



**Bank Gospodarki Żywnościowej S.A.
Financial Statements, prepared in
accordance with
International Financial Reporting Standards
for the year ended
31 December 2011,
together with the
independent auditors' opinion**

Warsaw, 5 March 2012

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011

- data in PLN thousand



Contents

Statement of comprehensive income and income statement	4
Statement of financial position.....	6
Statement of changes in equity.....	8
Statement of Cash flows.....	9
Notes to the financial statements.....	11
1 Information about the Bank.....	12
2 Description of significant accounting policies	14
2.1 Basis for the preparation of the financial statements	14
2.2 Going concern	14
2.3 Statement of compliance with IFRS.....	14
2.4 Changes in presentation.....	16
2.5 Valuation of foreign currency items	16
2.6 Interest income and expense	17
2.7 Net fee and commission income.....	17
2.8 Dividend income	17
2.9 Result on trading activities.....	17
2.10 Result on investing activities	18
2.11 Other operating income and other operating expenses.....	18
2.12 Corporate income tax.....	18
2.13 Classification and valuation of financial assets.....	19
2.13.1 Initial recognition and de-recognition of financial assets and liabilities in the Statement of financial position	19
2.13.2 Financial assets and liabilities at fair value through profit or loss	19
2.13.3 Loans and receivables	20
2.13.4 Held-to-maturity investments	20
2.13.5 Available-for-sale assets	21
2.13.6 Offsetting of financial instruments.....	21
2.13.7 Sell and buy back transactions	21
2.13.8 Investments in subsidiaries and associates.....	21
2.14 Impairment of financial assets	21
2.14.1 Financial assets carried at amortized cost.....	21
2.14.2 Financial assets at fair value through profit or loss or at cost.....	23
2.15 Non-current assets held for sale.....	24
2.16 Investment property	24
2.17 Intangible assets.....	24
2.18 Property, plant and equipment.....	25
2.19 Financial liabilities valued at amortized cost.....	26
2.20 Provisions	26
2.21 Operating lease.....	26
2.22 Financial guarantees	27
2.23 Employee benefits	27
2.23.1 Jubilee bonuses	27
2.23.2 Retirement benefits	27
2.23.3 Provision for unused annual leave.....	27
2.23.4 Allocation of profit for employee purposes, and special funds	27
2.24 Issued share capital	28
2.24.1 Share issued costs.....	28
2.24.2 Treasury shares	28
2.25 Statutory reserve capital.....	28
2.26 Other reserves	28
2.27 General banking risk reserve from net profit distribution.....	28
2.28 Trust activities	28
2.29 Cash and cash equivalents	28
3 Major estimates and judgements made in connection with the application of accounting policies	29
4 Net interest income	31
5 Net fee and commission income	32

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011

- data in PLN thousand



6	Dividend income.....	32
7	Result on trading activities	33
8	Result on investing activities.....	33
9	Other operating income.....	34
10	Impairment losses on loans and advances	34
In 2010 the Bank updated the parameters of the model used in calculations of impairment losses amounts. The update relates to increase the recovery parameter at the recovery date and extension of the loss identification period. In the case of recovery at the moment of insolvency, the change results from observations of recovery amount in reality and historical data also in next classes of default than previously assumed in the model (decrease in allowances for provision by PLN 80.3 million). In the case of loss identification period, the Bank decided to extend this period for retail customers in order to increase the Bank's security (creation of provision in the amount of PLN 3.2 million). Above changes resulted in reversal of provisions for impairment losses of financial assets in the amount of PLN 77.1 million and were accounted for in the income statement.		
11	General administrative expenses	35
12	Other operating costs	35
13	Employee benefits.....	36
14	Income tax.....	36
15	Earnings per share.....	37
16	Cash and balances with the Central Bank.....	37
17	Amounts due from other banks.....	38
18	Receivables arising from reverse repo transactions	39
19	Held-for-trading securities	39
20	Derivative financial instruments.....	40
21	Loans and advances to customers	44
22	Securities available – for - sale.....	49
23	Other debt securities	50
24	Investments in subsidiaries and jointly controlled entities.....	51
25	Intangible assets	52
26	Property, plant and equipment	53
27	Other assets.....	55
28	Amounts owed to other banks.....	56
29	Liabilities arising from repo transactions.....	56
30	Amounts owed to customers.....	57
31	Debt securities issued	58
32	Other liabilities	59
33	Provisions	59
34	Deferred tax.....	62
35	Discontinued operations	63
36	Liabilities arising from employee benefits	64
37	Contingent liabilities	65
38	Operating lease	68
39	Equity.....	68
40	Reserve capital and other reserves, retained earnings	70
41	Dividend per share	71
42	Appropriation of profit.....	71
43	Cash and cash equivalents	71
44	Notes to the Statement of cash flows	71
45	Solvency ratio.....	72
46	Related party transactions	75
47	Business segments.....	80
47.1	Segment Reporting.....	80
47.2	Characteristics of operating segments	83
47.3	Reconciliation of results with financial reporting data.....	84
48	Financial risk management	88
48.1	Financial instruments strategy	88
48.2	Credit risk	88

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011

- data in PLN thousand



48.3	Market risk and ALM (Assets and Liabilities Management)	97
48.4	Liquidity risk	102
48.5	Country risk and counterparty risk.....	107
48.6	Operating risk	110
48.7	Trust activities	112
48.8	Fair value of financial assets and liabilities carried at amortised cost.....	112
49	Significant events in 2011	116
50	Events after the reporting period	118

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011

- data in PLN thousand



Income statement

	Note	Year ended 31.12.2011	Year ended 31.12.2010
Interest income	4	1 692 151	1 376 609
Interest expense	4	(858 140)	(772 291)
Net interest income		834 011	604 318
Fee and commission income	5	310 860	305 736
Fee and commission expense	5	(40 961)	(34 210)
Net fee and commission income		269 899	271 526
Dividend income	6	3 554	3 147
Result on trading activities	7	101 852	143 539
Result on investing activities	8	5 389	1 476
Other operating income	9	61 987	53 331
Net impairment losses on loans and advances	10	(163 913)	(134 162)
General administrative expenses	11,13	(854 947)	(713 660)
Other operating expenses	12	(110 208)	(102 623)
Operating result		147 624	126 892
Profit (loss) before taxation		147 624	126 892
Income tax expense	14	(21 564)	(14 391)
Net profit (loss) for the year	15	126 060	112 501

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011

- data in PLN thousand



Statement of comprehensive income

	Note	Year ended 31.12.2011	Year ended 31.12.2010
Profit (loss) for the year		126 060	112 501
Other comprehensive income			
Net (loss)/gain on valuation of available-for-sale financial assets	22	18 207	(4 555)
Income tax effect		(3 459)	865
Other comprehensive income for the year, net of tax		14 748	(3 690)
Total comprehensive income for the year		140 808	108 811

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011

- data in PLN thousand



Statement of financial position

	Note	31.12.2011	31.12.2010
ASSETS			
Cash and balances with the Central Bank	16	1 383 321	1 379 737
Amounts due from other banks	17	221 071	280 867
Receivables arising from reverse repo transactions	18	366 343	651 706
Held-for-trading securities	19	1 632 434	1 814 899
Derivative financial instruments	20	883 109	220 987
Loans and advances to customers	21	24 238 267	19 882 989
Securities available for sale	22	3 624 750	3 290 675
Other debt securities	23	15 105	125 108
Investments in subsidiaries and associates	24	58 468	47 422
Intangible assets	25	146 443	96 787
Property, plant and equipment	26	485 943	464 818
Deferred tax asset	34	207 794	232 141
Current tax asset		-	44 800
Other assets	27	123 848	78 178
TOTAL ASSETS		33 386 896	28 611 114

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011

- data in PLN thousand



Statement of financial position (continuation)

	Note	31.12.2011	31.12.2010
LIABILITIES			
Amounts owed to other banks	28	4 446 716	1 020 419
Liabilities arising from repo transactions	29	-	1 268 921
Derivative financial instruments and other liabilities held for trading	20	795 707	732 098
Amounts owed to customers	30	22 941 728	21 051 722
Liabilities from issued debt securities	31	2 033 112	1 745 043
Other liabilities	32	474 912	241 852
Current tax liabilities		-	3
Provisions	33	41 811	41 544
Liabilities arising from employee benefits	36	25 412	22 822
TOTAL LIABILITIES		30 759 398	26 124 424
EQUITY			
Issued share capital	39	43 137	43 137
Reserve capital	40	2 332 656	2 220 155
Other reserves	40	125 645	110 897
Undistributed profit for the year		126 060	112 501
TOTAL EQUITY		2 627 498	2 486 690
TOTAL LIABILITIES AND EQUITY		33 386 896	28 611 114

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 201

- 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 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 income for the period		-	-	14 748	126 060	140 808
As at 31 December 2011	39,40	43 137	2 332 656	125 645	126 060	2 627 498
As at 1 January 2010		43 137	2 112 164	114 587	107 991	2 377 879
Net profit for the year		-	-	-	112 501	112 501
Other comprehensive income for the year		-	-	(3 690)	-	(3 690)
Transfer from prior year profits		-	107 991	-	(107 991)	-
Total income for the period		-	-	(3 690)	112 501	108 811
As at 31 December 2010	39,40	43 137	2 220 155	110 897	112 501	2 486 690

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010

- data in PLN thousands



Statement of cash flows

	Note	Year ended 31.12.2011	Year ended 31.12.2010
CASH FLOW FROM OPERATING ACTIVITIES:			
Net profit/loss		126 060	112 501
Total adjustments:		(3 480 872)	(124 213)
Current and deferred tax recognized in the financial result	14	21 564	14 391
Amortisation and depreciation	12	82 999	73 233
Interest and share in profits (dividends)	44	(35 458)	(92 603)
Profit/loss on investing activities		(6 899)	(864)
Change in provisions and liabilities for employee benefits		2 857	(1 125)
Change in amounts due from other banks	44	38 022	32 195
Change in receivables arising from reverse repo transactions		285 363	(577 051)
Change in held-for-trading debt securities		182 465	(1 347 382)
Change in positive valuation of derivative financial instruments		(662 122)	33 631
Change in loans and advances to customers		(4 355 278)	(1 569 875)
Income tax paid/received		44 801	(201 335)
Change in amounts owed to other banks	44	45 598	340 458
Change in liabilities arising from repo transactions		(1 268 921)	1 156 941
Change in negative valuation of derivative financial instruments		63 609	483 799
Change in amounts owed to customers		1 890 006	1 453 196
Change in liabilities arising from issues of debt securities		-	(212)
Change in other assets		(45 670)	34 841
Change in other liabilities and change in income tax liability	44	233 057	43 799
Other adjustments	44	3 135	(250)
NET CASH FLOW FROM OPERATING ACTIVITIES		(3 354 812)	(11 712)

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010

- data in PLN thousands



Statement of cash flows (continuation)

	Note	Year ended 31.12.2011	Year ended 31.12.2010
CASH FLOW FROM INVESTING ACTIVITIES:			
Inflows		55 578 543	102 975 945
Sale and redemption of other debt securities		107 564	102 824
Sale of securities available for sale		55 467 342	102 870 826
Sale of intangible assets and property, plant and equipment		83	2 295
Dividends received		3 554	-
Outflows		(55 910 619)	(103 403 257)
Purchase of shares in associates	24	(12 271)	(10 502)
Purchase of securities available for sale	22	(55 742 670)	(103 287 188)
Purchase of intangible assets, property, plant and equipment	25,26	(155 393)	(105 161)
Other investing outflows		(285)	(406)
NET CASH FLOW FROM INVESTING ACTIVITIES		(332 076)	(427 312)
CASH FLOW FROM FINANCING ACTIVITIES::			
Inflows		8 466 397	6 701 375
Long-term loans raised from other banks		3 503 897	203 875
Issue of debt securities to other financial institutions	31	4 962 500	6 497 500
Outflows		(4 797 698)	(6 205 500)
Repayment of long- term loans to other banks		(123 198)	-
Redemption of debt securities issued to other financial institutions	31	(4 674 500)	(6 205 500)
TOTAL NET CASH FLOW FROM FINANCING ACTIVITIES		3 668 699	495 875
TOTAL NET CASH FLOW		(18 189)	56 851
Cash and cash equivalents at the beginning of the year	43	1 610 838	1 553 987
Cash and cash equivalents at the end of the year, of which:	43	1 592 649	1 610 838
of restricted use	37	830	1 041

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011

- data in PLN thousands



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. In the Articles of Association of the Bank it has been stated that the Company shall continue until terminated.

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

In 2011, the average number of employees at BGŻ S.A. was 5,414.13 FTEs (full-time employees) in terms of full-time posts and in the year 2010 – 5,050.55 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
- trading in securities,
- 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,

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011



- data in PLN thousands

Accounting policies and additional explanatory notes

trading in treasury stamps and numismatic items.

.

As at 31 December 2011, the Bank's Management Board was composed of the following members:

Jacek Bartkiewicz	– President
Gerardus Cornelis Embrechts	– 1 st 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

As of 31 March 2011 Mr Hieronymus Nijsen resigned as 1st Vice-president of the Management Board.

As of 31 March 2011 the Supervisory Board appointed the following people as the members of the Management Board:

- Mr Gerardus Cornelis Embrechts effective from 1 April 2011 as 1st Vice-president,
- Mr Johannes Gerardus Beuming effective from 1 May 2011 as the Vice-president,
- Mr Dariusz Odzioba effective from 10 May 2011 as the Vice-president,
- Mr Wojciech Sass effective from 15 June 2011 as the Vice-president,

As of 1 September 2011 the Supervisory Board appointed Ms Magdalena Legęć as the Vice-president of the Bank BGŻ S.A. from 1 October 2011 r.

Since the reporting 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 Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A.

Bank Gospodarki Żywnościowej Spółka Akcyjna is the parent company of the BGŻ S.A. Capital Group (hereinafter referred to as the '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 2011 and for the year then ended, and were approved for publication by the Management Board on 5 March 2012.

The consolidated financial statements of BGŻ S.A. Capital Group were prepared as at 31 December 2011, and were approved for publication by the Management Board on 5 March 2012

The above financial statements include data for the year 2010 and 2011.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011



- data in PLN thousands

Accounting policies and additional explanatory notes

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 would continue as a going concern in the foreseeable future, i.e. in the period of at least 12 months following the reporting date. As at the date of signing the 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.

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. At 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 Bank.

- Amendments to IAS 32 *Financial instruments: Presentation: Classification of Rights Issues* – applicable to annual periods beginning on or after 1 February 2010. This amendment did not have any impact on the financial statements of the Bank,
- IAS 24 *Related Party Disclosures (revised in November 2009)* – applicable to annual periods beginning on or after 1 January 2011. This interpretation did not have any effect on the financial position or performance of the Bank,
- Amendments to IFRIC 14 IAS 19 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: Prepayments of a Minimum Funding Requirements* – applicable to annual periods beginning on or after 1 January 2011. This interpretation did not have any effect on the financial position or performance of the Bank,
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* – applicable to annual periods beginning on or after 1 July 2010. This interpretation did not have any effect on the financial position or performance of the Bank,
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* - effective for financial years beginning on or after 1 July or after. This interpretation did not have any effect on the financial position or performance of the Bank

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011



- data in PLN thousands

Accounting policies and additional explanatory notes

- Improvements to IFRSs (published in May 2010) – certain changes are applicable to annual periods commencing on or after 1 January 2011. This interpretation did not have any effect on the financial position or performance of the Bank,
- 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,

Standards and interpretations issued but not in force:

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:

- 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 Bank. The Bank will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.
- 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,
- IFRS 10 *Consolidated Financial Statements* – 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 11 *Joint Arrangements* – 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 12 *Disclosure of Interests in Other Entities* – 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 – not endorsed by EU till the date of approval of these financial statements,
- Amendments to IAS 19 *Employee Benefits* - 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 IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* - effective for financial years beginning on or after 1 July 2012 – not endorsed by EU till the date of approval of these financial statements,
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* - 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 7 *Financial Instruments – Disclosures: Offsetting Financial Assets and Financial Liabilities* - 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 IAS 32 *Financial Instruments – Presentation: Offsetting Financial Assets and Financial Liabilities*- effective for financial years beginning on or after 1

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011



- data in PLN thousands

Accounting policies and additional explanatory notes

January 2014 – 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 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.
- IAS 27 *Consolidated and separate financial statement* - effective for financial years beginning on or after 1 January 2013 – not endorsed by EU till the date of approval of these financial statements.
- IAS 28 *Investments in Associates and Joint Ventures* - effective for financial years beginning on or after 1 January 2013 – 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 the changes aimed to improve presentation of the items in the notes to the financial statement, including in Note 4, Note 21, Note 30 and Note 46. In addition a change in the presentation of segment disclosed in Note 47.1

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.

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.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011



- data in PLN thousands

Accounting policies and additional explanatory notes

The main foreign currency exchange rates used in the preparation of these financial statements, prevailing on 31 December 2011 and 31 December 2010, were as follows:

	31.12.2011	31.12.2010
1 EUR	4.4168	3.9603
1 USD	3.4174	2.9641
1 GBP	5.2691	4.5938
1 CHF	3.6333	3.1639
100 JPY	4.4082	3.6440

2.6 Interest income and expense

Included in the income statement is 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.

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.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011



- data in PLN thousands

Accounting policies and additional explanatory notes

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 reassessed at each subsequent reporting date, and is recognized to the extent that it is probable that sufficient taxable profit will be available to allow the deferred tax asset to be utilized. The Bank offsets deferred tax assets and deferred tax liabilities if, and only if, it has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes that are levied by the same taxation authority on the same taxable entity.

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

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011



- data in PLN thousands

Accounting policies and additional explanatory notes

In 2011 and 2010, 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 2011 and 31 December 2010, 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

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011



- data in PLN thousands

Accounting policies and additional explanatory notes

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.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011



- data in PLN thousands

Accounting policies and additional explanatory notes

- 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

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011



- data in PLN thousands

Accounting policies and additional explanatory notes

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 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) unfavorable 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 all exposures, to non-retail clients, with the carrying and off-balance sheet value and the equivalent of foreign currency exposures equating or exceeding PLN 1 000 thousand (in words: one million zlotys) at the reporting date on which the assessment of the impairment has been made. In addition. included in the ISFA group. irrespective of the total value of the exposure referred to above. are:

- all 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;
- all customers considered significant (group of strategic customers). irrespective of whether the criterion of threshold materiality has been met or not;
- all debt securities (issued by the State Treasury. public sector entities and business enterprises) classified in accordance with the Decree on valuation as held to maturity;
- all credit exposures in respect of banks;
- all credit exposures in respect of non-banking entities in the financial sector:
- all exposures covered by restructuring procedures with the amount of principal of at least PLN 100 thousand included and not included in the statement of financial position.

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

Accounting policies and additional explanatory notes

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. If a loan or held-to-maturity investment has variable interest rate, then the discount rate used to determine impairment loss is the current effective interest rate established in the loan agreement. In practice, the Bank may determine impairment losses using the fair value of the financial instrument, based on the current market price.

Calculation of present value of estimated future cash flows of a collateralised financial asset includes cash flows from the seizure of the collateral, less costs of its acquisition and sale; irrespective of whether or not the seizure is likely.

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.

Estimates of changes in future cash flows from groups of financial assets should be directionally consistent with changes in related observable data from period to period (such as changes in unemployment rate, property prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). 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 investments 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

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011



- data in PLN thousands

Accounting policies and additional explanatory notes

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

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011



- data in PLN thousands

Accounting policies and additional explanatory notes

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

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011



- data in PLN thousands

Accounting policies and additional explanatory notes

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 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.

2.20 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.

2.21 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

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011



- data in PLN thousands

Accounting policies and additional explanatory notes

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.

2.22 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.

2.23 Employee benefits

The Bank creates a provisions 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 36 to these financial statements.

Bank employees are entitled to the following employee benefits:

2.23.1 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.

2.23.2 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.

2.23.3 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.

2.23.4 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

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

costs of the period in which the Shareholders Meeting approved the profit allocation and if the shareholders' decision does not arise from an obligation that is current as at the reporting date.

2.24 Issued share capital

2.24.1 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.

2.24.2 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.

2.25 Statutory reserve capital

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

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

2.26 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 instruments held for sale.

2.27 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 Annual General Meeting.

2.28 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.

2.29 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

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011



- data in PLN thousands

Accounting policies and additional explanatory notes

(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.

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 to non-retail entities for which the total of the balance sheet and off-balance sheet principal liability, 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 liability and the one 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, which have been found by the Bank to be impaired 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.

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

A 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.

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

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011



- data in PLN thousands

Accounting policies and additional explanatory notes

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 available-for-sale

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 a deterioration in the issuer's financial standing, the industry or economy sector, the technology or cash flows from operating and financing activities.

d) Investments 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.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011



- data in PLN thousands

Accounting policies and additional explanatory notes

4 Net interest income

	12 months ended 31.12.2011	12 months ended do 31.12.2010
Interest income		
Amounts due from other banks	38 996	27 670
Amounts due from customers under overdraft facilities	247 096	186 690
Loans and advances to customers, after considering reversal of interest on loans with impairment losses, of which:	1 185 362	981 986
– companies	401 374	324 019
– households	766 675	644 292
– public institutions	11 028	8 964
– other entities	6 285	4 711
Debt securities	220 697	180 263
– at fair value through profit or loss account (trading)	35 691	33 432
– available for sale	182 848	140 836
– other debt securities	2 158	5 995
	1 692 151	1 376 609
Interest expense		
Liabilities to other banks, including:	140 076	100 667
- own issuance	81 404	83 349
Liabilities to clients, of which:	718 064	671 624
– companies	194 143	147 507
– households	404 752	417 050
– public institutions	49 801	69 586
– other entities	69 368	37 481
	858 140	772 291
Net interest income	834 011	604 318

In 2011 the total interest income calculated using the effective interest rate method with respect to financial assets not measured at fair value through profit or loss, is PLN 1 656 460 thousand (PLN 1 343 177 thousand for the 12-month period ended 31 December 2010), 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 858 140 thousand (PLN 772 291 thousand for the 12-month period ended 31 December 2010).

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 2011 amounts to PLN 69 352 thousand and for 2010 amounted to PLN 61 066 thousand.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011



- data in PLN thousands

Accounting policies and additional explanatory notes

5 Net fee and commission income

	12 months ended 31.12.2011	12 months ended 31.12.2010
Fee and commission income		
Fee and commission income from banks	14 723	13 224
Fee and commission income from customers, of which:	296 137	292 512
–loans and advances	100 181	88 349
–domestic settlements	1 075	1 365
–foreign settlements	5 065	4 985
–account service	100 771	116 557
–guarantee commitments	12 173	13 365
–brokerage operations	13 304	15 232
–debit cards	56 062	48 342
– other commissions	7 506	4 317
	310 860	305 736
Fee and commission expense		
Fee and commission expense from banks	3 586	4 466
Fee and commission expense from customers, of which:	37 375	29 744
–loans and advances	4 283	6 988
–guarantee commitments	5	15
–debit cards	21 405	15 270
– other commissions	11 682	7 471
	40 961	34 210
Net fee and commission income	269 899	271 526

6 Dividend income

	12 months ended 31.12.2011	12 months ended 31.12.2010
Held-for-trading securities	-	65
Available-for-sale securities	3 554	3 082
	3 554	3 147

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011



- data in PLN thousands

Accounting policies and additional explanatory notes

7 Result on trading activities

	12 months ended 31.12.2011	12 months ended 31.12.2010
Equity instruments	-	(96)
– Equity instrument income	-	36
– Equity instrument expense	-	(132)
Debt instruments	(3 339)	882
– Debt instrument income	99 543	53 133
– Debt instrument expense	(102 882)	(52 251)
Derivatives	610 365	(524 339)
– Derivatives income	2 071 877	646 284
– Derivatives expense	(1 461 512)	(1 170 623)
Foreign exchange result*	(505 174)	667 092
Result on trading activities	101 852	143 539

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

	Year ended 31.12.2011	Year ended 31.12.2010
Assets available for sale:	7 461	2 179
– Debt instruments income	8 354	2 870
– Equity instruments income	-	865
– Debt instruments expense	(893)	(225)
– Equity instruments expense	-	(1 331)
Other debt securities:	(562)	(703)
– Debt instruments income	66	105
– Debt instruments expense	(628)	(808)
Impairment loss on shares in subsidiary	(1 510)	-
Total	5 389	1 476

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011



- data in PLN thousands

Accounting policies and additional explanatory notes

9 Other operating income

	12 months ended 31.12.2011	12 months ended 31.12.2010
From management of third-party properties	1 430	1 520
From sale or liquidation of property, plant and equipment, intangible assets and assets held-for-sale	1 956	5 606
From recovered statute –barred receivables, written off or bad debts, repayments of derecognised receivables	14 349	8 166
Sales of goods and services	10 374	9 845
Reversal of provisions for other receivables (excluding loan receivables) (Note 27)	847	532
Reversal of fixed asset impairment write-downs	14	14
Reversal of provisions for future liabilities (Note 33 and 36)	8 415	9 171
From recovery of costs incurred	1 903	2 414
From compensation of PARP expenses	5 237	1 981
Reversal of unused provisions for non-personnel costs	6 104	7 205
Other operating income *	11 358	6 877
Other operating income, total	61 987	53 331

* The 'Other operating income' line item contains incidental and surplus income and also the release of unused allowances for personnel expenses of prior year.

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

10 Impairment losses on loans and advances

	12 months ended 31.12.2011	12 months ended 31.12.2010
Amounts due from other banks	122	4 912
Loans and advances to customers	(156 650)	(138 313)
Liabilities granted	(6 614)	(761)
Securities	(771)	-
Impairment losses on loans and advances, total	(163 913)	(134 162)

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011



- data in PLN thousands

Accounting policies and additional explanatory notes

In 2010 the Bank updated the parameters of the model used in calculations of impairment losses amounts. The update relates to increase the recovery parameter at the recovery date and extension of the loss identification period. In the case of recovery at the moment of insolvency, the change results from observations of recovery amount in reality and historical data also in next classes of default than previously assumed in the model (decrease in allowances for provision by PLN 80.3 million). In the case of loss identification period, the Bank decided to extend this period for retail customers in order to increase the Bank's security (creation of provision in the amount of PLN 3.2 million). Above changes resulted in reversal of provisions for impairment losses of financial assets in the amount of PLN 77.1 million and were accounted for in the income statement.

11 General administrative expenses

	12 months ended 31.12.2011	12 months ended 31.12.2010
Employee benefit costs (Note 13)	456 249	381 801
Materials and energy	35 655	34 268
External services	181 428	162 383
Other non-personnel costs	150 818	117 719
Taxes and charges	6 130	5 025
Contributions and amounts transferred to the Polish Financial Supervision Authority and Bank Guarantee Fund*	24 667	12 464
General administrative expenses, total	854 947	713 660

*The increase of expenses for contribution to BFG in 2011 results from the increase of the amount of contribution in accordance with the Resolution 32/2010 of BFG Board from 17.11.2010.

12 Other operating costs

	12 months ended 31.12.2011	12 months ended 31.12.2010
Due to the management of third-party assets	1 089	1 312
Due to the sale or liquidation of property, plant and equipment, intangible assets and assets or sale	1 873	3 311
Due to recognised provisions for other receivables (other than loans and advances) (Note 27)	1 082	1 049
Due to provisions for liabilities (Note 33 and 36)	11 126	10 233
Due to debt recovery	7 060	5 415
Donations	2 997	2 656
Amortisation and depreciation (Note 25 and 26)	82 999	73 233
Other operating expenses *	1 982	5 414
Other operating expenses, total	110 208	102 623

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

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011



- data in PLN thousands

Accounting policies and additional explanatory notes

13 Employee benefits

	12 months ended 31.12.2011	12 months ended 31.12.2010
Payroll	372 543	315 785
Including: retirement benefit	206	205
Salary overheads	49 124	40 403
Fringe benefits	16 803	10 441
Costs related to Company Social Benefits Fund	5 923	5 272
Other	11 856	9 900
Employee benefits, total	456 249	381 801

14 Income tax

Income tax is calculated on the basis of the accounting pre-tax profit adjusted for revenues, which - according to tax regulations - is 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 31.12.2011	12 months ended 31.12.2010
Current tax	(675)	(157 164)
Deferred tax	(20 889)	142 773
Income tax expense	(21 564)	(14 391)
Profit (loss) before taxation	147 624	126 892
Statutory tax rate	19%	19%
Income tax based on profit before taxation	(28 049)	(24 109)
Non – deductible expenses:	(3 606)	(5 409)
– receivables written-off	282	(2 291)
– non-tax-deductible material costs	(2 948)	(1 739)
– other permanent differences	(940)	(1 379)
Differences resulting from temporary differences not recognised	(26)	37
Impairment allowance for receivables*	11 705	12 834
Other differences:	(1 588)	2 256
– tax on dividends	(675)	(630)
– other differences	(913)	2 886
Income tax charge of the Bank's profit	(21 564)	(14 391)

* Impairment allowance for tax purposes was described in note 34

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011



- data in PLN thousands

Accounting policies and additional explanatory notes

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 31.12.2011	12 months ended 31.12.2010
Profit (loss) before taxation	147 624	126 892
Total current tax liability, of which:	(675)	(157 164)
– current tax liability on the Bank's income	-	(156 534)
– current tax liability on shares in profits of other companies	(675)	(630)
Deferred income tax charge of the Bank's profit	(20 889)	142 773
Income tax charge of the Bank's profit	(21 564)	(14 391)
Net profit (loss)	126 060	112 501

For more information on deferred tax, please see Note 34.

15 Earnings per share

	12 months ended 31.12.2011	12 months ended 31.12.2010
Basic:		
Earnings attributable to the Bank's shareholders	126 060	112 501
Weighted average number of ordinary shares (in units)	43 136 764	43 136 764
Basic learning per share (presented in PLN per share)	2.92	2.61
Diluted learning per share (presented in PLN per share)	2.92	2.61

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

	31.12.2011	31.12.2010
Cash on hand (treasury)	805 645	611 467
Cash in current account	515 660	768 260
Term placements in NBP	62 000	-
Other funds	16	10
Cash and balances with the Central Bank, total	1 383 321	1 379 737

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 2011, the interest rate for funds on the obligatory reserve account was 4.275% (as at December 2010 it was 3.375%).

The balance of Cash and resources in the Central Bank contains an obligatory reserve held on NBP (the National Bank of Poland). Reserve declared to maintain in December 2011 amounted to PLN 773 268 thousand (as of December 2010: PLN 747 238 thousand). The Bank must maintain an average cash balance in month above the declared obligatory reserve.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011



- data in PLN thousands

Accounting policies and additional explanatory notes

17 Amounts due from other banks

	31.12.2011	31.12.2010
Current accounts	197 829	222 994
Placements with other banks	10 244	6 133
Loans and advances	14 039	52 845
Amounts due from other banks (gross)	222 112	281 972
Impairment allowances (negative value)	(1 041)	(1 105)
Amounts due from other banks (net), total	221 071	280 867

As at 31 December 2011, variable interest rate loans and placements with other banks amounted to a total of PLN 13 047 thousand (2010: PLN 71 208 thousand) while those of fixed interest rate as at 31 December 2011 PLN 209 065 thousand (2010: 210 817 thousand).

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

	31.12.2011	31.12.2010
Provisions for amounts due from other banks at the beginning of the period	1 105	8 383
Creation of provisions	219	9 022
Reversal of provisions	(341)	(13 934)
Provisions utilized	-	(3 016)
Other changes	58	650
Provisions for amounts due from other banks at the end of the period	1 041	1 105

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

Impairment losses on Amounts due from other banks, classified as individually and collectively assessed, as at 31 December 2010

	Individually assessed	Collectively assessed	TOTAL
Loans and advances	868	237	1 105
Total impairment losses	868	237	1 105

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011



- data in PLN thousands

Accounting policies and additional explanatory notes

Gross amounts due from other banks, by maturity date

	31.12.2011	31.12.2010
Up to 1 month	208 726	229 785
1 -3 months	11	10
3 – 12 months	1 280	39 606
1-5 years	10 585	2 710
Over 5 years	1 510	9 861
Total	222 112	281 972

18 Receivables arising from reverse repo transactions

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

	31.12.2011	31.12.2010
Up to 1 mont	76 669	651 706
1 – 3 months	289 674	-
Total	366 343	651 706

19 Held-for-trading securities

Held for trading securities:

– treasury bills	22 899	349 289
– bonds issued by central government institutions	1 609 535	1 465 610

TOTAL	1 632 434	1 814 899
--------------	------------------	------------------

of which: valued using the market quotation method

	1 632 434	1 814 899
--	-----------	-----------

Change in held for trading securities appears as follows:

	2011	2010
As at 1 January	1 814 899	467 517
Purchase of securities	361 332 383	318 507 626
Redemption of securities	(633 551)	(385 732)
Disposal of securites	(360 864 576)	(316 798 871)
Change of re-measurement to fair value	(1 682)	1 554
Change in discount and premium adjustments, interest due, FX differences	(15 039)	22 805
As at 31 December carrying amount	1 632 434	1 814 899

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

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

	31.12.2011	31.12.2010
Up to 1 month	99 750	-
1 -3 months	22 899	8 438
3 – 12 months	386 433	595 981
1-5 years	651 879	375 683
Over 5 years	471 473	834 797
Total held-for-trading securities	1 632 434	1 814 899

20 Derivative financial instruments

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

As at 31 December 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)
Interest rate futures on the regulated market:	-	-	-
Interest rate options on the regulated market:	-	-	-
Total interest rate derivatives from regulated market transactions:	-	-	-
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)
<i>Including:</i>			
- 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)

Notes included on pages 11-118 are an integral part of these financial statements.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2011



- data in PLN thousands

Accounting policies and additional explanatory notes

As at 31 December 2010	Nominal Value	Fair value of assets	Fair value of liabilities
Trading derivatives (HfT)			
Currency derivatives:			
– FX Spot transactions	231 844	351	(301)
– NDF transactions	378 940	7 933	(671)
– FX Forward transaction	272 446	4 691	(2 297)
– FX swap contracts	25 221 191	126 637	(632 992)
– FX options purchased and sold in OTC transactions	4 965	160	(235)
Total currency derivatives from OTC transactions:	26 109 386	139 772	(636 496)
Interest rate derivatives:			
– Interest rate swap contracts	25 728 978	66 172	(73 420)
– Inter-currency interest rate swap contracts	2 593 876	2 154	(11 829)
– FRA contracts	4 582 050	1 386	(1 213)
– OTC interest rate options	-	-	-
– Other interest rate contracts	708 198	376	(488)
Total interest rate derivatives from OTC transactions:	33 613 102	70 088	(86 950)
Interest rate futures on the regulated market:	24 752	-	(47)
Interest rate options on the regulated market:	-	-	-
Total interest rate derivatives from regulated market transactions:	24 752	-	(47)
Options purchased and sold in OTC transactions	105 164	5 007	(8 558)
Total equity derivatives from OTC transactions	105 164	5 007	(8 558)
TOTAL	59 852 404	214 867	(732 051)
<i>Including:</i>			
- valued using the market quotation method	24 752	-	(47)
- valued using model-based method	59 827 652	214 867	(732 004)
Settlements in respect of derivative transactions	X	-	-
Settlements in respect of the purchase and sale of options	X	6 120	(47)
TOTAL	59 852 404	220 987	(732 098)

Notes included on pages 11-118 are an integral part of these financial statements.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010

- data in PLN thousands



Accounting policies and additional explanatory notes

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

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)
Interest rate futures on the regulated market:	-	-	-	-	-	-	-	-	-	-	-	-
Total interest rate derivatives from regulated market transactions:	-	-	-	-	-	-	-	-	-	-	-	-
Options purchased and sold in OTC transactions	2 003	-	-	1 838	165	-	(4 945)	-	-	(4 615)	(330)	-
Total equity derivatives from OTC transactions:	2 003	-	-	1 838	165	-	(4 945)	-	-	(4 615)	(330)	-
Settlements of derivative transactions	8	8	-	-	-	-	-	-	-	-	-	-
Settlements of purchase and sale transactions	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)

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010

- data in PLN thousands



Accounting policies and additional explanatory notes

31.12 2010	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	351	351	-	-	-	-	(301)	(301)	-	-	-	-
- NDF transactions	7 933	429	1 878	5 626	-	-	(671)	(112)	(345)	(214)	-	-
- FX Forward transactions	4 691	116	634	3 941	-	-	(2 297)	(484)	(905)	(908)	-	-
- FX swap contracts	126 637	83 734	11 756	31 147	-	-	(632 992)	(258 406)	(2 419)	(372 167)	-	-
- FX options purchased and sold in OTC transactions	160	-	-	-	160	-	(235)	-	-	-	(235)	-
Total currency derivatives from OTC transactions	139 772	84 630	14 268	40 714	160	-	(636 496)	(259 303)	(3 669)	(373 289)	(235)	-
Interest rate derivatives:												
- interest rate swap contracts	66 172	722	3 242	39 906	10 747	11 555	(73 420)	(3 388)	(637)	(37 799)	(21 052)	(10 544)
- Inter-currency interest rate swap contracts	2 154	-	-	-	-	2 154	(11 829)	(3 043)	-	(5 249)	(3 537)	-
- FRA contracts	1 386	1 098	288	-	-	-	(1 213)	(1 213)	-	-	-	-
- other interest rate contracts	376	376	-	-	-	-	(488)	(488)	-	-	-	-
Total interest rate derivatives from OTC transactions:	70 088	2 196	3 530	39 906	10 747	13 709	(86 950)	(8 132)	(637)	(43 048)	(24 589)	(10 544)
Interest rate futures on the regulated market:	-	-	-	-	-	-	(47)	-	(47)	-	-	-
Total interest rate derivatives from regulated market transactions:	-	-	-	-	-	-	(47)	-	(47)	-	-	-
Options purchased and sold in OTC transactions	5 007	-	728	482	3 797	-	(8 558)	-	(2 000)	(1 198)	(5 360)	-
Total equity derivatives from OTC transactions:	5 007	-	728	482	3 797	-	(8 558)	-	(2 000)	(1 198)	(5 360)	-
Settlements of derivative transactions	-	-	-	-	-	-	-	-	-	-	-	-
Settlements of purchase and sale transactions	6 120	-	1 324	1 024	3 772	-	(47)	-	(14)	(17)	(16)	-
TOTAL:	220 987	86 826	19 850	82 126	18 476	13 709	(732 098)	(267 435)	(6 367)	(417 552)	(30 200)	(10 544)

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

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

21 Loans and advances to customers

	31.12.2011	31.12.2010
Amounts due from customers under overdraft facilities, including:		
– corporate customers	3 408 551	2 625 560
– households:		
– individual customers	1 814 091	1 407 450
– individual entrepreneurs	1 575 122	1 206 933
– farmers	132 123	124 928
Loans and advances to customers:	313 568	245 821
– corporate customers, including:	1 129 431	836 184
- investment loans	21 712 621	17 954 525
- operating loans	7 657 814	5 538 240
– households:		
– individual customers, including:	4 265 207	2 726 581
– real-estate loans	2 366 793	2 026 163
– individual entrepreneurs	13 651 409	12 090 487
– farmers	8 331 162	7 765 750
– public sector institutions	7 118 474	6 558 895
– other entities	1 173 698	852 108
Other	4 146 549	3 472 629
	288 652	214 429
	114 746	111 369
	-	1 721
Total loans and advances to customers, gross	25 121 172	20 581 806
Impairment allowances for receivables (negative value)	(882 905)	(698 817)
Total loans and advances to customers, net	24 238 267	19 882 989

Preference loans and advances granted to enterprises, farmers and individual entrepreneurs amounted to a total of PLN 4 057 019 thousand as at 31.12.2011 and PLN 3 492 138 thousand as at 31.12.2010.

Loans advances to customers divided to impaired and not impaired

	31.12.2011	31.12.2010
Losses incurred but not reported (IBNR)		
Gross statement of financial position exposure	23 665 232	19 260 514
Impairment allowance on exposures without impairment	(95 001)	(69 820)
Net exposure	23 570 231	19 190 694
Impaired exposures		
Gross statement of financial position exposure	1 455 940	1 321 292
Impairment allowance on impaired exposures analyzed on the group and individual basis	(787 904)	(628 997)
Net exposure	668 036	692 295

As at 31 December 2011, variable interest rate loans and advances amounted to a total PLN 23 976 467 thousand (2010: PLN 19 556 360 thousand), while those of fixed interest rate - PLN 1 144 705 thousand (2010: PLN 1 025 446 thousand).

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

Impairment losses on loans and advances

	31.12.2011	31.12.2010
Amounts due from customers under overdraft facilities, including:	120 013	101 357
- corporate customers	61 695	55 217
- households:	58 174	46 079
- individual customers	15 346	15 412
- individual entrepreneurs	26 870	19 046
- farmers	15 958	11 621
Loans and advances to customers:	762 892	597 460
- corporate customers, including:	246 855	215 391
- investment loans	50 508	50 073
- operating loans	124 851	96 484
- households:	502 620	370 414
- individual customers, including:	337 595	218 508
- real-estate loans	164 744	87 608
- individual entrepreneurs	54 408	47 298
- farmers	110 617	104 608
- public sector institutions	674	527
- other entities	12 743	11 128
Impairment allowances, total	882 905	698 817

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

	Individually assessed	Collectively assessed	Other receivables	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	721 121	24 400 051	-	25 121 172

Notes included on pages 11-118 are an integral part of these financial statements.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

Individually and collectively assessed loans and advances (gross amounts), as at 31 December 2010

	Individually assessed	Collectively assessed	Other receivables	TOTAL
Amounts due from customers under overdraft facilities, including:	81 514	2 544 046	-	2 625 560
- corporate customers	75 919	1 331 531	-	1 407 450
- households:	5 595	1 201 338	-	1 206 933
- individual customers	-	124 928	-	124 928
- individual entrepreneurs	4 497	241 324	-	245 821
- farmers	1 098	835 086	-	836 184
Loans and advances to customers:	632 199	17 322 326	-	17 954 525
- corporate customers	501 437	5 036 803	-	5 538 240
- households	118 123	11 972 364	-	12 090 487
- individual customers	7 236	7 758 514	-	7 765 750
- individual entrepreneurs	40 118	811 990	-	852 108
- farmers	70 769	3 401 860	-	3 472 629
- public sector institutions	81	214 348	-	214 429
- other entities	12 558	98 811	-	111 369
Other (amount for settlement)	-	-	1 721	1 721
Total loans and advances to customers	713 713	19 866 372	1 721	20 581 806

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

	Individually assessed	Collectively assessed	TOTAL
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	279 105	603 800	882 905

Notes included on pages 11-118 are an integral part of these financial statements.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

Impairment allowances on loans and advances, classified as individually and collectively assessed as at 31.12.2010

	Individually assessed	Oceniane grupowo	RAZEM
Amounts due from customers under overdraft facilities, including:	22 300	79 057	101 357
- corporate customers	22 136	33 081	55 217
- households:	164	45 915	46 079
- individual customers	-	15 412	15 412
- individual entrepreneurs	20	19 026	19 046
- farmers	144	11 477	11 621
Loans and advances to customers:	234 175	363 285	597 460
- corporate customers	158 334	57 057	215 391
- households	64 926	305 488	370 414
- individual customers	3 145	215 363	218 508
- individual entrepreneurs	18 373	28 925	47 298
- farmers	43 408	61 200	104 608
- public sector institutions	32	495	527
- other entities	10 883	245	11 128
Impairment allowances	256 475	442 342	698 817

Impairment allowances on preference loans and advances (with subsidies provided by government agencies) granted to enterprises, farmers and individual entrepreneurs as at 31.12.2011 amounted to a total PLN 87 016 thousand, while as at 31.12.2010 PLN 82 925 thousand.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2010

- data in PLN thousands



Accounting policies and additional explanatory notes

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)
Change in interest income in relation to IBNR	3 831	24 865	7 509	16 991	109	256	28 696
Other changes (exchange differences)	(1 320)	21 055	8 630	11 896	17	512	19 735
Impairment allowances at the end of the period	120 013	762 892	246 855	502 620	674	12 743	882 905
2010	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	85 185	513 597	217 918	287 894	459	7 326	598 782
Allowance recognised	171 735	873 987	326 330	542 237	343	5 077	1 045 722
Allowance reversed	(136 904)	(770 505)	(311 357)	(457 118)	(787)	(1 243)	(907 409)
Write-off	(18 496)	(40 725)	(35 286)	(5 439)	-	-	(59 221)
Change in interest income in relation to IBNR	2 408	10 432	2 591	7 354	471	16	12 840
Other changes (exchange differences)	(2 571)	10 674	15 195	(4 514)	41	(48)	8 103
Impairment allowances at the end of the period	101 357	597 460	215 391	370 414	527	11 128	698 817

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

Gross loans and advances, by maturity date

	31.12.2011	31.12.2010
Up to 1 month	562 467	428 526
1 -3 months	525 061	439 955
3 – 12 months	3 263 975	2 554 337
1-5 years	4 515 505	3 241 080
Over 5 years	14 275 389	10 989 484
Overdue loans	1 978 775	2 928 424
Total loans and advances, by maturity date	25 121 172	20 581 806

22 Securities available – for - sale

	31.12.2011	31.12.2010
Debt securities carried at fair value	3 621 702	3 285 607
- NBP money bills	449 808	1 299 188
- treasury bills	-	98 214
- bonds issued by central government institutions	3 008 472	1 722 737
- debt securities issued by financial institutions	5 104	5 111
- debt securities issued by non-financial institutions	128 405	126 551
- bonds issued by public sector entities	29 913	33 806
Equity securities	3 048	5 068
Total securities available for sale	3 624 750	3 290 675
including:		
- valued using the market quotation method	3 010 568	1 824 601
- valued using model-based method	614 182	1 466 074

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

Movements in securities available for sale are as follows:

	2011	2010
As at 1 January	3 290 675	2 781 211
Purchase of securities	55 742 670	103 287 188
Re-purchase of securities	(54 459 542)	(99 580 438)
Disposal of securities	(1 000 339)	(3 290 388)
Change on re-measurement to fair value	18 207	(4 555)
Change in interest due, FX differences, discount and premium adjustments	33 079	97 657
As at 31 December carrying amount	3 624 750	3 290 675

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

The carrying amount of fixed interest rate debt securities available for sale is PLN 3 450 963 thousand (2010: PLN 2 870 384 thousand), while that of variable interest rate debt securities is PLN 170 739 thousand (2010: PLN 415 222 thousand).

In accordance with the Act on the Bank Guarantee Fund (BFG) from 14 December 1994, as of 31 December 2011 the Bank had treasury bills presented in the statement of financial position at the amount of PLN 89 259 thousand (nominal value PLN 85 000 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 2010 PLN 81 910 thousand of PLN 83 400 thousand nominal value).

Securities available for sale (gross amounts), by maturity

	31.12.2011	31.12.2010
With no maturity date fixed	3 048	5 068
Up to 1 month	699 183	1 299 189
From 1 to 3 months	70 512	5 540
From 3 to 1 year	77 040	497 154
From 1 to 5 years	1 467 742	1 468 062
Over 5 years	1 307 225	15 662
Total securities available for sale	3 624 750	3 290 675

23 Other debt securities

	31.12.2011	31.12.2010
Debt securities carried at amortized cost:		
- restructuring bonds	-	109 232
- debt securities issued by non-financial entities	15 876	15 876
Gross debt securities, total	15 876	125 108
Impairment losses	(771)	-
Total other debt securities	15 105	125 108

The carrying amount of variable interest rate securities is PLN 15 105 thousand (2010: PLN 125 108 thousand), while fixed interest rate securities did not occur in 2011 and 2010.

Movements in other debt securities are as follows:

	2011	2010
As at 1 January	125 108	228 985
Purchase of securities	-	-
Re-purchase of securities	-	(404)
Repayment of restructuring bonds' instalment	(108 126)	(102 420)
Change in impairment allowance	(771)	-
Change in interests due, EIR adjustments, discount and premium adjustments	(1 106)	(1 053)
As AT 31 December (book value)	15 105	125 108

The redemption of the restructuring bonds from the other debt securities portfolio both in 2011 and 2010 amounted to PLN 42 857 thousand.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

Other securities (gross amounts), by maturity

	31.12.2011	31.12.2010
From 3 to 1 year	-	109 232
Securities with expired maturity	15 876	15 876
Total other debt securities	15 876	125 108

24 Investments in subsidiaries and jointly controlled entities

	31.12.2011	31.12.2010
- In financial sector entities	42 373	30 102
- In non financial sector entities	16 095	17 320
Total investments	58 468	47 422

As at 1 July 2008, on the basis of an agreement of conditional purchase of share, the Bank took up from De Lage Landen. 49% shares in BGŻ Leasing Sp. z o.o. for the amount of PLN 19.6 million.

In the 2nd quarter of 2010, the Ordinary Shareholder's Meeting of BGŻ Leasing Sp. z o.o. resolved to increase the company's share capital. Consequently, BGŻ S.A. took up 10 502 new shares of BGŻ Leasing Sp. z o.o. with a nominal value of PLN 1 000 each.

In the 4th quarter of 2011 the Ordinary Shareholder's Meeting of BGŻ Leasing Sp. z o.o. resolved to increase the company's share capital proportionally to actually subscribed shares. BGŻ S.A. took up 12 271 of new shares with a nominal value of PLN 1 000 each.

As at 31.12.2011 the value of BGŻ Leasing Sp. z o.o. shares amounts to PLN 42 thousand.

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
<i>Subsidiary</i>				
Bankowy Fundusz Nieruchomościowy ACTUS Sp. z o.o.	17 605	(1 510)	16 095	100%
<i>Associated Unit</i>				
BGŻ Leasing Sp. z o.o.	42 373	-	42 373	49%
Total	59 978	(1 510)	58 468	-

Shares in subsidiaries and associates as at 31 December 2010

Entity name	Cost	Revaluation/ (impairment) adjustment	Carrying amount	BGŻ S.A. %share in the entity's capital
<i>Subsidiary</i>				
Bankowy Fundusz Nieruchomościowy ACTUS Sp. z o.o.	17 320	-	17 320	100%
<i>Associated Unit</i>				
BGŻ Leasing Sp. z o.o.	30 102	-	30 102	49%
Total	47 422	-	47 422	-

Notes included on pages 11-118 are an integral part of these financial statements.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

25 Intangible assets

	31.12.2011	31.12.2010
Licenses	122 997	75 481
Other intangible assets	648	787
Expenditures on intangible assets	22 798	20 519
Intangible assets, total	146 443	96 787

2011	Licenses	Other intangible assets	Expenditure on intangible assets	Total
CARRYING VALUE				
As at 1 January	314 149	3 908	20 679	338 736
<i>Increases:</i>	<i>80 588</i>	<i>308</i>	<i>82 770</i>	<i>163 666</i>
- transfer from/to expenditures	80 135	308	-	80 443
- purchases	453	-	82 770	83 223
<i>Decreases</i>	<i>(5 095)</i>	<i>(267)</i>	<i>(80 491)</i>	<i>(85 853)</i>
- transfer from expenditures	-	-	(80 442)	(80 442)
- 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
<i>Movements:</i>	<i>27 977</i>	<i>180</i>	<i>-</i>	<i>28 157</i>
- 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

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

2010	Licenses	Other intangible assets	Expenditure on intangible assets	Total
CARRYING VALUE				
As at 1 January	294 372	3 686	13 710	311 768
<i>Increases:</i>	<i>26 844</i>	<i>416</i>	<i>34 094</i>	<i>61 354</i>
- transfer from/to expenditures	26 706	416	-	27 122
- purchases	138	-	34 094	34 232
<i>Decreases</i>	<i>(7 067)</i>	<i>(194)</i>	<i>(27 125)</i>	<i>(34 386)</i>
- transfer from expenditures	-	-	(27 122)	(27 122)
- sale, liquidation, donation, shortage	(7 067)	(194)	(3)	(7 264)
As at 31 December	314 149	3 908	20 679	338 736
ACCUMULATED AMORTIZATION				
As at 1 January	220 099	2 936	160	223 195
<i>Movements:</i>	<i>18 569</i>	<i>185</i>	<i>-</i>	<i>18 754</i>
- amortization charge for the year	25 636	379	-	26 015
- sale, liquidation, donation, shortage	(7 067)	(194)	-	(7 261)
- impairment losses	-	-	-	-
As at 31 December	238 668	3 121	160	241 949
NET CARRYING AMOUNT				
as at 1 January	74 273	750	13 550	88 573
as at 31 December	75 481	787	20 519	96 787

In reference to intangible assets that are not yet available for use, i.e. are being 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 2011 nor 2010.

As at 31.12.2011 and 31.12.2010 the Bank did not have any significant contractual commitments for the acquisition of intangible assets.

26 Property, plant and equipment

	31.12.2011	31.12.2010
Fixed assets, of which:	470 301	448 795
- land and buildings	274 128	282 929
- tangible fixed assets	196 173	165 866
Assets under construction	15 642	16 023
Property, plant and equipment, total	485 943	464 818

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

Movements in certain items of property, plant and equipment in 2011 and 2010 are presented below:

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
<i>Increases:</i>	<i>2 344</i>	<i>70 229</i>	<i>72 085</i>	<i>144 658</i>
- transfer from assets under construction	2 319	70 144	-	72 463
- purchases	-	85	72 085	72 170
- other	25	-	-	25
<i>Decreases:</i>	<i>(1 174)</i>	<i>(63 166)</i>	<i>(72 466)</i>	<i>(136 806)</i>
- transfer from assets under construction	-	-	(72 463)	(72 463)
- sale, liquidation, donation, shortage, theft	(1 174)	(63 166)	-	(64 340)
- other	-	-	(3)	(43)
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
<i>Movements:</i>	<i>9 971</i>	<i>(23 244)</i>	<i>-</i>	<i>(13 273)</i>
- 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 AMOUNT				
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

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

2010	Land and buildings	Tangible fixed assets	Assets under construction	Total
CARRYING VALUE				
As at 1 January	427 867	565 965	4 002	997 834
<i>Increases:</i>	2 271	56 728	70 545	129 544
- transfer from construction in progress	2 184	56 337	-	58 521
- purchases	-	385	70 545	70 930
- other	87	6	-	93
<i>Decreases:</i>	(3 749)	(23 227)	(58 524)	(85 500)
- transfer from construction in progress	-	-	(58 521)	(58 521)
- sale, liquidation, donation, shortage, theft	(3 749)	(23 227)	-	(26 976)
- other	-	-	(3)	(3)
As at 31 December	426 389	599 466	16 023	1 041 878
ACCUMULATED DEPRECIATION				
As at 1 January	134 036	419 474	-	553 510
<i>Movements:</i>	9 424	14 126	-	23 550
- depreciation charge for the year	10 409	36 809	-	47 218
- sale, liquidation, donation, shortage	(985)	(22 669)	-	(23 654)
- impairment losses	-	(14)	-	(14)
As at 31 December	143 460	433 600	-	577 060
NET CARRYING AMOUNT				
Balance as at 1 January	293 831	146 491	4 002	444 324
Balance as at 31 December	282 929	165 866	16 023	464 818

The Bank as at 31.12.2011 and 31.12.2010 did not have any contractual liabilities related to the purchase of property, plant and equipment.

27 Other assets

	31.12.2011	31.12.2010
Other assets, of which:		
- assets held for sale	-	399
- settlements with debtors	101 830	73 088
- other prepayments	6 883	5 324
- commission income receivable	6 259	8 830
- settlements of card payments	28 870	17 915
- other	3 861	261
Other assets	147 703	105 817
Impairment allowance on other liabilities (other than loans and advances)	(23 855)	(27 639)
Other assets, total	123 848	78 178

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

28 Amounts owed to other banks

	31.12.2011	31.12.2010
Cash in current accounts	199 346	164 321
Term deposits	241 140	639 820
Loans and advances	3 997 834	206 804
Other liabilities	8 396	9 474
Amounts owed to other banks, total	4 446 716	1 020 419

Deposits are at fixed and floating interest rates.

On 22 April 2011 Bank and Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. 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 2011 the balance of capital element of loan is PLN 3 547 917 thousand.

Bank was granted a loan from the European Bank of Reconstruction and Development totalling EUR 50m each, the first in 1st quarter 2010, the second in August 2011. As at 31 December 2011 the balance of capital element of this loans is PLN 441 680 thousand.

In both above loans, there was no brokerage of provisions of agreements, covenants in 2011 and 2010.

Amounts owed to other banks, by maturity

	31.12.2011	31.12.2010
Up to 1 month	290 690	757 649
From 1 to 3 months	230 265	53 462
From 3 months to 1 year	323 169	12 430
From 1 to 5 years	1 567 823	196 878
Up to 1 month	2 034 769	-
Amounts owed to other banks	4 446 716	1 020 419

29 Liabilities arising from repo transactions

Liabilities arising from repo transactions, by maturity:

	31.12.2011	31.12.2010
Up to 1 month	-	1 268 921
Total	-	1 268 921

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

30 Amounts owed to customers

	31.12.2011	31.12.2010
Other financial institutions	817 751	1 090 373
Current accounts	16 842	15 200
Term deposits	800 898	1 072 109
Other liabilities	11	3 064
- liabilities arising from monetary collateral	-	2 580
- other	11	484
Retail customers	13 433 828	11 369 506
Current accounts	6 174 921	6 326 540
Term deposits	7 249 879	5 034 689
Other liabilities	9 028	8 277
- liabilities arising from monetary collateral	5 242	4 641
- other	3 786	3 636
Corporate customers	7 901 494	6 871 798
Current accounts	3 442 442	3 476 534
Term deposits	4 382 143	3 321 886
Other liabilities	76 909	73 378
- liabilities arising from monetary collateral	76 456	72 061
- other	453	1 317
Of which farmers:	876 745	686 217
Current accounts	722 838	647 779
Term deposits	149 479	28 949
Other liabilities	4 428	9 489
- liabilities arising from monetary collateral	4 409	9 467
- other	19	22
Public sector customers:	788 655	1 720 045
Current accounts	413 291	870 988
Term deposits	375 241	848 932
Other liabilities	123	125
- liabilities arising from monetary collaterals	121	118
- other	2	7
Amounts owed to customers. total	22 941 728	21 051 722

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

Amounts owed to customers. by maturity

	31.12.2011	31.12.2010
Up to 1 month	16 995 846	14 940 217
From 1 to 3 months	2 941 850	2 639 316
From 3 months to 1 year	2 602 460	3 228 831
From 1 to 5 years	393 350	236 524
Over 5 years	8 222	6 834
Amounts owed to customers, total	22 941 728	21 051 722

31 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 bank securities issued under this program may not be later than 30th March 2013.

	Average interest rate (%) in 2011	Average interest rate (%) in 2010	31.12.2011	31.12.2010
Certificates of deposit				
- Quatro certificate of deposit with variable interest rate and maturity date of one year from purchase date, not quoted	-	-	705	874
- other certificates of deposit	4.5035	4.4439	2 044 500	1 756 500
Debt securities issued. total (excluding interest)	-	-	2 045 205	1 757 374
Interest, discount, commission	-	-	(12 093)	(12 331)
Debt securities issued, total	-	-	2 033 112	1 745 043

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

Movements in debt securities issued

	31.12.2011	31.12.2010
Balance at the beginning of the period	1 745 043	1 450 664
<i>Increases:</i>	5 045 516	6 580 880
- issuance of certificates of deposit	4 962 500	6 497 500
- purchased discount from certificates of deposit	44 356	74 228
- accrued discount from certificates of deposit	19 390	9 121
- accrued interest from certificates of deposit	19 270	-
- commission and other fees related to certificates of deposit accounted for according to EIR	-	31
<i>Decreases:</i>	(4 757 447)	(6 286 501)
- redemption of certificates of deposit	(4 674 500)	(6 205 500)
- redemption of Quatro securities	(169)	(192)
- sold discount from certificates of deposit	(66 147)	(80 789)
- purchased interest from certificates of deposit	(16 474)	-
- purchased interest from Quatro securities	(13)	(20)
- commission and other fees related to certificates of deposit accounted for according to EIR	(144)	-
Balance of debt securities issued at the end of the period	2 033 112	1 745 043

32 Other liabilities

	31.12.2011	31.12.2010
- inter-bank settlements	206 131	85 167
- settlements with creditors	140 452	77 023
- accrued expenses*	82 517	48 322
- including employee expenses	52 098	21 810
- deferred income**	12 886	6 740
- other public settlements	32 926	24 600
Other liabilities, total	474 912	241 852

*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.

33 Provisions

	31.12.2011	31.12.2010
Restructuring provision	-	-
Provision for guarantees, suretyships, unused credit facilities	6 018	4 050
Provision for court cases	14 810	15 136
Other provisions, of which:	20 983	22 358
- provision in accordance with UOKiK (Office of Competition and Consumer Protection) decision	11 883	11 883
- provision for potential liabilities relating to the return of subsidies to preferential loans	7 991	9 025
Total provisions	41 811	41 544

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

	31.12.2011	31.12.2010
Restructuring provision		
Carrying amount at the beginning of the period	-	4 600
Increases	-	-
Utilization	-	(2 761)
Reversal	-	(1 839)
Carrying amount at the end of the period	-	-
Provision for guaranties, sureties and unused credit facilities	31.12.2011	31.12.2010
Carrying amount at the beginning of the period	4 050	2 870
Increases	32 611	13 692
Reversal	(25 997)	(12 931)
Transferred to write-off on balance sheet	(4 517)	-
Other changes	(129)	419
Carrying amount at the end of the period	6 018	4 050
Provision for court cases	31.12.2011	31.12.2010
Carrying amount at the beginning of the period	15 136	14 449
Increases	1 348	1 948
Utilization	(1 718)	(454)
Reversal	(1 098)	(1 384)
Reclassification/transfer and other changes	1 142	577
Carrying amount at the end of the period	14 810	15 136
Other provisions	31.12.2011	31.12.2010
Carrying amount at the beginning of the period	22 358	23 660
Increases	292	607
Utilization	(107)	(152)
Reversal	(421)	(1 180)
Reclassification/transfer	(1 139)	(577)
Carrying amount at the end of the period	20 983	22 358

1. As at 31 December 2011 the value of court proceedings under which the Bank is a defendant amounted to PLN 67 651 thousand, while the value of claims initiated by the Bank amounted to PLN 42 864 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 650K 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

Accounting policies and additional explanatory notes

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. The case is in progress.

As at 31.12.2011 r. 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 2.978K 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. The case is in progress.

As at 31 December 2011 the provision for the above amounts to PLN 2 233 thousand.

4. 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 fulfill 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.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

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%.

34 Deferred tax

The following movements were recorded on the deferred tax account:

Deferred tax assets

	Base for Deferred Tax as at 31.12.2011	Base for Deferred Tax as at 31.12.2010	Charge resulting from asset change 2011
Interest payable on liabilities	315 480	227 502	16 716
Re-measurement of derivatives and securities, to fair value	796 683	733 789	11 950
Specific provisions (non-tax-deductible), of which utilisation is probable	486 709	256 336	43 771
Fees calculated in advance and settled at amortized cost using the effective interest rate method	249 696	228 059	4 111
Provision for jubilee bonuses, retirement benefits, unused annual leave and restructuring provision	25 410	22 822	492
Other provisions for personnel costs	52 139	21 842	5 756
Provisions for non-personnel costs	29 125	26 512	496
Valuation of securities available for sale	2 233	6 603	(830)
Other deductible temporary differences	246	47	38
Tax loss	269 227	112 104	29 853
Total:	2 226 948	1 635 616	112 353
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	2 224 715	1 629 013	113 183
Tax base of deferred tax assets recognized in the revaluation reserve and charge resulting from the asset change	2 233	6 603	(830)

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 486 709 thousand as at 31 December 2011 (with the position as at 31 December 2010 on the level of PLN 256 336 thousand) presents the most probable estimation of impairment losses to become probable for the purpose of income tax in the foreseeable future. In 2010 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 unrecoverable receivables as tax-deductible costs.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

Tax loss arises when the amount of deductible expenses exceeds the amount of tax revenues. Bank reported a tax loss in the years 2009 and 2011 in the amount of PLN 224 208 thousand and PLN 157 123 thousand respectively. In accordance with art. 7 par. 5 of the Corporate Income Tax Act (Journal of Laws 74 from 2011 pos. 397) a tax loss incurred in fiscal year can reduce the tax revenue in the next consecutive five fiscal years, except that the amount of reduction in any of these five years cannot exceed 50% of this amount. In 2010 the Bank achieved taxable income which enabled the Bank to have the right to reduce this income by deducting PLN 112 104 thousand, i.e. 50% loss incurred in 2009. Hence, a total tax loss for years 2009 and 2011 remained to be settled in subsequent years amounts to PLN 269 227 thousand at the end of 2011. The deadline of settlement of the 50% of 2009 loss will occur with the submission of tax returns for the year 2014, the deadline of settlement of the loss for 2011 is the submission of tax returns for the year 2016.

Deferred tax liabilities

	Base for Deferred Tax as at 31.12.2011	Base for Deferred Tax as at 31.12.2010	Charge resulting from a change in provision in 2011.
Loan interest receivable	(213 217)	(104 959)	(20 569)
Interest receivable on restructuring bonds	-	(66 373)	12 611
Re-measurement of derivatives and securities to fair value	(879 682)	(217 781)	(125 761)
Transaction costs on granting loans	(25 026)	(23 169)	(353)
Valuation of securities available for sale	(15 374)	(1 537)	(2 629)
Total:	(1 133 299)	(413 819)	(136 701)
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	(1 117 925)	(412 282)	(134 072)
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	(15 374)	(1 537)	(2 629)

Presented as

Deferred tax asset	423 120	310 767
Deferred tax provision	215 326	78 626
Net deferred tax	207 794	232 141

35 Discontinued operations

No operations were discontinued during the year 2011 or in 2010.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

36 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 and jubilee bonuses, 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 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 (nominal) rate.

- 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:

	31.12.2011	31.12.2010
Jubilee bonuses	-	324
Retirement benefits	16 459	15 825
Unused annual leave	8 953	6 673
	25 412	22 822

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

Movements in the balance of liabilities from future employee benefits

	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

	Jubilee bonuses	Retirement benefits	Unused annual leave	Total
As at 1.01.2010	2 048	14 998	2 866	19 912
Increases	-	1 101	6 577	7 678
Reversals	(1 724)	(274)	(2 770)	(4 768)
As at 31.12.2010	324	15 825	6 673	22 822

The following amounts were recognized in the income statement:

	12 months ended 31.12.2011	12 months ended 31.12.2010
Cost of provisions recognized	(9 486)	(7 678)
Income from provisions reversed	6 896	4 768
Total, recognized in profit or loss	(2 590)	(2 910)

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

Main actuarial assumptions used	2011	2012
- discount rate	5.50%	5.75%
- forecast inflation rate	2.50%	2.50%
- forecast salary increase	2.50%	2.00%

37 Contingent liabilities

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

	31.12.2011	31.12.2010
Liabilities granted		
Liabilities granted to the financial institutions, of which:	22 528	15 868
- unused limits of credit facilities	19 700	15 868
- guarantees	2 828	-

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

Liabilities granted to the non-financial entities, of which:	4 197 852	3 676 310
- unused credit facilities	3 411 289	2 795 945
- corporate clients	2 126 449	1 789 405
- households	1 283 655	1 004 015
- other entities	1 185	2 525
- guarantees	786 563	880 365
Liabilities granted to the public sector	44 182	13 256
	4 264 562	3 705 434
Liabilities received		
Received from financial institutions	3 438	2 257 837*
Received from non financial institutions	-	354
Received from public sector entities	2 000	-
	5 438	2 258 191
Derivative financial instruments (nominal values)		
FX transactions	1 921 497	232 126
Liabilities resulting from trading in securities	618 312	738 198
Other derivatives sold	35 294 558	30 509 998
Other derivatives acquired	35 684 171	28 402 083
	73 518 538	59 882 405
Liabilities granted, liabilities received and derivative financial instruments, total	77 788 538	65 846 030
Provisions for guarantees, suretyships and unused credit lines (Note 33)	(6 018)	(4 050)

* Item contains the amount of USD 2 000 000 acting credit line received from Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. which according with the contract expired in May 2011.

Off-balance sheet liabilities granted, by maturity

	31.12.2011	31.12.2010
Up to 1 month	3 194 538	2 576 437
From 1 to 3 months	168 954	135 281
From 3 months to 1 year	548 281	539 408
From 1 to 5 years	345 911	446 825
Over 5 years	6 878	7 483
Liabilities granted	4 264 562	3 705 434
Up to 1 month	-	59 354
From 1 to 3 months	2 000	-
From 3 months to 1 year	2 734	2 000 822
From 1 to 5 years	704	-
Over 5 years	-	198 015
Liabilities received	5 438	2 258 191

Notes included on pages 11-118 are an integral part of these financial statements.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

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

	31.12.2011	31.12.2010
Liabilities granted		
Unused limits of granted credit facilities	3 475 171	2 825 069
- contingent	1 418 089	1 165 163
- non-contingent	2 057 082	1 659 906
Guarantees	789 391	880 365
- contingent	3 437	822
- non-contingent	785 954	879 543
Liabilities granted, total	4 264 562	3 705 434

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

Assets pledged as security for the Bank's own liabilities

	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)
	31.12.2010
Banking Guarantee Fund	
- nominal value of security	83 400
- type of security	treasury bonds
- maturity date of security	29.06.2011
- carrying amount of security	81 910
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	1 041
Security for derivative instruments transactions	
- nominal value of security	200 492
- type of security	‘call’ deposits (receivables from banks)

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

38 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

	Year ended 31.12.2011	Year ended 31.12.2010
Up to 1 year	68 282	65 178
1 – 5 years	273 128	260 710
Over 5 years – the amount of annual payment	17 011	14 450

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

	Year ended 31.12.2011	Year ended 31.12.2010
Up to 1 year	2 993	3 485
1 – 5 years	11 568	12 923
Over 5 years – the amount of annual payment	2 740	3 187

39 Equity

Shareholders of the Bank Gospodarki Żywnościowej S.A.

Initial Public Offering of BGŻ S.A. shares

On 14 October 2010 Extraordinary General Meeting of the Bank agreed to apply for admission of the Bank's shares on regulated market trading and their dematerialization. The subject of the initial public offer was to offer 16 046 596 shares, representing 37.20% of shares held by Treasury.

On 28 April 2011 Polish Financial Supervision Authority ('PFSA') approved the prospectus prepared by the BGŻ S.A. in connection with the public offering of shares series A and D and with the intention to apply for admission for trading with shares series A. B. C. D. E and F on the regulated market. On 29 April, the PFSA approved Annex No.1 to the prospectus, which included information about fixing the Maximum Share Price for the purpose of Individual Investors subscription. The price was set at the level of PLN 90.00 per 1 share. The Prospectus was published on 4 May 2011.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

On 17 May the Selling Shareholder, in consultation with the Joint Global Coordinators and PKO BP BH serving as Co-Offering Agent set the selling price at a level PLN 60 per 1 share and a final number of Sale Shares offered in an Offer for 5 200 000 Sale Shares, representing 12.05% of the share capital of the Bank.

The first listing of the Bank's shares on the Warsaw Stock Exchange occurred on 27 May 2011.

The stabilization program has redeemed 149 935 Bank's Shares. As at 31 December 2011, the Treasury held 25.54% of share capital of the Bank.

Dematerialization of 1025 units of shares held by Rabobank International Holding B.V.

As a consequence of shares dematerialization process, carried out in connection to initial public offering, the disclosed number of Bank's shares held by Rabobank International Holding B.V. (hereinafter „Rabobank”) was increased by 1 025 units. It is to be noted that in accordance with Art. 343 par. 1 Code of Commercial Companies, as a shareholder of a company can be treated only a person that is disclosed in share register and as a result of acquiring these shares Rabobank was not entered into this register. Above mentioned shares were acquired in 2007, but existing shareholders (the vendor of shares to Rabobank) acting based on Art. 341 of the Code of Commercial Companies, have made a claim against inclusion of Rabobank (in respect of this extra shares) to share register, which resulted in halting the entries. In the moment of dematerialization of bearer registered share, the basis for the proposal was the number of Rabobank International Holding B.V. shares held in deposit in Brokerage House BGŻ and including above 1 025 shares. Such a change had a little impact on the ownership structure of Rabobank International Holding B.V.

Gratuitous disposal of shares held by the Treasury to employees

In 2011 the Bank continued entering into the agreements (on behalf of the Treasury) of gratuitous disposal of BGŻ S.A. shares with eligible persons, based on the amended on 16 February 2007 act about functioning of cooperative banks, their affiliation and affiliating banks and regulation of Minister of the Treasury dated 2 August 2007. changing regulation for allocation of 15% shares of BGŻ S.A. owned by the Treasury between entitled persons. Such transactions of free disposal have had a negligible impact on the reduction of the Treasury share in BGŻ S.A. share capital.

In the whole 2011, 1 786 shares were disposed free of charge to eligible persons and in 2010 it was 7 154 shares.

Share capital of the Bank as at 31.12.2011 and 31.12.2010 is PLN 43 137 thousand and is divided into registered shares and bearer shares after 1 zł par value each.

The structure of shareholding as at 31.12.2011 and 31.12.2010

Shareholder	31.12.2011 r.		31.12.2010	
	Number of shares held	Share (%)	Number of shares held	Share (%)
Rabobank International Holding B.V.*	21 298 609	49.37	21 297 584	49.37
Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A.*	4 303 695	9.98	4 303 695	9.98
Treasury	11 015 937	25.54	16 058 045	37.23
Other shareholders	6 518 523	15.11	1 477 440	3.42
TOTAL	43 136 764	100.00	43 136 764	100.00

* Rabobank Group

Notes included on pages 11-118 are an integral part of these financial statements.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

As at 31.12.2011 and 31.12.2010 none of the members of Management Board, Supervisory Board or a key management personnel held the Bank's shares.

The Bank's shares are ordinary bearer shares and registered shares (as at 31.12.2011 there is 22 915 registered shares). There are no special control rights connected with ordinary bearer shares.

However, registered shares of B series (as at 31.12.2011 there are 4 shares) are privileged shares and the privilege includes the right to receive a full nominal amount per share in the event of the Bank liquidation after satisfying other creditors, in the first order before payments to the ordinary shares holders, which after settlement of privilege could not cover the nominal amount of these shares.

All issued shares were fully paid – up.

40 Reserve capital and other reserves, retained earnings

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

	31.12.2011	31.12.2010
Reserve capital		
Balance as at 1 January	2 220 155	2 112 164
Amounts transferred from retained earnings	112 501	107 991
Balance as at 31 December	2 332 656	2 220 155
General banking risk reserve created of net profit		
Balance as at 1 January	90 000	90 000
Amounts transferred from retained earnings	-	-
Balance as at 31 December	90 000	90 000
Revaluation reserve – available-for-sale financial instruments		
Balance as at 1 January	(4 103)	(413)
Gain/ loss on re-measurement to fair value, net	18 207	(4 555)
Deferred tax	(3 459)	865
Balance as at 31 December	10 645	(4 103)
Other reserves		
Balance as at 1 January	25 000	25 000
Balance as at 31 December	25 000	25 000
Other reserves		
General banking risk reserve	90 000	90 000
Revaluation reserve – available-for-sale financial instruments	10 645	(4 103)
Other reserves	25 000	25 000
	125 645	110 897

Notes included on pages 11-118 are an integral part of these financial statements.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

41 Dividend per share

The Bank did not pay any dividend for the year 2010. The Bank's Management Board will not recommend payment of dividend for the year 2011.

42 Appropriation of profit

The profit of the Bank for the year 2010 was transferred to the reserve capital according to the decision of the Bank's Ordinary General Meeting as of 10 May 2011. The Management Board will recommend to the Annual General Meeting that the entire net profit for the year 2011 is transferred to the reserve capital. The final decision on the appropriation of profit for 2011 will be made by the Annual General Meeting.

43 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.

	31.12.2011	31.12.2010
Cash and balances with the Central Bank (Note 16)	1 383 321	1 379 737
Current accounts of banks and other receivables	199 328	225 173
Bank deposits with maturity of up to 3 months	10 000	5 928
Cash and cash equivalents, total	1 592 649	1 610 838

44 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 items presented under operating activities as part of the statement of cash flows is presented below:

	Year ended 31.12.2011	Year ended 31.12.2010
Interest and profit shares (dividends)		
Dividends received	(3 554)	(3 147)
Change in interest receivable on other debt securities	1 106	1 054
Change in interest receivable on securities available for sale	(33 079)	(93 101)
Change in interest on certificates of deposit	69	2 591
Total change in interest and profit shares (dividends)	(35 458)	(92 603)
Change in amounts due from other banks	Year ended 31.12.2011	Year ended 31.12.2010
Resulting from statement of financial position amounts	59 796	75 703
Elimination of movements in cash and cash equivalents	(21 774)	(43 508)
Change in amounts due from other banks, total	38 022	32 195

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

	Year ended 31.12.2011	Year ended 31.12.2010
Change in amounts due to other banks		
Resulting from statement of financial position amounts	3 426 297	544 333
Long-term loans raised from other Banks	(3 503 897)	(203 875)
Re-payment of long – term loans from other Banks	123 198	-
Change in amounts due to other banks, total	45 598	340 458

	Year ended 31.12.2011	Year ended 31.12.2010
Cash flow from operating activities – other adjustments		
Change in impairment allowance on other debt securities	771	(1)
Change in impairment allowance on shares	1 510	-
Other adjustments	854	(249)
Cash flow from operating activity – other adjustments, total	3 135	(250)

	Year ended 31.12.2011	Year ended 31.12.2010
Change in other liabilities		
Statement of financial position change in other liabilities	233 060	43 796
Statement of financial position change in corporate income tax	(3)	3
Change in other liabilities, total	233 057	43 799

45 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 forth the rules for classifying the banking or trading portfolio, setting the initial position for the trading and banking book transactions, determining the realized 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 31.12.211 internal capital amounted to PLN 2 361 075 thousand, whereas as at 31.12.2010 it amounted to PLN 1 743 627 thousand.

In 2011 and 2010, the Bank met all capital requirements in accordance with art. 7. point 128 par 2 of the Banking Act.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

Capital Base and Capital Adequacy Ratio

	31.12.2011	31.12.2010
Capital requirements		
- credit risk, counterparty risk, dilution and delivery risk for derivative instruments settled in subsequent terms	1 813 512	1 478 685
- settlement – delivery risk	-	-
- equity securities price risk, risk of debt instruments prices, currency risk and commodities prices risk	-	-
- operating risk	152 894	150 966
- general interest rate risk	17 444	6 952
Total capital requirement	1 983 850	1 636 603
Own funds and short-term capital		
- share capital	43 137	43 137
- reserve capital	2 332 656	2 220 155
- 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	59 396	-
Positions decreasing Basic Funds	(180 499)	(134 012)
-intangible assets	(146 443)	(96 787)
-unrealized losses on equity instruments classified as available for sale	(952)	-
-unrealized losses on debt instruments classified as available for sale	(1 281)	(6 603)
- commitment of capital in financial institutions	(31 823)	(30 622)
Counterpart Funds	12 299	1 230
-unrealized gains on debt instruments classified as available for sale	12 299	1 230
Positions decreasing Counterpart Funds	12 299	1 230
commitment of capital in financial institutions	12 299	1 230
Short term capital	24 751	12 518
TOTAL	2 394 441	2 256 798
Capital adequacy ratio (%)	9.7%	11.0%

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 2008 amounted to: PLN 1 048 495 thousand,
- profit for the year 2009 amounted to: PLN 945 198 thousand,
- profit for the year 2010 amounted to: PLN 1 064 190 thousand

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

Capital required to cover operating risk in 2011 – in the stand-alone model - amounted to PLN 152 894 thousand.

Carrying amounts and liabilities granted exposed to credit risk

Type of instrument	Carrying amount	Risk weighted value
31.12.2011		
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

Type of instrument	Carrying amount	Risk weighted value
31.12.2010		
Statement of financial position items	23 899 791	16 838 418
Granted liabilities	3 670 198	1 518 121
Derivatives	337 013	129 450
Total	27 907 002	18 485 989

Maximum credit risk (net amount)

	31.12.2011	31.12.2010
Cash and balances with the Central Bank	1 383 321	1 379 737
Amounts due from other banks	221 071	280 867
Receivables arising from reverse repo transactions	366 343	651 706
Held-for-trading securities	1 632 434	1 814 899
Derivative financial instruments	883 109	220 987
Amounts due from customers under overdraft facilities	3 288 538	2 524 203
Loans and advances to customers	20 949 729	17 358 786
- businesses	7 410 959	5 322 849
- households	13 148 789	11 720 073
- public institutions	287 978	213 902
- other institutions	102 003	100 241
- other receivables	-	1 721
Investment securities available for sale	3 624 750	3 290 675
Other debt securities	15 105	125 108
Other assets*	146 563	102 326
Total	32 510 936	27 749 294
Contingent irrevocable liabilities	2 843 036	2 539 449

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

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

As stated in Note 2.13.2 to these financial statements, credit risk is included in valuation of derivative instruments. In 2011 the allowance in this respect amounted to PLN 537 thousand, (as at 31 December 2010 PLN 247 thousand). Total amount of the exposures, for which allowance was created, amounted to PLN 32 287 thousand as at 31 December 2011 (as at 31 December 2010 PLN 45 341 thousand), while collaterals for these transactions in the form of cash deposits amounted to a total of PLN 9 365 thousand (2010: PLN 10 968 thousand).

Where the maturity date for a derivative instrument lapses or where the instrument is settled before its maturity date, appropriate impairment allowance is recorded in the income statement. As at 31.12.2011 such impairment allowance amounted to PLN 24 281 thousand (2010: PLN 27 920 thousand).

46 Related party transactions

The Bank reports transactions with BGŻ S.A. shareholders and related parties as at 31.12.2011:

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- 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.	COOPERATIEVE CENTRALE RAIFFEISEN- BOERENLEENBANK B.A.	COOPERATIEV E C.R-B B.A. (BRANCHES)	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	-	4 237 465	8 543	45	65 340	77	4 428 912	13.27%
Received loans	-	-	3 547 917	-	-	-	-	3 547 917	10.63%
Current accounts	42 749	-	160 936	122	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	-	27 959**	8 410	-	-	-	36 490	0.11%
Expenses	21 228	123	153 502	7 478	687	2 128	-	185 146	0.03%
Interest cost	21 228	-	27 580	4	5	2 023	-	50 840	0.01%
Commissions	-	-	1 059	-	-	-	-	1 059	-
Result on derivatives	-	-	123 032	505	-	-	123 537	0.02%	-
Other	-	123	1 831	7 474	177	105	-	9 710	-
Revenues	360 310	527	1 478	-	1 030	4 559	2 079	369 983	0.07%
Interest*	355 630	-	1 478	-	1 030	402	2 064	360 604	0.07%
Commissions	558	-	-	-	-	23	1	582	-
Result on derivatives	-	-	-	-	-	47	-	47	-
Result on trading activity	4 122	-	-	-	-	-	-	4 122	-
Other	-	527	-	-	-	4 087	14	4628	-
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 COOPERATIEVE CENTRALE RAIFFEISEN-BOERENLEENBANK B.A. from acquiring a licence and services to launch a system for BGŻ Optima, that were capitalized by the Bank.

The above transactions/settlements with the State Treasury (public entities) relate mainly to ministries, voivodship 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).

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

Transactions with BGŻ S.A. shareholders and related parties as at 31.12.2010

	TREASURY	RABOBANK INTERNATIONAL HOLDING B.V.	COOPERATIEVE CENTRALE RAIFFEISEN- BOERENLEENBANK B.A.	RABOBANK** GROUP	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	3 152 413	866	93 131	6 089	146	9 734	29 692	3 292 071	11.51%
Loans and advances	-	-	-	-	-	8 092	-	8 092	0.03%
Current account	254	-	82	-	-	-	-	336	-
Interest	15 292	-	-	-	-	1	19 129	34 422	0.12%
Provisions	-	-	-	-	-	-	2	2	-
Debt securities	3 125 949	-	-	-	-	-	10 560	3 136 509	10.96%
Derivative financial instruments	-	-	93 049	6 089	-	-	-	99 138	0.35%
Other	10 918	866	-	-	146	1 641	1	13 572	0.05%
Liabilities	958 801	-	347 086	9 152	527	43 899	7	1 359 472	4.75%
Current accounts	56 461	-	509	114	527	698	-	58 309	0.20%
Term placements	900 252	-	-	-	-	42 854	7	943 113	3.30%
Liabilities from interest	1 970	-	-	-	-	347	-	2 317	0.01%
Derivative financial instruments	-	-	346 577	583	-	-	-	347 160	1.21%
Other	118	-	-	8 455	-	-	-	8 573	0.03%
Expenses	39 448	-	165 032	8 516	2 093	1 705	-	216 794	0.04%
Interest cost	39 448	-	130	2	35	1 554	-	41 169	0.01%
Commissions	-	-	1 645	-	-	-	-	1 645	-
Result on derivatives	-	-	163 257	-	1 536	151	-	164 944	0.03%
Other	-	-	-	8 514	522	-	-	9 036	-
Revenues	240 685	725	345	119	880	3 660	2 079	248 493	0.04%
Interest*	236 507	-	345	9	880	253	2 064	240 058	0.04%
Commissions	647	-	-	-	-	22	1	670	-
Result on derivatives	-	-	-	110	-	3 382	-	3 492	-
Result on trading activity	3 531	-	-	-	-	-	-	3 531	-
Other	-	725	-	-	-	3	14	742	-
Contingent liabilities	345	-	34 057 945	43 408	-	15 868	-	34 117 566	51.81%
Granted liabilities	345	-	-	-	-	15 868	-	16 213	3.06%
Received liabilities	-	-	2 000 000	-	-	-	-	2 000 000	-
Derivatives	-	-	32 057 945	43 408	-	-	-	32 101 353	48.75%

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

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

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

Emoluments of the Members of Management and Supervisory Boards

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

Year 2011	Engagement period		Basic salary	Bonus	Additional benefits	Total
Name	since	to				
Bartkiewicz Jacek	01.01.2011	31.12.2011	1 200	684	76	1 960
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
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
Nijsen Hieronymus	01.01.2011	01.04.2011	189	439	113	741
Sieradz Andrzej	01.01.2011	31.12.2011	720	-	276	996
Beumnig Johannes Gerardus	01.05.2011	31.12.2011	349	-	551	900
Total			5 235	1 321	2 582	9 138

Year 2010	Engagement period		Basic salary	Bonus	Additional benefits	Total
Name	since	to				
Bartkiewicz Jacek	01.01.2010	31.12.2010	1 200	684	674	2 558
Nijsen Hieronymus	01.01.2010	31.12.2010	870	418	697	1 985
Okarma Witold	01.01.2010	31.12.2010	840	276	61	1 177
Cuyckens Victor	01.01.2010	31.08.2010	453	240	247	940
Gajewski Michał	01.01.2010	17.12.2010	1 080	523	741	2 344
Sieradz Andrzej	11.10.2010	31.12.2010	163	-	-	163
Total			4 606	2 141	2 420	9 167

Created reserves for bonuses for members of the Board in 2011 amounted to 4 804 thousand PLN and in 2010, 3 996 thousand USD. Provisions for remuneration of the members are not created

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

According to 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.

Created reserves for bonuses for members of the Board in 2011 amounted to 4 804 thousand PLN and in 2010, 3 996 thousand USD. Provisions for remuneration of the members are not created.

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

Year 2011 Name	Engagement period		Remuneration
	since	to	
Adams Hendrik	01.01.2011	31.12.2011	86
De Roo Harry	01.01.2011	31.12.2011	86
Dekker Roelof	01.01.2011	31.12.2011	86
Prujjs 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

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

Year 2010	Engagement period		Remuneration
	since	to	
Adams Hendrik	14.10.2010	31.12.2010	11
De Roo Harry	01.01.2010	31.12.2010	83
Dekker Roelof	01.01.2010	31.12.2010	83
Dmochowski-Lipski Piotr	01.01.2010	10.06.2010	43
Iwanicki Jarosław	01.01.2010	31.12.2010	83
Maj Waldemar	14.10.2010	31.12.2010	11
Prujjs Jan Aleksander	10.06.2010	31.12.2010	57
Rowińska Agata	01.01.2010	31.12.2010	102
Schellens Rutger	01.01.2010	30.06.2010	65
Zdebski Andrzej	10.06.2010	31.12.2010	39
Total			577

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

The Members of the Management and Supervisory Boards did not take out any loans, allowances, or guarantees in 2011 or 2010.

47 Business segments

47.1 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 BGŻOptima – direct banking channel that was launched in November 2011). 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 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 cash flows between segments of clients and the part responsible for assets and liabilities management, valued using internal transfer prices of funds based on market prices and liquidity margins determined for a given maturity and currency. Segments' managerial expenses includes 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.

Starting with the financial report prepared for the first half of 2011 the Bank has made changes in presentation and calculation of data relating to segments. In the case of revenues, the components of segments' result on interests were reduced – ie. internal and

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

external revenues and expenses, without making changes in calculation of this items. 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.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

Reconciliation of changes in presentation of segments' results for 2010

2010	Retail Banking	Institutional Banking	Other Segments*	BGŻ S.A.	Explanation
Net segment income presented in financial statements under IFRS for 2010.					
	25 427	205 345	(103 880)	126 892	
<u>Influence of change in presentation</u>					
Revenues**	10 046	4 773	(14 819)	-	A change in management reporting which includes into business segments (ie Retail and Institutional) loans with an identified evidence of impairment that are recorded in branches (in the financial statements under IFRS BGZ SA for 2010, these loans were reported in the segment of Difficult Loans difficult, which in the financial statement for 2011 are no longer shown).
Impairment losses /Impairment for risk (SKR)	(48 604)	85 734	(37 130)	-	Change in management reporting methodology, which includes into business segments results an actual impairment of assets allocated to the segments, while denying recognition in the results of Standard Cost Risk (SKR) segments, showing the expected loss from lending activities during the entire duration of the each contract.
Total operating expenses	(135 846)	(127 474)	263 320	-	Change of the principles of indirect costs allocation to business segments, with the result that most of the costs previously reported for the 'Other' segment (related to risk management functions and support functions) has been allocated to business segments. Previously, the Bank was not able to make more accurate cost allocation.
Amortization/Depreciation	(17 231)	(13 340)	30 571	-	As above.
Net segment income presented in financial statements under IFRS for 2011	(166 208)	155 038	138 062	126 892	

* In the case of presenting data in the financial statements BGZ SA under IFRS for 2010, includes the following segments: Treasury Banking, Bank & Risk Management Com., Difficult Credits, Reconciliation, and Other. In the case of presenting data in the financial statements BGZ SA under IFRS for 2011 includes the Financial Markets segments and the following segments: Asset and Liability Management, and Other. Total range of the above segments is not completely comparable between years due to the fact that some contracts previously reported in Difficult Credits now been reported in the Retail and Institutional Banking.

** These include results for: interest, commissions, financial transactions, foreign exchange and other operations.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

The main changes compared to previous allocation model relate to allocation of cost of risk management function and support functions for business segments. What is more, Institutional Banking segment includes Agro Client segment due to its special importance for the business development strategy of the Bank and important influence on financial results of institution, and separate monitoring of this segment in managerial reporting of the Bank. At the same time, taking into consideration the extension of the Agro segment definition since the beginning of 2011, there is an appropriate transformation of data for 2010 made. Due to organizational changes in the Bank. Financial Markets and Assets and Liabilities Management segments were separated.

In the Bank's opinion, above changes contributed to improve the quality of reported data and a new presentation better reflects the Bank's activity profile and its internal managerial reporting structure, which in turn allows better interpretation of the results achieved. These changes were included in presentation of segments' results for the comparative period of previous year, which were brought to the comparability of the current reporting period.

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.

47.2 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 BGŻOptima, 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. 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 and 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, sales 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.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

Within Institutional Banking segment the Bank endured Agro Clients, ie. 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, results from Bank’s own accounts and from clients account without being attributable to particular segment, and IPO costs). What is more, adjustments of interest revenue on impaired loans that are not reported in other segments are reported in this segment.

47.3 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
- share in profits of associates

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

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards, for the financial year ended 31 December 2011

- data in PLN thousands



Accounting policies and additional explanatory notes

Reporting as of operating segments	2011	2010
Result on financial operations	47 178	81 697
Foreign exchange result	63 617	66 465
	110 795	148 162
Income statement:		
Dividend income	3 554	3 147
Result on trading activities	101 852	143 539
Result on investing activities	5 389	1 476
	110 795	148 162
Reporting as of operating segments		
Result on other operations	34 778	23 941
Depreciation	(82 999)	(73 233)
	(48 221)	(49 292)
Income statement:		
Other operating income	61 987	53 331
Other operating expenses	(110 208)	(102 623)
	(48 221)	(49 292)

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010

- 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

Notes included on pages 11-118 are an integral part of these financial statements.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010

- data in PLN thousands



Accounting policies and additional explanatory notes

2010	Retail Banking	Corporate Banking	including: Agro customers	Financial Markets and Assets and Liabilities Management	Other	BGŻ S.A.
Income statement						
Net interest income	244 910	324 502	152 627	18 716	16 190	604 318
External interest revenues	387 147	702 031	402 634	214 088	73 343	1 376 609
External interest expenses	(393 553)	(247 804)	(44 690)	(130 934)	-	(772 291)
Internal interest revenues	449 309	319 235	66 245	(768 576)	32	-
Internal interest expenses	(197 993)	(448 960)	(271 562)	704 138	(57 185)	-
Net fee and commission income	92 246	174 752	66 284	(1 426)	5 954	271 526
Result on financial operations	20	270	177	78 794	2 613	81 697
Foreign exchange result	13 824	34 032	10 825	18 988	(379)	66 465
Result on other operations	1 304	(11)	(5)	4 063	18 585	23 941
Net impairment write-offs	(102 830)	(47 954)	(12 216)	2 540	14 082	(134 162)
Total costs of banking activities	(374 156)	(302 028)	(135 056)	(20 891)	(16 585)	(713 660)
Depreciation/Amortization	(41 526)	(28 503)	(12 717)	(1 926)	(1 278)	(73 233)
Segment result	(166 208)	155 060	69 919	98 858	39 182	126 892
Profit (loss) before taxation	-	-	-	-	-	126 892
Income tax expense	-	-	-	-	-	(14 391)
Net profit (loss) for the year	-	-	-	-	-	112 501
Statement of financial position						
Segment assets	7 613 278	11 962 952	7 076 254	6 423 198	2 611 686	28 611 114
Segment liabilities	11 313 935	8 851 416	1 761 111	4 39 055	1 600 018	26 124 424
Equity	-	-	-	-	-	2 486 690
Total liabilities	-	-	-	-	-	28 611 114

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010

- data in PLN thousands



Accounting policies and additional explanatory notes

48 Financial risk management

48.1 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 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 2010 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. 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

48.2 Credit risk

Credit risk is inherent in the basic and essential financial activity of the Bank, including both credit activity as well as financing using capital market products. Consequently, credit risk is identified 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.

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.
- measurement of the credit risk attached to potential and active credit transactions is made periodically, after taking into account changes in the external conditions and in the financial standing of borrowers, as well as the collateral/ securities held.
- any credit risk assessment is subject to additional verification by credit risk assessment units that are independent of the Bank's business units.
- credit risk is diversified for geographical areas, industry sectors, products and clients.
- credit decisions may be taken only by authorized persons.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

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 2011, 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. 11% of the Bank's own capital. According to the balance at the end of 2010 the limits given in article 71 of the Banking Act were not breached. As at 31 December 2010 the total exposure equal or higher than 10% of the Bank's own capital amounted to 23% 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 2010, the respective geographical concentrations were as follows: Central Area – 19%, Eastern Area – 23%, Western Area – 21%, Southern Area – 18%, Northern Area – 19%. At the end of 2011, the allocation of exposure to particular geographical areas was again found to be in proportion, and was as follows: Central Area – 19%, Eastern Area – 23%, Western Area – 22%, Southern Area – 18%, Northern Area – 18%.

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:

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

Share of non performing loans, by region*

Regions	Engagement		Share of non-performing exposures	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Central	4 793 456	3 956 835	7.8%	9.0%
Western	5 503 101	4 376 903	6.6%	7.2%
Southern	4 620 370	3 581 205	6.2%	7.9%
Northern	4 453 315	3 958 414	4.1%	3.5%
Eastern	5 750 930	4 708 449	4.1%	5.0%
Total	25 121 172	20 581 806	5.7%	6.4%

**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 2011, similar to that at the end of 2010, is characterized by concentration on the following three industries: Agriculture. Wholesale Trade and Food Production. In 2010, the Bank's exposure to these three industries accounted for 65% of total exposure; while in 2011 – for 63%.

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 2011 and 2010, the biggest share of non performing exposures by industry was indicated to wearing apparel.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- 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	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Agriculture	6 184 013	4 857 429	3.0%	3.5%
Wholesale trade: wholesale and retail trade In vehicles	2 350 728	1 716 754	6.3%	7.7%
Food production	2 013 924	1 689 632	10.0%	14.0%
Manufacture of cork and refined petroleum products. chemicals and chemical products. rubber and plastic products	531 013	532 202	2.3%	2.2%
Construction	736 432	485 390	14.3%	16.0%
Retail trade	486 899	390 238	8.7%	7.9%
Manufacture of products of wood and cork. paper and paper products. furniture	456 589	382 763	10.2%	8.9%
Production of metal lic, other mineral non-metallic materials	673 927	369 837	10.2%	18.6%
Real estate activities	397 359	364 933	2.4%	2.8%
Transportation and storage	371 665	251 518	10.3%	14.6%
Other business activity	318 093	246 197	1.4%	1.5%
Manufacture of machinery and equipment. motor vehicles	297 879	240 863	5.2%	7.0%
Hotels and restaurants	236 314	184 303	11.1%	12.6%
Financial and insurance activities	139 309	114 090	12.5%	16.6%
Manufacture of electronic and optical products. electrical equipment	141 219	136 294	0.7%	28.6%
Manufacture of wearing apparel. textiles. Feather and related products	108 847	99 848	26.3%	29.1%
Professional. scientific and technical activities	261 647	87 889	2.2%	5.7%
Electricity. gas. steam. hot water production and supply	254 774	71 743	0.1%	0.6%
Human health and social work activities	80 529	56 210	0.2%	2.6%
Water supply. sewerage. waste management	68 411	44 113	5.9%	5.1%
Other services activity	28 984	42 443	2.3%	1.5%
Education. arts. entertainment and culture	39 786	39 232	3.5%	1.2%
Other foods production	34 769	35 096	7.6%	5.9%
Forestry and logging	31 570	22 088	4.6%	6.6%
Information and communication	93 386	20 894	3.6%	10.2%
Mining and quarrying	24 295	16 990	1.3%	2.9%
Fishing industry	17 038	16 638	3.2%	0.0%
Other industries	278 488	175 499	3.3%	11.1%
Retail customers	8 463 286	7 890 680	5.4%	4.4%
Total	25 121 172	20 581 806	5.7%	6.4%

* loans with identified impairment

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

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

The analysis are performed especially for collaterals with low level of liquidity. Such collaterals include: pledge on movables placed in storage house, assignment of receivables from bank account, sponsorship statement, statutory lien, regular lien, assignment of debt, statutory accession to debt. blank promissory note/ blank bills of exchange, assignment of rights from insurance agreement. As at 31 December 2011 and 31 December 2010, no breach of concentration limits for this collateral group was noted.

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 is that objective evidence of future impairment will be identified. A rise of a delinquency 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 are presented in the tables below.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- 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				with evidence of impairment	total
	0 days	1-30 days	31-60 days	61-90 days		
Retail current account loans	158 184	2 537	1 983	1 091	4 290	168 085
Loans for the purchase of residential premises	6 687 853	173 103	56 415	19 672	96 139	7 033 182
Mortgage loans	107 118	5 109	943	839	4 112	118 121
Cash loans	522 455	26 363	6 884	2 232	36 034	593 968
Student loans	174 896	1 035	710	22	1 835	178 498
Other retail exposures	3 518	-	-	-	30	3 548
Working capital facilities for farmers	177 209	2 350	13	-	5 291	184 863
Investment loans for farmers	3 598 592	23 672	5 237	1 620	51 958	3 681 079
Working capital facilities for micro-enterprises	32 686	498	308	326	1 668	35 486
Investment loans for micro-enterprises	936 502	3 526	5 020	4 318	28 872	978 238
Current account loans for farmers and micro-enterprises	1 293 658	2 898	4 695	3 613	12 111	1 316 975
Investment loans for SME and large enterprises	7 009 160	19 425	9 163	718	314 174	7 352 640
Current account loans for SME and large enterprises	1 799 862	1 726	2 031	673	32 904	1 837 196
Finance institutions exposures	16 978	-	-	-	-	16 978
Public sector	264 913	-	-	-	-	264 913
Exposures in the Irregular Loans Department	18 911	93	10	95	76 376	95 485
Factoring	371 190	3 437	2 121	22	2 242	379 012
Total	23 173 685	265 772	95 533	35 241	668 036	24 238 267

Notes included on pages 11-118 are an integral part of these financial statements.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

Credit portfolio structure classified by impairment and delinquency 31.12.2010 (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		
Retail current account loans	135 264	2 040	2 468	1 562	3 698	145 032
Loans for the purchase of residential premises	6 214 070	132 225	53 934	27 210	93 551	6 520 990
Mortgage loans	126 095	8 342	3 582	1 312	5 676	145 007
Cash loans	532 576	29 958	10 112	4 852	39 209	616 707
Student loans	210 081	1 067	1 043	18	2 695	214 904
Other retail exposures	6 066	7	-	-	44	6 117
Working capital facilities for farmers	193 850	902	1 227	113	6 154	202 246
Investment loans for farmers	3 022 767	6 418	7 496	1 182	44 180	3 082 043
Working capital facilities for micro-enterprises	19 820	106	151	-	1 781	21 858
Investment loans for micro-enterprises	634 674	1 135	10 883	3 707	23 033	673 432
Current account loans for farmers and micro-enterprises	956 232	4 201	10 098	4 522	14 546	989 599
Investment loans for SME and large enterprises	4 939 922	1 761	4 798	10 449	328 776	5 285 706
Current account loans for SME and large enterprises	1 350 567	2 508	1 346	1 056	62 574	1 418 051
Finance institutions exposures	8 075	-	-	-	233	8 308
Public sector	200 129	-	-	-	-	200 129
Exposures in the Irregular Loans Department	21 434	83	-	-	63 731	85 248
Factoring	255 243	9 955	-	-	2 414	267 612
Total	18 826 865	200 708	107 138	55 983	692 295	19 882 989

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 12 months.

Due to the fact that over the year minor technical changes was made to the calculation of the parameters PD, for purposes of comparability with the parameters for 2011, parameters PD for 2010 were calculated taking into account the adjustments made. These parameters are indicative and are not included in the calculation of impairment losses. For these calculations are used the parameters with different periods of loss of identity due to the portfolio, taking into account the number of days of delay in payment for each exposure.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

Credit portfolio structure with no impairment evidence (net carrying amount)

Exposure category	31.12.2011		31.12.2010*	
	value	PD	value	PD
Retail current account loans	163 795	3.69%	141 334	3.68%
Loans for the purchase of residential premises	6 937 043	2.4%	6 427 439	2.07%
Mortgage loans	114 009	5.29%	139 331	5.84%
Cash loans	557 934	8.37%	577 499	8.05%
Student loans	176 663	1.25%	212 209	1.29%
Other retail exposures	3 518	8.37%	6 073	8.05%
Working capital facilities for farmers	179 572	1.34%	196 092	1.26%
Investment loans for farmers	3 629 121	1.05%	3 037 862	1.01%
Working capital facilities for micro-enterprises	33 818	3.74%	20 077	3.79%
Investment loans for micro-enterprises	949 366	2.75%	650 399	2.76%
Current account loans for farmers and micro-enterprises	1 304 864	3.24%	975 052	3.35%
Investment loans for SME and large enterprises	7 038 466	1.92%	4 956 930	1.71%
Current account loans for SME and large enterprises	1 804 292	3.72%	1 355 477	3.31%
Finance institutions exposures	16 978	-	8 075	-
Public sector	264 913	-	200 129	-
Exposures in the Irregular Loans Department	19 109	53.57%	21 518	37.97%
Factoring	376 770	1.92%	265 198	1.71%
Total	23 570 231	-	19 190 694	-

*Brought to comparability with data for the 2011 year.

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. To this end, input data include 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.

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

Internal rating code**	31.12.2011		31.12.2010	
	value	Share	value	Share
R08	396	-	311	-
R09	113 333	1.2%	11 370	0.2%
R10	577 790	6.4%	444 856	6.9%
R11	309 032	3.4%	66 173	1.0%
R12	502 329	5.5%	528 044	8.2%
R13	957 734	10.6%	759 478	11.9%
R14	1 113 945	12.3%	807 759	12.6%
R15	1 668 185	18.4%	1 238 402	19.3%
R16	1 389 603	15.3%	1 181 253	18.4%
R17	1 202 804	13.3%	726 825	11.3%
R18	934 308	10.3%	436 941	6.8%
R19	210 292	2.3%	130 750	1.8%
R20	91 217	1.0%	84 765	1.6%

* 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

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

No impairment loss is recognised on overdue loans that are fully secured by monetary collateral or on mortgage loans overdue for more than 90 days, if the value of the collateral is sufficient to pay both the principal amount of the loan and potential interest for a period of at least one year.

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.

Key Principles of Security Bank's credit exposure, including special rules for mortgage security, define risk management of institutional credit exposures policy BGŻ SA and risk management for retail credit exposures policy BGZ SA, 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 - for the debtor's financial security in case of personal security and the value of the collateral in case of 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, 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 security (registered pledge, assignment), the Bank sets the value of the collateral, in particular, on the basis of actual transaction prices.

Updating 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.

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

Accounting policies and additional explanatory notes

48.3 Market risk and ALM (Assets and Liabilities Management)

Organisation of risk management process

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 resolution 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.

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 Bank's Financial Markets Department is operationally responsible for the current risk measurement of the trading book and the liquidity 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"). 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 Foreign Operations Department (hereinafter "FO"). The system of acceptance of limits outpasses is hierarchical, depending on the type of the limit (its "validity") and the type of outpass (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 outpasses are reported and discussed at monthly meetings of KZRiBB.

The Bank's banking book consists of - communicated to management through the AP Funds Transfer Pricing (TCF) - deposits and credits, items of a strategic nature (long-term investments, bonds with conversion of obligatory reserves, their emissions debt and loans), the operations of a financial market liquidity (deposits and interbank deposits, liquid debt securities) and hedging the book (derivatives) and non-interest items (including capital, tangible assets, intangible assets, taxes and reserves, the current profit). In 2011, the Bank created the Office of Asset and Liability Management assigning its duties to manage the structural position of interest rate risk, long-term bank financing and portfolio management, conducted in order to increase the profitability of assets held as a liquidity reserve.

Risk measures

The basic measures of market risk 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 interval 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 banking book liquidity portfolio. The Bank is aware of the limitations of measure VaR, primarily the following:

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

- 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 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 given financial item's – valuation, interest income, net economic capital value – sensitivity 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.
 - stop-loss limits for different time periods (day, month, year) at the level of portfolios and sub-portfolios.
 - non-financial limits, which include admissible types of instruments, currency pairs, maturity dates, minimum credit rating for debt securities bought.

Risk in the banking book (ALM)

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 Bank's banking book consists of – passed in the management to AL, through Funds Transfer Prices (FTP) system – deposits and loans, items of strategic character (long – term investments, bonds from conversion of obligatory provision, own issue of debt and loans), financial market operation with liquidity characteristic (deposits and interbank placements, liquid debt securities) and collateral for this book (derivatives) and non – interest positions (equity, property, plant and equipment, intangible assets, taxes and provisions, current result). In 2011 the Bank created the Assets and Liabilities Management Office (AL) assigning to its responsibilities management of structural position of interest rate risk, long – term financing of the Bank and investment portfolio management, carried out in order to increase the profitability of assets held as liquidity provision.

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 2011, 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 Board or in the multiplier way that depends on the market rates (preferential loans with subsidy ARiMR), the average duration – ie. weighted period to interest revaluation – of balance sheet assets stabilized at a level of 3.8 month (one year ago 1.7 month). while in the case of balance sheet liabilities it equalled to 2.8 month (previously 1.8 month). More than 93% of active and passive positions have a revaluation date lower than 6 month (at the

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

end of 2010 it was 98%), and almost 54% of assets and liabilities is revalued within one month (previously 70%).

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	
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)	
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	

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

Interest rate gap 31.12.2010	Up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
Assets						
Cash and balances with central bank	787 612	-	-	-	-	787 612
Amounts due from other banks	16 234	-	39 605	578	-	56 417
Securities held for trading	1 842 260	-	-	-	-	1 842 260
Loans and advances to customers	11 342 964	5 737 284	2 253 494	434 756	4 197	19 772 695
Investment securities	1 288 531	363 000	259 000	1 324 500	-	3 235 031
- available – for – sale	1 288 531	363 000	259 000	1 324 500	-	3 235 031
- other debt securities	-	-	-	-	-	-
Other Assets	1 466 747	80 720	13 618	-	-	1 561 085
Total Assets	16 744 348	6 181 004	2 565 717	1 759 834	4 197	27 255 100
Liabilities						
Amounts owed to banks	(680 925)	(2 067)	(8 300)	-	-	(691 292)
Amounts owed to customers	(13 079 506)	(4 833 639)	(4 421 087)	(49 276)	-	(22 383 508)
Other borrowed funds	(511 000)	(1 095 500)	(150 000)	-	-	(1 756 500)
Other liabilities	(11 613)	-	-	-	-	(11 613)
Total liabilities	(14 283 044)	(5 931 206)	(4 579 387)	(49 276)	-	(24 842 913)
Off – balance sheet						
Net off- balance sheet liabilities	341 845	(1 642 121)	1 210 658	(538 840)	4 657	(623 801)
Total cumulative interest rate gap	2 803 149	1 410 826	607 814	1 779 532	1 788 386	

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

- the size of the gap is recognized in nominal individual transactions
- based on the resolution of the Management Board, variable interest rate contracts are assigned a monthly revaluation period,
- 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
- 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.
- 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,
- 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.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

Bank's Cumulative interest rate gap profile is characterized by a surplus of assets with revaluation date up to 1 month and 1 – 5 years. Extension of deadlines in Bank's balance sheet revaluation structure result from changes in structure, that were implemented throughout last year. On the assets side, the major impact had buying of long – term Treasury bonds bearing fixed interest rate for investment portfolio ALM. The major purpose of this transaction was extension of average period of assets revaluation. On the passive side, the main change was due to a loan from Rabobank in CHF, that is to finance mortgage loans portfolio in this currency, revalued in 3 and 6 months periods.

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 increase in result on interest in one year period by around PLN 8.3 million (PLN 18 million in previous year), while gradually raising interest rates by 200 bp in one year period could lead to increase in result on interest by around PLN 9.5 million (PLN 33.3 million one year ago). The sensitivity of net result on interest to decline in interest rates is higher than in interest rate increase scenario because of the existence of non – sensitive to the interest rates liabilities (part of costs do not decrease in the same way as the market rates) and low levels of basic rates (ex. CHF and USD). The immediate decrease of interest rates by 50 bp could lead to decrease of net result on interest in one year period by PLN -24.1 million (PLN 32.4 million in previous year). while gradually lowering interest rates by 200 bp in one year period could lead to decrease in net result on interest by PLN -48 million (previously PLN -67 million).

Net interest income volatility

	31.12.2011	31.12.2010
Immediate increase of interest rates by 50bps:	8 283	18 023
Gradual change of interest rates by 200 bps:		
- up	9 498	33 254
- down	(47 969)	(67 081)

The comparison of net interest volatility at the end of 2011 and 2010 indicates, that the risk is limited. At the end 2011 compliant with the risk appetite accepted by the Bank and the interest rate changes expected in the mid-term.

Risk in the trading book

Trading activities are complementary and are carried out to support the sales of financial products to corporate finance non-bank 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. In 2011 – similarly like in 2010.

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, commodity and credit instruments.

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 in 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, In terms of increasing volatility in market interest rates (the solvency crisis in Eurozone). in connection with remaining in portfolio exposures, that resulted from

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

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

	31.12.2011	31.12.2010
FX VaR ¹	16	46
IR VaR ¹	1 067	674
Stress test ²	10 563	3 806

1/ The Bank uses the parametric method with the kurtosis correction and exponential weighing, 99% confidence interval 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 (ie. intraday) remained at a low level, despite the higher sales activity. Positions in currency options that were offered to clients were, in accordance with existing policies, absolutely and immediately closed on interbank market.

48.4 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 allowed 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.

In addition, the Bank has at its disposal 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. 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

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

of placements made in the Bank by the biggest depositors. Additionally, a monitoring of the plans of loans and deposits sales by particular business lines is performed and simulation analyses and Stress Tests are being prepared. Also, a cost analysis of deposit database has been 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 2011, 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 2011, the Bank had liquid assets at 5,20 billion zlotys (formerly 4,87 billion USD):

Liquid assets

	31.12.2011	31.12.2010
inter-bank deposits up to 1M	200 142	30 064
high liquid securities	5 003 534	4 838 010
liquid assets limit	3 350 000	3 300 000
net financing from inter-bank market	72 241	(589 295)
surplus/shortage of liquid assets	1 853 676	1 568 074

Both in 2011 and 2010 the Bank maintained a balanced required supervisory liquidity measures.

Supervisory liquidity measures

	31.12.2011	31.12.2010
M1	1 894 127	1 846 833
M2	1.22	1.15
M3	2.72	2.70
M4	1.12	1.05
limit	1.00	1.00

At the end of December 2011 the surplus of the outside inter-bank market sources of finance over loans balance amounted to PLN 4.0 billion (of which PLN 2.69 billion unstable sources from liabilities arising from repo transactions), whereas the surplus of stable sources of finance over the credit balance amounted to 1.34 billion. while in previous year there was only PLN 0.5 billion deficit to fully cover the loan portfolio with stable deposits:

Dynamics of loans and their sources of finance

	31.12.2011	31.12.2010
stable finance sources	26 414 619	20 135 854
unstable finance sources	2 694 192	4 081 869
loans	25 075 228	20 618 567
finance buffer	4 033 583	3 599 156
stable finance sources surplus/gap	1 339 391	(482 713)

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

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 0.5 billion.

During the year, stability of the Bank's sources of finance remained high, mainly 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. The whole increase in stability compared to previous year (from 80.3% to 90%) was connected mainly with a 100% stable loan from Rabobank and increase in stability of corporate deposits.

Dynamics of stability of particular sources

	31.12.2011		31.12.2010	
	balance	stable (%)	balance	stable (%)
retail clients	13 303 068	93.1%	11 275 043	94.3%
enterprises	8 820 081	90.0%	8 036 535	88.3%
budget entities	775 680	37.2%	1 632 707	40.1%
certificates of deposit	2 044 500	88.6%	1 756 500	88.7%
EBRD credit line	441 680	100.0%	198 015	100.0%
Rabo credit line in CHF	3 547 917	100.0%		
banks and other unstable sources	424 956	0.0%	2 165 980	0.0%
Total	29 357 882	90.0%	25 064 780	80.3%

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

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

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:					
Housing and mortgage loans	76 134	150 159	413 996	2 585 829	4 939 527
Loans and advances to corporate customers	26 241	48 807	209 982	1 991 668	4 818 207
Loans and advances due and receivable	1 556 871	680 905	2 557 846	7 559 217	3 643 586
Debt securities	103 588	8 773	40 263	303 330	535 288
Inter – bank placements	1 790 251	74 643	3 059 362	196 184	12 112
Cash and balances with Central Bank (NBP)	72 000	-	241	-	-
Non – current assets	547 875	-	-	-	773 268
Other assets	-	-	-	158 902	476 211
Off – balance liabilities including:	495 199	-	-	-	-
derivates	4 132 671	2 723 255	4 687 917	468 405	212 833
	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	-	-	-	-
Off-balance liabilities 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)

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

Liquidity gap 31.12.2010	Up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years
Assets					
Loans and advances to retail customers. including:					
Housing and mortgage loans	72 266	118 006	396 691	2 414 487	4 691 400
Loans and advances to corporate customers	23 384	45 197	193 955	1 781 463	4 558 409
Loans and advances due and receivable	1 312 458	565 686	2 055 715	5 917 200	2 509 028
Debt securities	85 643	7 253	33 288	250 784	442 559
Inter – bank placements	1 763 068	60 404	2 765 855	181 008	388 572
Cash and balances with Central Bank (NBP)	5 928	-	205	-	-
Non – current assets	632 966	-	-	-	741 957
Other assets	-	-	-	-	464 818
Off – balance liabilities including:	675 841	-	-	-	-
derivates	7 703 753	1 183 204	7 744 539	131 904	28 896
	6 917 212	1 183 204	5 742 417	120 476	28 896
Liabilities					
Deposits from retail customers	2 340 951	1 422 901	3 223 606	3 849 348	434 151
Deposits from corporate customers	1 891 701	141 924	480 581	1 539 322	798 114
Inter-bank deposits	617 800	400	-	-	-
Negotiated deposits SK	2 794 811	1 409 795	918 932	128 523	-
Certificates of deposits	511 000	1 095 500	150 000	-	-
Equity and subordinated deposits	-	-	112 501	-	2 374 189
Other liabilities	1 315 267	-	-	-	-
Off-balance liabilities including:	9 695 242	1 299 321	6 831 824	781 956	303 349
derivates	7 085 155	1 166 194	6 070 805	118 240	40 189
Total receivables	12 251 923	1 934 553	12 996 293	8 895 383	9 267 230
Total liabilities	19 166 772	5 369 841	11 717 444	6 299 149	3 909 803
Partial liquidity gap	(6 914 849)	(3 435 288)	1 278 849	2 596 234	5 357 427
Cumulative liquidity gap	(6 914 849)	(10 350 137)	(9 071 288)	(6 475 054)	(1 117 627)

In the above analysis of the Bank's liquidity risk profile for the year 2011, the following assumptions were used, which cause its departure from the accounting data:

- 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 (trading/AFS); securities with short-term maturity (up to 3 months) are presented in a group consistent with their actual maturity,
- 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,
- 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),

Accounting policies and additional explanatory notes

- 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).

48.5 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 2009 and 2010 all over the world in the form of the trust deficit between financial institutions and liquidity crisis and in 2011 in the form of anxiety over financial situation of countries resulted in the Bank continuing in 2011 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. 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 2011, 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. 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. The review included the withdrawal of limits for Ireland, Spain (at the end of 2011, the Bank had a slight limit available only on factoring), Portugal (mainly due to the deteriorating public financial standing of these countries, their credit scoring and the deterioration of economic ratios) as well as Romania, Luxemburg (due to unused limit) and decrease of other limits, adjusting it to the real Bank needs and its risk appetite. On the other hand, in 2011 there was a significant reduction in the limits on EU countries to match them more precisely with the projected business needs. As a consequence, the maximum possible exposure level decreased to PLN 2.26 billion.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

As at 31 December 2011, the vast majority of the Bank's exposure to countries resulted from treasury transactions concluded mainly with Rabobank (Netherland 57%) and credit transactions maturing in April 2012 with Croatia (41%). Other exposures relates to USA, Ireland, France (as a total of 2% in the whole exposure). Exposures to Germany, Hungary, Romania material at the end of 2010 were reduced to zero. 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

	31.12.2011			31.12.2010		
	Limit	Exposure	%	Limit	Exposure	%
Rating AAA-A	2 165 000	165 039	8%	2 425 000	61 192	3%
Rating BBB	76 000	116 404	153%	144 000	151 455	105%
Rating BB	20 000	2 430	12%	-	20 615	-
Rating B	-	-	-	-	-	-

Banking and financial client risk

In 2011 Bank continued its prudential policy referring to limits for financial institutions. After significant reductions of limits, that took place in 2008 – 2010, in 2011 subsequent revision of actual limits took place. In the response to growing business needs the limits were slightly increased – the sum of the limits has increased by around 3.45% (from PLN 3.48 billion to PLN 3.6 billion), and as a result of revision they were reallocated with a new key. In the case of limits for financial market transactions the sums of the limits were increased significantly (from PLN 300 million to PLN 4.23 billion).

In the area of inter-bank market transactions, the majority of the available limits constitute 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 commerce 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 commerce 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.

Bank exposure (in PLN '000)

	31.12.2011	31.12.2010
Financial market transactions		
- available limits	3 589 200	3 483 500
- used	185 338	12 101
Trade financing transactions		
- available limits	4 230	300
- used	4 375	41 826

As at the end of 2011 the majority of the financial market exposures consisted of FX SWAP transactions (89% of the exposure); the remaining operations had either a passive character (accepted deposits) or the current valuation of Bank liabilities towards its counterparties was negative (IRS, FRA transactions) and as such the operations did not generate credit.

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

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

the aggregate value of the available limits amounts to PLN 397m granted to 107 entities, the limits were used for three investment funds, belonging to IDEA TFI and IPOPEMA Group, 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 2011 the Bank had more than 341 such limits (almost 1.5 times more than in 2010) but actively used were only 42% of them (25% in 2010). In 2011 the exposure contains mainly currency exchange transactions FX Spot, FX Forward/NDF (87%), IRS/CIRS transactions (13%). A significant decrease in IRS/CIRS transactions risk exposure, that took place In 2011 resulted mainly from the expiry in the first half 2 significant IRS transactions. The change in the distribution of exposure was mainly due to affirmation of foreign currency transactions (FX exchange). As at the end of 2010 and 2011 the Bank does not have any outstanding foreign currency options with clients, while at the end of 2009 valuation of open option transactions – positive for the Bank – amounted to PLN 13.6 million (about 11% of total exposure).

Non-financial clients exposure (in PLN '000)

	31.12.2011	31.12.2010
Available limits	429 013	312 905
Exposure	28 585	49 057
Share %	7%	16%

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

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)

At 31 December 2011	EUR	USD	CHF	GBP	SEK	Other
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
At 31 December 2010						
Assets						
Cash and balances with the Central Bank	65 152	22 892	5 050	13 799	-	1
Amounts due from other banks	142 375	93 045	19 098	8 689	-	7 272
Loans and advances to customers	598 046	334 951	3 611 981	1 466	-	-
Shares	44	-	-	-	-	-
Debt securities	-	-	-	-	-	-
Other assets	25 530	721	535	2 427	-	2
Total assets	831 147	451 609	3 636 664	26 381	-	7 275
Liabilities						
Amounts owed to banks	293 689	61 392	-	1 009	-	22
Amounts owed to customers	720 077	390 660	591	26 005	-	3 619
Other liabilities	21 080	2 725	7	407	-	727
Total liabilities	1 034 846	454 777	598	27 421	-	4 368
Derivatives and commitments – nominal value	20 192 407	14 196 550	4 223 464	4 548	-	16 129

48.6 Operating risk

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

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010

- data in PLN thousands



Accounting policies and additional explanatory notes

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 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 Risk Management 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 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.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

48.7 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 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 422 195 thousand in 2011, and to PLN 29 304 thousand in 2010.

48.8 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.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

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

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
31.12.2010	Level 1	Level 2	Level 3	Total
Financial assets:	3 635 851	1 522 087	162 503	5 320 441
Financial assets at fair value through profit or loss	1 814 899	-	-	1 814 899
Derivatives*	-	214 139	728	214 867
Financial assets available for sale	1 820 952	1 307 948	161 775	3 290 675
Financial liabilities	47	730 004	2 000	732 051
Derivatives	47	730 004	2 000	732 051

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

In 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 shows 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.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

	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)	2 000	-	-	-	-	-
Derivatives	(2 000)	2 000	-	-	-	-	-

	Gains/losses						
	Opening balance	Through profit or loss	Including items presented as of 31.12.2010	Through statement of comprehensive income	Including items presented as of 31.12.2010	Settlement	Closing balance
Financial assets:	211 260	7 531	7 483	3 361	3 327	(59 649)	162 503
Derivatives	2 069	(1 341)	(377)	-	-	-	728
Available for sale financial assets	209 191	8 872	7 860	3 361	3 327	(59 649)	161 775
Financial liabilities	(4 865)	2 865	(3)	-	-	-	(2 000)
Derivatives	(4 865)	2 865	(3)	-	-	-	(2 000)

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

In respect to debt instruments 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.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

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:		
- 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 receivables	-	-
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

31.12.2010	Carrying amount	Fair value
Financial assets		
Amounts due from other banks	280 867	279 503
Receivables arising from reverse repo transactions	651 706	650 316
Amounts due from customers under overdraft facilities	2 524 203	2 537 365
Loans and advances to customers:		
- companies	5 322 849	5 308 273
- households	11 720 073	11 974 225
- public institutions	213 902	213 583
- other entities	100 241	100 190
- other receivables	1 721	1 721
Other debt securities	125 108	124 934
Financial liabilities		
Amounts owed to other banks	1 020 419	1 017 829
Liabilities arising from repo transactions	1 268 921	1 269 451
Amounts owed to customers and debt securities issued	22 796 765	22 758 711

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)

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

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.

49 Significant events in 2011

CHF loan form Rabobank

On 22 April 2011 the Bank and Rabobank Nederland concluded an agreement under which Rabobank Nederland will provide the Bank with the funds amounting to CHF 1 008 million for the period of 12 years to finance the existing housing loans portfolio denominated in CHF - the credit facility will be made available in 18 tranches starting from 29 April 2011 to 30 September 2011. Till the end of 30 September 2011. the Bank has already drawn the whole loan amounting to CHF 1 008 million.

Initial Public Offering of BGŻ S.A. shares („the Offering”)

The subject of the offering were up to 16 046 596 Bank's shares, owned by The State Treasury of the Republic of Poland (the "Selling Shareholder") and representing up to 37.20% of Bank's share capital and giving the right up to 37.20% of total number of votes at the General Meeting of the Bank ("AGM"). The offer was addressed at Individual Investors as well as Polish and foreign Institutional Investors.

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

On 28 April 2011 Polish Financial Supervision Authority ('PFSA') approved the prospectus prepared by the BGŻ S.A. and on 29 April. the PFSA approved Annex No.1 to the prospectus, which included information about fixing the Maximum Share Price for the purpose of Individual Investors subscription. The price was set at the level of PLN 90.00 per 1 share.

Subscription for shares took place respectively: for Individual Investors from 5 to 16 May 2011, for Institutional Investors from 18 to 20 May 2011. Individual Investors made 76 577 sign ups and subscribed for 7 321 657 shares.

On 17 May the Selling Shareholder, in consultation with the Joint Global Coordinators and PKO BP BH serving as Co-Offering Agent set:

- The selling price of Sale Shares (i) for Individual Investors at PLN 60 per 1 Sale Share and (ii) for Institutional Investors at PLN 60 per 1 Sale Share;
- The final number of Sale Shares offered in the Offering at 5 200 000 Sale Shares, representing 12.05% of the share capital of the Bank;
- The final number of Sale Shares offered: (i) to Individual Investors at 1 560 000 Sale Shares and (ii) to Institutional Investors at 3 640 000 Sale Shares.

In addition, on 17 May 2011 the Selling Shareholder, following to the fact, that the Individual Investors subscribed for more than 25% of the total number of Sale Shares offered in the Offering, decided to change the number of Sale Shares to be allocated for Individual Investors from initially planned 25% to 30% of the final number of Sale Shares. As the Individual Investors subscribed for more than 30% of the total number of Sale Shares, there has been a reduction in subscriptions made by Individual Investors following the provisions of the Prospectus.

As a result of the sale of the shares, the share of the State Treasury in the share capital and number of votes at the Bank's AGM decreased to 10 856 610 shares and votes, representing 25.17% of share capital and votes at the Bank's AGM. The first listing of the Bank's shares on the Warsaw Stock Exchange occurred on 27 May 2011. The IPO price was PLN 62.50 per 1 share. The Bank's shares are traded in continuous trading system under abbreviated name "BGZ" and marked "BGZ".

As at 31 December 2011 the Treasury held 25.54% of Bank's share capital including redeemed shares in the stabilization period and shares dedicated to gratuitous disposal to employees – what was described on other information section, point *Gratuitous disposal of shares held by the Treasury to employees*.

BGŻOptima

On 16 November 2011 the Bank launched a branch BGŻOptima, separated within the Bank structure, whose offer is only available on the Internet. BGŻOptima is focused on savings services.

The BGŻOptima offer includes deposits, saving accounts, mutual funds, The process of opening bank accounts and placements is completely remote, there is no necessity to visit the Bank's branch. This BGŻOptima offer is an addition to Bank's offer in the area of savings and investment products, and is targeted to customers that want to use banking services via the Internet.

BGŻOptima was supported by Rabobank and is based on RaboDirect solutions available in Belgium, Ireland, Australia and New Zealand.

KNF Inspection

In the second half of 2011 a complex inspection carried out by the Polish Financial Supervision Authority took place. Based on the results of the inspection of 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 a material influence on financial statements

Bank Gospodarki Żywnościowej S.A.

Financial statements prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2010



- data in PLN thousands

Accounting policies and additional explanatory notes

50 Events after the reporting period

Up to 5 March there are no significant events after balance sheet date which are not included in the report.

.....
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, 5 March 2012