading activity	4 122	-	-	-	-	-	4 122	0,08%
Other	-	527	-	-	-	14	541	0,01%
Contingent liabilities	**852**	**-**	**25 666 913**	**-**	**19 700**	**-**	**25 687 465**	**33,02%**
Granted liabilities	852	-	704	-	19 700	-	21 256	0,02%
Derivatives	-	-	25 666 209	-	-	-	25 666 209	33,00%

* Line: Revenue – 'Interest' includes interest on preference loans

**Line „Other liabilities" includes PLN 26 722 thousand which relates to COÖPERATIEVE CENTRALE RAIFFEISEN-BOERENLEENBANK B.A. from acquiring a licence and services to launch a system for BGŻ Optima that were capitalized by the Bank.

- data in PLN thousands

Accounting policies and additional explanatory notes

The above transactions/settlements with the State Treasury (public entities) relate mainly to ministries, voivodeship offices, courts and government agencies (including Agency of Restructuring and Modernisation of Agriculture, the Bank settles transactions with this Agency in respect of subsidized loans).

Transactions with the BGŻ S.A. shareholders and related parties are made on an arm's length basis.

Remuneration of the Members of Management and Supervisory Boards

Remuneration of the Members of Management Board paid during the year for individual members of the Board

Year 2012	Engagement period					
Name	since	to	Basic salary	Bonus paid in the year	Additional benefits	Total
Bartkiewicz Jacek	01.01.2012	31.12.2012	1 200	791	75	**2 066**
Beuming Johannes Gerardus	01.01.2012	31.12.2012	562	125	434	**1 121**
Embrechts Gerardus Cornelis	01.01.2012	31.12.2012	691	277	919	**1 887**
Nijsen Hieronymus	01.01.2011	01.04.2011	-	121	15	**136**
Legęć Magdalena	01.01.2012	31.12.2012	697	79	154	**930**
Odzioba Dariusz	01.01.2012	31.12.2012	1 008	298	470	**1 776**
Okarma Witold	01.01.2012	31.12.2012	865	302	61	**1 228**
Sass Wojciech	01.01.2012	31.12.2012	1 265	538	71	**1 874**
Sieradz Andrzej	01.01.2012	31.12.2012	754	346	64	**1 164**
Total			**7 042**	**2 877**	**2 263**	**12 182**

Year 2011	Engagement period					
Name	since	to	Basic salary	Bonus paid in the year	Additional benefits	Total
Bartkiewicz Jacek	01.01.2011	31.12.2011	1 200	684	76	**1 960**
Beuming Johannes Gerardus	01.05.2011	31.12.2011	349	-	551	**900**
Embrechts Gerardus Cornelis	01.04.2011	31.12.2011	464	-	1 191	**1 655**
Legęć Magdalena	01.10.2011	31.12.2011	165	-	22	**187**
Nijsen Hieronymus	01.01.2011	01.04.2011	189	439	113	**741**
Odzioba Dariusz	10.05.2011	31.12.2011	621	-	67	**688**
Okarma Witold	01.01.2011	31.12.2011	840	198	61	**1 099**
Sass Wojciech	15.06.2011	31.12.2011	687	-	225	**912**
Sieradz Andrzej	01.01.2011	31.12.2011	720	-	276	**996**
Total			**5 235**	**1 321**	**2 582**	**9 138**

Provisions for bonuses of the Members of the Board in 2012 amounted to PLN 5 521 thousand and in 2011, PLN 4 804 thousand.

The Bank implemented in 2012 the Remuneration Policy of BGZ SA Board Members which determines the minimum requirements that must be met in order to reduce risk and ensure compliance with applicable laws and regulations, in particular with Resolution No. 258/2011 of the Polish Financial Supervision Authority dated 4 October 2011. The principles and objectives described in the Remuneration Policy of Board Members ensure the existence of a rational, sustainable and being a subject to control of the remuneration policy, consistent with an acceptable level of risk, together with the standards and values of BGZ and with the relevant laws and regulations.

The Board Members' remuneration consists of fixed remuneration and variable remuneration.

Fixed remuneration is determined in advance, as the amount of the mandatory component of the total remuneration that is not dependent on the achievement of objectives and results of the Members of the Board or the Bank. It shall be paid by the BGŻ for work performed for BGŻ and it includes salary, benefits in kind, benefits granted under applicable law.

According to the individual contracts of employment, the Members of the Board are entitled to life insurance, health care package and indemnification premiums.
What is more, there are additional benefits available to Members of the Board (based on individual contracts of employment):
- lodging allowance specified in the contract of employment,
- coverage or reimbursement of expenses incurred in connection with the delegation to work in Poland.
- coverage one time in year the cost of private travel to the country of posting for a Member of the Board and members of his family living in Poland.
- coverage of children education costs in Poland,
- single supplement connected with employment transitions.

Variable remuneration shall be perceived as all types of allocated variable components of remuneration (i.e. indeterminate in advance, potential and / or actual value of the variable in time), dependent on the achievement of objectives and results of the Member of the Board or the Bank, as well as payments made by or on behalf of BGŻ Bank as the remuneration for professional services as part of the employment relationship.

The Remuneration Policy of BGŻ SA Board Members describes in particular components of variable remuneration that can be awarded to the Members of the Management Board and the rules for payment of this remuneration. The policy provides that a financial instrument which will be paid as a part of variable remuneration are BGŻ Bank's phantom shares.

Variable remuneration consists of deferred and non-deferred components. At least 50% of the deferred component and non-deferred component of the variable remuneration consists of financial instruments, which are phantom shares, and the remaining part of deferred and non-deferred variable remuneration is awarded in the form of cash.

Deferred variable component of the Board Members' remuneration is due at the end of the deferral period of three years and after completeness by the Supervisory Board assessment of the level of achievement of the objectives by the individual Members of the Board (during the period under evaluation). The payment is made after the determination by the Supervisory Board of the final amount of the base amount of the variable remuneration.

- data in PLN thousands

Accounting policies and additional explanatory notes

Remuneration of the Members of Supervisory Board paid during the year for individual members of the Board

Year 2012	Engagement period		
Name	**since**	**to**	**Remuneration**
Adams Hendrik	01.01.2012	28.08.2012	66
De Roo Johannes Henricus	01.01.2012	31.12.2012	90
Dekker Roelof	01.01.2012	22.06.2012	51
Drok Evert Derks	25.06.2012	31.12.2012	40
Pruijs Jan Aleksander	01.01.2012	31.12.2012	136
Filar Dariusz	01.01.2012	31.12.2012	113
Iwanicki Jarosław	01.01.2012	31.12.2012	90
Maj Waldemar	01.01.2012	22.08.2012	65
Nachyła Monika	01.01.2012	31.12.2012	90
Zdebski Andrzej	01.01.2012	28.08.2012	66
Total			**807**

Year 2011	Engagement period		Remuneration
Name	**since**	**to**	
Adams Hendrik	01.01.2011	31.12.2011	86
De Roo Johannes Henricus	01.01.2011	31.12.2011	86
Dekker Roelof	01.01.2011	31.12.2011	86
Pruijs Jan Aleksander	01.01.2011	31.12.2011	130
Filar Dariusz	21.07.2011	31.12.2011	37
Iwanicki Jarosław	01.01.2011	31.12.2011	86
Maj Waldemar	01.01.2011	31.12.2011	86
Nachyła Monika	21.07.2011	31.12.2011	31
Rowińska Agata	01.01.2011	31.05.2011	54
Zdebski Andrzej	01.01.2011	31.12.2011	86
Total			**768**

The value of loans and allowances granted to Members of the Management Boards

The Members of the Management and Supervisory Boards were not granted any loans, allowances or guarantees in 2012 or 2011.

48 Business segments

48.1 Segment Reporting

The Bank has divided its operations and applied identification of income and expenses, and assets and liabilities into following reporting operating segments: Retail Banking (in its results here is also a result of a BGŻ Optima launched in November 2011 and offer for wealthy clients – Personal Banking, launched in December 2012, institutional Banking (where there is separated Agro customers segment), Financial Markets, Assets and Liabilities Management and Other. This division reflects the principles of classification of customers into particular segments in accordance with the Bank's business model which is based on subjective and financial criteria as well as the type of activity.

Monitoring of managerial results in the Bank takes into account all components of income statement of particular segment to the level of gross profit, i.e. for each segment revenues, expenses and net impairments are reported. Managerial revenues take into account the cash flows between segments of clients and the part responsible for assets and liabilities management, re-measured using internal transfer prices of funds based on market prices and liquidity margins determined for a given maturity and currency. Segments' managerial expenses include direct costs of their activity and costs allocated by the model of allocation adopted by the Bank.

Operating activity of the Bank is carried out solely in Poland. It is impossible to distinguish material differences in risks that could be influenced by the geographical location of branches, and therefore the Bank abandoned disclosure by geographical information.

The Bank has implemented changes in presentation and calculation of data relating to segments. In the case of revenues, the components of segments' result on interests were separated – i.e. internal and external revenues and expenses. According to expenses, there is a modification in the allocation of indirect costs to segments rules through separation of tens cost aggregates, homogeneous in the aspect of the area and the scope of the activity of the Bank's units. For each aggregate separate, tailored specifically to the aggregate allocation principles were used, that transfer their costs on revenue segments.

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

48.2 Characteristics of operating segments

The Retail Banking Segment includes sales of products and services for individuals including current accounts and deposit accounts, term deposits, granting of housing loans and cash loans, mortgage loans, revolving loans, overdrafts, issuing debit and credit cards, service of foreign cash transfers, entering into foreign exchange transactions, sale of insurance products and other services with lower importance for the Bank's revenue. Retail Banking segment includes also: balances and results of direct banking BGŻ Optima, results achieved on brokerage activity and on distribution of investment funds' share units.

Retail customers are served by Bank's Branches and alternative channels, such as internet banking (eBGŻ), telephone banking (TeleBGŻ) and a new direct banking channel BGŻ Optima as well as Private Banking channel. Additionally, a sale of particular products is realized through financial intermediaries both on local and national level.

Institutional Banking segment includes sales of products and services for enterprises, companies and cooperatives, individual entrepreneurs, individual farmers, non – profit institutions and public sector entities. Institutional Clients are served in the following groups of Clients: Large Companies, Small, Medium Enterprises and Microenterprises. Relational support for Large Companies is realized by Consultants working from Corporate Centres. Relational support for Small and Medium Enterprises and Microenterprises is realized by

Consultants from the Bank's Branches. Operational support for all segments is carried by the Bank's Branches, and additionally they also have access to telephone banking (TeleBGŻ) and internet banking (eBGŻ Firma). What is more, a sale of particular products is realized through financial intermediaries, both on local and national level.

Products and services for Institutional Clients include running a current bank account and savings account, term deposits (including negotiable deposits) issuing business-type cards, granting overdrafts, investing commercial loans and overdrafts, agro-business financing loans (including preference loans, operating loans for farmers, agricultural procurement loans, loans with refinancing from the European Bank for Reconstruction and Development, current account loans 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, services for trade financing (including guarantees and sureties, letters of credit, bill discounting and factoring), leasing (in cooperation with company BGŻ Leasing), and entering into currency change and derivative transactions.

Within Institutional Banking segment the Bank includes Agro Clients, i.e. individual farmers and agro – food enterprises. Following the Bank's clients segmentation principles, farmers category includes individuals, legal persons and organizational units that are not legal persons, involved in agricultural activities within the meaning of the Act on agricultural tax. Business segmentation is done using codes of activity classification (PKD 2007). The main activities included to Agro Clients are: production of food, beverages and tobacco, retail and wholesale trade of food, beverages and tobacco, forestry and logging, manufacture of machinery and other equipment for agriculture and forestry, wholesale trade of machinery and additional equipment for agriculture, manufacture of wooden products, packaging production, manufacture of machinery used in food processing, beverage and tobacco.

Financial Markets segment and Assets and Liabilities Management segment covers the activities on financial markets performed on Bank's own interest and in the liquidity management area, products and services for non – bank financial institutions and 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). Additionally in this segment the Bank reported differences resulting from different way of accounting for financial instruments in management accounting in comparison with financial accounting.

In **Other** segment, the Bank reported results that cannot be allocated to any of above segments (including loans portfolio, for which recovery and restructuring activities are carried out, equity investments, and results from Bank's own accounts and from clients account without being attributable to particular segment). What is more, adjustments of interest revenue on impaired loans that are not reported in other segments are reported in other segments.

48.3 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
- result on trading activities
- result on investing activities
- result on hedge accounting
- share in profits of associates

- data in PLN thousands

Result on other operations and depreciation/amortisation from the segment report reconciles with the sum of the following income statement items:

- other operating income
- other operating costs

Reporting as of operating segments	12 months ended 31.12.2012	12 months ended 31.12.2011
Result on financial operations	76 755	47 178
Foreign exchange result	69 790	63 617
	146 545	**110 795**
Income statement:		
Dividend income	3 416	3 554
Result on trading activities	98 567	101 852
Result on investing activities	43 329	5 389
Result on hedge accounting	1 233	-
	146 545	**110 795**
Reporting as of operating segments		
Result on other operations	19 761	34 778
Depreciation	(94 518)	(82 999)
	(74 757)	**(48 221)**
Income statement:		
Other operating income	64 487	61 987
Other operating expenses	(139 244)	(110 208)
	(74 757)	**(48 221)**

- data in PLN thousands

2012	Retail Banking	Corporate Banking	including: Agro customers	Financial Markets and Assets and Liabilities Management	Other	BGŻ S.A.
Income statement						
Net interest income	391 818	480 103	274 557	146 495	2 951	**1 021 367**
External interest revenues	507 726	1 227 297	786 607	329 353	92 102	**2 156 478**
External interest expenses	(533 890)	(326 068)	(85 530)	(275 145)	(8)	**(1 135 111)**
Internal interest revenues	765 611	458 129	139 715	(1 223 799)	59	**-**
Internal interest expenses	(347 629)	(879 255)	(566 235)	1 316 086	(89 202)	**-**
Net fee and commission income	90 627	202 118	96 693	26	3 406	**296 177**
Result on financial operations	732	2 794	763	69 812	3 417	**76 755**
Foreign exchange result	15 348	53 333	18 776	408	701	**69 790**
Result on other operations	114	(4 838)	(136)	(493)	24 978	**19 761**
Net impairment write-offs	(62 263)	(202 875)	(52 923)	5 229	(9 753)	**(269 662)**
Total costs of banking activities	(510 286)	(388 090)	(198 620)	(22 722)	(20 105)	**(941 203)**
Depreciation/Amortization	(53 837)	(37 619)	(19 171)	(1 989)	(1 073)	**(94 518)**
Segment result	**(127 747)**	**104 926**	**119 939**	**196 766**	**4 522**	**178 467**
Profit (loss) before taxation	**-**	-	-	-	-	**178 467**
Income tax expense	**-**	-	-	-	-	**(44 124)**
Net profit (loss) for the year	**-**	-	-	-	-	**134 343**
Statement of financial position						
Segment assets	8 594 460	17 468 804	11 641 321	7 951 495	3 165 863	**37 180 622**
Segment liabilities	15 963 213	8 644 568	2 795 346	7 588 582	1 517 712	**33 714 075**
Equity	-	-	-	-	-	**3 466 547**
Total liabilities	-	-	-	-	-	**37 180 622**

- data in PLN thousands

Accounting policies and additional explanatory notes

2011	Retail Banking	Corporate Banking	including: Agro customers	Financial Markets and Assets and Liabilities Management	Other	BGŻ S.A.
Income statement						
Net interest income	336 061	394 110	209 756	85 516	18 324	**834 011**
External interest revenues	437 167	926 725	574 353	228 694	99 566	**1 692 152**
External interest expenses	(372 832)	(286 436)	(60 452)	(198 869)	(4)	**(858 141)**
Internal interest revenues	511 800	372 588	91 612	(884 443)	55	**-**
Internal interest expenses	(240 074)	(618 767)	(395 757)	940 134	(81 293)	**-**
Net fee and commission income	77 840	190 164	75 458	(1 186)	3 081	**269 899**
Result on financial operations	(5)	79	24	45 059	2 045	**47 178**
Foreign exchange result	16 840	46 139	13 684	281	357	**63 617**
Result on other operations	1 465	(57)	(18)	5 370	28 000	**34 778**
Net impairment write-offs	(77 857)	(47 468)	(11 368)	(295)	(38 293)	**(163 913)**
Total costs of banking activities	(444 170)	(362 978)	(168 061)	(18 703)	(29 096)	**(854 947)**
Depreciation/Amortization	(45 159)	(34 618)	(15 844)	(2 220)	(1 002)	**(82 999)**
Segment result	**(134 985)**	**185 371**	**103 631**	**113 822**	**(16 584)**	**147 624**
Profit (loss) before taxation	**-**	-	-	-	-	**147 624**
Income tax expense	**-**	-	-	-	-	**(21 564)**
Net profit (loss) for the year	**-**	-	-	-	-	**126 060**
Statement of financial position						
Segment assets	8 098 032	15 901 628	9 436 044	5 736 477	3 650 759	**33 386 896**
Segment liabilities	13 379 783	8 891 040	2 425 627	6 437 983	2 050 592	**30 759 398**
Equity	-	-	-	-	-	**2 627 498**
Total liabilities	-	-	-	-	-	**33 386 896**

49 Financial risk management

49.1 Financial instruments strategy

The core business of the Bank focuses on the financial products offered to clients: private individuals, entrepreneurs and enterprises, public and budget entities, non-banking financial institutions. The prevailing items on the side of equity and liabilities are short-time deposits with fixed interest rates, current and savings accounts. On the assets' side, the Bank offers the following loan products: housing loans, cash loans, credit cards, overdrafts, investment loans and working capital facilities, preferential loans with subsidies, factoring, guarantees, foreign trade finance transactions (e.g. letters of credit) - the great majority of loan products are medium- and long-term instruments, but with short-term market interest rates.
The Bank uses financial market instruments primarily to manage the following risks: the liquidity risk, interest rate risk and currency risk resulting from the core business in accordance with the internally accepted risk appetite and medium- and long-term market trends.

Moreover the Bank offers to its clients an access to the instruments of the financial market in order to hedge against market risk (fluctuations in foreign exchange and interest rates) present in the core business activity. In the last two years the Bank restructured its lending process by allowing its client access to derivatives in conformity with the requirements of the Markets in Financial Instruments Directive and by ensuring an enhanced internal control over the scale and profile of the increased risk. In 2012, the Bank expanded the range of treasury products, by offering the commodity derivatives (swaps and options) as well as by offering interest rate options. The majority of transactions with clients is closed on the inter-bank market, however due to their character (low amounts of individual transactions, non-standard characteristics) a part of the risk remains in the books of the Bank within the trading book, limited by the conservative policy and market risk limits

49.2 Credit risk

Credit risk is inherent in a basic and essential financial activity of the Bank, including both credit activities as well as financing using capital market products. Consequently, credit risk is indentified as a risk with the most potential influence on actual and future Bank's BGŻ profits and equity. The significance of credit risk is confirmed by its 70% share in economic capital amount, estimated by the Bank for coverage of significant risks occurring in the Bank's activity, and also 90% share in the amount of regulatory equity.

The primary objective of credit risk management is the implementation of the Bank's strategy through the harmonious growth of the loan portfolio while maintaining an acceptable level of credit risk appetite.

In managing credit risk, the Bank applies the following policies:

- each credit transaction requires a comprehensive credit risk assessment, which is reflected in an internal credit rating or credit scoring assessment.
- a thorough and careful financial analysis is the basis for assessing the customer financial data and information on the value of collateral as a reliable; the Bank's analysis always include the necessary safety margin.
- the base to grant a facility to customer is - as a rule - his ability to generate cash flows to ensure repayment of obligations to the Bank,
- any credit risk assessment is subject to additional verification by credit risk assessment units that are independent of the Bank's business units.
- price terms of loan contracts shall cover the risk of the transaction,

- the credit risk is diversified for geographical areas, industry sectors, products and clients.
- the credit decisions may be taken only by authorized persons.
- the Bank enters into credit arrangements only with customers that the Bank is familiar with; long-term relationships are the basis for cooperation with clients,
- both the client and transactions concluded with him are monitored in a transparent manner, enhancing customer relationships.

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 capacity depends on a common risk factor. Concentration risk is analysed 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 organisational 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 organisational structure, must not exceed the concentration limit, which is 25% of the bank's own capital.

The Bank monitors concentration limits in accordance with article 71 of the Banking Act. At the end of 2012, the Bank's financial exposure to clients / groups of clients related by capital or organisational 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 organisational structure was equal or higher than 10% of the Bank's own capital and amounted to ca. 27,4% of the Bank's own capital. According to the balance at the end of 2011 the limits given in article 71 of the Banking Act were not breached. As at 31 December 2011 the total exposure equal or higher than 10% of the Bank's own capital amounted to 11% of the Bank's own capital.

In monitoring geographical concentration, the Bank analyses all of its loan exposures, including from both retail and institutional clients. As at 31 December 2012, the respective geographical concentrations were as follows: Headquarters – 0,8%, Central Area – 12,6%, Central-West Area – 15,5%, Southern-East Area – 10,3%, Southern-West Area – 8,6%, Southern Area – 7.8%, Northern-East Area – 9.7%, Northern-West Area – 6,9%, Northern Area – 17,6%, Eastern Area – 10,2%. As at 31 December 2011, the respective geographical concentrations were as follows: Headquarters – 0,6%, Central Area – 13,1%, Central-West Area – 15,0%, Southern-East Area – 11,2%, Southern-West Area – 8,7%, Southern Area – 7,6, Northern-East Area – 9,1%, Northern-West Area – 5,4%, Northern Area – 18,7%, Eastern Area – 10,6%

As a part of the geographical concentration of exposures analysis, the Bank also calculates the value of the region concentration ratio, its low value and the proportional allocation of the Bank's exposure, means that the level of geographical concentration is low, and accordingly, the risk associated with geographical concentration is also low. The internal limits set for particular exposures (internal limits of exposure in particular regions) were not exceeded. As a part of the value of credit portfolio analysis, the Bank measures the share of non-performing loans (loans, for which a loss of value has been recognized). The table below shows the results:

- data in PLN thousands

Accounting policies and additional explanatory notes

Share of non performing loans, by region*

Regions	Engagement		Share of non-performing exposures	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Headquarters	222 018	144 188	82,4%	82,5%
Central	3 465 944	3 302 191	8,0%	6,6%
Central-West	4 245 792	3 768 363	8,4%	7,0%
Southern-East	2 831 449	2 804 753	5,3%	3,9%
Southern-West	2 343 855	2 188 636	7,2%	6,0%
Southern	2 142 860	1 913 886	7,2%	6,6%
Northern-East	2 648 139	2 286 988	2,6%	2,2%
Northern-West	1 888 659	1 362 566	5,5%	6,3%
Northern	4 815 622	4 696 523	6,4%	4,1%
East	2 807 244	2 653 078	5,9%	5,4%
Total	**27 411 582**	**25 121 172**	**7,1%**	**5,7%**

**Loans with identified impairment*

The analysis of credit risk concentration by industry covers all of the Bank's loan exposures to institutional clients. The Bank classifies the industries based on the Polish Classification of Activities (2007 PCA code). The structure of the Bank's exposure to particular industries at the end of 2012, similar to that at the end of 2011, is characterized by concentration on the following three industries: Agriculture. Wholesale Trade and Food Production. In 2011, the Bank's exposure to these three industries accounted for 63,3% of total exposure; while in 2012 – for 65,4%.

The chart below shows the share of non-performing loans in the loan portfolio, i.e. these for which an impairment loss was recognized. At the end of 2012 and 2011, the biggest share of non performing exposures by industry were noted in the apparel industry.

- data in PLN thousands

Accounting policies and additional explanatory notes

Share of non-performing loans, by industry (balance sheet gross value)*

Sector:	Engagement		Share of non performing exposures	
	31.12.2012	31.12.2011	**31.12.2012**	31.12.2011
Agriculture	***7 248 501***	6 184 013	**3%**	3%
Wholesale trade: wholesale and retail trade in vehicles	**2 531 983**	2 350 728	**9,5%**	6,3%
Food production	**2 276 053**	2 013 924	**9,2%**	10%
Manufacture of cork and refined petroleum products, chemicals and chemical products, rubber and plastic products	**614 799**	531 013	***6,5%***	*2,3%*
Construction	***576 303***	736 432	**21,5%**	14,3%
Retail trade	**612 122**	486 899	**10,6%**	8,7%
Manufacture of products of wood and cork, paper and paper products. furniture	**455 038**	456 589	**11,9%**	10,2%
Production of metallic, other mineral non-metallic materials	***463 095***	673 927	**18,7%**	10,2%
Real estate activities	***624 679***	397 359	**1,9%**	2,4%
Transportation and storage	***395 103***	371 665	**9,8%**	10,3%
Other business activity	***370 748***	318 093	**1,3%**	1,4%
Manufacture of machinery and equipment. motor vehicles	***285 876***	297 879	**6,2%**	5,2%
Hotels and restaurants	***280 245***	236 314	**11,6%**	11,1%
Financial and insurance activities	***92 808***	139 309	**11,6%**	12,5%
Manufacture of electronic and optical products. electric al equipment	***85 194***	141 219	**37%**	0,7%
Manufacture of wearing apparel, textiles, feather and related products	***110 135***	108 847	**24%**	26,3%
Professional, scientific and technical activities	***586 753***	261 647	**17,8%**	2,2%
Electricity, gas, steam, hot water production and supply	***268 353***	254 774	**0,1%**	0,1%
Human health and social work activities	***101 959***	80 529	**0,4%**	0,2%
Water supply, sewerage, waste management	***85 152***	68 411	**5,5%**	5,9%
Other services activity	***34 397***	28 984	**7,1%**	2,3%
Education, arts, entertainment and culture	***58 583***	39 786	**3,4%**	3,5%
Other foods production	***26 265***	34 769	**9,5%**	7,6%
Forestry and logging	***31 971***	31 570	**4,8%**	4,6%
Information and communication	***135 962***	93 386	**3,4%**	3,6%
Mining and quarrying	***27 473***	24 295	**2,1%**	1,3%
Fishing industry	***19 620***	17 038	**3,3%**	3,2%
Other industries	***37 646***	278 487	**16,9%**	3,3%
Retail customers	***8 974 766***	8 463 286	**6,6%**	5,4%
Total	***27 411 582***	25 121 172	**7,1%**	5,7%

** Impaired loans*

The Bank also manages the risk of collateral concentration. As part of the analyses undertaken, the Bank examines the share of exposures collateralized in the worst extent whose excessive concentration in the portfolio may result in the risk of future losses for the

- data in PLN thousands

Bank. The Bank implemented the concentration limits for exposures situated in the 3 groups with the worst quality, i.e. for the group without any collateral or with collaterals of low quality. As at the end of 2012 and 2011, no breach of concentration limits for collateral group was noted.

In the case of an individual assessment, the Bank expects to recover in respect of the collateral, the amount of PLN 469 million, which represents 42.6% of the total commitment individually assessed and 65% of expected recoveries from customers individually significant.

Structure of receivables delinquency

The aging of loans and advances to customers, which are not impaired, is to show the level of any potential loss. The more overdue a loan or an advance gets, the bigger the probability that objective evidence of future impairment will be identified. A rise of a delay in payment above zero days increases the possibility of an identification of objective evidence of impairment but as such it does not constitute a basis for the identification of such evidence. In the case of exposures overdue for more than 91 days the evidence can however be identified on the basis of additional information on the financial and economic position of a client.

The structure of the loan portfolio classified as exposures with identified evidence of impairment and without such including the number of overdue days is presented in the tables below. For the purpose of calculation of impairment allowance as well as relating to the data presented in the following tables, the loan is found as collapsed not in the instalment due date but in the next day.

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

Exposure category	with no evidence of impairment				with evidence of impairment	total
	0 days	1-30 days	31-60 days	61-90% days		
Limits on current account - individuals	91 156	683	427	292	3 175	95 733
Credit Cards	60 543	2 211	610	534	1 501	65 399
Mortgage loans	7 046 584	186 578	43 025	13 403	193 750	7 483 340
Mortgage advances	110 502	3 708	1 262	725	4 939	121 136
Cash loans	606 682	36 411	6 231	1 491	28 028	678 843
Cash Loans created through restructuring	-	-	-	-	800	800
Student loans	138 230	763	313	1	2 673	141 980
Restructuring retail exposures	311	7	12	-	24 935	25 265
Other retail exposures	2 882	5	-	54	1 868	4 809
Revolving facilities for farmers	1 594 328	1 248	6 708	2 346	15 956	1 620 586
Non-revolving loans for farmers	4 224 043	6 673	6 147	1 314	77 092	4 315 269
Revolving facilities for micro-enterprises	271 745	2 529	2 272	207	8 074	284 827
Non-revolving loans for micro-enterprises	1 044 612	3 270	8 098	6 455	40 249	1 102 684
Revolving for SME and large enterprises	3 739 703	3 474	1 774	1 989	172 371	3 919 311
Non-revolving loans for SME and large enterprises	5 762 055	6 760	12 256	4 601	285 464	6 071 136
Finance institutions exposures	20 440	-	-	-	-	20 440
Public sector exposures	285 650	-	-	-	-	285 650
Restructuring exposures for farmers and enterprises	-	-	-	-	82 110	82 110
Other exposures for farmers and enterprises	4 372	-	-	-	17 956	22 328
Total	**25 003 838**	**254 320**	**89 135**	**33 412**	**960 941**	**26 341 646**

- data in PLN thousands

Accounting policies and additional explanatory notes

Credit portfolio structure classified by impairment and delinquency
31.12.2011 (net carrying value)

Exposure category	with no evidence of impairment 0 days	1-30 days	31-60 days	61-90 days	with evidence of impairment	total
Limits on current account - individuals	112 445	574	535	404	2 818	116 776
Credit Cards	45 739	1 963	1 448	686	1 472	51 308
Mortgage loans	6 687 850	173 103	56 415	19 673	96 139	7 033 180
Mortgage advances	107 118	5 109	943	839	4 112	118 121
Cash loans	522 455	26 177	6 870	2 192	35 049	592 743
Cash loans created through restructuring	-	186	14	39	964	1 203
Student loans	174 896	1 035	710	22	1 833	178 496
Restructuring retail exposures	437	-	-	-	12 239	12 676
Other retail exposures	5 953	93	-	81	1 525	7 652
Revolving facilities for farmers	1 129 638	1 038	3 377	2 285	7 848	1 144 186
Non-revolving loans for farmers	3 683 411	26 023	5 259	1 620	57 733	3 774 046
Revolving facilities for micro-enterprises	275 687	1 860	1 318	1 480	6 942	287 287
Non-revolving loans for micro-enterprises	955 655	4 024	5 328	4 507	30 859	1 000 373
Revolving for SME and large enterprises	3 527 435	15 002	6 188	695	103 015	3 652 335
Non-revolving loans for SME and large enterprises	5 592 328	9 585	7 128	718	249 844	5 859 603
Finance institutions exposures	80 601	-	-	-	1 007	81 608
Public sector exposures	266 338	-	-	-	-	266 338
Restructuring exposures for farmers and enterprises	-	-	-	-	38 741	38 741
Other exposures for farmers and enterprises	5 699	-	-	-	15 896	21 595
Total	**23 173 685**	**265 772**	**95 533**	**35 241**	**668 036**	**24 238 267**

As at 31 December 2011 the Bank has followed a different division of the exposure to credit portfolios than it was as of 31 December 2012. Therefore, in order to allow comparison of above table, the data in the table above shows the distribution of the portfolios in accordance with the rules in force as of 31 December 2012

The level of possible credit loss on exposures without identified impairment indicators 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 events in accordance with which an objective impairment indicator will be identified for a given loan exposure in the following 6 months. These parameters are indicative and are not included in the calculation of impairment losses. For these calculations are used the parameters calculated separately for different risk classes within particular portfolios.

Accounting policies and additional explanatory notes

Credit portfolio structure with no impairment evidence (net carrying amount in thousands) (6 months LIP period)

Exposure category	31.12.2012		31.12.2011	
	value	PD	value	PD
Limits on current account - individuals	92 558	2,18%	113 958	1,69%
Credit Cards	63 898	2,90%	49 836	3,83%
Mortgage loans	7 289 590	0,64%	6 937 041	0,81%
Mortgage advances	116 197	1,13%	114 009	1,15%
Cash loans	650 815	2,33%	557 694	4,21%
Cash Loans created through restructuring	-	-	239	-
Student loans	139 307	0,29%	176 663	0,44%
Restructuring retail exposures	330	-	437	-
Other retail exposures	2 941	4,50%	6 127	3,09%
Revolving facilities for farmers	1 604 630	0,49%	1 136 338	0,62%
Non-revolving loans for farmers	4 238 177	0,37%	3 716 313	0,38%
Revolving facilities for micro-enterprises	276 753	2,56%	280 345	2,70%
Non-revolving loans for micro-enterprises	1 062 435	1,51%	969 514	1,35%
Revolving for SME and large enterprises	3 746 940	0,66%	3 549 320	0,48%
Non-revolving loans for SME and large enterprises	5 785 672	1,05%	5 609 759	0,73%
Finance institutions exposures	20 440	0,30%	80 601	0,30%
Public sector exposures	285 650	0,10%	266 338	0,10%
Restructuring exposures for farmers and enterprises	-	-	-	-
Other exposures for farmers and enterprises	4 372	0,14%	5 699	0,16%
Total	**25 380 705**	**-**	**23 570 231**	**-**

As at 31 December 2011 the Bank has used a different division of the exposure to credit portfolios than it was as of 31 December 2012. Therefore, in order to allow comparison, the data in the table above shows the distribution of the portfolios in accordance with the rules in force as of 31 December 2012

For clients from the sector of Large as well as Small and Medium Enterprises who apply full accounting the Bank determines internal rating classes in accordance with accepted credit policy. Rating classes are set on the basis of risk model dedicated to his part of credit portfolio and provide a basis for estimating the amount of IBNR provision. To make it more understandable, 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 input data that includes annual financial data presented by the client, as well as general qualitative rating of market situation. The structure of non-impaired financial assets as per internal Bank ratings is presented in the table below.

- data in PLN thousands

Accounting policies and additional explanatory notes

Exposure portfolio structure of enterprises with internal rating, with no impairment evidence (net carrying amount)

Internal rating code*	31.12.2012 value	31.12.2012 Share	31.12.2011 value	31.12.2011 Share
R08	312	-	396	-
R09	57 187	0,6%	113 333	1,2%
R10	526 857	5,4%	577 790	6,4%
R11	215 478	2,2%	309 032	3,4%
R12	336 440	3,5%	502 329	5,5%
R13	1 075 333	11,1%	957 734	10,6%
R14	1 071 347	11,0%	1 113 945	12,3%
R15	1 965 187	20,3%	1 668 185	18,4%
R16	1 456 215	15,0%	1 389 603	15,3%
R17	1 336 822	13,8%	1 202 804	13,3%
R18	1 129 677	11,7%	934 308	10,3%
R19	321 877	3,3%	210 292	2,3%
R20	202 080	2,1%	91 217	1,0%

* The clients' rating is prepared on the basis of the internal model used by the Bank which allows to classify the clients of the Bank with respect to the loan quality based on the financial and qualitative data (R08 – best rating. R20 – worst rating).

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

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

The Bank recognizes that the basic security of the Bank's interests is good customer financial standing, and the acceptance of the property or personal security is an additional aspect mitigating risk of insolvency of the customer.

The key principles of securing the Bank's credit exposure, including special rules for mortgage security, are defined in the Institutional Client's Credit Handbook and the Risk management for retail credit exposures of BGŻ S.A. policy, adopted by the Management Board.

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

a) the nature, amount and duration of the credit transaction,

b) the economic situation of the debtor due to financial collateral in case of personal collateral and the value of the collateral in case of physical collateral,

c) the liquidity of the collateral, understood as a real opportunity to satisfy claims of the Bank of security 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.

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

The updating of the value of the collateral, the evaluation of technical condition of the collateral, and control the level of LTV ratio with respect to transactions secured by a mortgage, are elements of monitoring customer credit risk, and concluded with the transaction. Reducing the risk of changes in the value of collateral take place 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, without consent or notification to the Bank – the components of fixed assets.

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

49.3 Market risk and ALM (Assets and Liabilities Management)

Organisation 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 movement of value due to the occurrence of above changes is recognised by the Bank as market risk and this risk is monitored and managed separately for both books. The Bank has withdrawn from any activity regarding shares that were carried out by Brokerage House.

The Bank assigns items included and not included in the statement of financial position to the banking or trading book to properly reflect the specifics of a financial market transaction, i.e. transaction purpose, dominant risks and accounting treatment. 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 individual organizational entities in the process of risk generation, measurement, limiting and reporting.

The transaction making and settlement, valuation and risk assessment processes are performed by independent units within the Bank’s structure. The Bank’s Management Board, taking into account the long-term Bank’s strategy and financial plan, determines the risk profile by distributing the capital available to specific business lines, which further – in the form of risk limits – is assigned to the books by the Balance Sheet and Risk Management Committee (hereinafter referred to as BRMC). The Financial Markets Department is operationally responsible for the current risk measurement of the trading book and the Money Market portfolio 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 “AL”). The Financial Risk Management Office (hereinafter “FR”) is responsible for measuring and reporting the level of risk and extensions of limits, independent valuation and calculation of management result is carried out by the Valuation of Financial Instruments Department (hereinafter “WD”) and accounting records and transactions settlement are carried out by The Foreign Operations Department (hereinafter “FO”). The system of acceptance of limits braches 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 a Board supervising Risk Area. Regardless of the above, all breaches are reported and discussed at monthly meetings of BRMC.

Risk measures

The basic measures of market risk and interest rate risk in banking book applied by the Bank are as follows:

- Value at Risk (VaR) model, which indicates the maximum projected amount of loss that may be incurred on a given item under normal market conditions within a given time horizon, that may be exceeded with a given probability. Nevertheless. it does not indicate the maximum loss exposure of the Bank. The Bank applies the parametric model with a modified variance-covariance matrix and exponential weighing of historical events, available historical scenarios, including 2-week long events with over 10-year long history of market data, 99% confidence level and 1-day position holding period for the trading book and assumes the following: 99% confidence level, 1-day position holding period for the trading book and 1 month for the Money Market book. The Bank is aware of the limitations of measure VaR, primarily the following:
  - VaR is a statistical estimate method, therefore it is not excluded that, in a certain period appear a greater number of days on which 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, the remaining 1% of cases, the losses may be much greater than calculated the value of VaR,
  - VaR is a measure reflecting the exposure in a specific time and should not be used to estimate the risk at another time.

- Stress Test analyses, which supplement the VaR model with events other than market behaviours that can be predicted using statistical methods, such as historical economic or political crises, theoretical scenarios and max-loss calculations.
- sensitivity measures, which determine a sensitivity of a given financial item's– valuation, interest income, net current capital value –to the changes in risk factors. The Bank uses the following measures: delta/bpv, duration and additionally with respect to the banking book: Interest at Risk (IaR – net interest income sensitivity) and Equity at Risk (EaR present net capital value).
- 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-financial limits, which include admissible types of instruments, currency pairs, maturity dates, minimum credit rating for debt securities bought.
- stop-loss limits for different time periods (day, month, year) at the level of portfolios and sub-portfolios.

Risk in the banking book (ALM)

Banking Book of BGŻ Bank consists of two elements – ALM, which aim is to manage 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.

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

Accounting policies and additional explanatory notes

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

The competitive circumstances 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.

As of the end of 2012, 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, overdrafts) and products, which price is determined by the Bank’s Management Board or in the multiplier way that depends on the market rates (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 2.9 month (one year ago 3.8 month), while in the case of balance sheet liabilities it equalled to 2.6 month (previously 2.8 month). More than 93% of active and passive positions have a revaluation date lower than 6 month (equal level at the end of 2010), and almost 59% of assets and liabilities are re-valued within one month (previously 54%).

- data in PLN thousands

Accounting policies and additional explanatory notes

Interest rate gap 31.12.2012	Up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
Assets						
Cash and balances with Central Bank	1 241 386	-	-	-	-	1 241 386
Amounts due from other banks	100 483	-	251	458	-	101 192
Securities held for trading	249 040	28 617	-	26 173	8 000	311 830
Loans and advances to customers	16 626 113	7 788 791	3 258 086	-	-	27 672 990
Investment securities						
- available – for – sale	3 830 000	-	289 600	1 195 000	1 235 000	6 549 600
- other debt securities	-	-	-	-	-	-
Other assets	1 143 979	173 233	60 634	10 502	-	1 388 348
Total assets	**23 191 001**	**7 990 641**	**3 608 571**	**1 232 133**	**1 243 000**	**37 265 346**
Liabilities						
Amounts owed to banks	(477 332)	(21 320)	(40 940)	(169 446)	-	(709 038)
Amounts owed to customers	(12 036 815)	(8 697 917)	(5 882 841)	(105 867)	-	(26 723 440)
Other borrowed funds	(988 643)	(2 094 726)	(2 343 005)	-	-	(5 426 374)
Other liabilities	(129 258)	-	-	(466 057)	(1 013 807)	(1 609 122)
Total liabilities	**(13 632 048)**	**(10 813 963)**	**(8 266 786)**	**(741 370)**	**(1 013 807)**	**(34 467 974)**
Off – balance sheet						
Net off- balance sheet liabilities	(1 993 809)	861 303	(113 669)	1 254 154	(8 975)	(996)
Total cumulative interest rate gap	**7 565 144**	**5 603 125**	**831 241**	**2 576 158**	**2 796 376**	

Interest rate gap 31.12.2011	Up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
Assets						
Cash and balances with Central Bank	515 661	-	-	-	-	515 661
Amounts due from other banks	218 110	-	301	518	-	218 929
Securities held for trading	2 227 735	-	-	-	-	2 227 735
Loans and advances to customers	15 297 827	7 623 984	2 499 447	-	-	25 421 258
Investment securities	-	133 000	349 335	1 581 250	1 300 000	3 363 585
- available – for – sale	-	133 000	349 335	1 581 250	1 300 000	3 363 585
- other debt securities	-	-	-	-	-	-
Other assets	892 887	134 373	38 577	-	-	1 065 837
Total assets	**19 152 220**	**7 891 357**	**2 887 660**	**1 581 768**	**1 300 000**	**32 813 005**
Liabilities						
Amounts owed to banks	(207 338)	(22 833)	(15 050)	-	-	(245 221)
Amounts owed to customers	(9 457 260)	(7 516 667)	(5 921 792)	(248 842)	-	(23 144 561)
Other borrowed funds	(1 472 159)	(2 847 817)	(1 714 122)	-	-	(6 034 098)
Other liabilities	(51 185)	-	-	(483 776)	(917 966)	(1 452 927)
Total liabilities	**(11 187 942)**	**(10 387 317)**	**(7 650 964)**	**(732 618)**	**(917 966)**	**(30 876 807)**
Off – balance sheet						
Net off- balance sheet liabilities	(1 131 897)	(586 551)	2 630 463	(785 030)	(3 639)	123 346
Total cumulative interest rate gap	**6 832 381**	**3 749 870**	**1 617 029**	**1 681 149**	**2 059 544**	

In the above analysis of interest rate risk, the following assumptions justify variances from the accounting data:

a. the size of the gap is recognized in nominal individual transactions

b. based on the resolution of the Management Board, variable interest rate contracts are assigned a monthly revaluation period,

c. preferential loans with an interest rate equating the NBP rediscounting rate calculated using appropriate multiplier are assigned monthly revaluation period, the denomination transactions is increased within the revaluation in proportion to the size of the multiplier

d. accounts and 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 by 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 measured at fair value and generate almost no net interest income, the Money Market' positions, are recognized according to their revaluation dates.

f. calculation of interest rate gap is based on the 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 above mentioned revaluation dates. The curtailment of deadlines in Bank's balance sheet revaluation structure results from the increase of positions which derives from the basic activities of the Bank, concentrated on shorter revaluation dates. The changes of interest rate gap were also (but in lesser extent) caused by hedge of preferential credits (change in off-balance positions) and conversion of investment portfolio (curtailment of duration)

The changes in the Bank's revaluation structure also led to changes in the sensitivity of interest result. Immediate increase of interest rates by 50 bp could lead to decrease in result on interest in one year period by around PLN 1.3 million (PLN 8,3 million in previous year), while gradually raising interest rates by 200 bp in one year period could lead to decrease in result on interest by around PLN 4.0 million (PLN 9.5 million one year ago). The immediate decrease of interest rates by 50 bp could lead to increase of net result on interest in one year period by PLN 3.5 million (PLN -24.1 million in previous year), while gradually lowering interest rates by 200 bp in one year period could lead to increase in net result on interest by PLN 8.8 million (previously PLN 48 million). The differences in sensitivity of net result on interest to decline in interest rates in comparison to the sensitivity of increase of rates result from the lower sensitivity of selected classes of liabilities (elements of cost do not change in accordance to changes in market rates) and low level of basis rates (i.e. CHF and USD).

Net interest income volatility (in thousand)

	31.12.2012	31.12.2011
Immediate increase of interest rates by 50bps:	1 334	8 283
Gradual change of interest rates by 200 bps:		
- up	(4 028)	9 498
- down	8 840	(47 969)

The comparison of net interest volatility at the end of 2012 and 2011 indicates, that the risk is substantially limited. At the end 2012 its level was consistent with the risk appetite accepted by the Bank and the interest rate changes expected in the mid-term.

The major Money Market portfolio exposures were the open positions in short-term treasury bonds and treasury bills issued by NBP (held for a short-term liquidity management purposes) and Interest Rates Swaps (OIS and IRS – formation of exposure, hedging the price risk) and FX Swap (bank financing). The usage of VaR limits, was in 2012 at 53% on average (58% in 2011). In term of foreign exchange, exposures in PLN had the highest share (over 70% of volatility measured in BPV), exposures in EUR, USD and CHF had minor influence.

Market risk in the trading book

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

According to the interest rate exposure, the Bank could buy government securities and NBP bills, there were also another instruments used: futures on bonds, IRS, CIRS, FRA and basic swap. On the other hand, it was prohibited to enter into agreement with equity and credit instruments. In 2012 the Bank engaged into commodity derivatives transactions (client's transactions closed-up on the interbank back-to-back market)

The Bank's priority was to use interbank credit limits and risk limits in order to secure structural risk of interest rate and liquidity, it is why the Bank focused on current and term realization of transactions on debt instruments in its trade book, simultaneously servicing a growing customer demand. The Bank has kept relatively high exposure in Treasury bills and bonds and periodically in NBP bills, which in terms of increasing volatility in market interest rates (the solvency crisis in Eurozone) and in connection with remaining exposures in the portfolio, that resulted from previous IRS, CIRS and Cross – Currency Basic Swap transaction led to higher level of risk expressed by a Value-At-Risk measure an stress – test, but still remains on the level consistent with Bank's risk appetite.

Risk in the trading book (in thousand)

	31.12.2012	31.12.2011
FX VaR[1]	14	16
IR VaR[1]	586	1 067
Stress test[2]	8 221	10 563

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

Very stable exposure and a low risk remained in the area of currency transactions as a result of immediate closure of clients currency transactions. Due to this fact, also the currency exposure on the business day (i.e. intraday) remained at a low level, despite the higher sales activity. The positions in currency options that were offered to clients were, in accordance with existing policies, absolutely and immediately closed on interbank market.

49.4 Liquidity risk

Liquidity risk – organisation of risk management process

The Bank has a comprehensive liquidity management system, which embraces not only quick, current and short-term liquidity, but also structural middle- and long-term liquidity. The Bank manages its liquidity 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 behaviour of the clients and the needs that may arise as a result of changes on the financial market. In addition, appropriate risk identification and management methods enable the Bank to make projections of future liquidity levels. Bank has tables of limits which limit Bank's risk exposure. Liquidity risk monitoring and control are conducted based on the document ('Policy'), introduced with a resolution of the Management Board of the Bank, developed in accordance with Recommendation 'P' of the PFSA and the clauses of the resolution no. 386/2008 of the PFSA on determining liquidity standards for banks, including the solutions applied in the Rabobank Group – the majority shareholder, Liquidity risk limits are set by the BRMC based on the delegations of the Management Board of the Bank.

- data in PLN thousands

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

Liquidity risk measures

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

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

Liquidity risk

In 2012, the Bank maintained safe level of financial liquidity. The financial resources held allowed to timely discharge 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 2012, the Bank had liquid assets at PLN 6.96 billion (formerly PLN 5.20 billion):

Liquid assets

	31.12.2012	31.12.2011
inter-bank deposits up to 1M	60 334	200 142
high liquid securities	6 902 235	5 003 534
liquid assets limit	5 800 000	3 350 000
net financing from inter-bank market	(350 634)	72 241
surplus/shortage of liquid assets	**1 162 569**	**1 853 676**

Both in 2012 and 2011 the Bank maintained required supervisory liquidity measures. As a consequence of the liquidity position enhancement and the stabilization of sources of financing, the PFSA's measures improved.

Accounting policies and additional explanatory notes

Supervisory liquidity measures (in PLN thousand)

	31.12.2012	31.12.2011
M1	2 622 253	1 894 127
M2	1,30	1,22
M3	4,24	2,72
M4	1,14	1,12
limit	**1,00**	**1,00**

In 2012 the Bank enhanced its liquidity position. At the end of December 2012 the surplus of the external inter-bank market sources of finance over loans balance amounted to PLN 4.8 billion (of which PLN 3.5 billion unstable sources from liabilities arising from repo transactions), whereas the surplus of stable sources of finance over the credit balance amounted to PLN 1.31 billion. The stable sources of financing increased by PLN 2.3 billion in comparison to 2011 that was covered by the increase in the volume of loans – PLN 2.4 billion.

Dynamics of loans and their sources of finance

	31.12.2012	31.12.2011
stable finance sources	28 714 300	26 414 619
unstable finance sources	3 507 277	2 694 192
loans	27 400 048	25 075 228
finance buffer	**4 821 529**	**4 033 583**
stable finance sources surplus/gap	**1 314 252**	**1 339 391**

Intensified efforts to obtain a stable deposits from retail customers and from agriculture sector, exchange of highly concentrated sources of finance into diversified and a loan in the amount of PLN 3.6 billion from Rabobank led significantly reduce the level of instable retail customers' deposits and replace them with sources with high stability. As a result, the bank has covered all loans with stable sources of finance and the financing buffer increased by PLN 0.79 billion.

During the year, stability of the Bank's sources of finance remained at a high level. Retail segment maintained a high level of 93.1%, while the enterprises, public sector and depository notes increased its stability in comparison to the previous year.

Moreover, the Bank excluded, in its stability analysis, non-banking financial entities. The bank estimates this value for this group separately. It amounts 59.6%.

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

- data in PLN thousands

Accounting policies and additional explanatory notes

Dynamics of stability of particular sources

	31.12.2012		31.12.2011	
	balance	stable (%)	balance	stable (%)
retail clients	15 649 672	93,1%	13 303 068	93,1%
enterprises	7 919 482	91,1%	8 820 081	90,0%
budget entities	674 705	51,1%	775 680	37,2%
non-banking financial entities	2 183 427	59,6%	-	-
certificates of deposit	1 877 000	92,0%	2 044 500	88,6%
Loans from financial institutions	526 656	100,0%	441 680	100,0%
Rabo credit line in CHF	3 022 719	100,0%	3 547 917	100,0%
banks and other unstable sources	896 904	-	424 956	-
Total	**32 750 565**	**87,7%**	**29 357 882**	**90,0%**

Liquidity gap of the Bank in detail presenting the following values:

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

- data in PLN thousands

Liquidity gap 31.12.2011	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**over 5 years**
Assets					
Loans and advances to retail customers. including:	76 134	150 159	413 996	2 585 829	4 939 527
Housing and mortgage loans	26 241	48 807	209 982	1 991 668	4 818 207
Loans and advances to corporate customers	1 556 871	680 905	2 557 846	7 559 217	3 643 586
Loans and advances due and receivable	103 588	8 773	40 263	303 330	535 288
Debt securities	1 790 251	74 643	3 059 362	196 184	12 112
Inter – bank placements	72 000	-	241	-	-
Cash and balances with Central Bank (NBP)	547 875	-	-	-	773 268
Non – current assets	-	-	-	158 902	476 211
Other assets	495 199	-	-	-	-
Off – balance liabilities received:	4 132 671	2 723 255	4 687 917	468 405	212 833
derivates	3 967 690	2 429 561	4 684 479	367 505	633
Liabilities					
Deposits from retail customers	4 335 203	1 773 795	3 083 666	3 621 981	488 423
Deposits from corporate customers	1 971 482	174 105	553 262	1 569 469	979 124
Inter-bank deposits	-	20 000	-	-	-
Negotiated deposits SK	2 092 305	1 715 405	388 743	343 394	-
Loans from financial institutions	12 717	63 583	310 827	1 580 540	2 021 931
Certificates of deposits	420 000	1 067 500	557 000	-	-
Equity and subordinated deposits	-	-	125 943	-	2 492 690
Other liabilities	197 878	-	-	-	-
Liabilities granted including:	7 118 676	2 545 045	5 521 356	840 882	257 161
derivates	3 881 819	2 384 672	4 685 023	359 047	283
Total receivables	**8 774 589**	**3 637 735**	**10 759 625**	**11 271 867**	**10 592 825**
Total liabilities	**16 148 261**	**7 359 433**	**10 540 797**	**7 956 266**	**6 239 329**
Partial liquidity gap	(7 373 672)	(3 721 698)	218 828	3 315 601	4 353 496
Cumulative liquidity gap	**(7 373 672)**	**(11 095 370)**	**(10 876 542)**	**(7 560 941)**	**(3 207 445)**

In the above analysis of the Bank's liquidity risk profile for the year 2012, the following assumptions were used, which cause its departure from the accounting data:

a) liquid securities are presented in the real liquidity gap in the 1-month, 3-month or 6-month term, according to the item's characteristics and book classification (HFT/AFS); securities with short-term maturity (up to 3 months) are presented in a group consistent with their actual maturity,

b) current accounts and savings accounts are presented in two parts: calculated statistical sediment (split in the period from 1 to 10 years and from 1 to 5 years respectively) and fluctuating part (1 day). Based on an internal analysis, this means that the Bank considers that the above realignment correctly reflects possible inflows from such accounts,

c) overdraft facilities and past maturity date loans are presented in two parts: calculated statistical sediment (split for 1 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 derivatives based on their valuation as at the analysis day (e.g. expected IRS, FX Swap, FRA, FX Forward, FX Option transaction amount settlements etc.).

49.5 Country risk and counterparty risk

Global economic slowdown resulted originally from the problems with the sub-prime loans in USA in 2008 – and spread in following years all over the world in the form of the trust deficit between financial institutions and liquidity crisis and in 2011 and 2012 in the form of anxiety over financial situation of countries resulted in the Bank continuing in 2012 the conservative policy in the area of taking country and counterparty risk.

Country risk and counterparty risk – organisation of risk management system

The Bank operates locally and offers mediation in entering into financial market transactions to its corporate clients. The problem of ‘toxic options’ made the Bank tighten its credit limit procedures in 2009 and 2010: the decision process regarding transaction limits was moved to the Head Office, the new agreement templates - better securing parties’ interests - were implemented and new limit structure was introduced, which enables verification of the compatibility of the transaction with clients’ declared needs related to hedge their business activity by limiting and monitoring the instrument types, currency pairs, duration of transactions 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.

Within the limits for financial institutions and countries, the Bank tightened its cooperation with the majority shareholder by adjusting the size and the structure of the available limits to the Rabobank Group policy, which aims at consolidating the exposure and taking advantage of the Group’s strength in negotiating the conditions and prices in inter-bank transactions. In 2012, the Bank continued to widen its cooperation with non-bank finance institutions – investment funds, pension funds and insurance funds – agreeing the limits for global companies with the Group. The Bank remains an active participant on the local inter-bank market.

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

Country risk

The Bank continued the conservative policy in the area of taking country risk – in May 2010, it performed a review of its country limits, decreasing the maximum possible exposure from PLN 7.8 billion to PLN 2.6 billion. In 2012 and 2011 the limits for the EU countries were decreased, adjusting them to forecasted business needs. Performing the following reviews and taking into considerations the signals from markets, the Bank has withdrawn or suspended the limits for Ireland, Spain, Portugal, Greece and Italy (mainly due to the deteriorating of public financial standing of these countries, their credit scoring and the deterioration of economic ratios) as well to other countries, as their economic conditions in Bank’s opinion may worsen, adjusting it to the real Bank needs and its risk appetite.

As a consequence, the maximum possible exposure level decreased to PLN 2.18 billion.

Accounting policies and additional explanatory notes

In 2012 there were changes in the risk distribution for the country risk. As at 31 December 2011, the majority of the Bank's exposure to countries resulted from treasury transactions (57%) concluded mainly with Rabobank (Netherland) while the rest 41% of the transaction were credit transactions (with Croatia) and foreign trade. At the end of 2012 treasury transactions accounted for 97% (credits with Croatia matured in 2012), while the additional 3% were foreign trade transactions. The Netherlands accounted for 55% of exposure, the USA - 25% and Germany – 14%. Other exposures focused on the following countries: Switzerland, Great Britain, and France.

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

Exposure by countries rating (in '000 PLN) divided into S&P ratings

	31.12.2012			31.12.2011		
	Limit	Exposure	%	Limit	Exposure	%
Rating AAA-A	2 155 000	109 386	5%	2 165 000	165 039	8%
Rating BBB	20 000	139	1%	76 000	116 404	153%
Rating BB	1 650	1 561	95%	20 000	2 430	12%
Rating B	-	-	-	-	-	-

Banking and financial client risk

In 2012, the Bank continued its prudential policy referring to limits for financial institutions. After significant reductions of limits, that took place in 2008 – 2010, and minor changes implemented in following year, in 2012 subsequent revision of actual limits took place. The financial and market position of actual and prospect counterparties was analyzed and the review of limits took place. In the response to growing business needs the limits were granted for new financial institutions (the number of banks increase from 25 to 33). The reduction were carried out, where they had not been utilized or in cases where the Bank had been unsure about the financial situation of the counterparty.

As a result, the sum of limits granted for the transactions on financial markets decreased by 20%, (reduction form PLN 3.58 billion to PLN 2.88 billion), and the relocation according to the new pattern better tailored the limits to the Bank's needs. In case of the limits designated for trading financing, they were increased to PLN 7.12 billion.

Bank exposure (in PLN '000)

	31.12.2012	31.12.2011
Financial market transactions		
- available limits	2 887 250	3 589 200
- used	697 309	185 338
Trade financing transactions		
- available limits	7 120	4 230
- used	4 240	4 375

Facilities for banks operating in Poland and 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 3 years the Bank stopped financing foreign banks and the transactions concluded earlier have been gradually extinguished. At present, the limits regarding trade financing transactions – mainly letters of credit and guarantees – are granted exclusively to realize client needs for the pre-agreed amount and time, in accordance with business justification.

As at the end of 2012 the majority of the financial market exposures consisted of deposits (65%), IRS/CIRS transactions (26%) and FX SWAP transactions (7% of the exposure). In comparison, in 2011 the exposures consisted of FX SWAP transactions (89% of the exposure), bonds (3%), IRS transactions (2%)
The cooperation of the Bank with NBFIs (non-bank financial institutions) i.e. investment, pension and insurance funds – is limited to transactions including debt treasury securities covered by the system delivery-vs.-payment provided by the Clearing House; thus although the aggregate value of the available limits amounts to PLN 532 million granted to 151 entities, the limits were used for 3 insurance companies and 2 investment funds, with which FX Forward and FX spot transactions has taken place.

Non financial counterparty risk

Using the experiences of toxic options crisis in 2009, the Bank re-constructed its lending process, with a view to concluding with non-banking clients finance market transactions. The foremost criterion is the existence of business need to secure finance risk in client business activity– as a result, the limit granted is established individually after considering the pre-settlement and settlement limits, types of available transactions, foreign currencies and currency pairs, deadlines, possibilities to roll a transaction, maximum currency position etc.

As of the end of 2012 the Bank had more than 435 such limits (almost 1.3 times more than in 2011) but actively used were only 32% of them. In 2012 the exposure contains mainly IRS/CIRS transactions (54%), currency exchange transactions FX Spot and FX Forward/NDF (43%) and currency options transaction (2%). Besides above, since 2012 the Bank offers to its clients commodity transactions, with settlement in cash. In total, the exposure for the client's transactions on such operations does not exceed 1% of the whole exposure. The change in the distribution of exposure was mainly caused by new IRS/CIRS transactions concluded by the clients in 2012. As at the end of 2012 the Bank does not have any outstanding foreign currency options with clients. In 2012 for the clients with the highest loss at the end of 2011, all transactions have been cleared and limits closed.

Non-financial clients' exposure (in PLN '000)

	31.12.2012	31.12.2011
Available limits	519 913	429 013
Exposure	38 678	28 585
Share %	7%	7%

Accounting policies and additional explanatory notes

Currency structure of the balance sheet positions is presented in the table below:

Concentration of currency assets and liabilities (in PLN thousands)

31.12.2012	EUR	USD	CHF	GBP	SEK	Other
Assets						
Cash and balances with the Central Bank	143 077	36 734	17 991	32 784	-	-
Amounts due from other banks	43 006	14 952	344	1 188	5 555	6 368
Loans and advances to customers	1 365 925	109 598	3 447 543	1 696	1	177
Shares	45	-	-	-	-	-
Debt securities	36 770	-	-	-	-	-
Other assets	61 477	3 938	2 450	12 499	2	5
Total assets	**1 650 300**	**165 222**	**3 468 328**	**48 167**	**5 558**	**6 550**
Liabilities						
Amounts owed to banks	400 241	29 068	3 030 709	4 517	-	994
Amounts owed to customers	1 069 797	408 061	4 859	29 326	1 891	1 588
Other liabilities	27 925	3 487	10	5 202	151	632
Total liabilities	**1 497 963**	**440 616**	**3 035 578**	**39 045**	**2 042**	**3 214**
Derivatives and commitments – nominal value	**2 947 771**	**3 460 134**	**1 533 708**	**21 240**	**3 096**	**15 747**
31.12.2011						
Assets						
Cash and balances with the Central Bank	131 611	35 766	14 886	29 529	-	-
Amounts due from other banks	116 724	5 023	338	904	7 909	11 668
Loans and advances to customers	1 005 615	191 848	3 949 789	1 374	-	277
Shares	49	-	-	-	-	-
Debt securities	64 208	16 984			-	
Other assets	62 549	1 645	2	5 683	1	437
Total assets	**1 380 756**	**251 266**	**3 965 015**	**37 490**	**7 910**	**12 382**
Liabilities						
Amounts owed to banks	444 487	1 530	3 556 623	86	-	879
Amounts owed to customers	817 090	421 677	3 902	18 379	5 100	7 360
Other liabilities	36 313	6 909	1 247	1 326	33	1 554
Total liabilities	**1 297 890**	**430 116**	**3 561 772**	**19 791**	**5 133**	**9 793**
Derivatives and commitments – nominal value	**14 135 961**	**10 683 812**	**1 167 571**	**38 306**	**2 772**	**20 009**

49.1 Operating risk

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

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

Procedures

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

Organization

A superior role in the organizational structure responsible for managing organizational risk is fulfilled by the Balance Sheet and Risk Management Committee as well as the Operational Risk and Conformity and Anti-Fraud Subcommittee, which act as intermediaries of the Management Board, supervising the operational risk management system and the risk level. The responsibilities of the Operational Risk Management Department in the Systematic Risk Function include but are not limited to the processes and tools related to operating risk management. There is an operational risk coordinator in each organisational unit at the Head Office of the Bank, while in the Regional Headquarters there are Posts for Operational Risk Management.

Risk management

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

Reporting

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

Economic capital and risk evaluation

Bank has over a 9-year data history of losses caused by operating risk. The data concerning operating risk losses and threats collected by the Bank are used to evaluate economic capital required to cover operating risk that strictly corresponds with Bank's operating profile. The evaluation of economical capital is based on implemented rules and statistical model. Irrespective of the above, according to the regulations in force, the Bank determines regulating capital to cover operating risk. The basic index method (BIA) is applied to calculate it.

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

49.2 Trust activities

The Bank provides safekeeping, trust, business management, investment management and advisory services to third parties, and in doing so, the Bank takes decisions in the name and for the benefit of clients, concerning the allocation, purchase and sale of various financial instruments. The Bank operates securities accounts based on a license issued by the Securities and Exchange Commission, dated 14 May 2002, the Resolution of the National

- data in PLN thousands

Depository for Securities, dated 8 August 2002, and internal regulations concerning maintaining securities accounts, rendering trust services in respect of transactions in treasury bonds and bills, shares, money bills and non-treasury debt instruments and foreign bonds, Orders for the purchase or sale of securities on the Warsaw Stock Exchange may be placed with Biuro Maklerskie BGŻ S.A. (the Bank's brokerage office), as well as with any brokerage house chosen by the client. The average monthly turnover on transactions on behalf of the clients in non-treasury bills, treasury bonds and non-treasury debt instruments amounts to PLN 2 956 thousand in 2012, and to PLN 422 195 thousand in 2011.

49.3 Fair value of financial assets and liabilities carried at amortised cost

The Bank uses the following hierarchy for determining and disclosing the fair value of financial assets and liabilities:

Level 1

Financial assets and liabilities valued on the basis of prices quoted in active markets for identical assets or liabilities.

Level 2

Financial assets and liabilities valued using valuation techniques based on directly observable market quotations or other information based on market quotations.

Level 3

Financial assets and liabilities valued using valuation techniques based on market quotations which are not directly observable.

Presented below are the carrying amounts of financial instruments re-measured to fair value, by the valuation levels described above:

31.12.2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:	**3 256 409**	**4 272 057**	**26 548**	**7 555 014**
Financial assets held for trading (excluding derivatives)	219 051	-	-	219 051
Derivatives*	-	468 406	-	468 406
Financial assets available for sale	3 037 358	3 803 651	26 548	6 867 557
Financial liabilities	**-**	**349 431**	**-**	**349 431**
Derivatives	-	349 431	-	349 431
31.12.2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:	**4 643 002**	**1 333 865**	**159 270**	**6 136 137**
Financial assets at fair value through profit or loss	1 632 434	-	-	1 632 434
Derivatives*	-	878 953	-	878 953
Financial assets available for sale	3 010 568	454 912	159 270	3 624 750
Financial liabilities	**-**	**795 461**	**-**	**795 461**
Derivatives	-	795 461	-	795 461

*The line „Derivatives" does not include settlements from buying and selling option contracts

- data in PLN thousands

Accounting policies and additional explanatory notes

In 2012 and 2011, the Bank did not implement any changes in the re-measurement to fair value method which would result in transfers of financial assets and liabilities between the individual levels referred to above.

The table below presents changes in valuation of financial assets and liabilities classified as level 3 and amounts taken to profit or loss and to the statement of comprehensive income for financial assets and liabilities classified as level 3.

		Gains/losses					
	Opening balance	Through profit or loss	*Including items presented as of 31.12.2012*	Through statement of comprehensive income	*Including items presented as of 31.12.2011*	Settlement	Closing balance
Financial assets:	**159 270**	**5 422**	**1 179**	**1 445**	**402**	**(139 589)**	**26 548**
Derivatives	-	-	-	-	-	-	-
Available for sale financial assets	159 270	5 422	1 179	1 445	402	(139 589)	26 548
Financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Derivatives	-	-	-	-	-	-	-

		Gains/losses					
	Opening balance	Through profit or loss	*Including items presented as of 31.12.2011*	Through statement of comprehensive income	*Including items presented as of 31.12.2010*	Settlement	Closing balance
Financial assets:	**162 503**	**7 404**	**8 010**	**1 515**	**1 515**	**(12 152)**	**159 270**
Derivatives	728	(728)	-	-	-	-	-
Available for sale financial assets	161 775	8 132	8 010	1 515	1 515	(12 152)	159 270
Financial liabilities	**(2 000)**	**2000**	**-**	**-**	**-**	**-**	**-**
Derivatives	(2 000)	2 000	-	-	-	-	-

The impact of changes in estimates used in valuation of financial assets classified as level 3 is immaterial.

In respect to financial assets available for sale classified as level 3 credit risk margin is taken into account in fair value measurement which is equal to margin for instruments of similar characteristics. The impact of the changes in estimations of adopted margin as at 31 December 2011 is assessed material.

The table below presents the carrying amount and the fair value of those financial assets and liabilities that were not presented at fair value in the Bank's statement of financial position.

- data in PLN thousands

31.12.2012	Carrying amount	Fair value
Financial assets		
Amounts due from other banks	104 035	102 125
Receivables arising from reverse repo transactions	104 369	104 369
Amounts due from customers under overdraft facilities	4 144 876	4 135 126
Loans and advances to customers:	22 196 770	22 317 541
- companies	7 663 264	7 719 100
- households	14 163 659	14 227 174
- public institutions	313 531	313 467
- other entities	56 316	57 800
Other debt securities	15 876	15 876
Financial liabilities		
Amounts owed to other banks	4 094 436	4 128 355
Liabilities arising from repo transactions	104 346	104 346
Amounts owed to customers and debt securities issued	28 794 805	28 757 053

31.12.2011	Carrying amount	Fair value
Financial assets		
Amounts due from other banks	221 071	217 686
Receivables arising from reverse repo transactions	366 343	366 343
Amounts due from customers under overdraft facilities	3 288 538	3 307 948
Loans and advances to customers:	20 949 729	20 981 756
- companies	7 410 959	7 447 320
- households	13 148 789	13 166 345
- public institutions	287 978	264 638
- other entities	102 003	103 453
Other debt securities	15 105	15 105
Financial liabilities		
Amounts owed to other banks	4 446 716	4 516 612
Liabilities arising from repo transactions	-	-
Amounts owed to customers and debt securities issued	24 974 840	24 951 156

a) Amounts due from other banks

Amounts due from other banks consist of inter-bank placements and inter-bank settlements. The fair value of fixed and variable interest rate placements (including overnight placements) is based on future cash flows discounted using the money market interest rates for items with similar credit risk and similar period remaining to maturity.

b) Loans and advances to customers

The estimated fair value of loans and advances to customers is calculated as the discounted value of future cash flows to be received. In order to determine the fair value of loans and advances granted to customers, the amounts to be received are discounted using current interest rates. Market rates used for discounting are adjusted for the actual cost of raising funds for lending and credit risk cost for each product group.

c) Other debt securities

The fair value of other debt securities is calculated on the basis of market prices (for securities quoted on inter-bank market / stock exchange) or, where market prices are not available, the fair value is estimated using a model for discounting future cash flows from the investment, based on market interest rate curves.

d) Amounts owed to other banks

Amounts owed to other banks include inter-bank deposits and inter-bank settlements. The fair value of fixed and variable interest rate deposits (including overnight deposits) is based on future cash flows discounted using the money market interest rates for items with similar credit risk and similar period remaining to maturity.

e) Amounts owed to customers

The fair value of fixed and variable interest rate deposits is based on future cash flows discounted using the money market interest rates revised with liquidity margin. In relation to deposits on demand it is assumed that the fair value equals their carrying amount.

f) Debt securities issued

The fair value of liabilities arising from issued debt securities is estimated using a model for discounting future cash flows from the investment, based on market interest rate curves revised with the issuer’s credit risk.

50 Significant events in 2012 and 2011

BGŻ share tender offer

On 11 April 2012 Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. and Rabobank International Holding B.V. announced tender offer for the sale of all outstanding shares of BGŻ with intention to obtain 100% of the shares of BGŻ.

As a result of the tender offer, that ended on 30 July 2012, RIH acquired 16 371 351 shares of the Bank. The total exposure of the RIH in BGŻ S.A. amounted to 37 941 751 shares representing 87.95% of the share capital of the Bank and the right to exercise the same number of votes at the general meeting. Both Rabobank Group entities as a result of the tender offer acquired a total of 97.93% of the share capital of the Bank.

At the same time, the State Treasury decreased its share in BGŻ to 0.02% of the Bank’s share capital.

The share capital increase and the issuance of shares of G Series

Due to the need for the increase of the Bank’s capital level to suit its current and planned activity level with the maintenance of the business security as well as to gather necessary funds to maintain higher capital adequacy ratios (due to New Capital Accord – Basel III), and Polish Financial Supervision Authority’s recommendation the Bank increased the equity through issuance of shares G series.

Accounting policies and additional explanatory notes

On 28 August 2012 Extraordinary General Meeting of the Bank adopted a resolution to increase the capital by PLN 8 000 000 (to PLN 51 136 764) through the issuance of 8 000 000 G series shares (nominal value PLN 1) at issue price of PLN 62.50. The issuance was offered in a private placement to RIH.

As a consequence of the shares issue, shareholding of RIH increased to 45 941 751 shares of BGŻ Bank, accounting for 89,84% of Bank's share capital, with equal share in voting rights. Total investment of Rabobank Group in BGŻ Bank equals 98.26%.

Potential merger with Rabobank Polska and the intent to increase the number of shares in free float.

On 19 December 2012 the Bank received the information from its strategic shareholders - Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. and its subsidiary Rabobank International Holding about the intent to undertake the merger processes between BGŻ Bank and Rabobank Polska S.A. Rabobank informed the BGŻ Bank, that it will make all efforts to register the merger between the end of 2013 and the first half of 2014.

The decision about the merger is a result of liabilities taken by Rabobank against Polish Financial Supervision Authority in 2008 with regard to the received approval to exceed the 50% level of voting rights in BGŻ Bank. (Detailed information regarding Rabobank's liabilities were communicated to the public information in prospectus approved by Polish Financial Supervision Authority on 28 April 2011).

The merger would be undertaken through a takeover of Rabobank by BGŻ S.A. Any further detail regarding these transactions will be announced after their determination.

Besides above, the Rabobank informed the Bank's Management Board about its intend to decrease commitment in BGŻ Bank from current 98% to 75% no further than till half of 2016 according to the liabilities against PFSA. Consequently, the number of shares in a free float listed on Warsaw Stock Exchange in Warsaw will increase to 25%.

Bank's Rating Change

On 18 June 2012, the Moody's Investors Service rating agency downgraded long-term rating deposits for the Bank to Baa2 from Baa1, with stable outlook. The Bank's Financial Strength Rating („BFSR") has remained at the level „D" with stable outlook. The rating of the Bank's short-term deposits was confirmed at Prime-2.

The change in the rating closed the BGŻ ratings review started by the Moody's on 21 February 2012.

KNF Inspection

In 2011 a complex inspection carried out by the Polish Financial Supervision Authority took place. Based on the results of the inspection, the Polish Financial Supervision Authority states that on the day of the control the Bank's financial and economic situation was not a threat to the security of deposits in the Bank's accounts. In Bank's opinion, the results of the inspection do not have material impact on the financial statements.

51 Events after the reporting period

Resignation of the President of the Management Board of Bank BGŻ

On 24 February 2013, the Management Board has been informed that Mr. Jacek Bartkiewicz resigned from the post of President of the Board of Bank Gospodarki Żywnościowej S.A. with effect from 31 March 2013.

Appointment of Vice President of the Management Board and assignment of the responsibilities of President of the Management BGŻ S.A., and conditional appointment as President of the Management Board of BGŻ S.A.

On March 1, 2013 The Management Board was notified on the resignation of Ms Monika Nachyła from the position of member of the Supervisory Board of Bank Gospodarki Żywnościowej as from March 1, 2013. Supervisory Board of the Bank during its seating on March 1, 2013 appointed Ms. Monika Nachyła as Vice President of the Management Board of the Bank and assigned to her the responsibilities of President of the Management Board of BGŻ S.A. Also that on 1st March 2013 the Supervisory Board passed resolution on appointment of Ms Monika Nachyła as President of the Management Board of BGŻ S.A. The resolution shall come into force once the appointment is approved by the Polish Financial Supervision Authority under art. 22 b of the Banking law act.

....
Jacek Bartkiewicz
President of the Management Board

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

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

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

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

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

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

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

....
Katarzyna Romaszewska-Rosiak
Chief Financial Officer
Chief Accountant

Warsaw, 4 March 2013