The Capital Group of
Bank Gospodarki Żywnościowej S.A.
Consolidated Financial Statements,
prepared in accordance with
International Financial Reporting Standards
for the year ended
31 December 2008,
together with the
independent auditor's opinion

Warsaw, 23 March 2009

PLN thousand

Consolidated Profit and Loss Account

	Note	Year ended 31.12.2008	Year ended 31.12.2007 comparative data
Interest income	6	1 450 609	1 097 787
Interest expense	6	(785 705)	(526 148)
Net interest income		**664 904**	**571 639**
Fee and commission income	7	247 808	268 372
Fee and commission expense	7	(31 018)	(30 050)
Net fee and commission income		**216 790**	**238 322**
Dividend income	8	3 242	2 132
Result on trading activities	9	129 338	95 246
Result on investing activities	10	(5 313)	(2 718)
Other operating income	11	137 638	169 320
Net impairment losses on loans and advances	12	(45 104)	20 197
General administrative expenses	13,15	(707 964)	(623 469)
Other operating expenses	14	(118 583)	(160 797)
Operating result		**274 948**	**309 872**
	26	(207)	-
Profit (loss) before taxation		**274 741**	**309 872**
Income tax expense	16	(61 717)	(37 744)
Net profit (loss) for the year		**213 024**	**272 128**
- attributable to the shareholders of the Bank		213 024	272 128
Earnings per share attributable to the shareholders of the Bank (in PLN per share):			
- basic	17	4,94	6,52

PLN thousand

Balance sheet

	Note	31.12.2008	31.12.2007 comparative data
ASSETS			
Cash and balances with the Central Bank	18	1 291 385	498 442
Amounts due from other banks	19	798 698	1 716 741
Held-for-trading securities	20	530 173	139 014
Derivative financial instruments	21	1 004 905	326 690
Loans and advances to customers	22	17 066 206	13 987 900
Securities available for sale	23	1 822 475	1 752 611
Other debt securities	24	750 589	938 010
Investment property	25	77 000	49 313
Investments in subsidiaries and jointly controlled enities	26	19 393	-
Intangible assets	27	81 034	59 999
Property, plant and equipment	28	449 435	427 137
Deferred tax asset	36	108 166	-
Current tax assets		-	14 734
Other assets	29	67 909	123 128
TOTAL ASSETS		**24 067 368**	**20 033 719**

PLN thousand

Balance sheet (continuation)

	Nota	31.12.2008	31.12.2007 comparative data
LIABILITIES			
Amounts owed to other banks	30	1 149 229	1 730 007
Derivative financial instruments and other liabilities held for trading	21	1 419 855	264 234
Amounts owed to customers	31	18 140 981	15 542 232
Liabilities from issued debt securities	32	612 551	2 683
Other liabilities	33	266 680	275 356
Deferred tax liability	35	12 303	17 799
Current tax liabilities		87 868	9 170
Provisions	34	68 709	94 004
Liabilities arising from employee benefits	37	30 957	28 449
TOTAL LIABILITIES		**21 789 133**	**17 963 934**
EQUITY			
Equity attributable to the shareholders of the Bank:		**2 278 235**	**2 069 785**
Issued share capital	39	43 137	43 137
Reserve capital	40	1 743 027	1 548 637
Net profit for the year		213 024	272 128
Accumulated profit from previous years		171 948	94 210
Other reserves	39	107 099	111 673
TOTAL EQUITY		**2 278 235**	**2 069 785**
TOTAL LIABILITIES AND EQUITY		**24 067 368**	**20 033 719**

PLN thousands

Statement of changes in the consolidated equity

	Note	Issued share capital	Reserve capital	Other reserves	Retained earnings	Undistributed profit for the year	Total
As at 1 January 2008	**39,40**	**43 137**	**1 548 637**	**111 673**	**94 210**	**272 128**	**2 069 785**
Transfer from prior year profits		-	194 390	-	77 738	(272 128)	-
Change in the valuation of financial assets available for sale		-	-	(5 648)	-	-	(5 648)
Deferred tax		-	-	1 074	-	-	1 074
Income and expense items for the period, included directly in own equity (total)		**-**	**-**	**(4 574)**	**-**	**-**	**(4 574)**
Net profit/ (loss) for the year		**-**	**-**	**-**	**-**	**213 024**	**213 024**
Total net income/ (expenses) for the period		**-**	**-**	**(4 574)**	**-**	**213 024**	**208 450**
As at 31 December 2008	**39,40**	**43 137**	**1 743 027**	**107 099**	**171 948**	**213 024**	**2 278 235**

PLN thousands

Statement of changes in the consolidated equity (continuation)

	Note	Issued share capital	Reserve capital	Other reserves	Retained earnings	Undistributed profit for the year	Total
As at 1 January 2007[1]	**39,40**	**37 004**	**1 152 342**	**121 776**	**112 029**	**84 609**	**1 507 760**
Transfer from prior year profits		-	102 428	-	(17 819)	(84 609)	-
Increase in capital due to realization of convertible bonds		6 133	293 867	-	-	-	300 000
Change in the valuation of financial assets available for sale		-	-	(12 471)	-	-	(12 471)
Deferred tax		-	-	2 368	-	-	2 368
Income and expense items for the period, included directly in equity (total)		**-**	**-**	**(10 103)**	**-**	**-**	**(10 103)**
Net profit for the year		**-**	**-**	**-**	**-**	**272 128**	**272 128**
Total income/ (expense) items for the period		**6 133**	**293 867**	**(10 103)**	**-**	**272 128**	**562 025**
As at 31 December 2007	**39,40**	**43 137**	**1 548 637**	**111 673**	**94 210**	**272 128**	**2 069 785**

PLN thousands

Notes to consolidated financial statements (continued)

Consolidated cash flow statement

	Note	Year ended 31.12.2008	Year ended 31.12.2007 comparative data
CASH FLOW FROM OPERATING ACTIVITIES:			
Net profit/loss		**213 024**	**272 128**
Total adjustments:		**(854 868)**	**(1 985 852)**
Current and deferred tax recognized in the financial result		61 717	37 744
Amortisation and depreciation		68 120	83 840
Interest and dividends	44	(54 174)	(41 605)
Profit/loss on investing activities		5 313	2 718
Change in provisions		(22 787)	22 797
Change in amounts due from other banks	44	131 202	841 295
Change in held-for-trading debt securities		(391 159)	195 665
Change in receivables from derivative financial instruments		(678 215)	(33 519)
Change in loans and allowances to customers		(3 061 342)	(4 413 544)
Income tax paid		(85 869)	(55 045)
Change in amounts owed to other banks		(580 778)	37 881
Change in liabilities from derivative financial instruments		1 155 621	(5 788)
Change in amounts owed to customers		2 598 748	1 469 664
Change in liabilities arising from issues of debt securities	44	(626)	(1 275)
Change in other liabilities	44	(17 847)	(35 605)
Other adjustments	44	17 208	(91 075)
NET CASH FLOW FROM OPERATING ACTIVITIES		**(641 844)**	**(1 713 724)**

PLN thousands

Notes to consolidated financial statements (continued)

Consolidated cash flow statement (continuation)

CASH FLOW FROM INVESTING ACTIVITIES:	Note	Year ended 31.12.2008	Year ended 31.12.2007 Comparative data
Inflows		**31 844 040**	**29 949 084**
Sale of shares in subsidiaries		374	-
Sale of investment securities		254 781	531 176
Sale of held for sale securities		31 574 432	29 400 638
Sale of intangible assets and property, plant and equipment		9 728	12 234
Other investing inflows		4 725	5 036
Outflows		**(31 806 589)**	**(29 422 835)**
Purchase of shares in associates		(19 600)	-
Purchase of investment securities		(60 000)	(80 000)
Purchase of held for sale securities		(31 600 547)	(29 267 506)
Purchase of intangible assets, property, plant and equipment		(116 611)	(70 290)
Other investing outflows		(9 831)	(5 039)
NET CASH FLOWS FROM INVESTING ACTIVITIES		**37 451**	**526 249**
CASH FLOW FROM FINANCING ACTIVITIES:			
Inflows		**1 843 366**	**-**
Issue of debt securities to other financial institutions		**1 843 366**	**-**
Outflows		**(1 232 872)**	**-**
Redemption of debt securities issued to other financial institutions		**(1 232 872)**	**-**
NET CASH FLOWS FROM FINANCING ACTIVITIES		**610 494**	**-**
TOTAL NET CASH FLOW		**6 101**	**(1 187 475)**
Cash and cash equivalents at the beginning of the year	**43**	**1 845 444**	**3 032 919**
Cash and cash equivalents at the end of the year, of which:	**43**	**1 851 545**	**1 845 444**
of restricted use		**916**	**3 953**

Notes to consolidated financial statements (continued)

1. General information on BGŻ S.A. Capital Group

Bank Gospodarki Żywnościowej Spółka Akcyjna is the parent company of the BGŻ S.A. Capital Group (hereinafter referred to as the "Group").

Bank Gospodarki Żywnościowej Spółka Akcyjna (the "Bank" or "BGŻ S.A."), with its registered office in Warsaw, at ul. Kasprzaka 10/16, is entered in the National Court Register maintained by the District Court for the capital city of Warsaw, XII Economic Department, Entry No. KRS 0000011571.

The Bank is a non-listed entity.

In 2008, the average number of employees at BGŻ S.A. was 5,148.34 FTEs (full-time employees) in terms of full time posts and in the Group – 5,151.34 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 issuing 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,
- incurring 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,

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Notes to consolidated financial statements (continued)

- providing operating finance leases,
- trading in treasury stamps and numismatic items.

As at 31 December 2008, the Bank's Management Board was composed of the following members:

Jacek Bartkiewicz	- President
Hieronymus Jacobus Nijsen	- 1st Vice-president
Andrzej Chmielecki	- Vice-president
Victor Hendrik Cuyckens	- Vice-president
Michał Gajewski	- Vice-president
Witold Okarma	- Vice-president

The Supervisory Board appointed Mr Witold Okarma as Vice-president of the Management Board as of 1 June 2008 and Mr Michał Gajewski as Vice-president of the Management Board as of 3 June 2008. As of 3 June Mr Gabriel Główka resigned as Vice-president of the Management Board.

Bank Gospodarki Żywnościowej Spółka Akcyjna is an entity operating as part of the Rabobank Capital Group.

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 following subsidiaries:

HALS – Fundusz Kapitałowy Sp. z o.o. w likwidacji (in liquidation) ("HALS") with its registered office in Warsaw, at ul. Nowogrodzka 31. The company's main activities include:

- other financial intermediary services, not classified elsewhere.

The company is entered in the National Court Register maintained by the District Court for the capital city of Warsaw, XII Economic Department of the National Court Register, Entry No. 0000029303.

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

Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o. ("Actus") with its registered office in Warsaw, at Kasprzaka 10/16. The company's main activities include:

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

The company is entered in the National Court Register maintained by the District Court for the capital city of Warsaw, XIII Economic Department of the National Court Register, Entry No. 0000023062.
BGŻ S.A. holds 100% shares in the share capital of this company and has 100% of the votes at its Shareholders' Meeting.

In the year 2007 also Korporacja Leasingowa Sp z o.o. was a subsidiary of the Capital Group of BGŻ S.A. It was liquidated on 5 December 2008.

Notes to consolidated financial statements (continued)

BGŻ S.A. holds 49% of shares in the share capital of this company and 49% of the votes at the Shareholders' Meeting. Remaining 51% of the shares in the share capital holds De Lage Landen company, which is a part of Rabobank Group.

Authorisation for the issue of the financial statements

These consolidated financial statements were prepared as at 31 December 2008 and for the year then ended, and were authorised for issue by the Management Board on 23 March 2009.

The single financial statements were prepared as at 31 December 2008 and for the year then ended, and were authorised for issue by the Management Board on 23 March 2009

The financial statements include data for the year 2007 and 2008

2. Description of significant accounting policies

2.1 Basis for the preparation of the consolidated financial statements

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

2.2 Going concern

These consolidated financial statements were prepared under the assumption that the Gruop would continue as a going concern in the foreseeable future, i.e. in the period of at least 12 months the balance sheet date. As at the date of signing these consolidated financial statements, there are no facts stated or circumstances that would indicate a threat to the continuation, or significant restriction of continuation of the Group as a going concern for the period of at least 12 months following the balance sheet date, except from its subsidiary – HALS – Fundusz Kapitałowy Sp. Z o.o. in liquidation, which was put into liquidation on 9 June 2004. The data of this subsidiary, which is included in these financial statements was prepared without going concern assumption in the period of at least 12 months.

2.3 Statement of compliance

These condolidated 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 for the issue of these consolidated financial statements, due to the current process of IFRS endorsement in the European Union and the nature of the Group's activities, there is no difference between the IFRS applied by the Group 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").

The Bank maintains its books of account in accordance with IFRS. The date of transition to IFRS is, in accordance with a resolution of Ordinary Shareholders Meeting of BGŻ S.A. on 29 June 2007 for Bank's separate financial statement, 1 January 2007.

All Group entities keep books of accounts in accordance with accounting policies specified in the Accounting Act, dated 29 September 1994 ("the Accounting Act") with subsequent amendments and the regulations issued based on that Act ("Polish Accounting Standards"). The consolidated

Notes to consolidated financial statements (continued)

financial statements include certain adjustments not included in the Group entities' books of account, which were made in order to adapt the financial statements of those entities to IFRS.

The Bank implemented IFRS in preparing consolidated financial statement of Capital Group BGŻ S.A. on 31 December 2005; however, the day of changing the accounting policy in to IFRS was 1 January 2004.

Implementation of new standards and interpretations

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Group, except for some additional disclosures.

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

  IFRIC 11 requires arrangements whereby employees are granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed.. Application of this Interpretation does not have material effect on the financial statements of the Group.
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosure: - Reclassification of financial instruments The amendment allows reclassifications of certain financial instruments held for trading to either the held to maturity, loans and receivables or available for sale categories. The amendment also allows the transfer of certain instruments from available for sale to loans and receivables. The amendment is applicable to reclassifications made on or after 1 July 2008. The Group did not reclassify any instruments out of the held for trading category nor from available for sale one.
- IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. IFRIC 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The Group's defined benefit schemes have been in deficit, therefore the adoption of this interpretation had no impact on the financial position or performance of the Group.

The following standards and interpretations were issued or amended by the International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretations Committee ("IFRIC") but have not yet come into effect:

- IFRS 8 *Operating segments* - applies to annual periods beginning on or after 1 January 2009;
- IAS 1 *Presentation of financial statements* (amended in September 2007) - applies to annual periods beginning on or after 1 January 2009;
- IAS 23 *Borrowing costs* (amended in March 2007) - applies to annual periods beginning on or after 1 January 2009;
- IFRS 3 *Business Combinations* (amended in January 2008) - applies to annual periods beginning on or after 1 July 2009; as at the date of approval of these financial statements, the amended standard has not been endorsed by the European Union;
- IAS 27 *Consolidated and Separate Financial Statements* (amended in January 2008) - applies to annual periods beginning on or after 1 July 2009; as at the date of approval of these financial statements, the amended standard has not been endorsed by the European Union;
- Amendments to IFRS 2 *for Vesting Conditions and Cancellations* (amended in January 2008) - applies to annual periods beginning on or after 1 January 2009;
- Amendments to IAS 32 and IAS 1 *Puttable Financial Instruments and Obligations Arising on Liquidation* (amended in February 2008) - applies to annual periods beginning on or after 1 January 2009;

Notes to consolidated financial statements (continued)

- IFRIC 12 *Service Concession Arrangements* - applies to annual periods beginning on or after 1 January 2008; as at the date of approval of these financial statements, the amended standard has not been endorsed by the European Union,
- IFRIC 13 *Loyalty Programs* - applies to annual periods beginning on or after 1 July 2008;
- Amendments resulting from annual IFRS review - applicable to annual periods beginning on or after 1 January 2009;
- Amendments to IFRS 1 and IAS 27 – *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* - applicable to annual periods beginning on or after 1 January 2009;
- IFRIC 15 *Agreements for the Construction of Real Estate* - applicable to annual periods beginning on or after 1 January 2009 – as at the date of approval of these financial statements it has not been endorsed by the EU;
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* - applicable to annual periods beginning on or after 1 October 2008 – as at the date of approval of these financial statements it has not been endorsed by the EU;
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement: Hedged Items qualifying for hedge accounting* (amendments implemented in July 2008) - applicable to annual periods beginning on or after 1 July 2009 – as at the date of approval of these financial statements it has not been endorsed by the EU;
- IFRS 1 *First-time Adoption of International Financial Reporting Standards* (amended in November 2008) - applicable to annual periods beginning on or after 1 July 2009 – as at the date of approval of these financial statements it has not been endorsed by the EU;
- IFRIC 17 *Distributions of Non-cash Assets to Owners* - applicable to annual periods beginning on or after 1 July 2009 – as at the date of approval of these financial statements it has not been endorsed by the EU;
- IAS 39 and IFRS 7 (Revised in November 2008) *Reclassification of financial assets – Effective Date and Transition* - applicable to annual periods beginning on or after 1 July 2009 – as at the date of approval of these financial statements it has not been endorsed by the EU.
- IFRIC 18 Transfer of assets from consumers – which is in force from 1 July 2009 - by the date of these financial statements it was not accepted by the EU

The Management Board do not expect any significant impact of the introduction of the above-mentioned Standards and Interpretations, on the accounting policies applied by the Bank, including the scope of disclosures. In addition, they are planning to implement them within dates stated in particular standards and interpretations (without previous implementation)

The Management Board made the decision on not using the possibility of reclassification of financial assets, which was allowed by the correction to IAS 39 and IFRS 7, issued on 14 November 2008.

2.4 Changes in presentation

Presented below are the differences which occurred due to the changes in presentation as at 31 December 2007

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Notes to consolidated financial statements (continued)

Consolidated balance sheet

	As at 31.12.2007 Historical data		Changes in presentation	As at 31.12.2007 Comparable data
Assets				
Loans and advances to customers	14 004 864	1)	(16 964)	13 987 900
Deferred tax asset	118 767	2)	(118 767)	-
Other assets	106 164	1)	16 964	123 128
Total Assets	**14 229 795**		**(118 767)**	**14 111 028**
Liabilities				
Deferred tax liability	136 566	2)	(118 767)	17 799
Total liabilities	**136 566**		**(118 767)**	**17 799**

Below we have presented the explanation to changes In presentation of the data from 2007.

1)	Reclassification of settlement of debit and credit cards from “Loans and advances to customers” to “Other assets”	16 964
2)	Net presentation of deferred tax asset and deferred tax liability	(118 767)

According to the Management Board opinion the reclassification of settlement of debit and credit cards and net presentation of deferred tax asset and deferred tax liability in better way shows the economic sense of these transactions.

Presented below are the differences in presentation in consolidated cash flow statement as at 31.12.2007 which results from reclassification of investment securities from operating activity to investment activity and educing the position concerning income tax in operating activity:

Consolidated cash flow statement

	Historical data	Changes in presentation	Comparable data
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest and dividends	(2 132)	(39 473)	(41 605)
Change in available for sale securities	544 721	(544 721)	-
Other adjustments	(108 264)	17 189	(91 075)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	-	(80 000)	(80 000)
Purchase of held for sale securities	-	(29 267 506)	(29 267 506)
Sale of investment securities	-	531 176	531 176
Sale of held for sale securities	-	29 400 638	29 400 638
Other investing outflows	-	(5 039)	(5 039)
Other investing inflows	2 715	2 321	5 036

Notes to consolidated financial statements (continued)

According to the Management Board opinion the reclassification made in better way shows the cash flows from investing activities in 2007.

2.5 Consolidation

Subsidiaries

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

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

2.6 Valuation of foreign currency items

a) *Functional and presentation currency*

All items presented in the financial statements of individual Group companies are valued in the currency of the primary economic environment in which the Group operates ("functional currency"). The consolidated 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 and the Group.

(b) *Transactions and balances*

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

At the balance sheet 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 foreign exchange rate prevailing on the transaction date. Non-monetary foreign currency assets and liabilities recognised at fair value are translated to polish zloty using the rate of exchange binding as at the date of re-measurement to fair value.

The main foreign currency exchange rates used in the preparation of these financial statements, prevailing on 31 December 2008 and 31 December 2007, were as follows:

	31.12.2008	31.12.2007
1 EUR	4.1724	3.5820
1 USD	2.9618	2.4350
1 GBP	4.2913	4.8688
1 CHF	2.8014	2.1614
100 JPY	3.2812	2.1728

Notes to consolidated financial statements (continued)

2.7 Interest income and interest expense

Included in the profit and loss account 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.

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 Group estimates cash flows while considering all contractual terms of the given financial instrument (i.e. prepayment options), but does not consider possible future credit losses. The calculation includes all payments and cash flows received or made by the Group the parties 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 initial interest rate 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).

2.8 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 off-balance sheet liabilities. In addition, the Bank includes the fee for maintaining current accounts, in the above items.

2.9 Dividend income

Dividend income is recognized in the profit and loss account when the right to receive the dividend by the Group has been determined.

2.10 Result on trading activities

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

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

2.11 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.

2.12 Other operating income and other operating expenses

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

Notes to consolidated financial statements (continued)

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 Group's main business activities.

2.13 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 balance sheet date.

Deferred tax

Deferred tax is provided in full, using the liability method, on all temporary differences, as at the balance sheet 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 balance sheet 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 balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The unrecognized deferred tax asset is re-assessed at each subsequent balance sheet 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.

Deferred tax relating to items recognized in equity is recognized in equity and not in the profit and loss account.

In 2008 and 2007, the current tax expense and the deferred tax liability were calculated using the 19% rate.

2.14 Classification and valuation of financial assets

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

Notes to consolidated financial statements (continued)

2.14.1 Initial recognition and de-recognition of financial assets

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 transaction date, i.e., the date on which the Group commits to purchase or sell the given financial asset. 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 profit and loss account, under trading result.

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

2.14.2 Financial assets and liabilities at fair value through profit and loss

This category covers two sub-categories:

- inancial 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 2008 and 31 December 2007, 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 balance sheet date, financial assets and liabilities classified at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in the fair value of the "financial assets or liabilities at fair value through profit or loss" are recognized in the profit and loss account under result on trading activities in the period in which they arose. Interest and purchased discount 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

Notes to consolidated financial statements (continued)

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 balance sheet 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 profit and loss account.

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.

2.14.3 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 the Group 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 securities” or as ”Financial assets at fair value through profit or loss.”

After initial recognition, loans and receivables are classified 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 profit and loss account over the period of the loan term, using the effective interest rate method.

2.14.4 Held-to-maturity investments

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

2.14.5 Available for-sale financial 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 balance sheet date. Where no quoted market price from

Notes to consolidated financial statements (continued)

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 consolidated profit and loss account, and recorded under finance cost.

For interest-bearing assets, interest recognized under the effective interest rate method is recognized in profit or loss, under the 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.

2.14.6 Offsetting of financial instruments

Financial assets and financial liabilities are offset and recognized in the balance sheet at the net amount, if the Group 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.

2.14.7 Sell and buy back transactions

Securities under repo or sell-back transactions are not de-recognized in the balance sheet. The corresponding liability due to amounts received from the contracting party are recognized under "Liabilities arising from securities sold under sell and buy back transactions."

In the case of reverse repo and buy sell back transactions, the corresponding amounts of cash paid are recognized, depending on their nature, as "Loans and advances to customers" or "Amounts due from other banks." The difference between the selling price and the redemption/ repurchase value is treated as interest and calculated using the effective interest rate, over the term of the underlying loan contract.

2.14.8 Investments in subsidiaries and associates

Investments in subsidiaries are valued in consolidated financial statement using the equity method.

2.15 Impairment of financial assets

2.15.1 Financial assets carried at amortized cost

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

- significant financial difficulty experienced by the issuer or debtor,
- a breach of contract, such as default or delinquency in interest or principal payments,
- the Group, for economic or legal reasons relating to the borrower's financial difficulty, made the borrower a concession that it would not otherwise consider,

Notes to consolidated financial statements (continued)

- the probability of the borrower entering bankruptcy or other financial reorganisation,
- the disappearance of an active market for the given financial asset, because of financial difficulties,
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets, since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the financial position (and hence payment abilities) of the borrowers,
  - national or local economic conditions, which correlate with defaults on the assets in the group.

The Group 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 Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized, are not included in the 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 (excluding future credit losses that have not yet been incurred) 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 profit and loss account. If a loan or held-to-maturity investment has a 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 Group may determine impairment losses using the fair value of the financial instrument, based on the current market price.

The calculation of the current value of the estimated future cash flows from a financial asset secured by collateral 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 (using the Group's system, which considers the type of asset, industry sector, geographical area, and type of collateral, past-due status and other relevant factors). 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. 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 Group in order to reduce any differences between loss estimates and actual loss experience.

Notes to consolidated financial statements (continued)

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 profit and loss account 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 profit and loss account.

2.15.2 Financial assets at fair value through profit and loss or at cost

An assessment is made at each balance sheet 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 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 classified as available-for-sale are reversed through equity. 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.

2.16 Renegotiated loans agreements

Where loan was renegotiated and, as a result, its repayment deadline was extended or other loan contract terms and conditions were changed, such exposure is not classified as overdue/ default. The Group discloses carrying amount of financial assets, which – had the repayment deadline or other loan contract terms and conditions were not changed – would be overdue/ in default. Management of the Bank continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, and are valued using the loan's original effective interest rate.

2.17 Non-current assets held for sale

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

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered 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 an enterprise 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.

Notes to consolidated financial statements (continued)

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

2.18 Investment property

Investment property is 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 Group's policy, investment property is measured at fair value at each balance sheet date subsequent to initial recognition.

A gain or loss arising from a change in the fair value of investment property is recognized in the profit or loss 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.

2.19 Borrowing costs

Borrowing transaction costs relating to issued debt securities are recognized as an expense in using effective interest rate method.

2.20 Intangible assets

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

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

Except for development work, internally generated intangible assets are not recognized in the balance sheet, 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 Group, which will probably generate economic benefits that will exceed the

Notes to consolidated financial statements (continued)

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:

– licenses 14.00 - 50.00%
– copyrights 20.00 - 50.00%

The residual values and useful lives of intangible assets are reviewed at each balance sheet 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.

Profits or losses arising from the sale of an intangible asset are determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset, and are recognized in the profit and loss account under other operating income.

2.21 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 and buildings recognized concern mainly branches and offices.

Land is not depreciated. Depreciation of other fixed 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 depreciation rates are as follows:

– buildings 1.5 – 10.0%
– plant and machinery 10.0 – 20.0%
– motor vehicles 12.5 – 20.0%
– computer components 20.0 – 33.0%

The residual values and useful lives of fixed assets are reviewed at each balance sheet 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

Notes to consolidated financial statements (continued)

time the carrying amount exceeds the estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less cost of sell and its value in use.

If the asset recoverable amount is lower than its carrying amount, an impairment loss is recognized in the profit and loss account.

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 profit and loss account under other operating income or other operating expenses, as appropriate.

2.22 Financial liabilities valued at amortized cost

Financial liabilities 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.

2.23 Provisions

Provisions are recognised when The Group 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 Group expects some or all of the provision 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 profit and loss account 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.

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.

2.24 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 expected current value of future losses from unrealized receivables from guarantee realization.
- the initial value, less revenues recognized in accordance with IAS 18 Revenues.

2.25 Employee benefits

The Group creates 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 37 to these consolidated financial statements.

The Group's employees are entitled to the following employee benefits:

Notes to consolidated financial statements (continued)

2.25.1 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 Group. The policies concerning payment of jubilee bonuses are described in the Collective Labour Agreement, dated 19 December 2005.

2.25.2 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 (contracts regulated by the Polish Labour Code).

2.25.3 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.

2.25.4 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 Group has a legal or constructive obligation to make such allocation; or in the 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 balance sheet date.

2.26 Issued share capital

2.26.1 Share issue 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.

2.26.2 Treasury shares

When the Bank's own shares are re-acquired by the Bank or purchased by other Group entities included in the consolidation, the amount of consideration paid is recognized as a charge to equity, and is reported in the balance sheet 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.

2.27 Reserve capital

Reserve capital consists of distributions made from the net profit for the year or from other sources, irrespective of statutory reserve capital. Additional reserve capital includes part of the revaluation reserve that relates to fixed assets liquidated, sold or transferred free of charge, which were subject to re-valuation by increasing the revaluation reserve.

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 reserve capital.

Notes to consolidated financial statements (continued)

2.28 Revaluation reserve

Revaluation reserve results from revaluation of financial instruments available for sale.

2.29 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 profit and loss account. This reserve can only be used to absorb the Bank's accounting losses.

2.30 General banking risk reserve from net profit distribution

The general banking risk reserve was established in accordance with Banking Act, dated 29 August 1997, from 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.

2.31 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 consolidated financial statements, as they do not meet the definition of The Group's asset.

2.32 Cash and Cash equivalents

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

3. Financial risk management

Risk management in the Group is concentrated directly in the Bank, as the Bank's assets account for 99.86% of the Group's assets (as at 31 December 2008). Accordingly, all data relating to particular risks have been presented for the Bank.

3.1 Financial instruments strategy

The activities of the Bank concentrate mainly on the use of financial instruments; including financial derivative instruments (derivatives). The Bank accepts deposits from customers, both with fixed and variable interest rates, for various periods of time, and attempts to earn higher than average interest rate margins by investing the entrusted funds in high-quality assets. Furthermore, efforts are underway to increase interest rate margins by accumulating short-term deposits and lending them for a longer period of time with a higher interest rate, while keeping a liquidity level sufficient to discharge any liabilities that may fall due.

The Bank aims to improve its results by earning higher than average margins, after making the appropriate allowances, by lending funds to corporate and individual clients with different credit

Notes to consolidated financial statements (continued)

capacities. This type of exposure includes not only balance sheet loans and advances, but also guarantees and other off-balance sheet liabilities, such as letters of credit, guarantees of due performance (performance bonds) and other.

The Bank trades in quoted financial instruments and in instruments available on over-the-counter markets (the "OTC markets"), including derivative financial instruments, in order to benefit from short-term fluctuations in the price of equity instruments, bonds and foreign currencies, interest rates and commodity prices. The Management Board sets limits of exposure in respect of overnight and intra-day market instruments. The exchange rate and interest rate risk relating to these instruments is offset by the Bank's involvement in opposing transactions, which allows the Bank to control the variability, if any, of the net cash amounts required to realise the given item..

3.2 Credit risk

The main purpose of credit risk management is to create an effective credit risk management system that would increase the security and profitability of banking services.

The main objectives of credit risk management have not changed since the previous year.

In managing credit risk, the Bank and other Group's entities apply 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;

Concentration of credit risk

a) Concentration of credit risk by amount of exposure

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 Art. 71.1 of the Banking Act, the total of the amounts owed to the 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 limits, which are as follows:

- 20% of the bank's own capital, where any of the entities related by capital or organisational structure is an affiliate of the bank;

Notes to consolidated financial statements (continued)

- 25% of the bank's own capital, where the entities related by capital or organisational structure are not affiliates of the bank.

In addition, according to Art. 71.2 of the Banking Act, a bank's exposure, with absorption higher than 10% of Bank's share capital, to affiliates must not exceed the limit for large exposures, which was set at 800% of a bank's own capital.

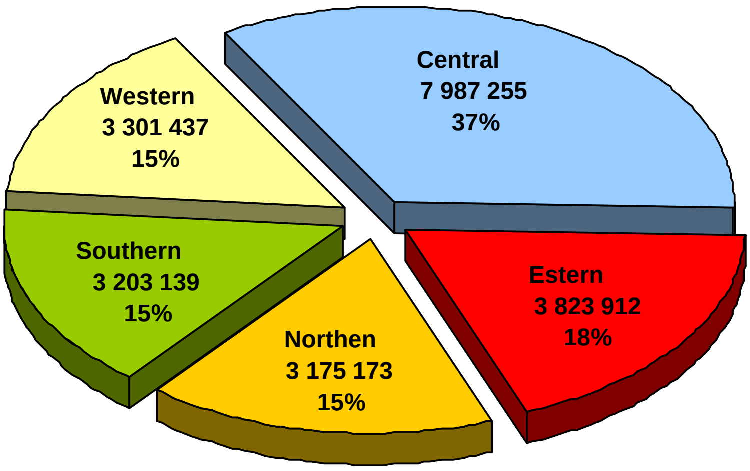
The Bank monitors concentration limits in accordance with article 71 of the Banking Act. At the end of 2008, the Bank's financial exposure to clients / groups of clients related by capital or organisational structure was no higher than the concentration limit of exposures. Also the concentration limit of large exposures was not exceeded. 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 14.38% 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 2007, the respective geographical concentrations were as follows: Central Area – 42%, Eastern Area – 16%, Western Area – 15%, Southern Area – 14%, Northern Area – 13%. At the end of 2008, the allocation of exposure to particular geographical areas was again found to be in proportion, and was as follows: Central Area – 37%, Eastern Area – 18%, Western Area – 15%, Southern Area – 15%, Northern Area – 15%.

Following charts show the geographical concentration of exposures:

Geographical concentration of exposures

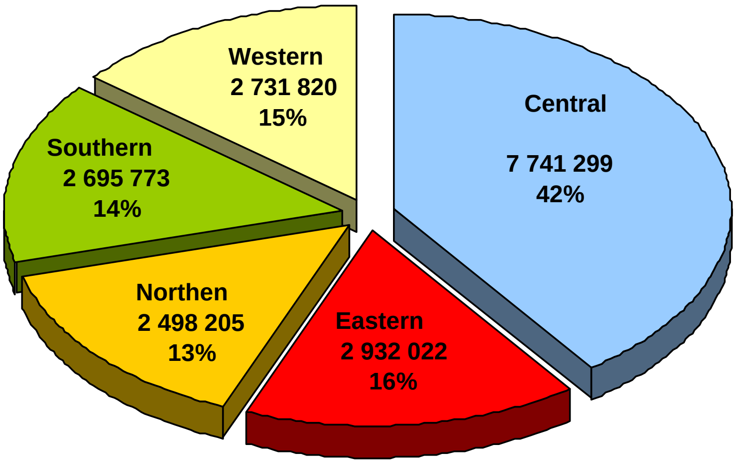
31.12.2008



PLN thousand

Notes to consolidated financial statements (continued)

Geographical concentration of exposures
31.12.2007



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 part of the value of credit portfolio analysis, the Bank measure the share of non performing loans (loans, for which a loss of value has been recognized)

The table below shows the results:

SHARE OF NON PERFORMING* LOANS, BY REGION

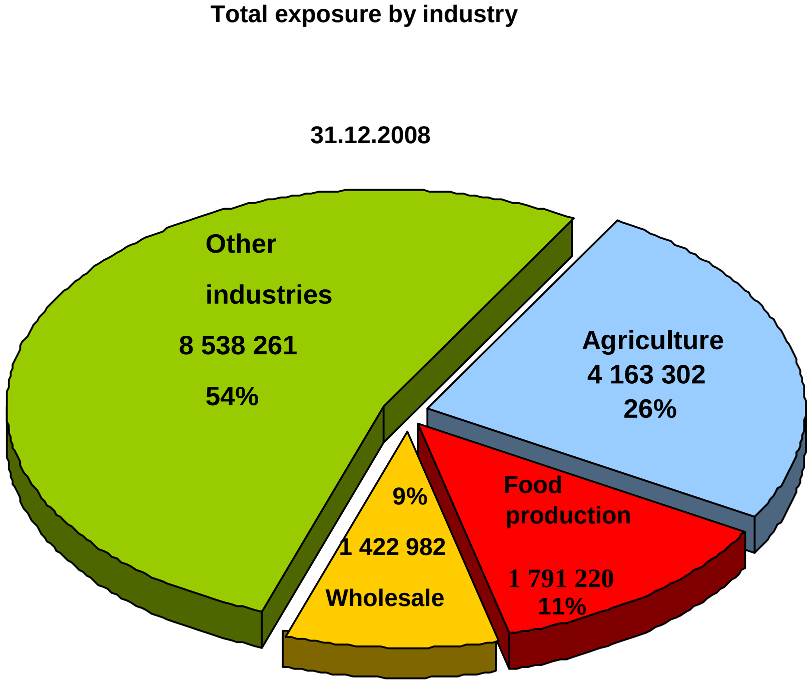
Regions:	Total exposure [thousand PLN]		Share of exposures in default categories	
	31.12.2008	31.12.2007	**31.12.2008**	31.12.2007
Central	**7 987 255**	7 741 299	**7.4%**	5.0%
Eastern	**3 823 912**	2 932 022	**1.8%**	2.2%
Northern	**3 175 173**	2 498 205	**1.5%**	1.8%
Southern	**3 203 139**	2 695 773	**5.5%**	2.1%
Western	**3 301 437**	2 731 820	**2.6%**	2.9%

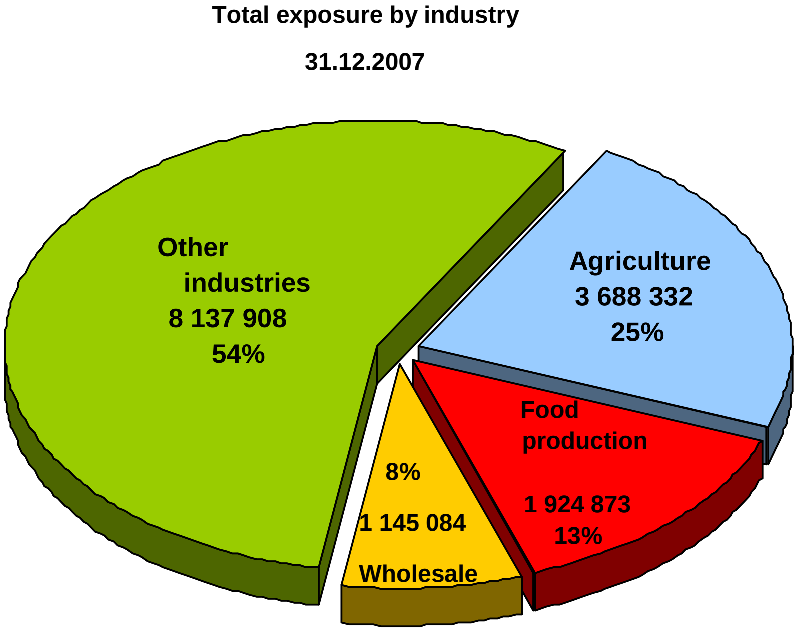
*Loans with impairment recignized

As at 31 December 2008 the greatest exposure was characteristic for the Central region. For this region the greatest share of endangered exposures in default was observed

The analysis of credit risk concentration by industry covers all of the Bank's loan exposures to institutional clients. The structure of the Bank's exposure to particular industries at the end of 2008, similar to that at the end of 2007, is characterized by concentration on the following three industries: Agriculture, Food Production and Wholesale Trade. In 2007, the Bank's exposure to these three industries accounted for 46% of total exposure; and in 2008 - for 46% as well.

Notes to consolidated financial statements (continued)





Notes to consolidated financial statements (continued)

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 2008, the biggest share of non performing exposures by industry was indicated to: wholesale and food production

SHARE OF CAPITAL EXPOSURE, BY INDUSTRY

in PLN thousands

	Exposure		Share of non-performing loans	
Industries	**31.12.2008**	31.12.2007	**31.12.2008**	31.12.2007
Agriculture	**4 163 302**	3 688 332	**5.1%**	5.3%
Food production	**1 791 220**	1 924 873	**11.6%**	5.7%
Wholesale	**1 422 982**	1 145 084	**14.6%**	2.6%
Chemical industry, production of metallic and non metallic materials	**823 461**	629 419	**2.0%**	1.2%
Machine building industry	**494 703**	352 385	**2.3%**	1.1%
Real estate management renting and services connected with running the business	**568 095**	575 845	**1.1%**	1.4%
Construction	**381 248**	270 289	**7.4%**	11.6%
Retail trade	**451 934**	329 711	**3.0%**	3.4%
Production of clothes, leather and wood	**307 129**	246 225	**10.0%**	13.2%
Transportation, storage and telecomunications	**225 661**	194 065	**12.9%**	2.4%
Financial intermediary	**324 188**	479 650	**4.3%**	4.3%
Vehicles and oil	**196 475**	179 572	**5.8%**	4.2%
Other business activity	**166 351**	205 099	**0.1%**	0.1%
Hotels and restaurants	**98 922**	74 739	**1.8%**	3.2%
Other service activity	**87 845**	15 900	**0.6%**	3.2%
Electric energy	**29 912**	36 873	**0.0%**	0.0%
Healthcare and social security	**34 461**	33 588	**7.0%**	9.3%
Mining	**30 725**	26 800	**0.0%**	0.5%
Production and providing of gas and water	**6 835**	6 139	**6.4%**	6.8%
Forestry and hunting	**10 373**	4 596	**0.8%**	1.5%
Fishery and fishing industry	**8 466**	11 609	**0.1%**	0.1%
Other industries	**4 291 477**	4 465 405	**1.0%**	0.9%
Retail clients	**5 575 150**	3 702 924	**2.4%**	3.2%

*loans with identified impairment

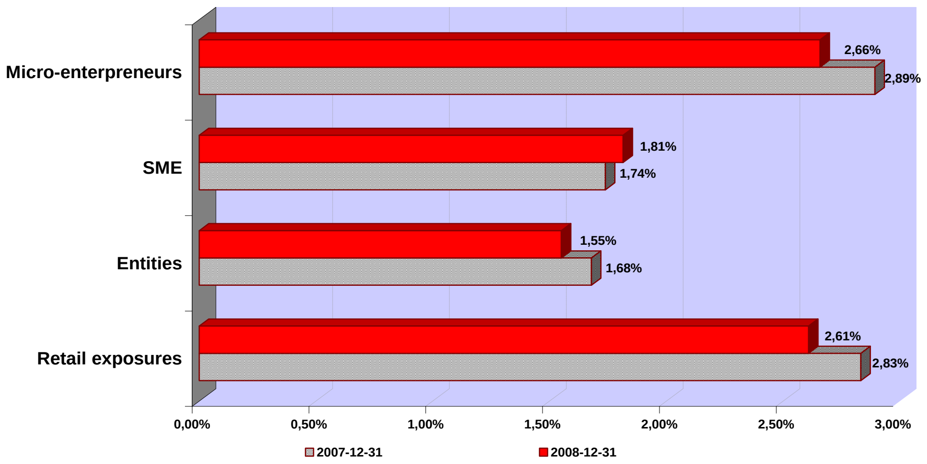
The Bank also manages collateral concentration risk. The Bank analyses the share of loan exposures secured by collateral with very good liquidity (blocked funds on bank accounts, investment account or treasury bonds, guarantee deposits, guarantee or surety of the State Treasury (SP), National Bank of Poland (NBP), Banking Guarantee Fund (BGF), good liquidity (housing mortgage, bank guarantee, or guarantee of other entity, different than SP, NBP and BFG) and satisfactory liquidity (i.e. other mortgages, debt transfers and pledges). As at the end of 2008, there were no instances of exceeding concentration limits set for particular collateral groups were exceeded.

Notes to consolidated financial statements (continued)

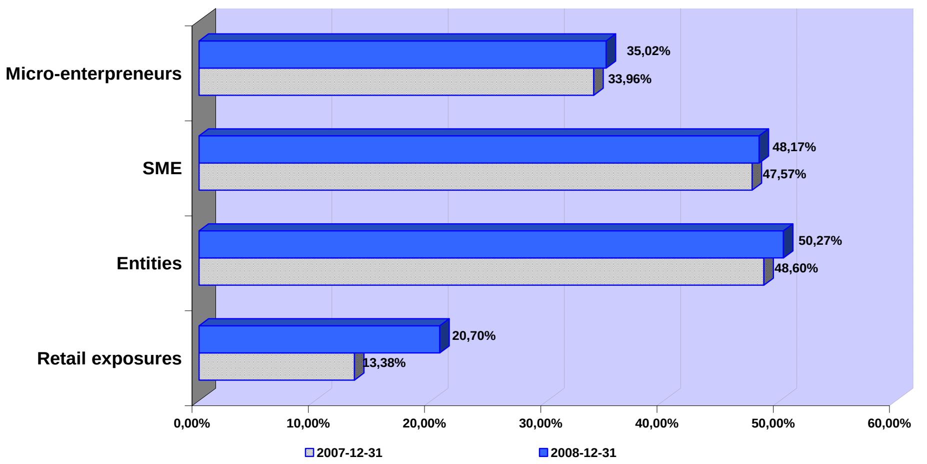
Credit quality of financial assets that are neither overdue nor impaired

All financial assets that are neither overdue nor impaired have been grouped by the Bank in homogenous loan portfolios defined by client type and loan product. These portfolios provide the basis for analyzing the credit risk attached to these loan exposures, which is performed using internal statistical methods. For these portfolios, the Bank determines, on a regular basis, the amount of the expected loss within a time horizon of twelve months, as well as the level of economic capital required to cover any unexpected losses that may arise due to sudden recession. The assessment of the quality of loan exposures is also reflected in the internal estimates of the PD (probability of default) and LGD (loss given default) parameters.
At the end of 2008, the estimated PD for all the Bank's exposures is 2.06%, while the estimated LGD for these exposures is 36.39%. The values of PD decreased while the value of LGD increased since the end of 2007. The levels of these parameters, for the particular business lines, as at 31 December 2007 and 2008, are as follows:

PD VALUE PARAMETERS



LGD PARAMETERS (LOSS IN CASE OF NON-EXECUTION OF LIABILITY)

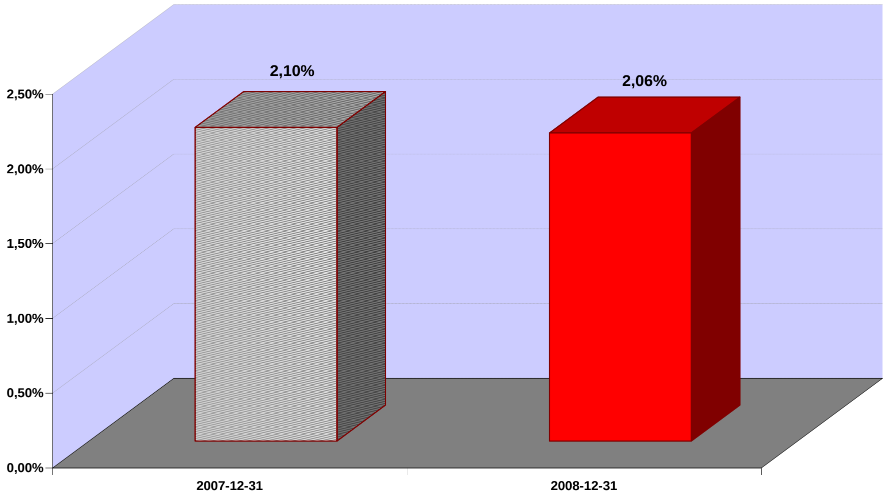


PLN thousand

Notes to consolidated financial statements (continued)

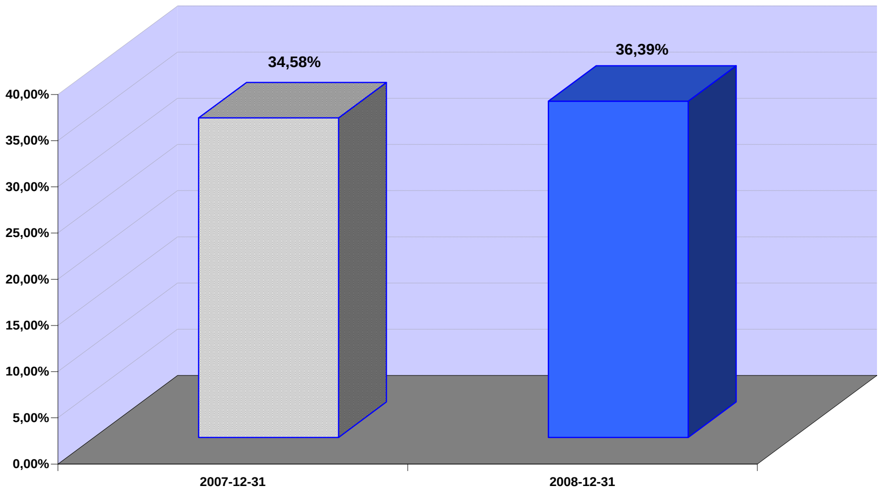
During 2008, the PD level for all the Bank's exposures, taken as the whole, was systematically improving, that is, decreasing, which indicates a reduction in the solvency risk arising from those financial assets that are neither overdue nor impaired. The LGD levels increased slightly which indicates lower expectiations of the recovery of amounts from insolvent clients.

CHANGE IN PD PARAMETER



	2007-01-01	2008-01-01
Probability of insolvency (PD)	2.10%	2.06%
Loss in case of insolvendy (LGD)	34.58%	36.39%

CHANGE IN LGD PARAMETER



PLN thousand

Notes to consolidated financial statements (continued)

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, surety ships, guarantees and the assignment of receivables).

Legal securities established for the loans granted by the Bank are monitored by the 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.

Structure of financial assets according to internal Bank's ratings

The Bank indicates internal rating classes R8-R20 in accordance with accepted credit policy, for those clients from the sector of Large and Medium and Small Enterprises, who apply full accounting. Rating classes are set on the basis of risk model dedicated to his part of credit portfolio, which complies with PFSA (Polish Financial Supervision Authority – KNF) requirements.

The rating is calculated on the basis of annual financial data presented by the client and the general client's situation on the market (quality grade). The rating is calculated using the system which supports credit process of institutional clients. The rating classes are indicated for both "default" and "non default" clients. In addition "Default" clients are given separate rating classes (D1-D4) informing about the client's situation.

The tables below show the structure of financial assets that are neither overdue nor impaired in accordance with internal Bank's ratings.

Amounts due from institutional clients - companies	**31.12.2008**	**31.12.2007**
Without rating	544 912	544 912
R8	-	-
R9	6 255	6 255
R10	458 811	458 811
R11	166 009	166 009
R12	189 733	189 733
R13	430 384	430 384
R14	609 624	609 624
R15	1 250 492	1 250 492
R16	878 292	878 292
R17	315 163	315 163
R18	266 753	266 753
R19	57 666	57 666
R20	2 355	2 355
Total	**5 176 449**	**5 176 449**

PLN thousand

Notes to consolidated financial statements (continued)

Banks	31.12.2008
Without rating	27 017
Aa2	14 881
Baa1	53 720
Baa2	2 487
Baa3	77 006
Ba1	8 411
Ba2	39 852
B1	7 792
B2	6 783
Total	**237 949**

Banks	31.12.2007
Without rating	25 652
Aa1	12 254
B2	16 863
Ba1	30 121
Ba2	40 545
Ba3	7 342
Baa12	11 952
Baa2	81 765
Baa3	32 611
Total	**259 105**

For clients with no rating, for purposes of risk valuation, R20 rating is used.

Ratings are used for valuation of risk in Large Enterprises and SME segments.

PLN thousand

Notes to consolidated financial statements (continued)

Ageing structure of receivables (nominal value)

Structure of financial assets with no delays and financial assets that are neither overdue nor impaired (by number of days of delay), by classes

31.12.2008	**< 30 days**	**31-60 days**	**61-90 days**	**> 90 days**	**Total**
Amounts due from customers under overdraft facilities	11 276	10 066	3 456	-	24 798
Loans and advances to customers:	306 127	52 400	24 525	-	383 052
- companies	4 037	3 370	4 971	-	12 378
- households	302 086	49 028	19 553	-	370 667
- public institutions	4	2	1	-	7
- other entities	-	-	-	-	-
Total	**317 403**	**62 466**	**27 981**		**407 850**
31.12.2007					
Amounts due from customers under overdraft facilities	4 920	982	681	339	6 922
Loans and advances to customers:	136 694	22 964	7 445	10 797	177 900
- companies	13 167	2 414	862	-	16 443
- households	123 527	20 550	6 583	10 797	161 457
- public institutions	-	-	-	-	-
- other entities	-	-	-	-	-
Total	**141 614**	**23 946**	**8 126**	**11 136**	**184 822**

The aging of loans and advances to customers, which are not impaired, is to show the level of any potential loss on the loans and advances, which have not been identified as impaired at the balance sheet date.

There are a number of reasons for non-recognition of impairment losses for certain loans designated as “overdue.” Unless there is information to the contrary, no impairment loss is recognized for any loan that has been overdue for less than 90 days.

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 all potential interest for a period of at least one year.

With respect to receivables assessed on an individual basis, which have been found to be impaired and the overdue receivables which have been found to be impaired, the total fair value of the collateral accepted by the Bank, which is included in the calculation of the estimated future cash flows, is presented in the table below:

PLN thousand

Notes to consolidated financial statements (continued)

	31.12.2008	31.12.2007
Fair value of collateral relating to receivables assessed on an individual basis, for which impairment indicators have been identified	2 247 408	1 037 140
Fair value of collateral relating to overdue receivables for which no impairment evidence has been identified	1 422 685	660 814

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, surety ships, guarantees and the assignment of receivables).

The legal security measures established on the loans granted by the Bank are monitored by the 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.

Re-negotiated loan agreements

The Bank has restructured receivables; however, they are subject to standard impairment tests.

The table below shows the nominal value of the restructured receivables (excluding interest).

	31.12.2008	31.12.2007
Amounts due from banks	658	686
Loans and advances to customers	47 993	61 888
- companies	19 401	31 188
- households	28 592	30 700
Repurchased debts	268	268
Total restructured receivables	**48 919**	**62 842**

3.3 Market risk

Market risk – organisation of risk management process

Risk management in the Bank is regulated by internal procedures that are in line with the recommendations of the Polish Financial Supervision Authority, the requirements of the New Capital Agreement and best market practices in this area. The Bank allocates balance sheet and granted liabilities to the banking book or to the trading book, based on their specific nature and the predominant risks. The criteria for this allocation are determined by the documents ("policies") introduced by Management Board resolutions, which set out the objectives for which the particular book is maintained, the allowable size, profile and types of risk undertaken, the methods used for their quantification and mitigation, as well as the authorizations and location of the particular organisational units in the risk generating, measuring, mitigating and reporting process.

Notes to consolidated financial statements (continued)

The risk limit setting process is hierarchical: the Bank's Management Board, taking into account the financial plan and strategy of the Bank, determines the risk profile by distributing the capital to specific business lines. In accordance with the supervisory requirements, transaction making and settlement, valuation and risk assessment processes are performed by independent units within the Bank's structure. It is the Bank's Treasury Department that is responsible for the current management of risk in the banking and trading books. It operates within the limits set and it meets the ALCO's *(Assets and Liabilities Committee)* guidelines with respect to certain items. The business activity risk is transferred to the Treasury Department through the internal transfer pricing system related to funds. The process of managing interest rate, currency, country and business partner risks is supported by reporting which lies within the responsibility of the Financial Risk Management Department.

Market risk measures

The basic measures of market risk applied by the Bank are as follows:

- Value at Risk (VaR) model, which indicates the maximum acceptable 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 model of variance-covariance and assumes the following: 99% confidence level, holding period for the given position is 1 day for trading book and 1 month for the banking book.
- 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 sensitivity to 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) and Equity at Risk (EQaR).
- nominal measures (size of a currency position, nominal 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

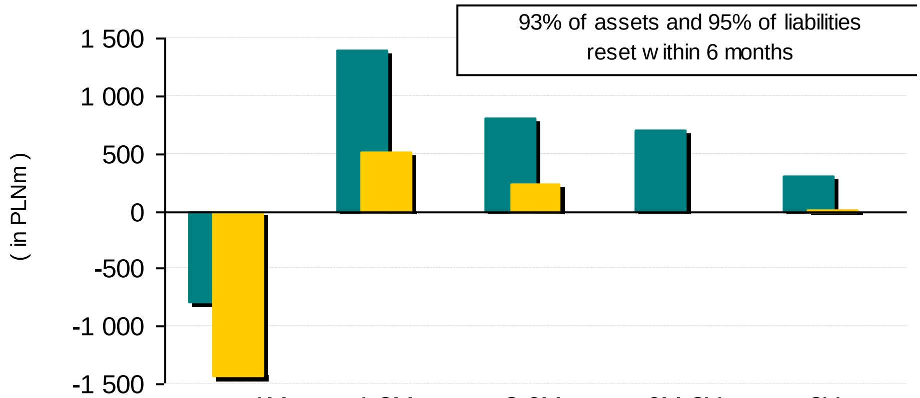
Risk in the banking book

The Bank's policy with respect to the banking book which comprises deposits, loans and financial market operations related to liquidity, is to earn additional income in excess of the product margins while avoiding the exposure of the stability of capital and net profit and keeping the natural risk exposure resulting from the Bank's deposit and lending activities on the unchanged or limited level. As part of the banking book, the Bank manages also strategic items (long-term investments, obligatory reserve conversion bonds, own bonds) and non-interest-bearing items (e.g. economic capital, tangible and intangible assets).

PLN thousand

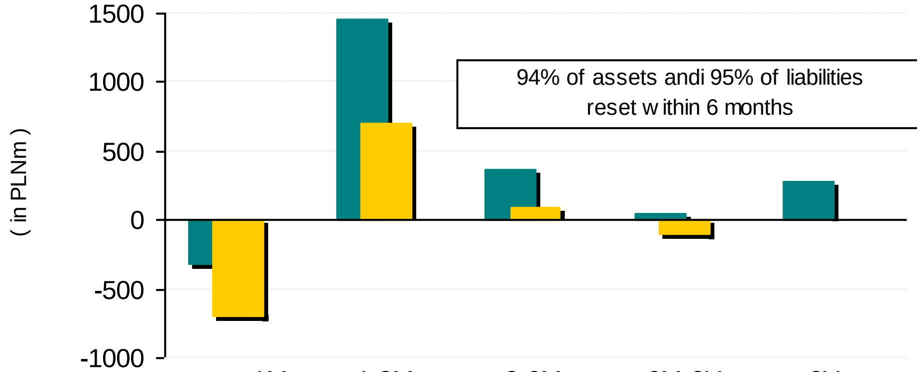
Notes to consolidated financial statements (continued)

Reprising gap (31 Dec 2008)



	up to 1M	1-3M	3-6M	6M-2Y	2Y+
PLN	-789	1 396	809	704	305
Currencies	-1 423	515	233	-14	4
Total	-2 213	1 910	1 042	690	309

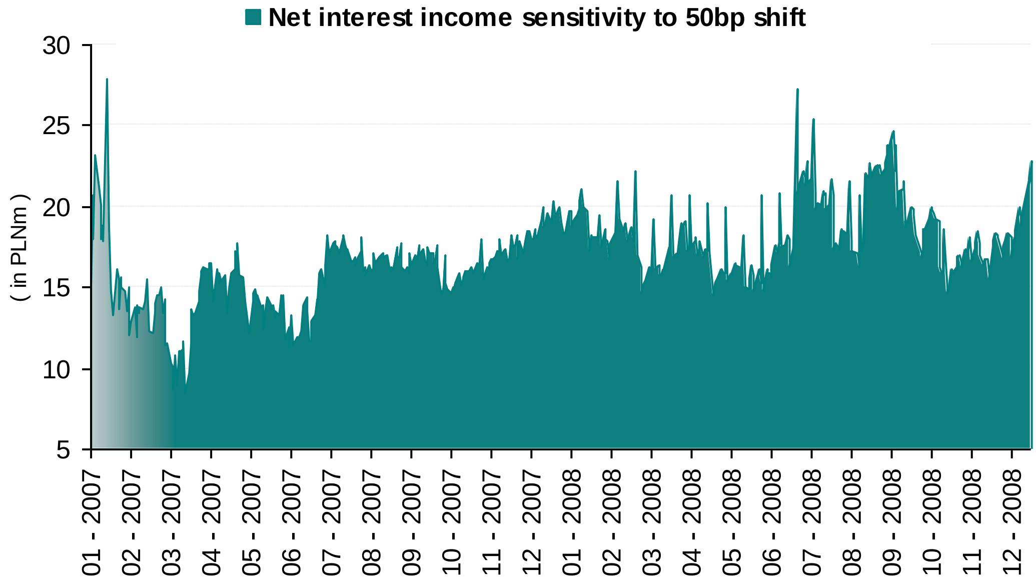
Reprising gap (31 Dec 2007)



	up to 1M	1-3M	3-6M	6M-2Y	2Y+
PLN	-324	1458	366	51	279
Currencies	-688	701	85	-101	4
Total	-1012	2159	451	-50	283

Notes to consolidated financial statements (continued)

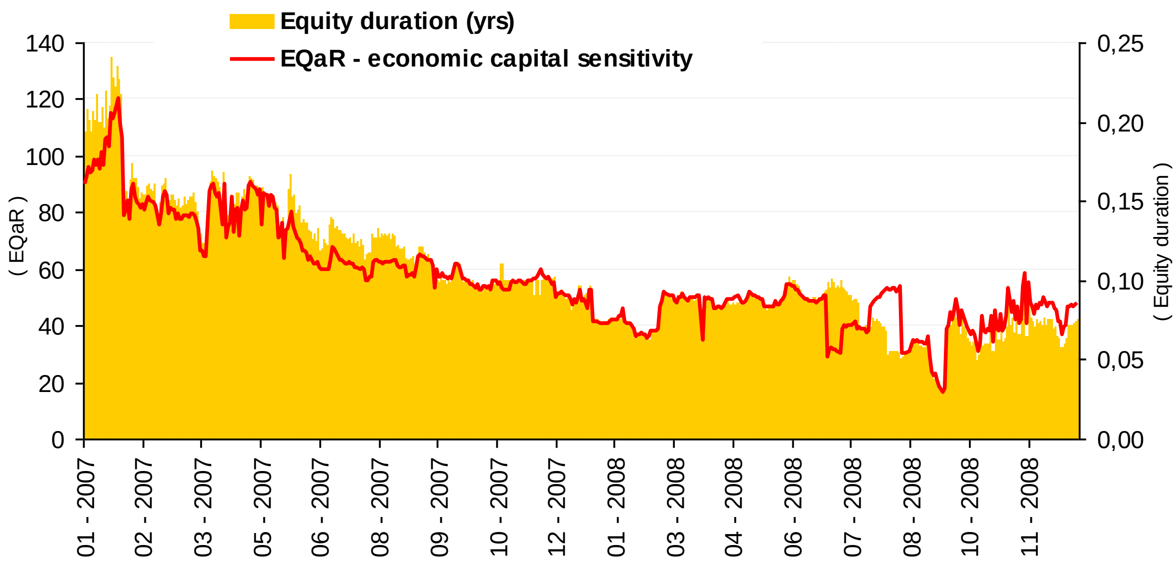
Sensitivity of interest rate result to 50bp increase in interest rates



Natural exposure to interest rate risk arising from transactions made by the branches (loans and deposits) is managed by the Treasury Department using monetary market, securities and derivative transactions – FX Swap, IRS and OIS. The sensitivity of interest income in the banking book to interest rate fluctuations is low: 93% of the Bank's assets and 95% of the Bank's liabilities are re-priced within 6 months, while the structure of the re-pricing gap at the end of the year is directed towards decreasing interest rates.

Following sensitivity test, calculated, limited and reported, as per interest rate risk policy management in the banking book, by the Financial Risk Management Department/ Office - if the interest rates increased by 50 base points, the annual interest income would be lower by approx. PLN 18.5 million on average. The base risk, resulting from application of interest rates that were imperfectly correlated with market interest rates with respect to selected products of the Bank is remote and does not exceed 1% of monthly interest income for each change of 25 base points. The project of reference rates implemented in 2007 continues to be applied and limits the portfolio of loans based on WIBOR while interest rates for new commercial products are at the market level.

Notes to consolidated financial statements (continued)

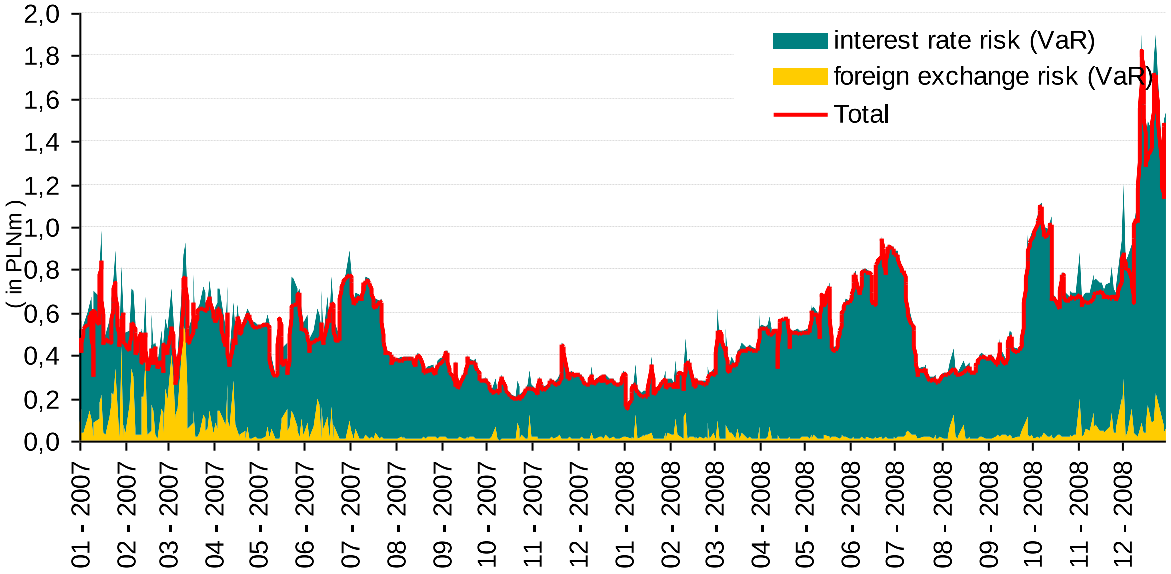


The sensitivity of equity, i.e., the current value of future sensitive to the interest rate risk cash flows, to the decrease in the interest rates by 200 pb (scenario suggested by Basel II), does not exceed 3% of the value of the Bank's own capital.

Risk in the trading book

The Bank's policy with respect to the trading book is to generate income from actual and expected changes in price parameters (currency rates, interest rates, and prices of securities etc.) while keeping the size of the exposure within predefined limits. Trading activities are of a complementary nature, and are carried out to support the sales of financial products to corporate customers (direct sales) and retail customers (via structured products). According to the Bank's policy, the debt securities portfolio may only include securities with at least the investment-type credit rating, and since the half of 2008 each investment in corporate instruments needs individual risk assessment by Financial Risk Management Department – as a result such transactions will be reduces to minimum. Any open positions in options must be immediately closed on the inter-bank market – it is systematically controlled by every-day analyse of option portfolio valuation
In 2008, the Bank's FX exposure, managed as part of the trading portfolio, complied with the applicable limits (FX VaR and midday nominal limit). On average, the FX VaR limit for the Bank's FX risk was utilised in 9% (half the amount of that in 2007) and foreign currencies that mostly affected the Bank's exposure were USD, EUR as well as GBP, AUD and JPY (this resulted mainly from the transactions made by the corporate customers). Due to the increasing scale of business and the increasing market volatility, in order to better control the Bank's exposure during the day, a procedure was implemented to monitor the value at risk also at mid day – observations conducted showed that also this risk of the Bank was limited although, on average, was 4-times higher compared to the observed open positions at the end of the day; this results from delays between making the transaction with the Bank's client and closing it at the interbank market.

Notes to consolidated financial statements (continued)



The interest rate risk in the trading book is limited by sensitivity (delta/bpv) and value at risk (IR VaR) limits. The Treasury Department utilises both the balance sheet instruments (treasury bills, notes and bonds) and off-balance sheet instruments (FRA, IRS / OIS / CIRS, FX Swap, Futures) for exposure management. The IR VaR limit applicable to the trading book in 2008 was utilised on average in 45%.

The significant decrease in the risk in the mid of the year resulted from limiting the Bank's risk appetite (for limit levels) and consequently, decrease in credit exposures. A significant increase in the volatility of market factors and growing distortion of correlation between risk factors coupled with increased exposure caused by purchase of treasury bills and bonds with a value of more than PLN 400 million representing a part of the buffer for the Bank's liquid assets resulted in a re-newed increase in the value at risk as of October 2008. Dynamic changes in the functioning of markets (liquidity drop, deteriorated collaterals' efficiency, increase in spreads between various market segments) were the basis for the decision to re-size the VaR model in order to increase its sensitivity to short-term market events; as a result of this re-sizing, in the last weeks of 2008, VaR assessments increased even more and, in individual cases, resulted in exceeding the value at risk limits, and – consequently – forced out limitation in the profile of risk exposure by VaR partial collateralization or closure.

Price risk of equity instruments is limited to the Brokerage House exposure which spends only limited amount of funds on speculative trading: in 2008, exposure other than zero occurred only on 48 days with the maximum portfolio value of PLN 5 million – therefore, the related risk was remote. According to its policy, the Bank does not keep items exposed to the risk of goods' prices, including through futures contracts.

Notes to consolidated financial statements (continued)

Interest rate gap

As at 31 December 2008 (in PLN millions)	Up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with the Central Bank	651	-	-	-	-	-	651
Amounts due from other banks	356	-	-	-	-	-	356
Securities held for trading	516	-	-	-	-	-	516
Loans and advances to customers	11 530	3 771	1 230	392	14	-	16 937
Investment securities:	511	1 250	422	367	-	-	2 550
– available-for-sale	204	836	418	367	-	-	1 825
– other debt securities	307	414	4	-	-	-	725
Other assets	533	116	130	-	-	-	779
Total assets	**14 097**	**5 137**	**1 782**	**759**	**14**	**-**	**21 789**
Liabilities							
Amounts owed to banks	437	192	131	-	-	-	760
Amounts owed to customers	13 985	2 681	1 433	51	-	-	18 150
Other borrowed funds	248	218	146	-	-	-	612
Other liabilities	4	-	63	-	-	-	67
Total liabilities	**14 674**	**3 091**	**1 773**	**51**	**-**	**-**	**19 589**
Total interest rate gap	**(577)**	**2 046**	**9**	**708**	**14**	**-**	**2 200**
Granted liabilities	7 292	2 912	1 282	521	68	-	12 075
Receivables granted	5 656	2 777	2 911	269	-	-	11 613
Total Cumulative Interest Rate Gap	**(2 213)**	**(302)**	**1 336**	**1 792**	**1 738**	**1 738**	

Notes to consolidated financial statements (continued)

As at 31 December 2007 **(PLN mln)**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**over 5 years**	**Non-interest bearing**	**Total**
Assets							
Cash and balances with the Central Bank	232	-	-	-	-	-	232
Amounts due from other banks	896	411	112	-	-	-	1 419
Securities held for trading	127	-	-	-	-	-	127
Loans and advances to customers	10 777	2 528	244	313	8	-	13 870
Investment securities:	860	958	381	355	-	-	2 554
– available-for-sale	464	545	228	351	-	-	1 588
– other debt securities	396	413	153	4	-	-	966
Other assets	362	136	187	-	1	-	686
Total assets	**13 254**	**4 033**	**924**	**668**	**9**	**-**	**18 888**
Liabilities							
Amounts owed to banks	1 168	123	115	-	-	-	1 406
Amounts owed to customers	9 440	1 514	1 137	45	-	-	12 136
Other borrowed funds	2 891	439	190	16	-	-	3 536
Other liabilities	30	-	-	-	-	-	30
Total liabilities	**13 529**	**2 076**	**1 442**	**61**	**-**	**-**	**17 108**
Total interest rate gap	**(275)**	**1 957**	**(518)**	**607**	**9**	**-**	**1 780**
Off-balance sheet liabilities	7 815	1 347	1 201	414	14	-	10 791
Off-balance sheet receivables	7 077	1 549	2 137	79	-	-	10 842
Total Cumulative Interest Rate Gap	**(1 013)**	**2 159**	**418**	**272**	**(5)**	**-**	

In the above analysis of the Bank's interest rate risk profile, the following assumptions were used, which result in discrepancies between the accounting data:

1. A revaluation period of 15 days was assigned for contracts with floating interest rate (changes by resolution).
2. A revaluation period of 1 month was assigned for preferential loans with re-discount interest rate of NBP bills
3. Overdraft facilities are presented in two parts: statistical sediment (revaluation period of 14 days) and fluctuating part (1 day)
4. The interest rate gap calculation takes into account margins over market rates for products, based on variable interest rate

The 2008 Value at Risk, by month (amounts in PLN)

PLN thousand

Notes to consolidated financial statements (continued)

Month	Minimum	Average	Maximum	Limit
01 2008	7 504	21 811	125 205	350 000
02 2008	8 501	34 915	133 676	350 000
03 2008	8 325	28 515	89 215	350 000
04 2008	5 239	17 199	69 901	350 000
05 2008	7 832	16 199	31 668	350 000
06 2008	5 898	11 398	18 217	350 000
07 2008	5 456	19 380	46 175	350 000
08 2008	9 354	23 927	120 990	350 000
09 2008	7 328	23 510	113 917	350 000
10 2008	7 870	21 692	39 272	350 000
11 2008	22 258	63 954	196 460	350 000
12 2008	19 485	93 117	292 486	350 000

The 2007 Value at Risk, by month (amounts in PLN)

Month	Minimum	Average	Maximum	Limit
01 2007	15 710	130 277	437 141	350 000
02 2007	12 105	128 319	393 059	350 000
03 2007	16 857	183 301	538 627	350 000
04 2007	9 717	78 797	278 635	350 000
05 2007	6 094	54 656	148 648	350 000
06 2007	8 269	60 016	194 931	350 000
07 2007	6 422	21 660	95 603	350 000
08 2007	6 944	12 486	19 448	350 000
09 2007	7 397	12 715	18 413	350 000
10 2007	3 469	23 016	118 960	350 000
11 2007	7 487	12 220	23 517	350 000
12 2007	7 547	14 884	35 078	350 000

The Bank uses a variance-covariance model with a 99% confidence level and a 1-day holding period for the banking book .

Country risk and counterparty risk – organisation of risk management system

Notes to consolidated financial statements (continued)

The Bank manages country risk and counterparty risk in order to minimise the probability of incurring significant losses due to the high concentration of exposures in a single country or single counterparty, whose economic or political situation may deteriorate and may affect the value or the possibility of finalization of the transactions made with this country or counterparty. The Bank determines and diversifies the acceptable level of credit risk for financial transactions by using an internal limits system. The management of country risk and counterparty risk is regulated by internal procedures that are consistent with the recommendations of the PFSA. The level of the limits assigned to these risks reflects the assessment of the risk attached to particular countries and counterparties, which is based on the amount of capital available to cover such risk and the Bank's internal rating and financial strength of the counterparty, as well as the rating assigned by external rating agencies.

The size of limits granted is subject to periodical verification, mainly due to changes on the market but also as a response to changes in risk appetite of the Bank.

In 2008 a new exposure setting method was implemented that exchanges previously used nominal value with fair value of transaction, additionally increased by its expected changes resulting from market instability in case of holding it to the maturity – this element is determined basing on implied from the market risk weights, specific for particular currency pair and instrument type. Additionally, the current method takes into consideration while calculating the exposure, the risk balancing effect which is possible to achieve in case of an ISDA type agreement between the Bank and the counterparty.

Country risk

In 2008, the exposure limits set for particular countries were adhered to, apart from occasional, so called, passive breaches, resulting from changes in relationship of limit's currencies (in USD) and in exposure (mainly in EUR) and/or resulting from lowering/temporary closing of limits for relatively high risk countries due to global financial crisis and its influence on their economies and especially banking system. 87% of the limits relate to possible exposures to countries with the highest ratings (AAA and AA by Standard & Poor's). Likewise, the Bank's actual exposures were also focused on these countries – 80% of the Bank's total exposure relates to countries assigned with the two highest ratings, and only 15% relates to countries rated BBB or below (Russia, Croatia, Hungary, Romania, Kazakhstan, India, Ukraine). Compared with 2007, the Bank increased its average exposure to countries assigned with a credit rating BB and B, due to worsening in the credit ratings assigned to Romania and Ukraine, and as a consequence these countries was moved to the lower rating class. In the mid of October 2008, the limit for Ukraine was temporary closed, and at the beginning of November 2008 limit for Romania was decreased.

Financial counterparty risk

In the second half of 2008, optimization of target structure of exposures portfolio on inter-bank market was made after considering the more stringend requirements concerning the security of the transactions made; this move results from the crisis on financial markets and further development of strategic cooperation with Rabobank. As a result most of the limits available were limited by 2/3 and an additional sub-limit was introduced, which concerned transactions related to direct financing (eg. Inter-bank placements, purchase of securities issued by business partners).

Limits assigned to financial business partners were obeyed in 2008, except from individual instances of passive breaches connected with decrease or closure of limits towards partners with increased risk.
In terms of ratings assigned to banks, the structure of the Bank's limits shows – similar to 2007- that the Bank concentrates on cooperation with counterparties with the highest ratings: 65% of the limits relate to banks with at least A rating by Fitch, and the Bank's exposure to these banks account for 55% of the total exposure to financial institutions; the remaining 45% of exposures concern mainly Polish subsidiaries of foreign banks with no rating. As regards the type of

Notes to consolidated financial statements (continued)

transaction, as at 31 December 2008, interest rate derivatives have the greatest share in the Bank's total exposure (FX SWAP – 44%) and IRS and FRA – 9%, currency transactions (including options) and treasury bonds. Foreign trade financing transactions account for 30% of the Bank's total exposure. Inter-bank deposits amounted to 16%. The share of currency transactions (including options); approximates zero, because they are back-to-back closures of corporate transactions with positive (for the Bank) valuation and are known as future Bank's liabilities to counter partner.

Non financial counterparty risk

In the year 2008, the Bank actively continued cooperation with non-financial clients, in response to the increasing demand of the Polish exporters for financial instruments which would help them to reduce currency risk related to realized export cash flows and further strengthening of Polish zloty. This cooperation is based on the so-called transactional limit, the value of which value is calculated by Credit Committees and it is based on the valuation of credit risk, the financial condition of counterparty and the character of its basic activity (including agreements signed to make the future inflows more probable) in order to match the type and the amount of accepted transactions to risk portfolio. In 2008, the formalized cooperation between the Bank and client based on ISDA agreements became more frequent. These agreements standardized the terms and conditions and the way of making and processing the transaction, but also helped to precisely and indisputably determine obligations of the parties in case of agreement default such as exceeding threshold value representing transactional limit.

Increased customer activity coupled with growing market volatility resulting from global crisis on the sub-prime market caused, that in order to better monitor the Bank's risk arising from this type of transactions, modification to the exposure calculation method was implemented at the beginning of June 2008 (as described in the paragraph concerning country and partner risk management system). As a result, the total burden of limits amounted to approx. 20% of the total value of limits – such exposure was stable for about 4 months. Unfortunately in October, following events in Hungary, Polish zloty started to rapidly loose its value against other currencies, which caused that in case of transactions with symmetric risk (currency forwards) and zero-cost options, the increase in Polish zloty exchange rate caused that negative valuation of transactions with clients increased 5 times, thus resulting in exceeding the transactional limits granted.

In order to limit contrahent risk the Bank has implemented the following changes to the procedures:

- The decisions about allowing transactional limit are made only by The Credit Committee on the level of Bank's Central,
- In new and updated credit decisions different types of transactions, which are allowed within the limit, allowed currency pairs and maturity dates, the possibility of prolonging the transactions day are specified,
- In new and updated credit decisions the list of necessary to open the security limit collaterals is specified,
- The Credit Committee prepares in the Bank's Central regular overview of positions and the financial situation of clients, whose exposure or level of limit used is significant,
- The Management Board of the Bank created a special group which responsibility is to coordinate all activities connected with contractor risk management. When the client declares that it is imposible for him to settle the transaction made within declared date or there is a possibility, that such situation may occur. In every of his examples, if it is economically reasonable, on the basis of The Credit Commitee decision, the Bank offers a possibility of resctructure the position
- The review and update of clients'agrements' templates was made, in order to specified notes related to collateral of exposure

Notes to consolidated financial statements (continued)

- In case of active clients, i.e. making complicated transaction and/or longterm transactions, there is a preasure put on formalizing the cooperation in form of ISDA agreement, which makes it possible to reduce both credit and settlement risk
- Weekly, on demand also daily, reports concerning the value and the structure of the exposure of Bank with particular clients are send to consultants, directly cooperating with clients,
- The Weights of the risk used to calculate the value of exposure were matched to current market conditions, i.e. increased changebility, which reduced the availability of allowed limits.

Concentration of currency assets and liabilities (in PLN thousand)

At 31 December 2008	EUR	USD	CHF	GBP	Other
Assets					
Cash and balances with the Central Bank	84 160	30 467	1 394	8 882	2
Amounts due from other banks	380 236	275 828	20 619	254	28 086
Securities held for trading	-	-	-	-	-
Loans and advances to customers	658 820	460 741	3 203 986	2 678	55 249
Other assets	5 465	330	1	4	3
Total assets	**1 128 681**	**767 366**	**3 226 000**	**11 818**	**83 340**
Liabilities					
Amounts owed to banks	120 152	174 552	140 071	35 063	406
Amounts owed to customers	730 486	584 583	266	17 115	3 089
Other liabilities	2 793	334	-	4	3
Total liabilities	**853 431**	**759 469**	**140 337**	**52 182**	**3 498**
Derivatives and contingent liabilities	**6 884 208**	**12 069 735**	**5 405 765**	**47 085**	**186 556**
At 31 December 2008					
Assets					
Cash and balances with the Central Bank	28 639	11 327	647	1 703	-
Amounts due from other banks	409 415	446 793	30 537	3 225	40 307
Securities held for trading	26 872	-	-	-	-
Loans and advances to customers	538 578	334 909	1 434 813	4 972	57 894
Other assets	2 015	2 585	1	654	1 480
Total assets	**1 005 519**	**795 614**	**1 465 998**	**10 554**	**99 681**
Liabilities					
Amounts owed to banks	246 435	157 124	12 979	4 712	328
Amounts owed to customers	734 990	636 098	263	15 510	8 015
Other liabilities	3 930	6 649	348	6	2 940
Total liabilities	**985 355**	**799 871**	**13 590**	**20 228**	**11 283**
Derivatives and contingent liabilities	**4 516 692**	**5 879 529**	**4 079 396**	**379 766**	**422 883**

3.4 Liquidity risk

Notes to consolidated financial statements (continued)

Liquidity risk – organisation of risk management process

The Bank has a comprehensive liquidity management system. 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 and the needs that may arise as a result of changes on the financial market or in the clients' behaviour. In addition, appropriate risk identification and management methods enable the Bank to make projections of future liquidity levels. Bank has tables of limits and threshold values, which limit Bank's risk exposure. Liquidity risk monitoring and control are conducted based on the document ("Policy") developed in accordance with Recommendation "P" of the PFSA resolution no. 9/2007 of the Banking Supervisory Commission on determining liquidity standards for banks, and on best market practice.

Liquidity risk measures

There are internal and external measurements of risk in the Bank. Supervisory parameters of short-term and long-term liquidity were introduced by the PFSA resolution referred to above and are in force from 30 June 2008. One of internal methods used to measure the liquidity risk is the comparison of contract and real terms of payment for assets, liabilities and granted and received liabilities (liquidity gap) as well as calculation, on base of gaps, of liquidity ratios. In addition Bank conducts analyses of stability and deposit concentration base, simulation analyses, stress tests and analyses of auxiliary ratios used for liquidity risk assessment.

Liquidity risk

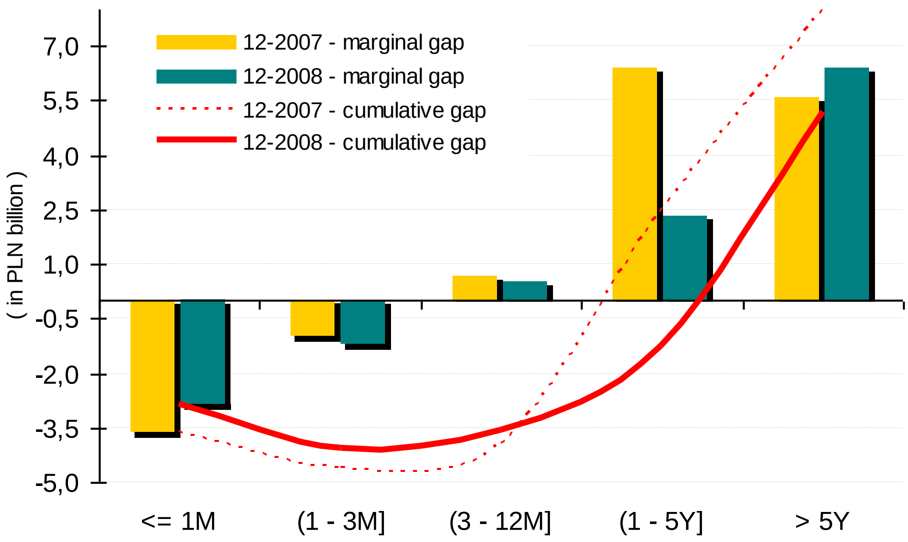
In 2008, the Bank maintained a safe level of financial liquidity, which effectively means that it had sufficient funds to discharge its short, mid and long-term liabilities on time. The portfolio of the most liquid securities was maintained at a level that secured liquidity in PLN, while foreign currency liquidity was managed using forward currency transactions.

The dynamic growth in the loan portfolio noted in 2008 (+PLN 3.1 billion without interest, of which PLN 2.8 billion in the second half of the year) was not fully covered by a corresponding growth in customer deposits (+PLN 2.5 billion), which results in a decrease in the value of available liquid assets. The resulting mismatch is compensated by a reduction in inter-bank placement balances (by PLN -1.6 billion) and an increase in the balance of negotiable deposits acquired from corporate customers (+PLN 0.9 billion).

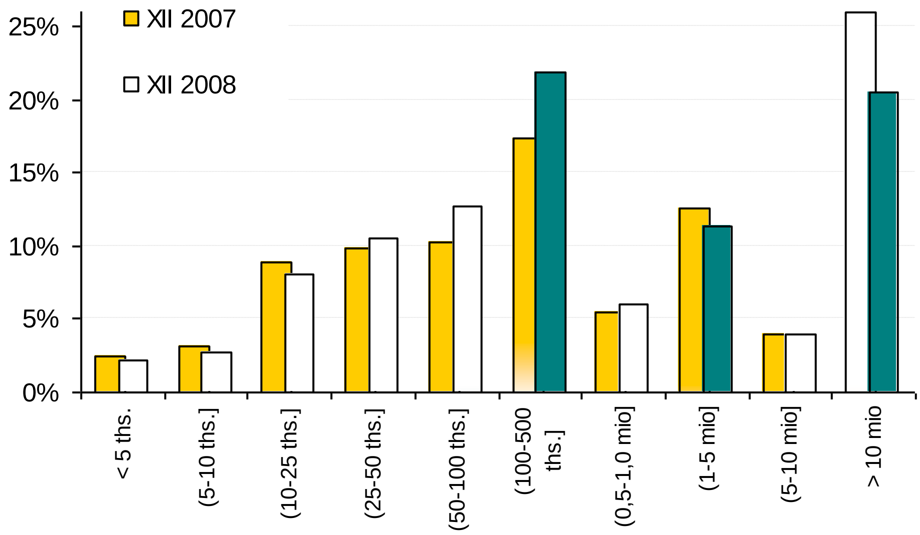
The decrease in current assets below the specified limit with respect to liquidity risk level, resulted in a 3-day excess of short term liquidity norm at the end of September 2008 (with no effect on the financial statements: the Bank has presented to the PFSA the strategy of restoring the liquidity risk to the acceptable level) – the risk was limited by an increase of liabilities (existing since May 2008) received from the majority investor up to PLN 2 billion and activation of attractive deposits for corporate and retail clients.

Notes to consolidated financial statements (continued)

Adjusted liquidity gap



Deposits structure by value



The real liquidity gap and structural liquidity ratios confirm that in 2008 the Bank financed long-term lending activities by short-term deposits. In order to restore the desired financing structure the Bank made significant changes to its pricing policy and offered new structured deposits to its customers, it introduced a liquidity margin that adjusts the transfer price of the funding of long-term transactions; it proposed new deposit facilities to its clients and issued certificates of deposit (DCs).

As at 31 December 2008 – in accordance with the methodology stated in the policy of liquidity risk management - 80% of the Bank's deposits was classified as stable, while as at 31 December 2007 - 77%; this improvement was cased by the increase of the share in retail deposit base with the highest stability. Of this amount, term deposits account for the majority of the balance (61%). About 35% of deposits have come from entrepreneurs, and the share of the 5 largest depositors in the Bank's deposit portfolio is nearly 14% at the end of 2008 (18% at the end of 2007). 2008 also saw a decrease in the share of deposits with unit nominal value exceeding PLN 5 million.

Notes to consolidated financial statements (continued)

The table below shows the structure of the Bank's assets and liabilities, based on the period remaining from the balance sheet date to maturity

Liquidity gap

As at 31 December 2008 (in PLN million)	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Assets					
Loans and advances to retail customers, of which:	98	105	417	1 643	5 557
· housing and mortgage loans	36	67	246	1 302	5 402
Loans and advances to corporate customers	2 041	671	2 357	5 699	2 416
Loans and advances due and recievable	114	3	15	146	360
Securities, of which:	508	406	1 336	814	24
held for trading	303	202	12	-	-
available for sale	200	150	1 235	-	-
held to maturity	-	-	4	414	-
Inter-bank placements	358	-	-	-	-
Cash and balances with the Central Bank (NBP)	1 262	-	-	-	-
Non-current assets	317	-	4	79	169
Other assets	293	46	111	25	7
Liabilities granted	8 827	2 220	2 089	1 882	136
Liabilities and equity					
Deposits from retail customers	4 011	1 425	2 043	3 171	45
Deposits from corporate customers	2 540	127	260	1 856	-
Inter-bank deposits	564	366	44	-	-
Negotiable deposits SK	2 226	559	128	153	-
Certificated of deposit	248	119	249	-	-
Equity and subordinated liabilities	-	-	217	-	2 065
Other liabilities	198	34	341	67	4
Granted receivables	6 905	2 002	2 555	2 736	132
Total receivables	**13 818**	**3 451**	**6 329**	**10 288**	**8 669**
Total liabilities	**16 692**	**4 632**	**5 837**	**7 983**	**2 246**
Partial liquidity gap as at 31 December 2008	**(2 874)**	**(1 181)**	**492**	**2 305**	**6 423**

Notes to consolidated financial statements (continued)

As at 31 December 2007 (in PLN million)	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Assets					
Loans and advances to retail customers, of which:	64	86	333	1 296	4 607
- housing and mortgage loans	19	53	208	1 040	4 428
Loans and advances to corporate customers	975	821	2 623	5 746	2 028
Loans and advances due and receivable	75	5	16	151	358
Securities, of which:	564	180	1 095	885	83
held for trading	44	29	56	-	-
available for sale	515	100	881	-	-
held to maturity	-	-	40	418	-
Inter-bank placements	925	397	97	-	-
Cash and balances with the Central Bank (NBP)	498	-	-	-	-
Non-current assets	284	-	5	64	147
Other assets	34	34	396	50	76
Granted liabilities	8 251	1 053	2 043	2 285	245
Liabilities and equity					
Deposits from retail customers	2 066	1 906	1 812	1 737	47
Deposits from corporate customers	3 042	192	322	1 290	-
Inter-bank deposits	1 391	80	117	-	-
Negotiable deposits SK	2 790	368	181	15	-
Equity and subordinated liabilities	-	-	190	-	1 763
Other liabilities	53	82	916	32	4
Receivables granted	5 943	931	2 411	991	154
Total receivables	**11 670**	**2 576**	**6 608**	**10 477**	**7 544**
Total liabilities	**15 285**	**3 559**	**5 949**	**4 065**	**1 968**
Partial liquidity gap as at 31 December 2007	**(3 615)**	**(983)**	**659**	**6 412**	**5 576**

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

1. 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

Notes to consolidated financial statements (continued)

with short-term maturity (up to 3 months), and securities classified as HTM are presented in a group consistent with their actual maturity

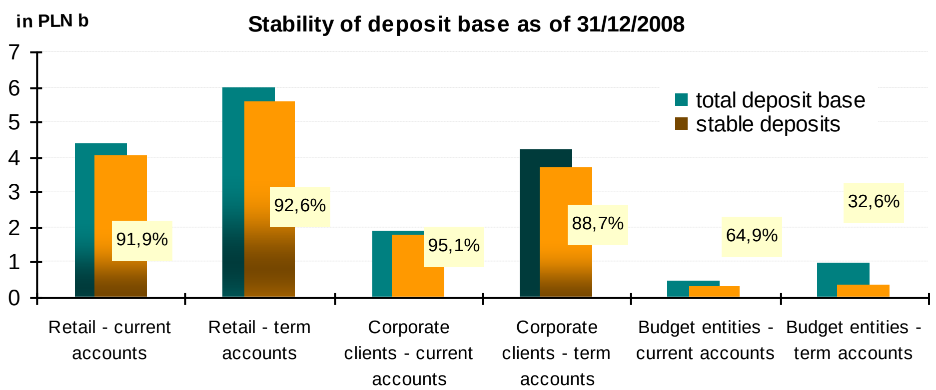
2. Current accounts (and other deposit products e.g. escalation) are presented in two parts: calculated statistical sediment (split for 1 to 4 years) and fluctuating part (1 day). Based on an internal analysis, this means that the Bank considers that the above analysis correctly defines possible inflows from such accounts
3. Overdraft facilities and loans past maturity date are presented in two parts: calculated statistical sediment (split for 1 to 2 years, in case of past due loans for the whole period) and fluctuating part (1 day)
4. All expected flows from financial instruments are taken into account, including derivatives based on their evaluation as at the analysis day (e.g., expected IRS, FX Swap, FRA, FX Forward, FX Option transaction amount settlements)

Starting from 30 June 2008, the Bank is obliged to report and obey supervisory norms in term of liquidity risk, introduced with resolution No 9/2007 PFSA. In order to meet these requirements Bank took a lot of actions, which were aimed on keeping supervisory liquidity norms. The norms at the end of 2008 are shown in the table below:

Supervisory measures of the PFSA	Limit	12.2008
M1 Short term liquidity gap (in PLN million)	0.0	870.8
M2 Short term liquidity ratio	1.0	1.08
M3 Ratio of coverage of non-liquid assets with own capital	1.0	3.43
M4 Ratio of coverage of non-liquid assets and assets with limited liquidity with own capital and third party stable funds	1.0	1.03

Starting from 28 January 2009 to 23 February 2009 the ratio of coverage of non-liquid assets and assets with limited liquidity with own capital and third party stable funds (M4) stayed below the set limit. The main reason for limit breach was weakening zloty and consequent increase in the value of mortgage loans denominated in foreign currencies. The Bank undertook intensified actions aiming at re-establishment of acceptable level of risk and since 24 February 2009 satisfies the supervisory liquidity measures.

The structure of stability of deposit base as At 31 December 2008



Notes to consolidated financial statements (continued)

3.5 Operating risk

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

The purpose of operating risk management is to limit losses and costs caused by this risk, to ensure that the Bank renders services of the highest quality, as well as to ensure security and compliance of the 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.

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 that risk. Operating risk identification and reporting system embraces all Bank's organizational units and this ensures completeness and accuracy of data that constitute basis for risk evaluation and decision making that influences 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.

Economical capital and risk evaluation

Bank has a 7-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 regulatory capital to cover operating risk. The basic index method (BIA) was selected to calculate it.

3.6 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 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, treasury bills, money bills and non-treasury

PLN thousand

Notes to consolidated financial statements (continued)

debt instruments. 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 in 2008 on transactions in non-treasury bills, treasury bonds and non-treasury debt instruments amounts to PLN 154,183 thousand in 2008 and PLN 89,264 thousand in 2007.

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

The table below presents the book value and the fair value of those financial assets and liabilities not presented at fair value in the Group's balance sheet. The Group uses market prices in order to estimate the fair value of the assets and liabilities.

2008	Carrying amount	Fair value
Financial assets		
Amounts due from other banks	798 698	798 829
Amounts due from customers under overdraft facilities	1 877 442	1 894 855
Loans and advances to customers:		
- companies	6 048 678	6 048 687
- households	8 841 855	8 763 156
- public institutions	197 713	197 288
- other entities	68 876	67 999
- other liabilities	31 642	31 642
Other debt securities	750 589	758 343
Financial liabilities		
Amounts owed to other banks	1 149 229	1 153 435
Amounts owed to customers and debt securities issued	18 753 532	18 699 321
2007	**Book value**	**Fair value**
Financial assets		
Amounts due from other banks	1 716 741	1 716 807
Amounts due from customers under overdraft facilities	1 395 110	1 412 538
Loans and advances to customers:		
- companies	5 614 156	5 626 375
- households	6 689 878	6 708 932
- public institutions	223 871	223 859
- other entities	19 456	19 317
- other liabilities	45 429	45 429
Other debt securities	938 010	932 881
Financial liabilities		
Amounts owed to other banks	1 730 007	1 730 361
Amounts owed to customers and debt securities issued	15 544 915	15 540 700

a) Amounts due from other banks

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

b) Loans and advances to customers

The estimated fair value of loans and advances to customers is calculated as the discounted value of future cash flows to be received. In order to determine the fair value of loans and advances granted to customers, the amounts to be received are discounted using current interest rates.

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. The fair value of the “on demand” (a’vista) deposits is determined based on similar transactions, giving consideration to the “fluctuating” portion (as an overnight) and core deposits (“sediment”) (as a series of 12 yearly deposits, where each subsequent deposit starts and ends one month later than the previous one and is equal to 1/12 of the core deposit amount in terms of its value).

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.

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

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

(a) Impairment of loans and advances

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

Notes to consolidated financial statements (continued)

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); 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 (overdue for more than 90 days) 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 an objective evidence to show that they are impaired. In the case of an individual assessment, the following events are specifically considered as such evidence: significant financial difficulty of the issuer or debtor, a breach of contract, such as a default or delinquency in interest or principal payments, exceeding 90 days; the granting of a concession by the Bank to the borrower due to economic or legal reasons relating to the borrower’s financial difficulty, which the Bank would not otherwise consider, the high probability of the borrower’s bankruptcy or other financial reorganisation, the disappearance of an active market for a given financial asset, due to the issuer’s financial difficulties.

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. Evidence of collective impairment includes, in particular, delinquency in principal and interest payments, exceeding 90 days. 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. Recovery rates from financial asset portfolios are determined using the Markov migration model and the Monte Carlo method. The assessment of default probability is based on information about delinquencies in the repayment of exposures, based on the Markov migration model and the Bayes’ formula. For assessing impairment and IBNR losses, the Bank assumes that the recoveries from retail or quasi-retail portfolios (except for housing loan portfolios and mortgage loan portfolios) are realised over a period of only three years. For the remaining portfolios, a five-year maximum recovery period is adopted.

At the end of 2007, the Bank identified credit risk resulting from occurrence of bird flu that could have a negative impact on the financial condition of those Bank’s clients who conduct their business in the sector of poultry raising and processing.

Therefore there has been a significant risk connected to the punctual repayment of credits granted to clients from this sector. According to credit model, at the end of December 2007, credit receivables from the clients affected by the bird flu risk were estimated at PLN 16.6 million.

Notes to consolidated financial statements (continued)

In Bank's opinion there is no need to hold bird flu allowance for the end of December 2008. It results from current market analysis and from the model used to estimate bird flu allowance level. According to the bird flu model, the value of the IBNR allowance was estimated lower than for standard impairment write-downs. That was the final confirmation that no bird flu provision should be set.

The Bank reversed the bird flu allowance and the amount of PLN 16,646 thousand zlotys was taken to the 2008 profit or loss.

(b) Fair value of derivative financial instruments (derivatives)

The fair value of financial instruments not listed on active markets is determined using valuation techniques (e.g. pricing models). These methods are assessed and reviewed on a regular basis by qualified independent employees, i.e., employees not involved in developing these methods. All models are approved before they are used, and adjusted to ensure that the results obtained reflect the factual data and comparable market prices. The models that the Group 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 Group 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 Group's judgement. In making this judgement, the Group assesses its intention and ability to hold these investments to maturity. If the Group 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) Value of tangible and intangible assets

In 2008, the Bank analyzed the underlying useful lives or and projected method of consuming economical benefits deriving from a particular part of intangible assets and property plant and equipment, and changed projected economic useful lives of these assets. It resulted in a decrease of depreciation/ amortization charge in the first half of 2008 by PLN 7.717 thousand.

(f) Value of property

The Group values the investment property to fair value basing on estimates made by independent property appraiser, made as of 19 December 2008. Comparative method with application of revised average price from local market was used.

Notes to consolidated financial statements (continued)

5. Business segments

5.1. Segment reporting

The Group's reporting is split into the following business segments: Retail Banking, Corporate Banking, Treasury Banking together with the ALCO (Assets and Liabilities Committee) and the Financial Institutions Department. The basis for categorising a customer in a specific segment is a flag embedded in the Bank's IT systems, for the purposes of financial reporting (the client's "STW" code). These segments meet the criteria set forth in IAS 14.35.

Sales prices in the segments are established using the fund transfer pricing system based on market rates.

The income, expense, impairment write-downs, assets and liabilities of a specific segment include elements that can be directly attributed or reasonably allocated to segments.

For the pourpose of presenting actual managerial result by business lines the Bank uses a simplified expense allocation model. Expenses were split into six groups: infrastructural, IT, human resources, promotion / marketing, legal and general.

Infrastructure expenses include costs of the following: real estate maintenance, security, transportation and company cars, machinery and appliance utilization, furniture, press and publications, and stationery.

IT expenses include costs of the following: information systems, IT services, hardware, technical services, minor IT purchases, utilization of networks and links, and telephone calls.

Human resource expenses include costs of the following: payroll and payroll-related, training and business trips.

Promotion and marketing expenses include costs of the following: advertising and promotion campaigns, sponsoring and representation.

General expenses include costs of the following: fees paid for the Bank Guarantee Fund, Polish Automated Clearing House (Krajowa Izba Rozliczeniowa), Loan Information Office and consulting services.

An allocation key is assigned for each group, which facilitates allocating the expenses to the business lines. For the infrastructure, IT and human resources, the FTE allocation key is used. For marketing and legal expenses the allocation key is based on the income that every business line generates. For general expenses, the allocation key was determined on the basis of the volume of products in the specific business line.

The Group's operating activities are limited to Poland. It is difficult to indicate the significant differences in risks, and the Bank has, therefore, decided not to disclose information on geographical segments.

5.2. Business segments characteristics

The Retail Banking Segment represents sales of products and services performed for private persons, including maintaining current accounts, gathering term deposits, granting mortgage loans (for the purchase of housing property and other aims), cash loans, student loans, current account loans, issuance of debit and credit cards, administration of foreign money transfers, entering into currency change transactions, sales of insurance products and other services with a minor impact on the Group's revenues. Within the Retail Banking Segment, the Group presents the income from

Notes to consolidated financial statements (continued)

brokerage services, distribution of investment fund units, and the results of vindication activities performed by the Loans Department, which is in part attributable to retail clients.

Retail services are performed by branches of the Group's holding company and alternative channels, i.e., internet banking (eBGŻ) and phone banking (TeleBGŻ). Additionally, selected products are distributed by the Mortgage Loan Centres and by financial intermediaries operating nationwide and locally.

The Corporate Banking Segment includes sales of products and services rendered to enterprises, companies, cooperatives, private entrepreneurs, farmers, non-commercial institutions, public sector and banking institutions, including cooperative banks (excluding transactions on the inter-bank market). Corporate clients are divided into Large companies, Small and medium enterprises and Micro-entrepreneurs. Each group is further subdivided into Agro (clients from the food producing industry and farmers) and Non-Agro clients (other corporate clients). Services for the Large companies are performed by consultants operating within the Corporate Centres. Services for the Small and medium enterprises and Micro-entrepreneurs are provided by branch consultants operating within the branches of the holding company. Corporate clients also have access to the phone (TeleBGŻ) and internet banking (eBGŻ Firma and Home Banking BGŻ).

Within the Corporate Banking Segment, the Bank presents the results of debt recovery activities performed by the Irregular Loans Department, part of which is attributable to corporate clients.

Products and services for corporate clients include maintaining current accounts, gathering term deposits (including negotiable deposits), issuing business-type cards, granting current account loans, corporate investments and operating loans, 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), issuing debt securities, financing trading activities (including guarantees, suretyships, letters of credit, discounting of bills and factoring), leasing (in cooperation with a subsidiary of Rabobank), granting subordinated loans to cooperative banks, and entering into currency change and derivative transactions.

The Treasury Banking, ALCO and Financial Institutions Department Segment includes activity on own account on the inter-bank market (including trading transactions), entering into liquidity management transactions, banking and trading book management transactions and management of strategic items included in the ALCO (Assets and Liabilities Committee) portfolio, such as other debt securities (including restructuring bonds and those that arose from the conversion of the obligatory reserve), own bonds issued and non-interest items, i.e., equity, and tangible and intangible assets.

The Other Segment includes results that are not attributable to any of above listed segments (i.e., capital investments administered by the Credit Risk Department, strategic capital investments and the result of the support service lines).

PLN thousand

Notes to consolidated financial statements (continued)

2008	Retail Banking	Corporate Banking	Treasury Banking, ALCO and Financial Institutions Department	Other	Eliminations	BGZ S.A.
Profit and loss account						
Interest income	**799 181**	**1 150 939**	**394 840**	**893**	**(895 244)**	**1 450 609**
External income	308 440	889 760	252 149	260	-	1 450 609
Internal income	490 741	261 179	142 691	633	(895 244)	-
Interest expense	**(518 497)**	**(782 548)**	**(379 835)**	**(69)**	**895 244**	**(785 705)**
External expense	(314 149)	(127 278)	(344 215)	(63)	-	(785 705)
Internal expense	(204 348)	(655 270)	(35 620)	(6)	895 244	-
Net interest income	**280 684**	**368 391**	**15 005**	**824**	**-**	**664 904**
Net fee and commission income	**83 152**	**127 160**	**1 224**	**5 254**	**-**	**216 790**
Other operating income and expense result	**42 889**	**71 480**	**42 303**	**57 562**	**-**	**214 234**
Net impairment losses on loans and advances	**(6 858)**	**(27 128)**	**(22 050)**	**10 932**	**-**	**(45 104)**
General administrative expenses	**(234 135)**	**(303 352)**	**(32 267)**	**(138 209)**	**-**	**(707 963)**
Segment result	**165 732**	**236 551**	**4 215**	**(63 637)**	**-**	**342 861**
Amortisation and depreciation	**-**	**-**	**-**	**-**	**-**	**(68 120)**
Profit (loss) before taxation	**-**	**-**	**-**	**-**	**-**	**274 741**
Income tax expense	**-**	**-**	**-**	**-**	**-**	**(61 717)**
Net profit (loss) for the year	**-**	**-**	**-**	**-**	**-**	**213 024**
Balance sheet						
Segment assets	**5 493 033**	**11 752 640**	**5 739 797**	**551 429**		**23 536 899**
Unallocated assets	**-**	**-**	**-**	**-**	**-**	**530 469**
Total assets	**-**	**-**	**-**	**-**	**-**	**24 067 368**
Segment liabilities	**10 432 243**	**5 746 371**	**2 569 084**	**3 041 435**		**21 789 133**
Equity	**-**	**-**	**-**	**-**	**-**	**2 278 235**
Total equity and liabilities	**-**	**-**	**-**	**-**	**-**	**24 067 368**
Supplemental information						
Capital expenditure	**-**	**-**	**-**	**-**	**-**	**116 611**

PLN thousand

Notes to consolidated financial statements (continued)

2007	Retail Banking	Corporate Banking	Treasury Banking, ALCO and Financial Institutions Department	Other	Eliminations	BGZ S.A.
Profit and loss account						
Interest income	**551 654**	**832 223**	**694 559**	**1 969**	**(982 618)**	**1 097 787**
External income	201 998	652 705	241 878	1 206	-	1 097 787
Internal income	349 656	179 518	452 681	763	(982 618)	-
Interest expense	**(327 092)**	**(563 883)**	**(617 017)**	**(774)**	**982 618**	**(526 148)**
External expense	(201 058)	(83 930)	(240 921)	(239)	-	(526 148)
Internal expense	(126 034)	(479 953)	(376 096)	(535)	982 618	-
Net interest income	**224 562**	**268 340**	**77 542**	**1 195**	**-**	**571 639**
Net fee and commission income	**115 718**	**124 082**	**1 117**	**(2 595)**	**-**	**238 322**
Other operating income and expense result	**22 030**	**84 500**	**28 921**	**51 571**	**-**	**187 022**
Net impairment losses on loans and advances	**11 429**	**9 624**	**105**	**(961)**	**-**	**20 197**
General administrative expenses	**(205 415)**	**(238 873)**	**(53 419)**	**(125 762)**	**-**	**(623 469)**
Segment result	**168 324**	**247 673**	**54 266**	**(76 552)**	**-**	**393 711**
Amortisation and depreciation	**-**	**-**	**-**	**-**	**-**	**(83 839)**
Profit (loss) before taxation	**-**	**-**	**-**	**-**	**-**	**309 872**
Income tax expense	**-**	**-**	**-**	**-**	**-**	**(37 744)**
Net profit (loss) for the year	**-**	**-**	**-**	**-**	**-**	**272 128**
Balance sheet						
Segment assets	**3 541 086**	**10 515 606**	**4 813 334**	**795 324**	**-**	**19 665 350**
Unallocated assets	**-**	**-**	**-**	**-**	**-**	**487 136**
Total assets	**-**	**-**	**-**	**-**	**-**	**20 152 486**
Segment liabilities	**7 761 190**	**7 918 161**	**1 994 241**	**409 109**	**-**	**18 082 701**
Equity	**-**	**-**	**-**	**-**	**-**	**2 069 785**
Total equity and liabilities	**-**	**-**	**-**	**-**	**-**	**20 152 486**
Supplemental information						
Capital expenditure	**-**	**-**	**-**	**-**	**-**	**70 290**

PLN thousand

Notes to consolidated financial statements (continued)

6. Net interest income

	12 months ended 31.12.2008	12 months ended 31.12.2007
Interest income, of which relating to:		
Amounts due from other banks	124 051	168 284
Amounts due from customers under overdraft facilities	158 905	86 746
Loans and advances to customers, after considering reversal of discount on impairment losses	984 685	683 575
- companies	407 686	299 421
- households	564 073	372 354
- public institutions	10 187	10 753
- other entities	2 739	1 047
Debt acquired from customers	16 139	8 253
Guaranties realised	2	-
Other amounts due from customers	2 048	140
Debt securities from all portfolios	164 779	150 789
- at fair value through profit or loss (trading)	19 304	9 008
- available for sale	98 649	89 947
- other debt securities	46 826	51 834
	1 450 609	**1 097 787**
Interest expense, of which relating to:		
Amounts owed to banks	117 898	101 517
Amounts owed to customers	667 807	421 122
Other	-	3 509
	785 705	**526 148**
Net interest income	**664 904**	**571 639**

In the 12-month period ended 31 December 2008, 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 1 431 305 thousand (PLN 1 088 779 thousand for the 12-month period ended 31 December 2007), 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 785 705 thousand (PLN 522 639 thousand for the 12-month period ended 31 December 2007).
Interest income includes interest on financial assets for which impairment loss indicators were identified when both assessed individually and in group. Such interest is included in the interest income for 2008 and 2007, which is PLN 46 965 thousand and PLN 15 273 thousand respectively.

PLN thousand

Notes to consolidated financial statements (continued)

7. Net fee and commission income

	12 months ended 31.12.2008	12 months ended 31.12.2007
Fee and commission income		
Fee and commission income from banks	6 672	5 582
Fee and commission income from customers	241 136	262 790
- on loans and advances	143 578	142 619
- on domestic settlements	1 785	3 212
- on foreign settlements	5 736	1 636
- on guarantee commitments	8 382	7 928
- on brokerage operations	16 047	40 340
- on credit cards	44 582	40 219
- other commissions	21 026	26 836
	247 808	**268 372**
Fee and commission expense		
Fee and commission expense from banks	3 593	1 976
Fee and commission expense from customers	27 425	28 074
	31 018	**30 050**
Net fee and commission income	**216 790**	**238 322**

8. Divident income

	12 months ended 31.12.2008	12 months ended 31.12.2007
Held-for-trading securities	-	30
Available-for-sale securities	3 214	2 102
Shares in associated entities	28	-
	3 242	**2 132**

9. Result on trading activities

	12 months ended 31.12.2007	12 months ended 31.12.2007
Equity instruments	**176**	**2 644**
- Equity instrument income	221	4 870
- Equity instrument expense	(45)	(2 226)
Debt instruments	**(2 938)**	**(3 709)**
- Debt instrument income	11 819	6 117
- Debt instrument expense	(14 757)	(9 826)

PLN thousand

Notes to consolidated financial statements (continued)

Derivatives	**(426 995)**	**23 268**
- Derivatives income	2 607 559	1 041 826
- Derivatives expense	(3 034 554)	(1 018 558)
Other	**-**	**-**
Foreign exchange result	559 095	73 043
Result on trading activities	**129 338**	**95 246**

The "Foreign exchange result" includes profits and losses from spot and forward transactions, options, futures and foreign currency assets and liabilities translated into Polish zloty. The increase in the result on trading activities is the effect of an increase in the foreign exchange result, due to the increased volume of spot and forward transactions as well as significant changes in exchange rates in 2008

10. 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:

	31.12.2008	31.12.2007
Assets available for sale:	**(5 383)**	**(3 556)**
- Debt instruments income	4 448	1 483
- Debt instruments expense	(9 831)	(5 039)
Other debt securities	**70**	**838**
- Debt instruments income	70	-
- Debt instruments expense	-	-
Other	-	838
Total	**(5 313)**	**(2 718)**

11. Other operating income

	12 months ended 31.12.2008	12 months ended 31.12.2007
From management of third-party properties	2 261	2 927
From sale or liquidation of property, plant and equipment, intangible assets and assets held-for-sale	9 597	2 111
From recovered statute –barred receivables, written off or bad debts, repayments of derecognised receivables	28 233	75 870
Sales of goods and services	9 787	8 801
Reversal of fixed asset impairment write-downs	163	2 475
Reversal of provisions for future liabilities (note 34 and note 37)	34 686	3 413
Value of unvestment property	27 687	49 313
Other operating income	25 224	24 410
Other operating income, total	**137 638**	**169 320**

PLN thousand

Notes to consolidated financial statements (continued)

The “Other operating income” line item contains received claim, penalties and fines, write-downs against assets held for sale and property, plant and equipment.

12. Impairment losses on loans and advances

	12 months ended 31.12.2008	12 months ended 31.12.2007
Amounts due from other banks	(93)	(537)
Loans and advances to customers	(44 208)	452
Liabilities granted	(980)	20 282
Other debt securities	177	-
Impairment losses on loans and advances, total	**(45 104)**	**20 197**

13. General administrative expenses

	12 months ended 31.12.2008	12 months ended 31.12.2007
Employee benefit costs (Note 15)	413 783	388 470
Materials and energy	27 895	22 196
External services	159 730	142 695
Other non-personnel costs	93 841	62 213
Taxes and charges	4 914	5 253
Contributions and amounts transferred to the KNF and BFG	7 801	2 642
General administrative expenses, total	**707 964**	**623 469**

14. Other operating expenses

	12 months ended 31.12.2008	12 minths ended 31.12.2007
Due to the management of third-party assets	1 174	2 287
Due to the sale or liquidation of property, plant and equipment, intangible assets and assets or sale	4 982	4 758
Due to recognised provisions for other receivables (other than loans and advances)	897	1 154
Due to provisions for liabilities (Notes 34 and 37)	31 991	38 403
Due to debt recovery	3 776	3 613
Donations	405	5 985
Amortisation and depreciation (Notes 27 and 28)	68 120	83 840
Due to the impairment of property, plant and equipment	78	3 125
Other operating expenses	7 160	17 632
Other operating expenses, total	**118 583**	**160 797**

PLN thousand

Notes to consolidated financial statements (continued)

The “other operating expenses” line item includes write-downs against asset held for sale and impairment losses against property, plant and equipment.

15. Employee benefits

	12 months ended 31.12.2008	12 months ended 31.12.2007
Payroll	354 893	327 099
Social security	42 677	46 807
Retirement benefits	16 213	14 564
Employee benefits, total	**413 783**	**388 470**

16. 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.

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Details	Year ended 31.12.2008	Year ended 31.12.2007
Profit (loss) before taxation	**274 741**	**309 872**
(-) Non-taxable revenue for the current year	**2 398 231**	**1 960 956**
Interest income	59 679	105 890
Income from reversal of specific provisions	420 008	164 221
Income from valuation of securities and derivatives	1 263 157	610 451
income from reversal of provisions for future liabilities	34 608	3 090
Other current year income not tax deductible	620 779	1 077 304
(+) Non-tax-deductible expenses for the current year	**3 038 630**	**1 871 342**
Interest expense	185 183	125 186
Impairment write-downs/ losses	483 398	117 840
Costs of valuation of securities and derivatives	1 741 312	545 167
Provisions for the future liabilities and employee benefits	97 115	106 056
Contributions to PFRON	3 492	3 264
Other current year costs not tax deductible	528 130	973 829
Taxable profit	**915 140**	**220 258**
Deduction from income - donations	**96**	**5 770**
Taxable profit after deductions	**915 044**	**214 488**
Tax rate	*19 %*	*19%*
Current tax expense	**173 858**	**40 752**
Deductions from tax	124	403
Current tax expense, after deductions	**173 734**	**40 349**

PLN thousand

Notes to consolidated financial statements (continued)

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:

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	12 months ended 31.12.2008	12 months ended 31.12.2007
Current tax	(174 305)	(40 752)
Deferred tax	112 588	3 008
Income tax expense	**(61 717)**	**(37 744)**
Profit (loss) before taxation	274 741	309 872
Statutory tax rate	19%	19%
Income tax based on profit before taxation	**(52 201)**	**(58 876)**
Permanent differences	(5 990)	2 383
Foreign exchange differences due to change in tax regulations	-	18 749
Other differences	(3 526)	-
Tax expense/ tax income	**(61 717)**	**(37 744)**

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

In 2008, the corporate income tax expense on the Group's financial result is as follows:

- the current tax liability charged to the financial result, of PLN 174,305 thousand, of which:
  - PLN 173,734 thousand related to the Group's income,
  - PLN 571 thousand related to shares in profits of other companies,
- Deferred tax credited to the financial result - PLN 112,588 thousand.

As a result of the above, the Group's financial result for 2008 was reduced by PLN 61,717 thousand.

The corporate income tax expense to the Group's financial result is presented in the table below:

	12 months ended 31.12.2008	12 months ended 31.12.2007
Profit (loss) before taxation	**274 741**	**309 872**
Total current tax liability, of which:	**(174 305)**	**(40 752)**
- current tax liability on the profits of the BGŻ S.A. Group	(173 734)	(40 349)
- current tax liability on dividends	(571)	(403)
Deferred tax income/ (deferred tax expense)	**112 588**	**3 008**
Tax income/ (Tax expense) on the profits of the BGŻ S.A. Group	(61 717)	(37 744)
Net profit (loss)	**213 024**	**272 128**

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

Notes to consolidated financial statements (continued)

17. Earnings per share

	12 months ended 31.12.2008	12 months ended 31.12.2007
Basic:		
Earnings attributable to the Bank's shareholders	213 024	272 128
Weighted average number of ordinary shares (in millions)	43	42
Basic earnings per share (in PLN per share)	4,94	6,52

The Bank does not calculate diluted earnings per share, due to lack of dilutive elements.
Basic earnings per share is calculated as the quotient of earnings attributable to the Bank's shareholders and the weighted average number of ordinary shares outstanding during the year; excluding ordinary shares re-acquired by the Bank and recognized as "own shares."

18. Cash and balances with the Central Bank

	31.12.2008	31.12.2007
Cash on hand (treasury)	635 938	261 111
Cash in current account	655 406	237 281
Other funds	41	50
Cash and balances with the Central Bank, total	**1 291 385**	**498 442**

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 2008, the interest rate for funds on the obligatory reserve account was 4.73% (as at December 2007, it was 4.73%).

As at 31 December 2008, the declared obligatory reserve balance on the current account held with the National Bank of Poland was PLN 647,843 thousand (31 December 2007: PLN 537,383 thousand).

19. Amounts due from other Banks

	31.12.2008	31.12.2007
Current accounts	8 702	15 743
Placements with other banks	547 570	1 419 111
Loans and advances	225 481	227 477
Purchased debts	11 796	33 482
Other receivables	-	2 758
Interest and commision	6 862	19 550
Amounts due from other banks (gross)	**800 411**	**1 718 121**
Impairment allowances (negative value)	(1 713)	(1 380)
Amounts due from other banks (net), total	**798 698**	**1 716 741**

As at 31 December 2008 variable interest rate loans and placements with other banks, , amounted toa total of PLN 560 024 thousand (2007: 1 987 thousand) while those of fixed interest rate - PLN 224,823 thousand (2007: PLN 1,678,083 thousand).

PLN thousand

Notes to consolidated financial statements (continued)

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

	31.12.2008	31.12.2007
Provisions for amounts due from other banks at the beginning of the period	**1 380**	**843**
Increases	*1 073*	*537*
- creation of provisions	*1 073*	*537*
Decreases	*(740)*	*-*
- reversal of provisions	(740)	-
- **Provisions for amounts due from other banks at the end of the period**	**1 713**	**1 380**

Impairment losses on Amounts due from other banks, classified as individually and collectively assessed, as at 31 December 2008

	Individually assessed	Assessed collectively	TOTAL
Loans and advances	632	721	1 353
Other receivables	360	-	360
Total impairment losses	**992**	**721**	**1 713**

Impairment losses on Amounts due from other banks, classified as individually and collectively assessed, as at 31 December 2007

	Individually assessed	Assessed collectively	TOTAL
Loans and advances	685	695	1 380
Total impairment losses	**685**	**695**	**1 380**

Amounts due from other banks, by maturity date

	31.12.2008	31.12.2007
< 1 month	765 635	1 177 357
1 -3 months	11	398 548
3 – 12 months	237	105 814
1-5 years	18 708	15 518
> 5 years	8 958	1 334
Interest and commission	6 862	19 550
Total amounts due from other banks, by maturity date	**800 411**	**1 718 121**

20. Held-for-trading securities

	31.12.2008	31.12.2007
Held-for-trading securities:		
- treasury bills	301 629	125
- bonds issued by central government institutions	228 544	131 689
- debt securities issued by financial institutions	-	7 200
TOTAL	**530 173**	**139 014**
of which: valued using the market quotation method	*530 173*	*139 014*

PLN thousand

Notes to consolidated financial statements (continued)

21. Derivative financial instruments

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

As at na 31December 2008	Nominal value	Fair value of assets	Fair value of liabilities
Trading derivatives			
Currency derivatives:			
- - FX Spot transactions	190 162	402	(1 031)
- NDF transactions	1 469 638	122 965	(4 058)
- Currency Forwards	255 794	8 671	(11 952)
- currency swaps	17 202 263	400 936	(966 640)
- currency options purchased and sold in OTC transactions	6 238 599	198 915	(232 590)
Total currency derivatives from OTC transactions:	**25 356 456**	**731 889**	**(1 216 271)**
Currency futures:	0	0	0
Currency options purchased and sold on the regulated market	0	0	0
Total currency derivatives from regulated market transactions:	**0**	**0**	**0**
Interest rate derivatives:			
- interest rate swap contracts	29 541 410	213 202	(160 188)
- Inter-currency interest rate swap contracts	1 401 774	33 599	(18 623)
- FRA contracts	4 200 000	7 760	(9 338)
- OTC interest rate options	0	0	0
- other interest rate contracts	71 912	49	0
Total OTC derivatives:	**35 215 096**	**254 610**	**(188 149)**
Interest rate futures on the regulated market:	52 019	0	(34)
Interest rate options on the regulated market:	0	0	0
Total interest rate derivatives from the regulated market transactions:	**52 019**	**0**	**(34)**
Total stock exchange options for equity instruments:	**46 690**	**2 399**	**(3 715)**
TOTAL, including:	**60 670 261**	**988 898**	**(1 408 169)**
of which:			
valued using the market quotation method	*52 019*	*0*	*(34)*
valued using model-based method	*60 618 242*	*988 898*	*(1 408 135)*
Settlements in respect of derivative transactions	X	647	(631)
Settlements in respect of the purchase and sale of options	X	15 360	(11 055)
TOTAL	**60 670 261**	**1 004 905**	**(1 419 855)**

In the year 2008, currency transactions or interest rate transactions made with other financial institutions account for 99.84% of total transactions in derivative financial instruments made by the Bank.

PLN thousand

Notes to consolidated financial statements (continued)

As at 31December 2007	Nominal value	Fair value of assets	Fair value of liabilities
Trading derivatives			
Currency derivatives:			
- - FX Spot transactions	215 748	139	(273)
- NDF transactions	1 617 523	12 134	(4 857)
- Currency Forwards	222 594	1 699	(3 739)
- currency swaps	14 579 934	140 716	(84 913)
- currency options purchased and sold in OTC transactions	3 440 345	36 939	(37 701)
Total currency derivatives from OTC transactions:	**20 076 144**	**191 627**	**(131 483)**
Currency futures:	-	-	-
Currency options purchased and sold on the regulated market	-	-	-
Total currency derivatives from regulated market transactions:	**-**	**-**	**-**
Interest rate derivatives:			
- interest rate swap contracts	47 704 137	96 758	(93 910)
- Inter-currency interest rate swap contracts	560 797	10 794	(16 414)
- FRA contracts	10 500 000	13 975	(10 105)
- OTC interest rate options	-	-	-
- other interest rate contracts	-	-	-
Total OTC derivatives:	**58 764 934**	**121 527**	**(120 429)**
Interest rate futures on the regulated market:	-	-	-
Interest rate options on the regulated market:	-	-	-
Total interest rate derivatives from the regulated market transactions:	**-**	**-**	**-**
Total stock exchange options for equity instruments:	**28 099**	**1 321**	**(1 699)**
TOTAL, including:	**78 869 177**	**314 475**	**(253 611)**
of which:			
valued using the market quotation method	*0*	*0*	*0*
valued using model-based method	*78 869 177*	*314 475*	*(253 611)*
Settlements in respect of derivative transactions	X	135	(76)
Settlements in respect of the purchase and sale of options	X	12 080	(10 547)
TOTAL	**78 869 177**	**326 690**	**(264 234)**

Notes to consolidated financial statements (continued)

Fair value of derivatives, per maturities (in PLN thousand)

31.12 2008	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	**402**	*402*	-	-	-	-	**(1 031)**	*(1 031)*	-	-	-	-
- NDF transactions	**122 965**	*18 659*	*38 645*	*52 821*	*12 840*	-	**(4 058)**	*(2 466)*	*(794)*	*(798)*	-	-
- Currency Forwards	**8 671**	*1 318*	*2 146*	*1 410*	*3 797*	-	**(11 952)**	*(1 141)*	*(2 414)*	*(8 397)*	-	-
- Currency swap transactions	**400 936**	*348 572*	*49 218*	*3 146*	-	-	**(966 640)**	*(680 121)*	*(143 546)*	*(138 065)*	*(4 908)*	-
- Currency options purchased and sold in OTC transactions	**198 915**	*24 521*	*49 645*	*107 745*	*17 004*	-	**(232 590)**	*(27 793)*	*(56 141)*	*(124 412)*	*(24 244)*	-
Total currency derivatives from OTC transactions	**731 889**	***393 472***	***139 654***	***165 122***	***33 641***	**-**	**(1 216 271)**	***(712 552)***	***(202 895)***	***(271 672)***	***(29 152)***	**-**
Interest rate derivatives:												
- interest rate swap contracts	**213 202**	*21 185*	*36 381*	*59 575*	*63 556*	*32 505*	**(160 188)**	*(4 860)*	*(10 698)*	*(27 842)*	*(85 939)*	*(30 849)*
- Inter-currency interest rate swap contracts	**33 599**	-	-	*16 747*	*14 816*	*2 036*	**(18 623)**	-	-	*(18 623)*	-	-
- FRA contracts	**7 760**	*1 594*	*2 623*	*3 543*	-	-	**(9 338)**	*(2 037)*	*(2 595)*	*(4 706)*	-	-
- OTC interest rate options	**-**	-	-	-	-	-	**-**	-	-	-	-	-
- other interest rate contracts	**49**	*49*	-	-	-	-	**-**	-	-	-	-	--
Total OTC derivatives:	**254 610**	***22 828***	***39 004***	***79 865***	***78 372***	***34 541***	**(188 149)**	***(6 897)***	***(13 293)***	***(51 171)***	***(85 939)***	***(30 849)***
Stock exchange Interest rates futures instruments:	**-**	-	-	-	-	-	**(34)**	-	*(34)*	-	-	-
Stock exchange interest rate options:	**-**	-	-	-	-	-	**-**	-	-	-	-	-
Total of stock exchange interest rate derivative instruments:	**-**	**-**	**-**	**-**	**-**	**-**	**(34)**	**-**	***(34)***	**-**	**-**	**-**
Total stock exchange options for equity instruments:	2 399	-	-	*697*	*1 702*	-	(3 715)	-	-	*(1 356)*	*(2 359)*	-
TOTAL	**988 898**	***416 300***	***178 658***	***245 684***	***113 715***	***34 541***	**(1 408 169)**	***(719 449)***	***(216 222)***	***(324 199)***	***(117 450)***	***(30 849)***

PLN thousand

Notes to consolidated financial statements (continued)

31.12.2007	Fair value of assets						Fair value of liabilities					
	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
Trading derivatives												
Currency derivatives												
- FX Spot transactions	**139**	*139*	-	-	-	-	**(273)**	*(273)*	-	-	-	-
- NDF transactions	**12 134**	*8 253*	*2 574*	*1 307*	-	-	**(4 857)**	*(2 590)*	*(1 575)*	*(682)*	*(10)*	-
- Currency Forwards	**1 699**	*684*	*802*	*213*	-	-	**(3 739)**	*(845)*	*(16)*	*(1 855)*	*(1 023)*	-
- Currency swap transactions	**140 716**	*65 800*	*38 069*	*35 549*	*1 298*	-	**(84 913)**	*(43 141)*	*(17 333)*	*(24 439)*	-	-
- Currency options purchased and sold in OTC transactions	**36 939**	*5 380*	*10 502*	*18 723*	*2 334*	-	**(37 701)**	*(5 380)*	*(10 502)*	*(18 723)*	*(3 096)*	-
Total currency derivatives from OTC transactions	**191 627**	***80 256***	***51 947***	***55 792***	***3 632***	**-**	**(131 483)**	***(52 229)***	***(29 426)***	***(45 699)***	***(4 129)***	**-**
Interest rate derivatives:												
- interest rate swap contracts	**96 758**	*3 724*	*5 264*	*40 344*	*32 969*	*14 457*	**(93 910)**	*(1 409)*	*(8 994)*	*(28 333)*	*(44 277)*	*(10 897)*
- Inter-currency interest rate swap contracts	**10 794**	-	-	-	*10 794*	-	**(16 414)**	-	-	-	*(16 414)*	-
- FRA contracts	**13 975**	*993*	*4 898*	*5 878*	*2 206*	-	**(10 105)**	*(1 700)*	*(1 392)*	*(5 140)*	*(1 873)*	-
- OTC interest rate options	**-**						**-**					
- other interest rate contracts	**-**						**-**					
Total OTC derivatives:	**121 527**	***4 717***	***10 162***	***46 222***	***45 969***	***14 457***	**(120 429)**	***(3 109)***	***(10 386)***	***(33 473)***	***(62 564)***	***(10 897)***
Total stock exchange options for equity instruments:	1 321	-	-	-	*1 321*	-	(1 699)	-	-	-	*(1 699)*	-
TOTAL:	**314 475**	***84 973***	***62 109***	***102 014***	***50 922***	***14 457***	**(253 611)**	***(55 338)***	***(39 812)***	***(79 172)***	***(68 392)***	***(10 897)***

Maturity dates:

- for NDF, Currency Forwards, Fxswap, currency derivatives and for indexes, IRS, CIRS calculated as the difference in days betweena maturity date and balance sheet date

- for Fxpot, FRA, derivatives not included In balance sheet calculated as the difference in days between the date of the currency and the reporting date

PLN thousand

Notes to consolidated financial statements (continued)

22. Loans and advances to customers

	31.12.2008	31.12.2007
Amounts due from customers under overdraft facilities	1 930 426	1 468 054
Loans and advances to customers:	15 113 429	12 621 160
- businesses, including	5 928 778	5 543 592
- investment loans	2 639 995	2 135 298
- operating loans	2 942 761	3 173 306
- households, including:	9 011 302	6 874 212
- real-estate loans	4 698 646	3 011 046
- preference loans	2 571 650	2 685 064
- public sector institutions	160 544	196 137
- other entities	12 805	7 219
Purchased debt	335 438	219 531
Realised guarantees and surety ships	507	507
Other receivables	32 858	14 130
Other	31 642	45 429
Interest	138 616	122 030
Loans and advances to customers, gross	**17 582 916**	**14 490 841**
Impairment allowances (negative value)	(516 710)	(502 941)
Loans and advances to customers, net	**17 066 206**	**13 987 900**

Preference loans and advances (granted with additional payments from government agencies) granted to enterprises amounted to a total of PLN 582,708 thousand as at 31 December 2008, and PLN 593,026 thousand as at 31 December 2007.

Impairment allowances for loans and advances

	31.12.2008	31.12.2007
Losses incurred but not reported (IBNR)		
Gross balance sheet exposure	16 669 349	13 923 075
Impairment allowance on exposures analyzed on portfolio basis.	(48 916)	(51 966)
Net exposure	**16 620 433**	**13 871 109**
Impaired exposures		
Gross balance sheet exposure	913 567	567 766
Impairment allowance on exposures analyzed on portfolio and individual basis	(467 794)	(450 975)
Net exposure	**445 773**	**116 791**

As at 31 December 2008 variable interest rate loans,and advances amounted to a total PLN 14,952,972 thousand (2007: PLN 13,916,530 thousand) while those of fixed interest rate -, PLN 529,260 thousand (2007: PLN 81,985 thousand).
The Bank has also has interest-free loans in its loan portfolio, which relate to the restructured receivables.

PLN thousand

Notes to consolidated financial statements (continued)

Impairment losses on loans and advances

	31.12.2008	31.12.2007
Amounts due from customers under overdraft facilities	57 702	51 106
Loans and advances to customers:	415 935	439 789
- businesses	160 770	158 687
- households	254 054	279 871
- public sector institutions	471	377
- other entities	640	854
Purchased debts	13 427	5 206
Realised guarantees and suretyships	654	532
Other receivables	28 992	6 308
Total impairment allowances	**516 710**	**502 941**

Individually and collectively assessed loans and advances, as at 31 December 2008

	Individually assessed	Assessed collectively	Other receivables	TOTAL
Amounts due from customers under overdraft facilities	28 467	1 901 959	X	1 930 426
Loans and advances to customers:	525 447	14 587 982	X	15 113 429
- businesses	447 526	5 481 252	X	5 928 778
- households	77 836	8 933 466	X	9 011 302
- public sector institutions	-	160 544	X	160 544
- other entities	85	12 720	X	12 805
Purchased debts	4 443	330 995	X	335 438
Realised guarantees and suretyships	-	507	X	507
Other receivables	31 774	1 084	X	32 858
Other (not settled means)	-	-	31 642	31 642
Interests	33 017	105 599	X	138 616
Total loans and advances to customers	**623 148**	**16 928 126**	**31 642**	**17 582 916**

PLN thousand

Notes to consolidated financial statements (continued)

Individually and collectively assessed loans and advances, as at 31 December 2007

	Individually assessed	Assessed collectively	Other receivables	TOTAL
Amounts due from customers under overdraft facilities	26 159	1 441 895	X	1 468 054
Loans and advances to customers:	225 759	12 395 401	X	12 621 160
- businesses	129 523	5 414 069	X	5 543 592
- households	96 114	6 778 098	X	6 874 212
- public sector institutions	-	196 137	X	196 137
- other entities	122	7 097	X	7 219
Purchased debts	817	218 714	X	219 531
Realised guarantees and surety ships	-	507	X	507
Other receivables	6 308	7 822	X	14 130
Other (not settled means)	-	-	45 429	45 429
Interests	22 528	99 502	X	122 030
Total loans and advances to customers	**281 571**	**14 163 841**	**45 429**	**14 490 841**

Impairment losses on loans and advances, classified as individually and collectively assessed, as at 31 December 2008

	Individually assessed	Assessed collectively	TOTAL
Amounts due from customers under overdraft facilities	22 866	34 836	57 702
Loans and advances to customers:	184 456	231 479	415 935
- businesses	112 393	48 377	160 770
- households	71 451	182 603	254 054
- public sector institutions	37	434	471
- other entities	575	65	640
Purchased debts	4 560	8 867	13 427
Realised guarantees and surety ships	-	654	654
Other receivables	28 992	-	28 992
Impairment allowances	**240 874**	**275 836**	**516 710**

PLN thousand

Notes to consolidated financial statements (continued)

Impairment losses on loans and advances, classified as individually and collectively assessed, as at 31 December 2007

	Individually assessed	Assessed collectively	TOTAL
Amounts due from customers under overdraft facilities	20 263	30 843	51 106
Loans and advances to customers:	187 780	252 009	439 789
- businesses	97 643	61 044	158 687
- households	90 015	189 856	279 871
- public sector institutions	-	377	377
- other entities	122	732	854
Purchased debts	736	4 470	5 206
Realised guarantees and surety ships	-	532	532
Other receivables	6 308	-	6 308
Impairment allowances	**215 087**	**287 854**	**502 941**

PLN thousand

Notes to consolidated financial statements (continued)

2008	Amounts due under overdraft facilities	Loans and advances to customers:	businesses	households	public sector institutions	other entities	Purchased debts	Realised guarantees and surety ships	Other receivables	Total
Impairment allowances at the beginning of the period	**51 106**	**439 789**	**158 687**	**279 871**	**377**	**854**	**5 206**	**532**	**6 308**	**502 941**
Allowance recognised	53 322	409 240	181 417	227 297	43	483	10 508	6 324	22 266	501 660
Allowance reversed	(41 529)	(405 030)	(151 733)	(251 549)	(937)	(811)	(4 515)	(6 378)	-	(457 452)
Write-off	(2 425)	(44 995)	(32 379)	(12 566)	-	(50)	-	-	-	(47 420)
Change in interest income in relation to IBNR	1 556	10 095	994	8 290	807	4	-	-	-	11 651
Other changes	(4 328)	6 836	3 784	2 711	181	160	2 228	176	418	5 330
Impairment allowance at the end of the period	**57 702**	**415 935**	**160 770**	**254 054**	**471**	**640**	**13 427**	**654**	**28 992**	**516 710**

2007	Amounts due under overdraft facilities	Loans and advances to customers:	businesses	households	public sector institutions	other entities	Purchased debts	Realised guarantees and surety ships	Other receivables	Total
Impairment allowances at the beginning of the period	**7 957**	**631 729**	**237 842**	**378 516**	**3 306**	**12 065**	**16 208**	**1 898**	**6 308**	**664 100**
Allowances recognised/reversed	43 149	(31 233)	26 822	(43 915)	(2 929)	(11 211)	(11 002)	(1 366)	-	(452)
Write-off	-	(153 835)	(99 105)	(54 730)	-	-	-	-	-	(153 835)
Other changes	-	(6 872)	(6 872)	-	-	-	-	-	-	(6 872)
Impairment allowance at the end of the period	**51 106**	**439 789**	**158 687**	**279 871**	**377**	**854**	**5 206**	**532**	**6 308**	**502 941**

PLN thousand

Loans and advances, maturity date

	31.12.2008	31.12.2007
< 1 month	865 160	455 813
1 -3 months	497 542	412 455
3 – 12 months	2 266 215	2 418 975
1-5 years	3 876 086	3 696 545
> 5 years	9 639 199	7 095 189
Overdue loans	300 098	289 834
Interest and commission	148 301	122 030
Total loans and advances, maturity date	**17 592 601**	**14 490 841**

23. Securities available for sale

	31.12.2008	31.12.2007
Debt securities carried at fair value:	1 820 953	1 744 785
- NBP money bills	-	319 798
- treasury bills	1 064 929	332 538
- bonds issued by central government institutions	518 656	819 792
- debt securities issued by financial institutions	-	19 672
- debt securities issued by non-financial institutions	194 059	205 719
- bonds issued by public sector entities	43 309	47 266
Equity securities	1 522	7 826
Total securities available for sale	**1 822 475**	**1 752 611**
Including:		
of which:		
valued using the market quotation method	*1 583 585*	*1 172 002*
valued using model-based method	*237368*	*572 783*

The valuation of debt securities available for sale is based on discounted cash flows using market interest and taking in to account credit risk of issuer in the amount close to parameters observed on the market for transactions with similar credit risk and maturity date. The valuation does not take in to consideration any assumptions that can not be directly observed on the market.

PLN thousand

Movements in securities available for sale are as follows:

	2008	2007
As at 1 January 2008	**1 752 611**	**1 851 936**
Purchase of securities	31 600 547	29 267 506
Re-purchase of securities	(16 685 584)	(21 839 917)
Disposal of securities	(14 888 848)	(7 560 721)
Change on re-measurement to fair value	(5 597)	(11 732)
Change in interests due, EIR adjustments, FX differences, discount and premium adjustments	49 346	45 539
As at 31 December 2008 – carrying amount	**1 822 475**	**1 752 611**

The carrying amount of fixed interest rate debt securities available for sale is PLN 1,579,345 thousand (PLN 1,208, 562 thousand in 2007), while that of variable interest rate debt securities is PLN 241,608 thousand (PLN 536,224 thousand in 2007).

Securities available for sale by maturity

	31.12.2008	31.12.2007
Without no maturity date fixed	1 522	7 826
Up to 1 month	199 330	514 071
From 1 to 3 months	545 574	99 221
From 3 to 12 months	436 208	275 711
From 1 to 5 years	612 952	738 328
Over 5 years	26 889	117 454
Total securities available for sale	**1 822 475**	**1 752 611**

24. Other debt securities

	31.12.2008	31.12.2007
Debt securities carried at amortized cost:		
- NBP bonds	750 591	938 174
- restructuring bonds	434 027	428 627
- bonds issued by central government institutions	311 691	401 347
- debt securities issued by financial entities	3 630	44 714
- debt securities issued by non-financial entities	1 243	62 480
- bonds issued by public sector entities	-	1 006
Impairment losses	(2)	(164)
Total other debt securities	**750 589**	**938 010**

PLN thousand

The carrying amount of fixed interest rate debt securities is PLN 3,631 thousand (PLN 46,215 thousand in 2007), while that of variable interest rate debt securities is PLN 762,524 thousand (PLN 887,718 thousand in 2007)

This includes bonds issued by the NBP, which the Bank acquired in exchange for the existing non-interest bearing obligatory reserve, which bears interest equating inflation rate calculated for the period from 1 August to 31 July of each year. These bonds cannot be transferred and hence there is no market to confirm their value. Due to the high credit capacity of the issuer and the fact that their acquisition and maintenance in the portfolio is required under Polish law, these bonds have been measured at acquisition cost with interest accrued. Their carrying amount, as at 31 December 2008, was PLN 434,027 thousand (PLN 428,627 thousand as at 31 December 2007).

According to the Act dated 14 December 1994 on the Bank Guarantee Fund, as at 31 December 2008, BGŻ S.A. held treasury bills recognized in the balance sheet at PLN 42,525 thousand (with a nominal value of PLN 43,000 thousand), which represent security for the guaranteed funds protection fund, being part of the Banking Guarantee Fund, and were deposited on a separate NBP account.

Other debt secutities by maturity, are as follows:

	31.12.2008	31.12.2007
Up to 1 month	310	500
From 1 to 3 months	207	411
From 3 to 12 months	3 941	102 657
From 1 to 5 years	746 131	834 442
Over 5 years	-	-
Total other debt securities	**750 589**	**938 010**

Movements in other securities are as follows:

	2008	2007
As At 1 January 2008	**938 010**	**1 383 406**
Purchase of securities	60 000	80 000
Re-purchase of securities	(165 489)	(444 152)
Repayment of restructuring bonds’ instalment	(89 292)	(87 024)
Change in impairment allowance	177	599
Change in interests due, EIR adjustments, discount and premium adjustments	7 183	5 181
As at 31 December 2008	**750 589**	**938 010**

The redemption of the restructuring bonds from the held to maturity portfolio in the years 2007 and 2008 amounted to PLN 42,857 thousand in each year.

25. Investment property

As at 31 December 2007, the Group held investment property in the form of undeveloped land with an area of 48.44 hectares in Wrocław. The fair value of the real-estate was estimated in December 2008 by an external valuer at PLN 77.0 million. The valuation was made using the comparative approach.

PLN thousand

	2008	2007
Opening balance	**49 313**	**-**
Revaluation	27 687	49 313
Sale	-	-
Closing balance, including:	**77 000**	**49 313**
- purchase price	12 246	12 246
- revaluation to fair value	64 754	37 067

26. Investments in subsidiaries

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

	31.12.2008	31.12.2007
- In financial sector entities	19 393	-
- In non financial sector entities	-	-
Total investments	**19 393**	**-**

Share in subsidiaries as at 31 December 2008

Entity's name	Purchase price	Positive (negative) valuation adjustment	Balance sheet value	BGŻ S.A. share in entity's	Share capital	Net income for year 2008
BGŻ Leasing Sp. z o.o.	19 600	(207)	19 393	49%	39 725	449
Total	**19 600**	**(207)**	**19 393**	**-**	**-**	**-**

On 5 December 2008, company Korporacja Leasingowa Sp. z o.o., which was a part of BGŻ S.A. Capital Group, was liquidated.

Expenses and income of Korporacja Leasingowa Sp. z o.o. for 2008 are presented below:

	31.12.2008
Costs	**444**
Operating expenses	294
Other operating expenses	115
Finance expenses	35
Income	**613**
Operating income	-
Other operating income	549
Finance income	65

PLN thousand

27. Intangible assets

	31.12.2008	31.12.2007
Licenses	64 429	42 982
Other intangible assets	303	521
Expenditure on intangible assets	16 302	16 496
Intangible assets, total	**81 034**	**59 999**

2008	Licenses	Other intangible assets	Expenditures on intangible assets	Total
VALUE AT COST				
As at 1 January	**223 246**	**3 517**	**16 496**	**243 259**
Increases:	*41 713*	*44*	*41 272*	*83 029*
- transfer from/to expenditures	41 419	44	-	41 463
- purchases	289	-	41 272	41 561
- other	5	-	-	5
Decreases	*(2 024)*	*(461)*	*(41 466)*	*(43 951)*
- transfer from/to expenditures	-	-	(41 463)	(41 463)
- sale, liquidation, donation, shortage	(2 024)	(461)	(3)	(2 488)
As at 31 December	**262 935**	**3 100**	**16 302**	**282 337**
ACCUMULATED AMORTIZATION				
As at 1 January	**180 264**	**2 996**	**-**	**183 260**
Movements:	18 242	*(199)*	-	*18 043*
- amortization charge for the year	*20 267*	230	-	20 497
- - sale, liquidation, donation, shortage	(2 025)	(429)	-	(2 454)
As at 31 December	**198 506**	**2 797**	**-**	**201 303**
NET CARRYING AMOUNT				
as at 1 January 2008	**42 982**	**521**	**16 496**	**59 999**
as at 31 December 2008	**64 429**	**303**	**16 302**	**81 034**

PLN thousand

Notes to consolidated financial statements (continued)

2007	Licenses	Other intangible assets	Expenditures on intangible assets	Total
VALUE AT COST				
As at 1 January	**211 532**	**3 218**	**11 334**	**226 084**
Increases:	*22 308*	*403*	*27 615*	*50 326*
- transfer from/to expenditures	22 271	118	-	22 389
- purchases	35	1	27 615	27 651
- reclassification between the groups	-	156	-	156
- other	2	128	-	130
Decreases	*(10 594)*	*(104)*	*(22 453)*	*(33 151)*
- transfer from/to expenditures	-	-	(22 389)	(22 389)
- sale, liquidation, donation, shortage	(10 438)	(104)	-	(10 542)
- reclassification between groups	(156)	-	-	(156)
- other	-	-	(64)	(64)
As at 31 December	**223 246**	**3 517**	**16 496**	**243 259**
ACCUMULATED AMORTIZATION				
As at 1 January	**160 487**	**2 354**	**-**	**162 841**
Movements:	*19 777*	*642*	-	*20 419*
- amortization charge for the year	28 222	632	-	28 854
- - sale, liquidation, donation, shortage	(8 334)	(101)	-	(8 435)
- reclassification between the groups	(111)	111	-	0
As at 31 December 2008	**180 264**	**2 996**		**183 260**
NET CARRYING AMOUNT				
as at 1 January 2007	**51 045**	**864**	**11 334**	**63 243**
as at 31 December 2007	**42 982**	**521**	**16 496**	**59 999**

PLN thousand

28. Property, plant and equipment

	31.12.2008	31.12.2007
Fixed assets, of which:	429 287	418 793
- land and buildings	311 003	315 759
- tangible fixed assets	118 284	103 034
Assets under construction	20 148	8 344
Property, plant and equipment, total	**449 435**	**427 137**

The following table presents movements in certain items of property, plant and equipment, in 2008 and 2007:

2008	Land and buildings	Tangible fixed assets	Assets under construction	Total
VALUE AT COST				
As at 1 January	**425 206**	**521 954**	**8 344**	**955 504**
Increases:	*9 751*	*53 909*	*74 764*	*138 424*
- transfer from construction in progress	9 327	53 623	-	62 950
- purchases	-	286	74 764	75 050
- other	424	-	-	424
Decreases:	*(6 492)*	*(39 382)*	*(62 960)*	*(108 834)*
- transfer from construction in progress	-	-	(62 950)	(62 950)
- sale, liquidation, donation, shortage, theft	(6 492)	(38 949)	-	(45 441)
- other	-	(433)	(10)	(443)
As at 31 December	**428 465**	**536 481**	**20 148**	**985 094**
ACCUMULATED DEPRECIATION				
As at 1 January	**109 447**	**418 920**	**-**	**528 367**
Movements:	*8 015*	*(723)*	-	*7 292*
- depreciation charge for the year	10 325	37 298	-	47 623
- impairment losses	-	78	-	78
- sale, liquidation, donation, shortage	(2 439)	(37 769)	-	(40 208)
- other	129	(330)	-	(201)
As at 31 December	**117 462**	**418 197**	**-**	**535 659**
Net carrying amount as at 31 December 2007	**311 003**	**118 284**	**20 148**	**449 435**

PLN thousand

2007	Land and buildings	Tangible fixed assets	Assets under construction	Total
VALUE AT COST				
As at 1 January	**413 540**	**557 715**	**6 538**	**977 793**
Increases:	*13 378*	*29 869*	*42 385*	*85 632*
- transfer from construction in progress	10 744	29 448	-	40 192
- purchases	-	252	42 385	42 637
- other	2 634	169	-	2 803
Decreases:	*(1 712)*	*(65 630)*	*(40 579)*	*(107 921)*
- transfer from construction in progress	-	-	(40 192)	(40 192)
- sale, liquidation, donation, shortage, theft	(1 712)	(65 630)	-	(67 342)
- other	-	-	(387)	(387)
As at 31 December	**425 206**	**521 954**	**8 344**	**955 504**
ACCUMULATED DEPRECIATION				
As at 1 January	**98 979**	**438 312**	**-**	**537 291**
Movements:	*10 468*	*(19 392)*	*-*	*(8 924)*
- depreciation charge for the year	10 984	44 002	-	54 986
- impairment losses	-	3 124	-	3 124
- sale, liquidation, donation, shortage	(478)	(60 193)	-	(60 671)
- other (release of impairment allowance	(38)	(6 325)	-	(6 363)
As at 31 December	**109 447**	**418 920**	**-**	**528 367**
Net carrying amount as at 31 December 2007	**315 759**	**103 034**	**8 344**	**427 137**

29. Other assets

	31.12.2008	31.12.2007
Seized assets intended for sale:	**-**	**313**
- assets under construction	-	191
- property	-	122
Other, of which:	**67 909**	**122 815**
- settlements with debtors	8 869	77 444
- other prepayments	18 963	15 379
- commission income receivable	10 347	10 734
- settlements of card payments	28 597	16 964
- other	1 133	2 294
Other assets, total	**67 909**	**123 128**

Assets seized during restructuring or debt recovery activities are intended for the Bank's use or for sale. Information on seized assets is subject to an analysis regarding the possibilities of using the property for the internal needs of the Bank. During the 12-month periods ended 31 December 2008 and 31 December 2007, all assets seized under restructuring or debt recovery activities were intended for sale; however, these assets do not comply with IFRS 5 and, as a result, were not classified as held for sale.

PLN thousand

30. Amounts owed to other banks

	31.12.2008	31.12.2007
Cash in current accounts	265 332	674 959
Term deposits	831 297	1 000 985
Loans and advances taken out	52 514	53 989
Other liabilities	86	74
Amounts owed to other banks, total	**1 149 229**	**1 730 007**

Deposits are at fixed and floating rates.

Amounts owed to other banks, by maturity

	31.12.2008	31.12.2007
Up to 1 month	690 938	1 467 924
From 1 to 3 months	357 594	80 561
From 3 months to 1 year	43 704	118 092
From 1 to 5 years	52 155	53 730
Deposits from other banks	**1 144 391**	**1 720 307**
Interest	4 838	9 700
Amounts owed to clients	**1 149 229**	**1 730 007**

31. Amounts owed to customers

	31.12.2008	31.12.2007
Other financial institutions:	**320 562**	**49 366**
Current accounts	22 582	18 868
Term deposits	292 075	23 020
Other liabilities	5 905	7 478
- liabilities arising from monetary collateral	4 751	4 632
- other	1 154	2 846
Retail customers:	**10 529 797**	**7 853 482**
Current accounts	4 447 203	2 665 950
Term deposits	6 072 163	5 177 371
Other liabilities	10 431	10 161
- liabilities arising from monetary collateral	7 145	6 604
- other	3 286	3 557
Corporate customers:	**5 731 025**	**5 409 795**
Current accounts	2 773 233	2 820 426
Term deposits	2 799 779	2 452 642
Other liabilities	158 013	136 727
- liabilities arising from monetary collateral	60 264	87 871
- other	97 749	48 856

PLN thousand

	31.12.2008	31.12.2007
Public sector customers:	**1 559 597**	**2 229 589**
Current accounts	1 090 319	1 344 887
Term deposits	467 240	877 073
Other liabilities	2 038	7 629
- liabilities arising from monetary collaterals	112	109
- other	1 926	7 520
Amounts owed to customers, total	**18 140 981**	**15 542 232**

Maturity of liabilities due from customers

	31.12.2008	31.12.2007
Up to 1 month	12 673 536	11 287 055
From 1 to 3 months	2 342 190	2 228 557
From 3 months to 1 year	1 879 215	1 740 345
From 1 to 5 years	1 129 907	227 248
Over 5 years	7 203	7 729
Deposits from clients	**18 032 051**	**15 490 934**
Interest	108 930	51 298
Amounts owed to customers, total	**18 140 981**	**15 542 232**

32. Debt securities issued

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

	Average interest rate (%) in 2008	Average interest rate (%) in 2007	31.12.2008	31.12.2007
Certificates of deposit				
- Quatro certificate of deposit with variable interest rate and maturity date of one year from purchase date, not quoted	X	X	1 777	2 528
- other certificates of deposit	6,8778	X	615 500	-
Debt securities issued, total (excluding interest)	**X**	**X**	**617 277**	**2 528**
Interest, discount, commision	X	X	(4 726)	155
Debt securities issued, total	**X**	**X**	**612 551**	**2 683**

PLN thousand

Movements in debt securities issued

	2008	2007
Balance at the beginning of the period	2 683	3 653
Increases:	*1 843 521*	-
- issuance of certificates of deposit	1 810 500	-
- purchased discount from certificates of deposit	19 117	
- accrued discount from certificates of deposit	9 963	
- accrued interest from certificates of deposit	3 786	
	155	
Decreases:	*(1 233 653)*	*(970)*
- redemption of certificates of deposit	(1 195 000)	-
- redemption of Quatro securities	(751)	(931)
- sold discount from certificates of deposit	(35 443)	-
- purchased interest from certificates of deposit	(2 358)	-
- purchased interest from Quatro securities	(30)	(39)
- commission and other fees related to certificates of deposit accounted for according to EIR	(71)	-
Balance of debt securities issued at the end of the period	**612 551**	**2 683**

33. Other liabilities

	31.12.2008	31.12.2007
- inter-bank and inter-branch settlements	74 429	53 258
- settlements with creditors	69 852	109 303
- accrued expenses	88 164	84 379
- including employee expenses	70 243	76 332
- deferred income	8 727	19 078
- other public settlements	25 508	9 338
Other liabilities, total	**266 680**	**275 356**

Accrued expenses include non-personel costs and personel costs including related costs to be paid.

Deferred income includes income on fees charged in advance in respect of self mamagement.

34. Provisions

	31.12.2008	31.12.2007
Restructuring provision	7 812	18 479
Provision for guarantees, surety ships, unused credit facilities	4 018	2 952
Provision for court cases	27 511	16 904
Other provisions, of which:	29 368	55 669
- provision in accordance with UOKiK (Office of Competition and Consumer Protection) decision	9 650	9 650
- provision concerning transfer of receivables from securitization	3 763	16 053
- provision for potential liabilities relating to granting preferential loans	9 701	10 094
Total provisions	**68 709**	**94 004**

PLN thousand

Restructuring provision	**31.12.2008**	**31.12.2007**
Carrying amount at the beginning of the period	**18 479**	**14 590**
Increases	2 048	12 486
Utilization	(5 630)	(7 964)
Reversal	(7 085)	(633)
Carrying amount at the end of the period	**7 812**	**18 479**

Provision for guaranties, sureties and unused credit facilities	**31.12.2008**	**31.12.2007**
Carrying amount at the beginning of the period	**2 952**	**23 234**
Increases	11 861	-
Reversal	(10 881)	(20 282)
Other changes	86	-
Carrying amount at the end of the period	**4 018**	**2 952**

Provision for court cases	**31.12.2008**	**31.12.2007**
Carrying amount at the beginning of the period	**16 904**	**10 687**
Icreases	4 913	6 217
Utilization	(1 545)	-
Reversal	(9 353)	-
Reclassification	16 592	-
Carrying amount at the end of the period	**27 511**	**16 904**

Other provisions	**31.12.2008**	**31.12.2007**
Carrying amount at the beginning of the period	**55 669**	**22 306**
Increases	15 448	17 310
Utilization	(13 983)	-
Reversal	(11 174)	-
Reclassification	(16 592)	16 053
Carrying amount at the end of the period	**29 368**	**55 669**

1. As at 31 December 2008, the value of court proceedings under which the Bank is a defendant was PLN 63.049 thousand, while the value of claims initiated by the Bank amounted to PLN 72 678 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.

In February 2008, steps were taken to negotiate a settlement agreement with a plaintiff in court proceedings, concerning term deposits confirmed by bearer or registered certificates in the early nineties, for the payment of PLN 8.7 million together with statutory interest. On 10 May 2008, the agreement was reached, whereby the Bank, in return for the plaintiff resigning from his clims, was obliged to pay PLN 1.5 million. The agreement was executed and the court proceedings were formally discontinued.
The Bank released the provision for the proceedings-related risk and recognized the underlying amount of PLN 9,187 thousand under other operating income in the 2008.

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 9,649,500 for setting, together with other banks, fees for transactions made with the use of VISA and MasterCard payment cards, and ordered that the Bank cease to apply the thus set fees with an immediate effect. The Bank filed an appeal against this decision with the Court of the Office of Competition and Consumer Protection in Warsaw together with a complaint regarding the clause of immediate enforceability of court decision. Based on its decision dated 21 August 2008, the District Court in Warsaw being the Court of the Office of Competition and Consumer Protection in Warsaw considered the Bank's appeal and withheld execution of the decision dated 29 December 2006. As a result, the same court issued a decision dated 22 September 2008 to discontinue the proceedings concerning the immediate enforceability clause. During the hearing on 12 November 2008, the same court issued a decision changing the previous appealable decision and ascertained the lack of competition limiting practices (undue sentence). The Office of Competition and Consumer Protection appealed against the latter decision, and the Bank prepared a response – as a result, the proceedings are in progress and due to the precedential nature of the case, it is not possible to propose a reversal of the provision based on the appealable decision of the court of the first instance.

3. In October 2006, BGŻ S.A. signed an agreement for the transfer of debts with the Bison Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty with its registered office in Warsaw ("Securitization I")

   As at 31 December 2008, the outstanding amount of principal under Securitization I was PLN 32,256 thousand with selling price at PLN 3,763 thousand, for which the provision was created.

   On 30 October 2007, the Bank signed another agreement for the transfer of debts with the Bison Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty with its registered office in Warsaw ("Securitization II").

   The entire transaction was settled in the first quarter of 2008. The Bank's income was increased by PLN 12 028 thousand.

4. In 2001 dependent company BFN ACTUS (Company) purchased for PLN 12,000 thousand property in Wrocław-Marszowice. Agreement included statement of repurchase of the property in 2 years period by Housing Association for the price PLN 19,000 thousand. Agreement was hedged by bank guarantee amounting to PLN 3,800 thousand, issued by a third bank, which was realised. Due to realisation of the guarantee in 2003 the Housing Associate raised a claim against the Company for return of the guarantee.
   In the sentence of first instance from 2007 District Court accepted claim of the Housing Associate and awarded from BFN ACTUS for the Associate amount of PLN 3,800 thousand and statutory interest since 03.12.2008 plus PLN 107 thousand of costs of representation of the lawsuit.
   On November 2008 apeal trial took place. Court of Apeal had partly changed the verdict in point 1 in the way that the staring date of calculating statutory interests from the amount of PLN 3,800 thousand was set on 9 April 2003. It dissmised the demand of award of the statutory interests for the remaining area. In remaining part it reject the apeal. The verdict is legally valid. The deadline of logging an apeal complain passed on 18 January 2009. The BFN Company refrain from filling the cassation.
   Due to the trial the Group made provision for a liability amounting to PLN 3,800 thousand of basic amount and PLN 2,600 thousands of interest accrued since 31.12.2008.

   On 15 January 2009 the Company filed a suit and a pettition order for issuing a payment amounting to PLN 12.591 thousand together with statutory interest to SM INCO for the benefit of BFN ACTUS in a District Court in Wrocław.

   On 26 February 2009 a court executive officer called BFN ACTUS for repayment of the debt in 14 days, i.e. to 12 March 2009 on pain of launching specification and estimation.

   The liability was not repaid on the date above, however the Company's and the Bank's intention is not to let the property to be sold by auction.

PLN thousand

In accordance with the case the Bank created relevant provisions in the consolidated financial statements.

35. Deffered tax

The following movements were recorded on the deferred tax account:

Deferred tax assets

	Year ended 31.12.2008	Year ended 31.12.2007	Result on income for the year 2008
Interest payable on liabilities	144 389	62 464	81 925
- re-measurement of derivatives and securities, to fair value	1 408 876	254 042	1 154 834
- specific provisions (non-tax-deductible), of which utilisation is probable	42 371	30 712	11 659
- fees calculated in advance and settled at amortized cost using the effective interest rate method	150 569	121 125	29 444
- provision for jubilee bonuses, retirement benefits, unused annual leave and restructuring provision	38 034	45 036	(7 002)
- other provisions for personnel costs	74 139	80 193	(6 054)
- provisions for non-personnel costs	17 531	8 047	9 484
- allowance for debt securities available for sale	12 169	10 937	1 232
Other deductible temporary differences	11 055	12 535	(1 480)
Total assets, of which:	**1 899 133**	**625 091**	**1 274 042**
Tax base of deferred tax assets recognized in the profit and loss account (in the current and previous years)	1 886 964	614 154	1 272 810
Tax base of deferred tax assets recognized in the revaluation reserve	12 169	10 937	1 232

Based on the current actions taken by the Group in respect of justifying impairment allowances on loans as tax deductible in the past, the deferred tax asset of PLN 42 341 thousand recognised by the Group in respect of these impairment allowances represents the best estimate of the impairment losses that are possible to be proved tax deductible in the foreseeable future.

PLN thousand

Deferred tax liabilities

	Year ended 31.12.2008	Year ended 31.12.2007	Impact on 2008 net profit.
-loan interest recievable	(139 703)	(118 904)	(20 799)
-interest receivable on restructuring bonds	(183 141)	(229 881)	46 740
- re-measurement of derivatives and securities to fair value	(990 352)	(314 475)	(675 877)
- land evaluation	(64 754)	(37 067)	(27 687)
- transaction costs on granting loans	(14 224)	(11 605)	(2 619)
- allowance for debt securities available for sale	(2 415)	(6 836)	4 421
Total deferred tax liability, of which:	**(1 394 589)**	**(718 768)**	**(675 821)**
Tax base of deferred tax liability recognized in the profit and loss account (in the current and previous years)	(1 392 174)	(711 932)	(680 242)
Tax base of deferred tax liability recognized in the revaluation reserve	(2 415)	(6 836)	4 421

Presented as:

Deferred tax asset	**108 166**	**-**
Deferred tax provision	**12 303**	**17 799**

36. Discontinued operations

In December 2008 dependent company Korporacja Leasingowa Sp. z o.o., which in 2007 was part of BGŻ S.A. Capital Group, was liquidated.

37. Liabilities arising from employee benefits

Provisions for employee benefits are estimated using the actuarial method of projected unit credit cost, 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 balance sheet date.

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 ages,
  - expected period of service at BGŻ,
  - retirement age.

PLN thousand

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

- number of days of unused annual leave,
- amount of statutyory leave days
- number of days of used annual leave
- average remuneration per person at BGŻ,
- daily rate (ratio used for calculating holiday equivalent: 1/21).

The amounts recognized in the balance sheet are as follows:

	31.12.2008	31.12.2007
Jubilee bonuses	3 941	5 457
Retirement benefits	16 953	15 465
Unused annual leave	10 063	7 527
	30 957	**28 449**

Movements in the balance of liabilities from future employee benefits

	Total	Jubilee bonuses	Retirement benefits	Unused annual leave
As at 1.01.2008	**28 449**	**5 457**	**15 465**	**7 527**
Increases	9 582	46	2 106	7 430
Reversals	(7 074)	(1 450)	(730)	(4 894)
Reclassifications	-	(112)	112	-
As at 31.12.2008	**30 957**	**3 941**	**16 953**	**10 063**

	Total	Jubilee bonuses	Retirement benefits	Unused annual leave
As at 1.01.2007	**28 839**	**6 692**	**13 201**	**8 946**
Increases	2 390	-	2 337	53
Reversals	(2 780)	(1 308)	-	(1 472)
Reclassifications	-	73	(73)	-
As at 31.12.2007	**28 449**	**5 457**	**15 465**	**7 527**

The following amounts were recognized in the profit and loss account:

	31.12.2008	31.12.2007
Cost of provisions recognized	(9 582)	(2 390)
Income from provisions reversed	7 074	2 780
Total, recognized in profit or loss	**(2 508)**	**390**

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

Main actuarial assumptions used	2008	2009
- discount rate	5.5%	5.5%
- forecast inflation rate	2.5%	2.5%
- forecast salary increase	3.5%	3.5%

PLN thousand

Contingent liabilities

The table below presents the balances of liabilities granted and received

	31.12.2008	31.12.2007
Liabilities granted		
Liabilities granted to the financial institutions, of which:	10 809	138 446
- unused credit facility limits	10 341	138 202
- guarantees	468	244
Liabilities granted to the non-financial entities, of which:	3 613 136	3 289 829
- unused credit facility limits	2 827 942	2 633 299
- businesses	1 875 284	1 793 288
- households	951 023	839 039
- other entities	1 635	972
- guarantees	785 194	656 530
Liabilities granted to the public sector	10 276	9 364
	3 634 221	**3 437 639**
FX swap transactions	640 276	15 018 276
	4 274 497	**18 455 915**
Liabilities received		
Received from financial institutions	2 021 102	20 743
Received from non financial institutions	1 380	-
Received from public sector entities	69	105
	2 022 551	**20 848**
Derivative financial instruments (nominal values)		
Liabilities resulting from trading in securities	71 912	30 000
Other derivatives sold	26 892 742	29 535 615
Other derivatives acquired	26 877 898	30 891 661
Options to be received	3 134 741	1 734 234
Options to be given	3 052 692	1 689 391
	60 029 985	**63 880 901**
Other commitments		
Securities received for guarantees	137 606	137 606
Other liabilities received	1 996 310	1 676 156
	2 133 916	**1 813 762**
Liabilities granted, liabilities received and derivative financial instruments, total	**68 460 949**	**84 171 426**
Provisions for guarantees, surety ships and unused credit lines	**(4 018)**	**(2 952)**

PLN thousand

Notes to consolidated financial statements (continued)

Off-balance sheet commitments, by maturity

	31.12.2008	31.12.2007
Up to 1 month	2 668 605	2 544 991
From 1 to 3 months	120 276	112 762
From 3 months to 1 year	320 880	188 996
From 1 to 5 years	513 531	589 791
Over 5 years	10 929	1 099
Liabilities granted	**3 634 221**	**3 437 639**
Up to 1 month	21 449	20 105
From 1 to 3 months	154	-
From 3 months to 1 year	82	-
From 1 to 5 years	2 000 866	743
Over 5 years	-	-
Liabilities received	**2 022 551**	**20 848**

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

	31.12.2008
Security Fund of guarentee deposits BFG	
- nominal value of security	43 000
- type of security	Treasury bills
- maturity date of security	11.03.2009
- carrying amount of security	42 525
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	916
Security for derivative instruments transactions	
- nominal value of security	191 738
- type of security	'call' deposits
	31.12.2007
Security Fund of guarentee deposits BFG	
- nominal value of security	41 000
- type of security	Treasury bills
- maturity date of security	03.09.2008
- carrying amount of security	37 532
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	3 953
Security for derivative instruments transactions	
- nominal value of security	3 260
- type of security	'call' deposits

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

	31.12.2008	31.12.2007
Liabilities granted		
Unused limits of granted credit facilities	**2 845 224**	**2 777 449**
- contingent	1 282 607	1 545 279
- non-contingent	1 562 617	1 232 170
Guarantees	**788 997**	**660 190**
- contingent	4 712	4 640
- non-contingent	784 285	655 550
Liabilities granted, total	**3 634 221**	**3 437 639**

38. Issued share capital

	Number of shares (in millions)	Nominal value
Balance as at 1 January 2007	**37**	**37 004**
Issue of shares	6	6 133
Balance as at 31 December 2007/ 1 January 2008	**43**	**43 137**
Increases/ Decreases	-	-
Balance as at 31 December 2008	**43**	**43 137**

As at 31 December 2008, the Bank's issued share capital totalled PLN 43,137 thousand and is divided into inscribed (registered) shares with a nominal value of PLN 1.00 each. The shareholding structure is as follows:

- 21,297,584 shares are held by Rabobank International Holding B.V. with its registered office in Utrecht,
- 16,072,151 shares held by the State Treasury represented by the Minister of the State Treasury,
- 4,303,695 shares held by Cooperative Centrale Raiffeisen–Boerenleenbank B.A.,
- 1,463,334 shares held by other corporate and natural persons.

Registered shares, class "B" (7,807,300 shares) are preference shares. The privilege attached to these shares covers the right to receive - in the event of the Bank's liquidation - the full nominal value of the shares held, immediately after satisfying creditors, prior to any payments that would be made in respect of ordinary shares out of available funds, which – after exercising the privilege – may not be sufficient to cover the nominal value of the ordinary shares. The majority of the "B" class shares (i.e. 7,785,594 shares) are held by Rabobank International Holding B.V.

PLN thousand

The main Shareholders of the Bank

31.12.2008		31.12.2007	
State Treasury represented by the Minister of the State Treasury	37.26%	State Treasury represented by the Minister of the State Treasury	37.32%
Rabobank International Holding B.V., Utrecht	49.37%	Rabobank International Holding B.V., Utrecht	36.07%
European Bank for Reconstruction and Development, London	0.00%	European Bank for Reconstruction and Development, London	12.87%
Cooperative Centrale Raiffeisen–Boerenleenbank B.A.	9.98%	Cooperatieve Centrale Raiffeisen-Boerenleenbak B.A.	9.98%
Other shareholders	3.39%	Other shareholders	3.76%

In 2008, the following changes took place in the shareholding structure of BGŻ S.A.:

1. On 4 April 2008, Cooperatieve Centrale Raiffeisen - Boerenleenbank B.A. obtained from the PFSA permission to exercise the right to 50% - 66% of votes at the Annual General Meeting of Shareholders of BGŻ SA through its subsidiary, Rabobank International Holding B.V.

   Following execution of the agreement between Dutch Rabobank and European Bank for Reconstruction (EBRD) and Development, on 21 April 2008 Rabobank purchased all shares of BGŻ SA being in possession of EBRD. According to the shareholding structure as at 31st December 2008, Rabobank International Holding B.V held 49.37% of votes and Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. – 9.98%, which means that both entities had jointly the right to exercise 59.35% of votes at the AGM.

2. As of 2 January 2008, the Bank, on behalf of the Minister of the State Treasury, resumed concluding agreements concerning free-of–charge disposal of shares of BGŻ SA to entitled persons based on the *Act on functioning of cooperative banks, their joining together and the banks bringing together cooperative banks amended on 16 February 2007* and based on the Decree of the Minister of the State Treasury dated 2 August 2007 amending the decree concerning the manner of distributing to entitled persons 15% of shares in *Banku Gospodarki Żywnościowej Spółka Akcyjna held by the State Treasury (*Functioning and Associating of Cooperative Banks and on the Associating Banks Act, *amended on* 16 February 2007 r.*).* The activities resumed in 2008 related to 52,476 shares of BGŻ S.A. which were not taken up by the entitled persons and their heirs in the years 2004-2005. In the year 2004, the Minister of the State Treasury assigned 2,263,215 shares to be sold for nil consideration to 37.1 thousand entitled employees of BGŻ S.A., the banks bringing together cooperative banks and cooperative banks.

   Since the reopening of the process to the end of 2008, 504 agreements were signed for the total amount of 26,508 shares (from which 6 agreements for 366 shares were registered in Bank's shareholders register on 19th January 2009 due to Commercial Companies Code). On 31st December State Treasury owned 37.26% of share capital of BGŻ SA.

PLN thousand

39. Reserve capital and other reserves, retained earnings

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

	31.12.2008	31.12.2007
Reserve capital		
Balance as at 1 January	**1 548 637**	**1 152 342**
Amounts transferred from retained earnings	194 390	102 428
Conversion of convertible bonds to shares	-	293 867
Balance as at 31 December	**1 743 027**	**1 548 637**
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	**(3 327)**	**6 776**
Gain/ loss on re-measurement to fair value, net	(5 648)	(12 471)
Deferred tax	1 074	2 368
Balance as at 31 December	**(7 901)**	**(3 327)**
Other reserves		
Balance as at 1 January	**25 000**	**25 000**
Balance as at 31 December	**25 000**	**25 000**

Other reserves	**31.12.2008**	**31.12.2007**
General banking risk reserve	90 000	90 000
Revaluation reserve – available-for-sale financial instruments	(7 901)	(3 327)
Other reserves	25 000	25 000
	107 099	**111 673**

40. Dividend per share

The basis for division of the result is the single financial statement.

The Bank did not pay any dividend for 2007. The Bank's Management Board will not recommend a payment of dividend for 2008.

41. Profit appropriation

The entire profit for the year 2007 was transferred to reserve capital. The Management Bard will recommend to the Annual General Meeting that the entire net profit for the year 2008 is transferred to the reserve capital. The final decision about the net income will be made by GSM

PLN thousand

42. Cash and Cash equivalents

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

	31.12.2008	31.12.2007
Cash and balances with the Central Bank (Note 18)	1 291 385	498 442
Current accounts of banks and other receivables	12 804	24 751
Bank deposits with maturity of up to 3 months	547 356	1 322 251
Cash and cash equivalents, total	**1 851 545**	**1 845 444**

43. Notes to the Cash flow statement

The reconciliation of differences between the balance sheet and the cash flow statement changes in items presented under operating activities as part of the cash flow statement is presented below:

Change in amounts due from other banks	**Year ended 31.12.2008**	**Year ended 31.12.2007**
Resulting from balance sheet amounts	**917 968**	**2 211 968**
Elimination of movements in cash and cash equivalents	(786 766)	(1 370 673)
Change in amounts due from other banks, total	**131 202**	**841 295**
Change in liabilities from issued debt securities	**Year ended 31.12.2008**	**Year ended 31.12.2007**
Balance sheet change in issued debt securities	(596)	(931)
Other (interest paid)	(30)	(345)
Change in liabilities from issued debt securities, total	**(626)**	**(1 275)**
Cash flow from operating activities – other adjustments	**Year ended 31.12.2008**	**Year ended 31.12.2007**
Balance sheet change in other assets	**52 990**	**(33 665)**
Other adjustments	(177)	(599)
Investment property valuation	(27 687)	(49 313)
Other adjustments	(7 918)	(7 498)
Cash flow from operating activities – other adjustments	**17 208**	**(91 075)**
Change in other liabilities	**Year ended 31.12.2008**	**Year ended 31.12.2007**
Balance sheet change in other liabilities	**(8 677)**	**(44 775)**
Balance sheet change in other taxes	(9 170)	9 170
Change in other liabilities, total	**(17 847)**	**(35 605)**
Interest and shares in profits (dividends)	**Rok zakończony 31.12.2008**	**Rok zakończony 31.12.2007**
Dividends received	(3 242)	(2 132)
Change in interest due from investment securities	(7 183)	(5 181)
Change in interest due from securities available for sale	(43 749)	(33 807)
Change in interest from subordinated loan	-	(485)
Change in interest and shares in profits, total	**(54 174)**	**(41 605)**

PLN thousand

44. Capital Adequacy Ratio

Capital adequacy risk

The objective of capital adequacy management is to ensure compliance both by the Bank and BGŻ S.A. Group 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 with respect to capital requirements, in accordance with Resolution No 4/2004 of the Commission for Banking Supervision of 8 September 2004 and Resolution No 1/2007 of the Commission for Banking Supervision of 13 March 2007.
2. Internal Bank procedures setting forth the rules for classifying the banking and 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.

Capital Base and Capital Adequacy Ratio

	31.12.2008
Capital required to absorb:	
- credit risk, counterparty risk, dilution and delivery risk for derivative instruments settled in subsequent terms	1 382 129
- settlement – delivery risk	-
- securities price risk, risk of debt instruments process, currency risk and commodities prices risk	5 187
- operating risk	140 846
- general interest rate risk	10 708
Total capital requirement	**1 538 870**
Own funds and short-term capital	
- share capital	43 137
- reserve capital	1 743 027
- reserve capital together with previous years profit	196 948
- net profit for the current period (under approval)	213 024
- net profit for current period and net profit under approval in the not verified by the auditor	(128 733)
-general banking risk reserve	90 000
- revaluation reserve	(10 720)
- decrease of equity for intangible assets	(81 034)
- decrease of equity for capital exposure of financial institutions	(21 143)
- short term capital	50 262
TOATL	**2 094 768**
Capital adequacy ratio (%)	**10,9%**

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. 1/2007 of the Commission for Banking Supervision dated 13 March 2007. The capital required to cover operating risk is calculated as 15% of an average profit from the following3 years, with the provision that:

PLN thousand

- the 2005 profit – PLN 925,149 thousand
- the 2006 profit – PLN 821,626 thousand
- the 2007 profit – PLN 1,070,138 thousand

Capital required to cover operating risk in consolidated version in 2008 – PLN 140 846 thousand

In 2008, for the first time the new standards were implemented concerning the capital adequacy ratio (Basle II). The capital adequacy ratio was calculated using the standard method.

	31.12.2007
The amount of capital required, of which to cover:	**1 237 771**
- credit risk	1 221 091
- market risk	11 679
- other risk	5 001
Own funds and short-term capital	**1 752 588**
- share capital	43 137
- reserve capital	1 548 637
revaluation reserve included in own funds	(3 327)
- other reserve capital	115 000
subordinated liabilities	-
subordinated loans granted to other banks and capital exposure	(1 750)
intangibles	(59 999)
- retained profits from previous years	94 210
- short term capital	16 680
Capital adequacy ratio (%)	**11,3%**

The capital adequacy ratio was calculated in accordance with the regulations of the National Bank of Poland, binding as at 31 December 2008 and 31 December 2007.

Carrying amounts and liabilities granted exposed to credit risk

Type of instrument 31.12.2008	Carrying amount	Risk weighted value
Balance sheet items	21 809 530	15 174 977
Granted liabilities	3 632 199	1 440 490
Derivatives	1 175 258	661 144
Total	**26 616 987**	**17 276 611**

Balance sheet receivables

Type of instrument 31.12.2007	Carrying amount	Risk weighted value
Cash	261 161	-
Receivables	16 083 137	13 651 786
Securities, shares	2 679 779	279 453
Fixed assets	476 450	476 450
Other	514 341	67 718
Total – banking portfolio	**20 014 868**	**14 475 407**
Securities – trading portfolio	139 862	1 440
Total balance sheet receivables	**20 154 730**	**14 476 847**

PLN thousand

Notes to consolidated financial statements (continued)

Liabilities granted

Type of the instrument	Balance value	Risk weighted value
31.12.2007		
Credit liabilities	2 602 729	58 981
Guarantee liabilities	659 737	656 611
Letter of credits granted	42 083	20 944
Option term transactions	132 033	26 406
Total – banking portfolio	**3 436 582**	**762 942**
Total trading portfolio	14 042 403	39 343
Total off balance sheet items	**17 478 985**	**802 285**

Maximum credit risk (net amount)

	31.12.2008	31.12.2007
Cash and balances with the Central Bank	1 291 385	498 442
Amounts due from other banks	798 698	1 716 741
Held-for-trading securities	530 173	139 014
Derivative financial instruments	1 004 905	326 690
Other financial instruments at fair value through profit and loss	-	-
Amounts due from customers under overdraft facilities	1 877 442	1 395 110
Loans and advances to customers	15 188 764	12 592 790
- businesses	6 048 678	5 614 156
- households	8 841 855	6 689 878
- public institutions	197 713	223 871
- other institutions	68 876	19 456
- other receivables	31 642	45 429
Investment securities available for sale	1 822 475	1 752 611
Other debt securities	750 589	938 010
Other assets	802 937	674 311
Total	**24 067 368**	**20 033 719**
Contingent irrevocable liabilities	**2 346 902**	**1 887 720**

As mentioned in Note 2.14.2 to the consolidated financial statements included in valuation of derivative instruments is credit risk. In the profit and loss account for the year ended 31 December 2008 an allowance amounting to PLN 24,777 thousand was accounted for. Total amount of exposition for which allowance was made equalled at 31 December 2008 PLN 334,918 thousands. Total amount of hedging of afore mentioned transactions amounted to PLN 15,110 thousands.
In the year 2008 in the profit and loss account an impairment allowance relating to derivative instrument maturity amounting to PLN 22,266 thousand was created.

PLN thousand

45. Related party transaction

The Bank reports transactions with its subsidiaries and main shareholders.

Transactions and settlements with the BGŻ S.A. shareholders as at 31 December 2008

	STATE TREASURY	RABOBANK INTERNATIONAL HOLDING B.V.	COOPERATIEVE CENTRALE RAIFFEISEN-BOERENLEENBANK B.A.	TOTAL	% share in total assets/ financial result of BGŻ S.A.
Assets	**2 485 270**	**3**	**-**	**2 485 273**	**10,34%**
Nostro accounts	123	-	-	123	-
Debt securities	2 429 080	-	-	2 429 080	10,11%
Interest	37 259	-	-	37 259	0,15%
Other receivables	18 808	3	-	18 811	0,08%
Liabilities	**1 091 979**	**-**	**-**	**1 091 979**	**4,54%**
Deposits – current accounts	258 001	-	-	258 001	1,07%
Interest payable	3 926	-	-	3 926	0,02%
Deposits/ placements and other liabilities	830 052	-	-	830 052	3,45%
Costs	**96 692**	**-**	**126**	**96 818**	**0,05%**
Interest	74 292	-	-	74 292	0,04%
Other	22 400	-	126	22 526	0,01%
Revenue	**122 868**	**-**	**143**	**123 011**	**0,06%**
Interest	105 860	-	-	105 860	0,05%
Commission	716	-	-	716	-
Other	16 292	-	143	16 435	0,01%
Liabilities granted	**-**	**-**	**-**	**-**	**-**
Irrevocable liabilities granted	-	-	-	-	-

The above transactions/ settlements with the State Treasury (public entities) relate mainly to ministries, voivodship offices, courts and government agencies (including Agencja Rozwoju i Modernizacji Rolnictwa) The Bank settles transactions with this Agency in respect of subsidized loans).

PLN thousand

Notes to consolidated financial statements (continued)

Transactions and settlements with the BGŻ S.A. shareholders as at 31 December 2007

	STATE TREASURY	RABOBANK INTERNATIONAL HOLDING B.V.	EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT	TOTAL	% share in total assets/ financial result of BGŻ S.A.
Assets	**1 773 974**	**9 346**	**-**	**1 783 320**	**8,79%**
Nostro accounts	141	7 967	-	8 108	0,04%
Debt securities	1 730 207	-	-	1 730 207	8,53%
Interest	27 944	-	-	27 944	0,14%
Other receivables	15 682	1 379	-	17 061	0,08%
Liabilities	**1 351 105**	**-**	**54 253**	**1 405 358**	**6,93%**
Deposits – current accounts	152 526	-	-	152 526	0,75%
Loans and advances taken	-	-	53 730	53 730	0,27%
Interest payable	292	-	523	815	-
Deposits/ placements and other liabilities	1 198 287	-	-	1 198 287	5,91%
Costs	**43 651**	**2 486**	**1 037**	**47 174**	**0,12%**
Interest	43 651	2 430	1 032	47 113	0,12%
Other	-	56	5	61	-
Revenue	**93 491**	**58**	**-**	**93 549**	**0,24%**
Interest	93 491	-	-	93 491	0,24%
Commission	-	-	-	-	-
Other	-	58	-	58	-
Liabilities granted		**2 568 654**	**-**	**2 568 654**	**3,05%**
Liabilities from operations in financial instruments	-	2 568 654	-	2 568 654	3,05%
Irrevocable liabilities granted	-	-	-	-	-

PLN thousand

Notes to consolidated financial statements (continued)

Transactions with related parties as at 31 December 2008

	GRUPA RABOBANK (without RABOBANK INTERNATIONAL HOLDING B.V. and COOPERATIVE CENTRALE RAIFFEISEN-BOERENLEENBANK B.A.)	% share in total assets/ financial result of BGŻ S.A.
Assets	**104 031**	**0,54%**
Loans and advances	65	-
Deposits	90 000	0,38%
Interest	16	0,06%
Debt securities	-	0,04%
Receivables from derivative instruments	13 877	0,06%
Other receivables	73	-
Liabilities	**164 485**	**0,84%**
Current accounts	7 000	0,03%
Tierm deposits	20 862	0,24%
Interest payable	77	-
Liabilities from derivative instruments	136 483	0,57%
Other	63	-
Expenses	**485 218**	**0,24%**
Interest	124	-
Derivative instruments	484 496	0,24%
Other	598	-
Revenues	**253 711**	**0,13%**
Interest	792	-
Commission	-	-
Derivative instruments	252 919	0,13%
Other	-	-
Contingent liabilities	**7 753 523**	**11,34%**
Liabilities granted	-	0,01%
Liabilities received	2 000 000	2,92%
Derivative instruments	5 753 523	8,41%

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

Emolument paid to the Members of the Management Board and Supervisory Board

In 2008, the remuneration of Members of the Management Boards of the Group's entities totals was PLN 8,263 thousand (2007: PLN 6,652 thousand), while that of the Supervisory Boards of the Group's entities - PLN 661,438 thousand (2007: PLN 684 thousand).

Apart from the salary, the Management Board of the Bank of is entitled to additional benefits, such as:
- medical care package,
- life insurance.

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

The members of the Management and Supervisory Boards did not take out any loans, allowances, or guarantees in 2007 or 2008.

46. Significant events in 2008

Increase in Rabobank's share in the Bank

On 21 April 2008, as a result of an agreement between Dutch Rabobank and the European Bank for Reconstruction and Development, Rabobank acquired all of the shares held by the EBRD, which represented12.87% of the share capital of BGŻ S.A. As at 31 December 2008, the Rabobank Group entities had jointly the right to exercise 59.35% of votes at the AGM of the Bank.

Bank financing

On 14 March 2008, the Bank concluded a number of agreements with Pekao S.A., BRE Bank S.A. and Bank Handlowy in Warsaw S.A. relating to the program of issue of bank bearer securities denominated in PLN – "Certificates of Deposit". The program provides for the possibility of issuing short-term and mid-term securities with a value not exceeding PLN 2.5 billion. The last issue shall not be later than on 30 March 2013.

On 21 May 2008, the Bank made an agreement with Rabobank concerning making available a promotional credit facility; the value of the facility after signing the appendix on 16 October 2008 amounted to PLN 2 billion.

All the above activities were carried out in order to ensure that the Bank meets within the required deadline the minimum liquidity ratios set out in the Resolution No. 9/22007 of the Banking Supervision Committee.

BGŻ Leasing

On 1 July 2008, on the basis of an agreement for conditional acquisition of shares, the Bank re-acquired from De Lage Landen 49% shares in BGŻ Leasing Sp. z o.o. for the amount of PLN 19.6 million. Through the BGŻ Leasing (Brokerage House) the Bank renders financial and operating lease services.

47. Post balance sheet events

On 22 January 2009, in accordance with the Resolution No. 1/1/OK/2009 of the Management Board of the National Bank of Poland dated 8 January 2009, the NBP re-deemed, before the maturity date, 10 –year bonds issued on 28 February 2002; these bonds were to serve as an exchange for a part of bonds acquired by banks in connection with a reduction in the rates of the obligatory reserve. Subject to that earlier redemption were the bonds with a nominal value of PLN 414 230 thousand.

....
Jacek Bartkiewicz
President of the Management Board

....
Hieronymus Jacobus Nijsen
First Vice-President of the Management Board

Michał Gajewski
Vice-President of the Management Board

Andrzej Chmielecki
Vice-President of the Management Board

....
Victor Hendrik Cuyckens
Vice-President of the Management Board

Witold Okarma
Vice-President of the Management Board

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

Warsaw, 23 March 2009