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 2009,
together with the
independent auditor’s opinion

Warsaw, 1 March 2010

PLN thousand

Consolidated income statement

	Note	Year ended 31.12.2009	Year ended 31.12.2008
Interest income	6	1 274 163	1 450 609
Interest expense	6	(812 195)	(785 705)
Net interest income		**461 968**	**664 904**
Fee and commission income	7	281 884	247 808
Fee and commission expense	7	(33 514)	(31 018)
Net fee and commission income		**248 370**	**216 790**
Dividend income	8	3 525	3 242
Result on trading activities	9	203 450	129 338
Result on investing activities	10	15 726	(5 313)
Other operating income	11	83 743	137 638
Net impairment losses on loans and advances	12	(106 504)	(45 104)
General administrative expenses	13,15	(673 770)	(707 964)
Other operating expenses	14	119 917)	(118 583)
Operating result		**116 591**	**274 948**
Share in profit (loss) of associates	26	(26)	(207)
Profit (loss) before taxation		**116 565**	**274 741**
Income tax expense	16	(15 922)	(61 717)
Net profit (loss) for the year		**100 643**	**213 024**
- attributable to the shareholders of the Bank		100 643	213 024
Earnings per share attributable to the shareholders of the Bank (in PLN per share):		**2,33**	**4,94**
From continuing and discontinued operations:		2.33	4.94
- Basic		2.33	4.94
- Diluted		-	-
From continuing operations:		2.33	4.94
- Basic		2.33	4.94
- Diluted		-	-

PLN thousand

Consolidated statement of comprehensive income

	Note	Year ended 31.12.2009	Year ended 31.12.2008
Profit (loss) for the year		**100 643**	**213 024**
Other comprehensive income			
Net (loss)/gain on valuation of available-for-sale financial assets		9 244	(5 648)
Income tax effect		(1 756)	1 074
Other comprehensive income for the year, net of tax		**7 488**	**(4 574)**
Total comprehensive income for the year		**108 131**	**208 450**

PLN thousand

Consolidated statement of financial position

	Note	31.12.2009	31.12.2008
ASSETS			
Cash and balances with the Central Bank	18	1 279 378	1 291 385
Amounts due from other banks	19	356 593	798 698
Held-for-trading securities	20	430 329	530 173
Derivative financial instruments	21	254 693	1 004 905
Loans and advances to customers	22	18 301 366	17 066 206
Securities available for sale	23	2 781 211	1 822 475
Other debt securities	24	213 109	750 589
Investment property	25	63 200	77 000
Investments in subsidiaries and jointly controlled entities	26	19 367	19 393
Intangible assets	27	88 573	81 034
Property, plant and equipment	28	444 324	449 435
Deferred tax asset	35	88 503	108 166
Current tax asset		-	-
Other assets	29	113 064	67 909
TOTAL ASSETS		**24 433 710**	**24 067 368**

PLN thousand

Consolidated statement of financial position (continuation)

	Nota	31.12.2009	31.12.2008
LIABILITIES			
Amounts owed to other banks	30	476 086	1 149 229
Derivative financial instruments and other liabilities held for trading	21	248 488	1 419 855
Amounts owed to customers	31	19 598 526	18 140 981
Liabilities from issued debt securities	32	1 450 819	612 551
Other liabilities	33	198 100	266 680
Deferred tax liability		9 681	12 303
Current tax liabilities	35	-	87 868
Provisions	34	45 732	68 709
Liabilities arising from employee benefits	37	19 912	30 957
TOTAL LIABILITIES		**22 047 344**	**21 789 133**
EQUITY			
Issued share capital	39	43 137	43 137
Reserve capital	40	2 112 164	1 743 027
Accumulated profit from previous years		15 835	171 948
Other reserves	40	114 587	107 099
Net profit for the year	40	100 643	213 024
TOTAL EQUITY		**2 386 366**	**2 278 235**
TOTAL LIABILITIES AND EQUITY		**24 433 710**	**24 067 368**

PLN thousand

Consolidated statement of changes in the equity

	Note	Issued share capital	Reserve capital	Other reserves	Accumulated profit (loss) from previous years	Undistributed profit for the year	Total
As at 1 January 2008		**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)	-
Other comprehensive income for the year		-	-	(4 574)	-	-	(4 574)
Net profit for the year		-	-	-	-	213 024	213 024
As at 31 December 2008	**39,40**	**43 137**	**1 743 027**	**107 099**	**171 948**	**213 024**	**2 278 235**
As at 1 January 2009		**43 137**	**1 743 027**	**107 099**	**171 948**	**213 024**	**2 278 235**
Transfer from prior year profits		-	369 137	-	(156 113)	(213 024)	-
Other comprehensive income for the year		-	-	7 488	-	-	7 488
Net profit for the year		-	-	-	-	100 643	100 643
As at 31 December 2009	**39,40**	**43 137**	**2 112 164**	**114 587**	**15 835**	**100 643**	**2 386 366**

PLN thousand

Consolidated cash flow statement

	Note	Year ended 31.12.2009	Year ended 31.12.2008
CASH FLOW FROM OPERATING ACTIVITIES:			
Net profit/loss		**100 643**	**213 024**
Total adjustments:		**(863 859)**	**(854 868)**
Current and deferred tax recognized in the financial result		15 922	61 717
Amortisation and depreciation		72 816	68 120
Interest and dividends	44	(84 411)	(54 174)
Profit/loss on investing activities		(15 044)	5 313
Change in provisions		(34 022)	(22 787)
Change in amounts due from other banks	44	156 576	131 202
Change in held-for-trading debt securities		99 844	(391 159)
Change in receivables from derivative financial instruments		750 212	(678 215)
Change in loans and allowances to customers		(1 235 160)	(3 061 342)
Income tax paid		-	(85 869)
Change in amounts owed to other banks		(673 143)	(580 778)
Change in liabilities from derivative financial instruments		(1 171 367)	1 155 621
Change in amounts owed to customers		1 457 546	2 598 748
Change in liabilities arising from issues of debt securities	44	(761)	(626)
Change in other liabilities	44	(156 448)	(17 847)
Other adjustments	44	(46 419)	17 208
NET CASH FLOW FROM OPERATING ACTIVITIES		**(763 216)**	**(641 844)**

PLN thousand

Consolidated cash flow statement (continuation)

	Note	Year ended 31.12.2009	Year ended 31.12.2008
CASH FLOW FROM INVESTING ACTIVITIES:			
Inflows		**47 069 629**	**31 844 040**
Sale of shares in subsidiaries	26	-	374
Sale of investment securities	24	535 984	254 781
Sale of available for sale securities	23	46 504 626	31 574 432
Sale of intangible assets and property, plant and equipment	27,28	10 450	9 728
Other investing inflows		18 569	4 725
Outflows		**(47 470 075)**	**(31 806 589)**
Purchase of shares in associates	26	-	(19 600)
Purchase of investment securities	24	-	(60 000)
Purchase of securities available for sale	23	(47 391 259)	(31 600 547)
Purchase of intangible assets, property, plant and equipment	27,28	(78 134)	(116 611)
Other investing outflows		(16 422)	(9 831)
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(383 342)**	**37 451**
CASH FLOW FROM FINANCING ACTIVITIES:			
Inflows		**3 081 500**	**1 843 366**
Issue of debt securities to other financial institutions	32	3 081 500	1 843 366
Outflows		**(2 232 500)**	**(1 232 872)**
Redemption of debt securities issued to other financial institutions	32	(2 232 500)	(1 232 872)
NET CASH FLOWS FROM FINANCING ACTIVITIES		**849 000**	**610 494**
TOTAL NET CASH FLOW		**(297 558)**	**6 101**
Cash and cash equivalents at the beginning of the year	**43**	**1 851 545**	**1 845 444**
Cash and cash equivalents at the end of the year, of which:	**43**	**1 553 987**	**1 851 545**
of restricted use		936	916

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 2009, the average number of employees at BGŻ S.A. was 5,314.53 FTEs (full-time employees) in terms of full time posts and in the Group – 5,315.53 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,

PLN thousand

Notes to consolidated financial statements (continued)

- providing insurance intermediary services within the scope allowed by the Insurance Intermediary Services Act,
- providing operating finance leases,
- trading in treasury stamps and numismatic items.

As at 31 December 2009, the Bank's Management Board was composed of the following members:

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

As of 9 June 2009 Mr Andrzej Chmielecki 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 subsidiary as at 31 December 2009:

1. **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.

2. On 19 November 2009 the subsidiary Hals – Fundusz Kapitałowy Sp. z o.o was liquidated.
3. On 5 December 2008 the subsidiary Korporacja Leasingowa Sp. z o.o. was liquidated.

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

Notes to consolidated financial statements (continued)

Authorisation of the consolidated financial statements for issue

These consolidated financial statements were prepared as at 31 December 2009 and for the year then ended, and were authorised for issue by the Management Board on 1 March 2010

The separate financial statements were prepared as at 31 December 2009 and for the year then ended, and were authorised for issue by the Management Board on 1 March 2010.

The above financial statements include data for the year 2008 and 2009.

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 reporting 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.

2.3 Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"); in particular, in accordance with IFRS endorsed by the European Union. At the date of the authorisation of these consolidated financial statements for issue, 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. dated 29 June 2007 for Bank's separate financial statements, 1 January 2007.

All Group entities keep their 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 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.

Notes to consolidated financial statements (continued)

Implementation of new standards and interpretations

Presented below there are new and amended IAS and IFRS and new IFRIC interpretations that the Group applied in the current year. Their application, except for several additional disclosures, has not materially affected the financial statements, except for the scope of additional disclosures..

- IAS 1 *Presentation of Financial Statements* (revised in September 2007) - The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, while all other changes in equity are presented in one separate line. Additionally, the standard introduces the statement of comprehensive income which entails all income and expense items recognized in profit or loss and all other items of recognized income and expense; it is possible to present all these items jointly in one statement or to present two related statements. The Group presents the income statement and the statement of comprehensive income in two linked statements.
- IFRS 8 *Operating Segments* (published by IASB on 30 November 2006). This Standard supersedes IAS 14 *Segment Reporting.* The Standard defines how an entity should present operating segments data and requires to present information based on internal reports (management approach to identification and measurement of reporting segments results). The Standard also requires entities to include disclosures regarding products, services, geographical areas and major clients. The revised IFRS 8 is applied for the first time to annual periods beginning after 1 January 2009. The Group has identified its reporting segments based on client and product information. In relation to the data presented in the prior years the approach to the presentation of segments was significantly modified. Currently, impaired receivables are presented separately as a Bad Debt Department and not within individual segments, as opposed to the prior years.
- Amendments to IFRS 7 *Financial Instruments: Disclosures* – the amended standard requires additional disclosures on re-measurement to fair value and on liquidity risk. The fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, reconciliation between the opening and closing balances for Level 3 fair value measurements is now required, as well as disclosure for significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures.
- IAS 23 *Borrowing costs* (revised in March 2007) – the revised Standard requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. (immaterial for the Group).
- IFRS 2 *Share-based payment: Vesting Conditions and Cancellations* – the amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The implementation of this amendment did not have an impact on the financial position or performance of the Group, as no events occurred to which the amendments may relate to.
- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 Presentation of Financial Statements: *Puttable Financial Instruments and Obligations Arising on Liquidation* – provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified criteria. The implementation of these amendments did not have any impact on the financial position or performance of the Group as the Group had not issued such instruments.

Notes to consolidated financial statements (continued)

- IFRIC 13 *Loyalty Programmes* – interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. The implementation of this Interpretation did not have impact on the financial position or performance of the Group as the Group does not maintain a loyalty programme.

Changes resulting from annual IFRS review:

- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements: Cost of an investment in a subsidiary, jointly-controlled entity or associate* – the amendments to IFRS 1 allow an entity to determine the "cost" of investment in subsidiaries, jointly-controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using the deemed cost. The amendments to IAS 27 require that all dividends from a subsidiary, jointly-controlled entity or associate are recognised in the income statement in the separate financial statements of the parent company. The revision to IAS 27 is applied prospectively. The new requirements affect only the parent's separate financial statements and do not have impact on the consolidated financial statements.
- IFRIC 12 *Service Concession Arrangements* – this interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. This interpretation has no impact on the Group.
- IFRIC 15 *Agreement for the Construction of Real Estate* – the interpretation clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will not have an impact on the consolidated financial statements of the Group.
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* - the interpretation provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. IFRIC 16 will not have impact on the consolidated financial statements because the gGroup does not hedge any net investment in a foreign operation.
- IFRIC 18 *Transfers of Assets from Customers* – clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use to provide the customer with ongoing supply of services. The Interpretation applies to transfers of assets from customers received on or after 1 July 2009. The Interpretation does not have any impact on the attached consolidated financial statements because it does not relate to the Groupi.e. the Group did not receive any assets from clients or cash to construct/ develop such assets.
- Changes in IFRIC 9 *Reassessment of embedded derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement: Embedded derivatives* – these amendments require that assessment is made of whether the embedded derivative has to be recognized separately at the time of reclassification of hybrid (compound) financial instrument from the category of financial assets at fair value through profit or loss. Such

Notes to consolidated financial statements (continued)

assessment is made based on the conditions current at the later of the following: the date on which the company became a party to the contract for the first time or the date when amendments were made to the contract such that significant changes occurred in cash flows relating to the contract. According to IAS 39, where an embedded derivative cannot be valued in a reliable manner, the entire hybrid instrument continued to be classified under financial instruments at fair value through profit or loss. These amendments do not have any effect on the attached consolidated financial statements, because it does not relate to the Group i.e. the Group did not reclassify any instruments from the category of financial assets valued at fair value through profit or loss and does not have any hybrid instruments for which the reliable valuation of embedded derivative would not be possible.

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

- IFRS 3 *Business Combinations* (amended in January 2008) which is effective for financial years beginning on or after 1 July 2009.
- IAS 27 *Consolidated and Separate Financial Statements* (amended in January 2008) which is effective for financial years beginning on or after 1 July 2009.
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement: Eligible Hedged Items* (amendments issued in July 2008) which is effective for financial years beginning on or after 1 July 2009.
- Amended IFRS 1 *First-time Adoption of International Financial Reporting Standards* (amended in November 2008) which is effective for financial years beginning on or after 1 July 2009 – by the date of the issue of these financial statements not accepted by the EU.
- IFRIC 17 *Distributions of Non-cash Assets to Owners* which is effective for financial years beginning on or after 1 July 2009 - by the date of the issue of these financial statements not accepted by the EU.
- Changes resulting from IFRS review (issued in April 2009) – part of the changes is effective for financial years beginning on or after 1 July 2009 and part of changes is effective for financial years beginning on or after 1 January 2010 - by the date of the issue of these financial statements not accepted by the EU.
- Amendments to IFRS 2 *Share-based Payment: Group Cash-settled Share-based Payment Transactions* (amended in June 2009) which is effective for financial years beginning on or after 1 January 2010 – by the date of the issue of these financial statements not accepted by the EU.
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Additional Exemptions for Entities Adopting IFRS for the First Time* which is effective for financial years beginning on or after 1 January 2010 – by the date of the issue of these financial statements not accepted by the EU.
- Amendments to IAS 32 *Financial Instruments: presentation: Classification of Pre-emptive Rights* which is effective for financial years beginning on or after 1 February 2010 – by the date of the issue of these financial statements not accepted by the EU.
- IAS 24 *Related Party Disclosures* (amended in November 2009) which is effective for financial years beginning on or after 1 January 2011 – by the date of the issue of these financial statements not accepted by the EU.

Notes to consolidated financial statements (continued)

- IFRS 9 *Financial Instruments* which is effective for financial years beginning on or after 1 January 2013 – by the date of the issue of these financial statements not accepted by the EU.
- Amendments to IFRIC 14 *IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: Prepayments of Minimum Funding Requirements* which is effective for financial years beginning on or after 1 January 2011 – by the date of the issue of these financial statements not accepted by the EU.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* which is effective for financial years beginning on or after 1 July 2010 – by the date of the issue of these financial statements not accepted by the EU.

The Management Board does not expect that implementation of the above standards and interpretations, except for IFRS 9, will have material impact on the accounting policies applied in the Bank. Within the scope of IFRS 9 *Financial Instruments* the Bank is currently analysing the impact of implementation of this standard on the financial statements.

2.4 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.

2.5 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 reporting date, assets and liabilities expressed in currencies other than Polish zloty are translated into Polish zloty using the average NBP rate prevailing for the given currency at the year-end. Any exchange differences resulting from conversion are recorded under trading result or – 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.

PLN thousand

The main foreign currency exchange rates used in the preparation of these financial statements, prevailing on 31 December 2009 and 31 December 2008, were as follows:

	31.12.2009	31.12.2008
1 EUR	4.1082	4.1724
1 USD	2.8503	2.9618
1 GBP	4.5986	4.2913
1 CHF	2.7661	2.8014
100 JPY	3.0890	3.2812

2.6 Interest income and interest expense

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

The effective interest rate method is a method for calculating the amortized initial cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the 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 interest rate at the moment of evidence of impairment being recognized applicable to the newly determined carrying amount of the asset; determined as the difference between the gross exposure and the impairment loss (net investment value).

2.7 Net fee and commission income

Fees and commissions, which are not accounted for using the effective interest rate method, but are amortized, using the straight-line method, or recognized as a one-off item, are recognized under net fee and commission income. Included in income items that are amortized using the straight-line method are, in particular, commission on overdraft facilities, credit cards, revolving loans and off-balance sheet liabilities. In addition, the Bank includes the fee for maintaining current accounts and the income and costs related to guarantees granted, in the above items.

2.8 Dividend income

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

2.9 Result on trading activities

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

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

2.10 Result on investing activities

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

2.11 Other operating income and other operating expenses

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

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

2.12 Corporate income tax

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

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

Deferred tax

Deferred tax is provided in full, using the liability method, on all temporary differences, as at the reporting date, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognized for all deductible temporary differences and carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, assets and carry-forward of unused tax losses can be utilized. Deferred tax assets and liabilities are measured using the tax rates (and tax laws) that are expected to apply in the period when the asset is realized or the liability settled, based on the tax laws in force on the reporting date.

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The unrecognized deferred tax asset is re-assessed at each subsequent reporting date, and is recognized to the extent that it is probable that sufficient taxable profit will be available to allow the deferred tax asset to be utilized.

The Group offsets deferred tax assets and deferred tax liabilities if, and only if, it has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes that are levied by the same taxation authority on the same taxable entity.

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

In 2009 and 2008, the current tax expense and the deferred tax liability were calculated using the 19% rate.

2.13 Classification and valuation of financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through statement of comprehensive income, loans and receivables, investments held to maturity and financial assets available for sale.

2.13.1 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 Group 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.

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

This category covers two sub-categories:

- financial assets and liabilities held for trading (including derivative financial instruments), and
- financial assets and liabilities designated upon initial recognition at fair value through profit or loss.

Upon initial recognition, financial assets or liabilities are classified at fair value through profit or loss, after the following criteria have been met: (i) such classification eliminates or materially reduces the possibility of incoherent recognition, if both valuation principles and policies for the recognition of gains and losses are subject to separate regulations; or (ii) the assets are part of a group of financial assets that are managed and measured at fair value, in accordance with documented risk management strategy; or if (iii) the financial assets include embedded derivatives that should be recognized separately. As at 31 December 2009 and 31 December 2008, and in the years then ended, none of the Group's financial assets were classified upon initial recognition at fair value through profit or loss.

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

As at the reporting date, financial assets and liabilities classified at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in the fair value of the "financial assets or liabilities at fair value through profit or loss" are recognized in the income statement under result on trading activities in the period in which they arose. Interest and purchased 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

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

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

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

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

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

2.13.3 Loans and receivables

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

Loans and receivables arise if 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 including impairment, with any differences between their fair value upon initial recognition (less

Notes to consolidated financial statements (continued)

transaction costs) being usually the amount transferred to the borrower (less transaction costs) and their redemption value amortized to the income statement over the period of the loan term, using the effective interest rate method.

2.13.4 Held-to-maturity investments

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

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

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

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

2.13.5 Available for-sale 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 reporting date. Where no quoted market price from a regulated market is available and there is no possibility of determining their fair value using alternative methods, the available-for-sale financial assets are measured at cost, adjusted for any impairment losses. Positive and negative differences between the fair value (if a quoted market price determined on the regulated market is available or if the fair value can be determined using another reliable method), and the acquisition cost, net of deferred tax, of the financial assets available for sale, are taken to the revaluation reserve. Any decrease in the value of the financial assets available for sale resulting from impairment losses is taken to the 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.

2.13.6 Offsetting of financial instruments

Financial assets and financial liabilities are offset and recognized in the statement of financial position at the net amount, if the 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.

2.13.7 Sell and buy back transactions

Securities under repo or sell-back transactions with maintaining by the Bank the risks and benefits resulting from an asset in spite of its transfer are not de-recognized in the statement of financial position. The corresponding liability due to amounts received from the contracting party are recognized under "Liabilities arising from securities sold under sell and buy back transactions."

Notes to consolidated financial statements (continued)

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.

2.13.8 Investments in subsidiaries and associates

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

2.14 Impairment of financial assets

2.14.1 Financial assets carried at amortized cost

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

Uncollectible loans are written off and charged against the impairment allowance account. Before a loan is written off, all the required procedures must be completed and the value of the impairment loss must be determined. If an amount that has been previously written off is recovered, the value of the impairment losses recognised in the income statement is reduced as appropriate.

If, in a subsequent period, the value of an impairment loss decreases due to an event occurring after the impairment was recognized (i.e. an improvement in the debtor's credit rating), the value of the impairment loss previously recognized is reversed by adjusting the impairment allowance account. The value of the reversal is recognized in the profit and loss account.

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

An assessment is made at each reporting date to determine whether there is any objective evidence to show that a financial asset or group of financial assets may be impaired. In the case of equity instruments classified as investments available for sale, in assessing impairment losses, any significant or long-term decrease in the value of the security below its initial cost is taken into consideration. If such objective evidence exists for available-for-sale financial assets, the cumulative loss – determined as the difference between the 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.

2.15 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.

2.16 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.

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.

2.17 Investment property

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

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

- it is probable that the future economic benefits associated with the investment property will flow to the entity, and
- the cost of the investment property can be measured reliably.

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

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

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

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

2.18 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 income statement under the category that reflects the function of the intangible asset.

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

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

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

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	14.0 – 50.0%
- copyrights	20.0 – 50.0%

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

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

Notes to consolidated financial statements (continued)

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 income statement under other operating income.

2.19 Property, plant and equipment

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

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

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

- buildings	1.5 – 10.0%
- plants and machinery	10.0 – 20.0%
- computer components	20.0 – 33.0%

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

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

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

2.20 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.

2.21 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 income statement 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.

2.22 Financial guarantees

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

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

2.23 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 36 to these consolidated financial statements.

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

2.23.1 Jubilee bonuses

In accordance with IAS 19, jubilee bonuses are other long-term employee benefits. These are paid to employees for their long-term service at the Group. The policies concerning payment of jubilee bonuses are described in the Collective Labour Agreement, dated 19 December 2005.

2.23.2 Retirement benefits

Retirement benefits, which are post-employment benefits, are due to those employees who have retired, or have become entitled to disability benefits. The years of service used to calculate these benefits cover employment with all employers based on employment contracts (contracts regulated by the Polish Labour Code).

2.23.3 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.

2.23.4 Allocation of profit for employee purposes, and special funds

The amount of profit allocated for employee purposes in the form of a contribution to the Social Fund and to other special funds, is included in the costs of the period to which the distributed profit relates, if the 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 reporting date.

2.24 Issued share capital

2.24.1 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.

2.24.2 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 statement of financial position as treasury shares until share cancellation. In the event of a disposal or re-allocation of these shares, the consideration received is recognized in equity.

2.25 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 revaluation 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.

2.26 Other reserves

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

2.27 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.

2.28 Trust activities

BGŻ S.A. conducts trust activities in the field of Polish and foreign securities, and servicing investment and open-end pension funds.

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

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

Notes to consolidated financial statements (continued)

2.29 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 99,92% of the Group's assets (as at 31 December 2009). 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 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 the Bank's lending policy are as follows:

- harmonious growth of the loan portfolio,
- keeping the share of non-performing loans in the loan portfolio at the level acceptable by the Bank, ensuring the compliance of credit procedures and products with the key value of the Bank's strategy: transparency, honesty and commitment.

Notes to consolidated financial statements (continued)

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

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

Concentration of credit risk

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

One potential source of credit risk is the high concentration of the Bank's exposure to individual entities or groups of entities related by capital or organisational structure. In order to limit such exposure, the Banking Act has set out limits for a bank's maximum exposure. In accordance with 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;
- 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.

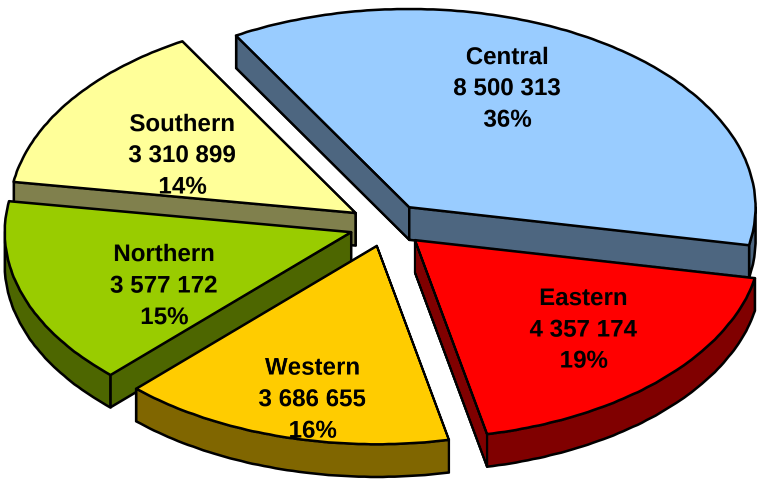
The Bank monitors concentration limits in accordance with article 71 of the Banking Act. At the end of 2009, the Bank's financial exposure to clients / groups of clients related by capital or organisational structure was no higher than the concentration limit of exposures. Also the concentration limit 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 about 13% of the Bank's own capital. At the end of 2008, the limits determined in Art. 71 of the Banking Act were not breached. At the end of December 2008, the sum total of the exposures equating or exceeding 10% of the Bank's share capital amounts to 14%.

In monitoring geographical concentration, the Bank analyses all of its loan exposures, including from both retail and institutional clients. As at 31 December 2008, the respective geographical concentrations were as follows: Central Area – 37%, Eastern Area – 18%,

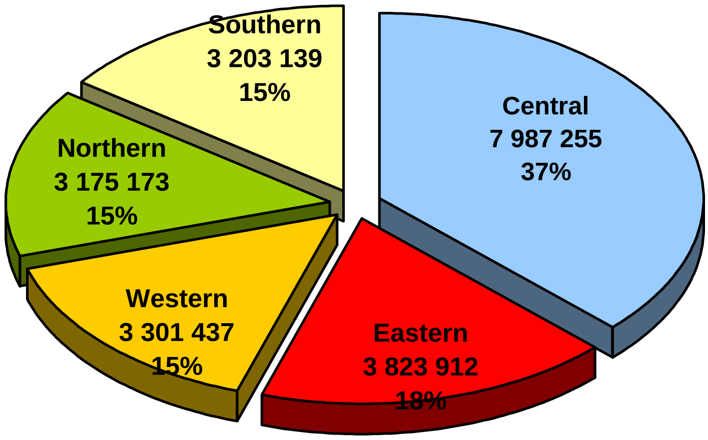
Notes to consolidated financial statements (continued)

Western Area – 15%, Southern Area – 15%, Northern Area – 15%. At the end of 2009, the allocation of exposure to particular geographical areas was again found to be in proportion, and was as follows: Central Area – 36%, Eastern Area – 19%, Western Area – 16%, Southern Area – 14%, Northern Area – 15%.

Total exposure by geographical regions (in PLN thousands): 31.12.2009



Total exposure by geographical regions (in PLN thousands): 31.12.2009



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,

Notes to consolidated financial statements (continued)

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 measures 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

in PLN thousands

Regions:	Expopsure		Share of exposures in default categories	
	31.12.2009	31.12.2008	**31.12.2009**	31.12.2008
Central	**8 500 313**	7 987 255	**7,5%**	7,4%
Eastern	**4 357 174**	3 823 912	**3,5%**	1,8%
Western	**3 686 655**	3 301 437	**3,3%**	2,6%
Northern	**3 577 172**	3 175 173	**3,2%**	1,5%
Southern	**3 310 899**	3 203 139	**3,6%**	5,5%

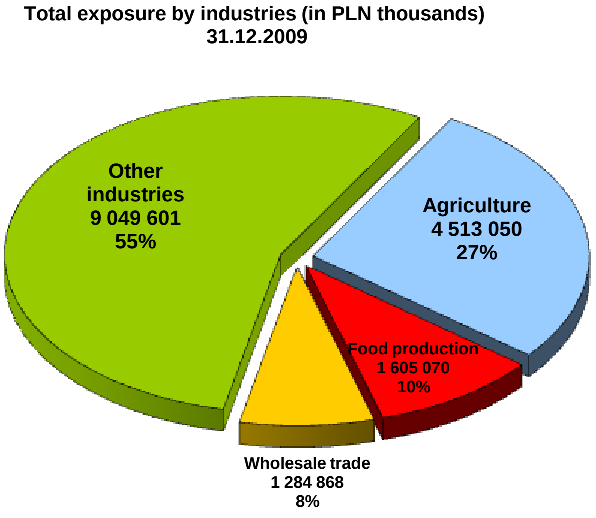
*Loans with impairment recignized

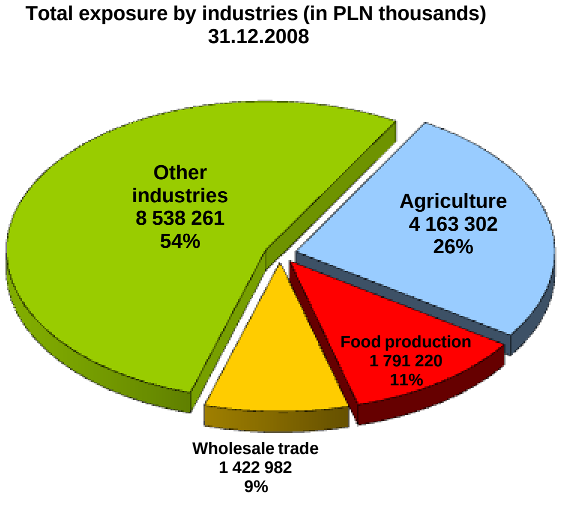
As at 31 December 2009 the greatest exposure was characteristic for the Central region. For this region the greatest share of endangered exposures in default was observed.

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 2009, similar to that at the end of 2008, is characterized by concentration on the following three industries: Agriculture, Food Production and Wholesale Trade. In 2008, the Bank's exposure to these three industries accounted for 46% of total exposure; and in 2009 - for 45%.

Notes to consolidated financial statements (continued)

The table below shows the results:





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 2009, the biggest share of non performing exposures by industry was indicated to: food production and construction.

in PLN thousands

Industry	Exposure		Share of non performing loans	
	31.12.2009	31.12.2008	**31.12.2009**	31.12.2008
Agriculture	**4 513 050**	4 163 302	**4,2%**	5,1%
Food production	**1 605 070**	1 791 220	**17,3%**	11,6%
Wholesale trade	**1 284 868**	1 422 982	**9,8%**	14,6%
Chemical industry, production of metallic and non metallic materials	**951 915**	823 461	**5,0%**	2,0%
Machine building industry	**479 662**	494 703	**12,6%**	2,3%
Real estate renting management and services related with running the business	**481 405**	568 095	**1,5%**	1,1%
Construction	**380 342**	381 248	**16,3%**	7,4%
Retail trade	**480 711**	451 934	**3,4%**	3,0%
Production of clothes, leather and wood	**454 890**	307 129	**10,2%**	10,0%
Transportation, storage and telecommunication	**219 398**	225 661	**14,4%**	12,9%
Financial intermediary	**150 536**	324 188	**9,0%**	4,3%
Vehicles and oil	**220 940**	196 475	**4,5%**	5,8%
Other business activity	**184 433**	166 351	**0,1%**	0,1%
Hotels and restaurants	**123 728**	98 922	**11,4%**	1,8%
Other service activity	**97 546**	87 845	**0,4%**	0,6%
Electricity	**20 856**	29 912	**0,0%**	0,0%
Healthcare and social care	**46 602**	34 461	**4,3%**	7,0%
Mining	**28 384**	30 725	**0,2%**	0,0%
Production and providing of gas and water	**14 628**	6 835	**3,5%**	6,4%
Forestry and hunting	**16 189**	10 373	**0,7%**	0,8%
Fishery and fishing industry	**9 406**	8 466	**0,0%**	0,1%

*loans with identified impairment

The Bank also manages the risk of collateral concentration. As part of the analyses made, the Bank examines the share of exposures collateralized using the collaterals whose excessive concentration in the portfolio may result in the risk of future losses for the Bank. Such collaterals include: pledge on movables placed in storage house, assignment of receivables from bank account, sponsorship statement, statutory lien, regular lien, assignment of debt, statutory accession to debt, blank promissory note/ blank bills of exchange, assignment of rights from insurance agreement. As at 31 December 2009 and 31 December 2008, no breach of concentration limits for this collateral group was noted. During 2009 the Bank modified its approach to monitoring of collateral concentration. Currently collaterals of low liquidity are analysed at first place.

Notes to consolidated financial statements (continued)

Assets carried at amortized cost

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

a) payment of loan principal or loan interest or penalty interest delinquent for more than 90 days,

b) deterioration of rating to ‘D’ rate (default)

c) granting the borrower in financial distress an economical concession, which result in the Bank’s receivable being partially written down (eg. interest due, commission, fees, principal being partially written down, decrease in the interest charged)

d) termination of the agreement by the Bank

e) application for customer bankruptcy has been filed or customer has been declared bankrupt

f) customer has filed with the Bank a statement on initiation of (corporate) recovery proceedings

g) execution procedures being instituted against the customer

h) adverse changes in the customer’s assets and financial standing.

The objective evidence for the impairment of a financial asset or a group of financial assets individually insignificant is the default of more than 90 days.

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

- all exposures which have been previously considered individually significant for which an objective evidence of impairment has been identified in the prior period. This means that the change in the approach to credit exposure based on the threshold amount may be applied only to that credit exposure for which no impairment loss has been identified;
- all customers considered significant (group of strategic customers), irrespective of whether the criterion of threshold materiality has been met or not;
- all debt securities (issued by the State Treasury, public sector entities and business enterprises) classified in accordance with the Decree on valuation as held to maturity;
- all credit exposures in respect of banks;
- all credit exposures in respect of non-banking entities in the financial sector:
- all exposures covered by restructuring procedures with the amount of principal of at least PLN 100 thousand included and not included in the statement of financial position.

For financial assets carried at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank

Notes to consolidated financial statements (continued)

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 such asset 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 a collective assessment of impairment.

If there is objective evidence that an impairment loss of loans and advances or held-to-maturity investments carried at amortized has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of assets is reduced by appropriate impairment write-down and the amount of the impairment is taken to income statement. If a loan or an investment held to maturity has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate calculated as provided in the loan agreement.

Measurement of the present value of estimated future cash flows of a collateralized financial asset takes into account cash flows, especially those resulting from seizure of collateral or from voluntary repayments. The value of estimated future cash flows is then reduced by the expected costs of recovery procedure.

For the purpose of collective impairment assessment, financial assets are aggregated in groups with similar credit risk characteristics (according to the system used by the Bank which takes into account asset type, industry, geographical region, type of collateral, period of delay and other material factors). These characteristics have impact on the estimation of future cash flows for specific types of assets, as they indicate the possibility of partial or total repayment of debt balances according to agreements relating to assets under evaluation.

Future cash flows regarding groups of financial assets assessed collectively for impairment are estimated based on the cash flows resulting from loan agreements and historical experience regarding losses incurred by assets of similar risk characteristics. Historical loss experience is verified based on the data from current observations so as to take into account the consequences of current circumstances, which did not take place in the period, to which the historical experience relates and to exclude consequences of circumstances, which did take place in the past but are not present currently.

Uncollectible debts are reduced through the use of an impairment allowance account. Beforehand all procedures required by the Bank need to be performed and the amount of the loss identified. In the case of a recovery of a loss previously written off, the amount of the allowance is decreased accordingly in the income statement.

If, in a subsequent year, the amount of the impairment loss decreases because of an event occurring after the impairment was recognized (eg. improvement of debtor's creditworthiness), the previously recognized impairment loss is reduced by adjusting the allowance account. The recovery is recognized in the income statement.

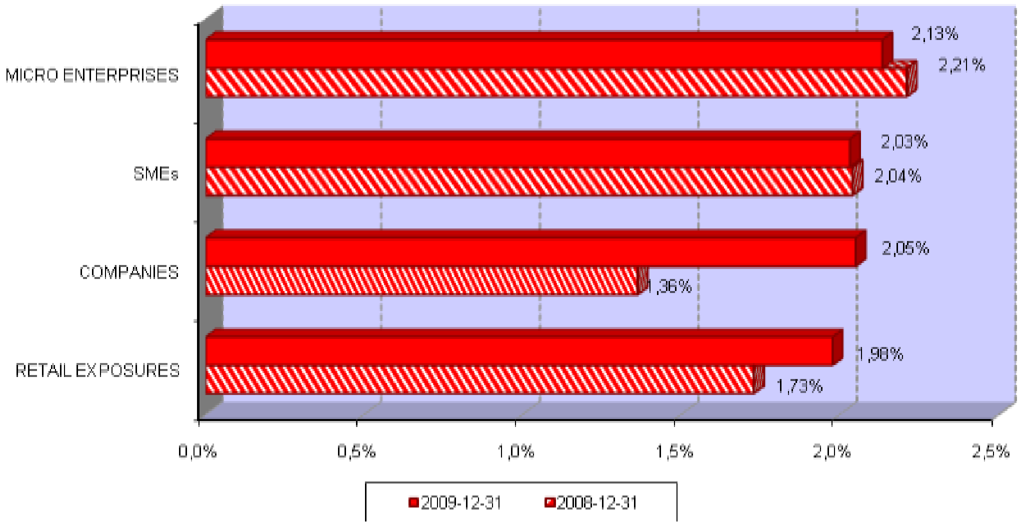
Credit quality of financial assets that are neither overdue nor impaired

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 2009, the estimated PD for all the Bank's exposures is 2.03%, while the estimated LGD for these exposures is 40.68%. Both PD and LGD values increased since the

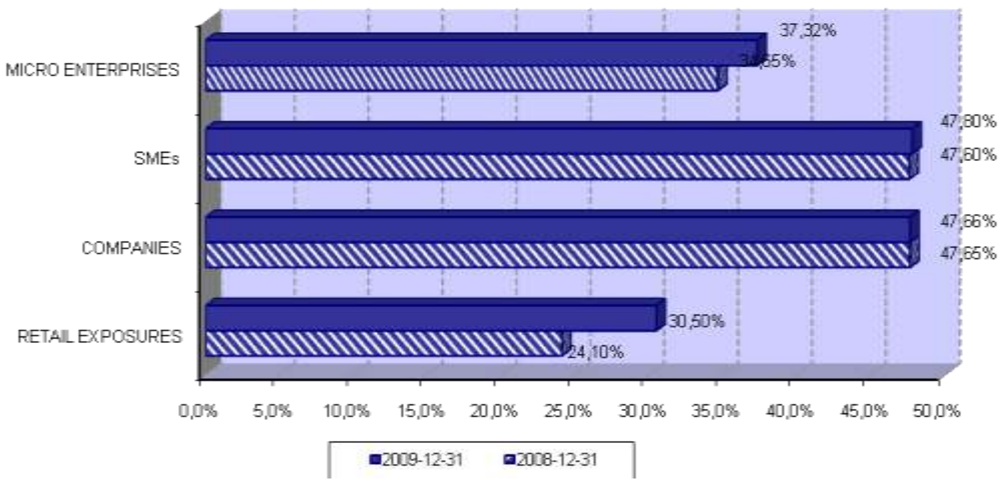
Notes to consolidated financial statements (continued)

end of 2008[1]. The levels of these parameters, for the particular business lines, as at 31 December 2008 and 2009, are as follows:

VALUE OF PD PARAMETERS (PROBABILITY OF DEFAULT)



VALUE OF LGD PARAMETER (LOSS GIVEN DEFAULT)

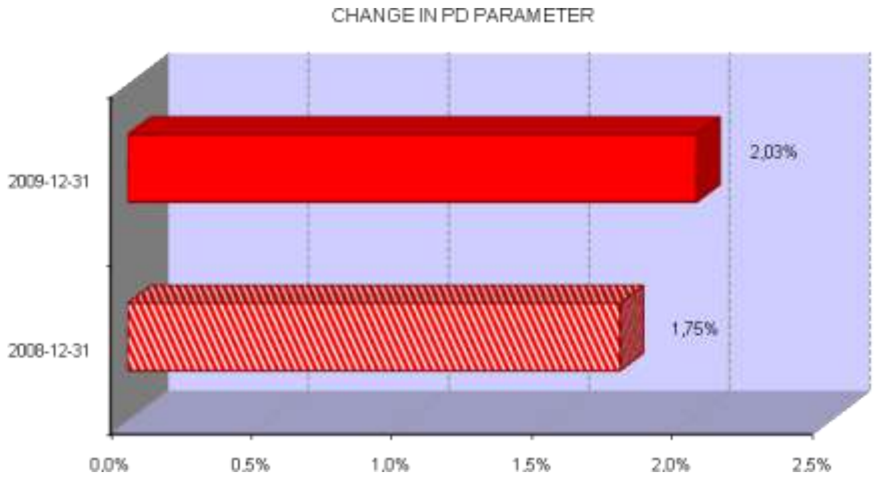


During 2009, the PD parameters for micro entrepreneurs and SMEs slightly changed. However, a material increase in the estimates of these parameters was observed in relation to retail exposures and companies (as a result of a change in economic situation). The LGD

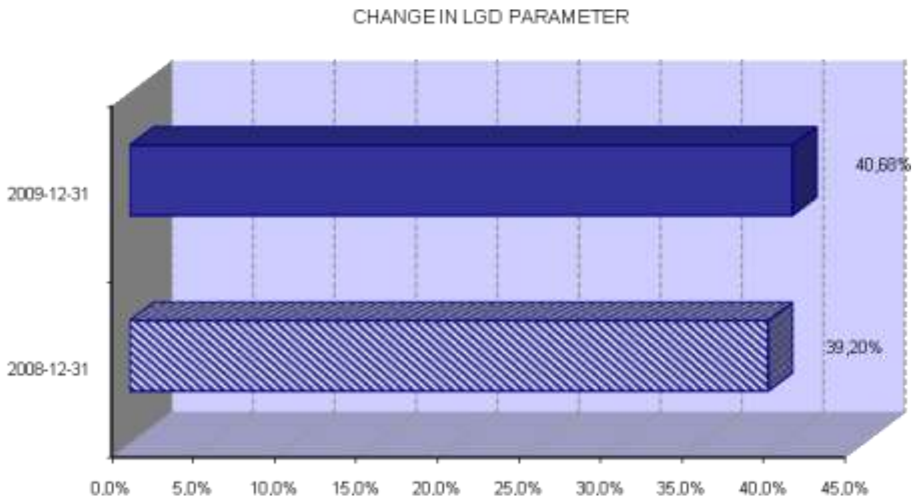
[1] Due to the fact, thet the methodology for calculation of PD and LGD was modified during the year, the values at the end of 2009 are compared to the values for 2008 calculated using the new methodology. The new methodology includes in particular: a) taking into account the average effective interest rate weighted with the value of exposure for calculation of LGD for loan portfolios, b) taking into account the possibility of quick returns of exposures from default to non-default stages.

Notes to consolidated financial statements (continued)

parameters for retail exposures increased significantly, which relates to increase in share of cash loans granted within simplified client verification procedures.



	31.12.2009	31.12.2008
Probability of Default (PD)	2,03%	1,75%
Loss Given Default (LGD)	40,68%	39,20%



Structure of financial assets according to internal Bank's ratings

The Bank determines 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.

PLN thousand

Notes to consolidated financial statements (continued)

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	31.12.2009	31.12.2008
R8	-	23 067
R9	4 870	7 901
R10	405 551	656 679
R11	60 858	220 346
R12	154 864	244 329
R13	556 081	690 452
R14	547 887	771 000
R15	1 383 891	1 542 013
R16	732 534	1 048 791
R17	645 606	424 923
R18	589 963	327 021
R19	128 998	74 987
R20	487 883	775 188
Total	**5 698 986**	**6 806 697**

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.

Loans and advances to retail clients – others	Structure of financial assets not in delay and without recognized impairment	
	31.12.2009	31.12.2008
Mortgage-building laons in PLN	2 518 334	1 670 405
Mortgage-building laons in foreign currencies	2 831 621	2 742 985
Students' loans	234 681	257 708
Retail loans	708 395	416 157
Farmer's loans	3 204 603	3 261 660
Individual enterpreneur's loans	850 391	791 865
Public institution's loans	200 134	161 930
Other institution's loans	57 650	103 176
Total	**10 605 809**	**9 405 886**

PLN thousand

Notes to consolidated financial statements (continued)

96% of the retail portfolio (31.12.2009 – 95%) were subject to scoring evaluation as at 31.12.2009 (share purchase loans and students' loans are not subject to scoring evaluation).

Banks	31.12.2009
Without rating	55 005
A1	2 635
A2	34 397
Aaa	145
Aa1	76 757
Aa2	1 068
Aa3	77 368
Baa1	5 538
Baa2	61 603
Baa3	41 711
Total	**356 227**

Banks	31.12.2008
Without rating	27 017
Aa1	14 881
B2	53 720
Ba1	2 487
Ba2	77 006
Ba3	8 411
Baa12	39 852
Baa2	7 792
Baa3	6 783
Total	**237 949**

PLN thousand

Notes to consolidated financial statements (continued)

Ageing structure of receivables

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

31.12.2009	< 30 days	31-60 days	61-90 days	> 90 days	Total
Amounts due from customers under overdraft facilities	163 977	10 973	4 566	-	179 516
Loans and advances to customers, of which to:	1 165 388	88 457	30 122	-	1 283 967
- companies	345 842	11 781	4 972	-	362 595
- households	804 973	76 647	25 149	-	906 769
- public institutions	13 061	29	1	-	13 091
- other entities	1 512	-	-	-	1 512
Total	**1 329 365**	**99 430**	**34 688**	**-**	**1 463 483**
31.12.2008					
Amounts due from customers under overdraft facilities	11 276	10 066	3 456	-	24 798
Loans and advances to customers, of which to:	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**

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 reporting 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 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 not 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)

	31.12.2009	31.12.2008
Fair value of collateral relating to receivables assessed on an individual basis, for which impairment indicators have been identified	1 503 827	932 732
Fair value of collateral relating to receivables assessed on an individual basis, for which no impairment indicators have been identified	13 446	3 662

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 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).

Restructured receivables, according to the Resolution by the Management Board on the rules for restructuring and vindication of the Bank's receivables, are receivables against which actions were undertaken aiming at restoration of the ability to repay by the Bank's debtor, partially or in total, the Bank's receivable. Those actions include among other: change in repayment schedule, application of reductions in the repayment of the Bank's receivable or, under justified conditions, granting new loans or guarantees (in relation to institutional clients) within the scope of remedial program.

	31.12.2009	31.12.2008
Amounts due from banks	648	658
Loans and advances to customers	69 203	47 993
- companies	43 606	19 401
- households	25 597	28 592
Repurchased debts	-	268
Total restructured receivables	**69 851**	**48 919**

3.3 Market risk and ALM (Assets and Liabilities Management)

Market risk – organisation of risk management process

Bank BGŻ, as a universal bank, enters into transactions with retail customers, companies, public entities, financial non-banking entities and other banks. Apart from standard banking products (loans and deposits) it offers also mediation services in concluding inter-bank transactions and – to a limited extent – it runs a portfolio of investing and speculative positions.

The Bank assigns all items included and not included in the statement of financial position to the banking or trading book to properly reflect the specifics of a transaction, i.e. transaction purpose, dominant risks and accounting treatment. The precise criteria of this classification are determined by the policies introduced by the Bank's Management Board resolution which regulate the aim of running a given book, acceptable scale, profile and types of risks taken, methods of their measurement and limiting, rights and placement of the Bank's individual organizational entities in the process of risk generation, measurement, limiting and reporting. Those documents are in compliance with the Polish Financial Supervision Authority (PFSA) recommendations and requirements of the Basel II Accord and are modelled on the market best practice in this respect, including solutions being in use in the Rabobank Group.

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. The Bank's Management Board, taking into account the long-term Bank's strategy and financial plan, determines the risk profile by distributing the capital available to specific business lines, which further – in the form of risk limits – is assigned to the books by the Balance Sheet and Risk Management Committee (BRMC). It is the Bank's Financial Risk Management Department that is responsible for risk measurement and reporting of risk scale and limit breaches, while the Financial Instruments Valuation Department performs independent valuation and calculation of management result. Individual operational divisions run accounting records and settle transactions. Also, the acceptance system of possible limit breaches is hierarchical and, depending on the type of the limit (its 'importance') and type of breach (technical, immaterial, material), is executed at the level of Director of the Financial Risk Management Department through to the Management Board Members.

Risk measures

The basic measures of market risk and ALM 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.

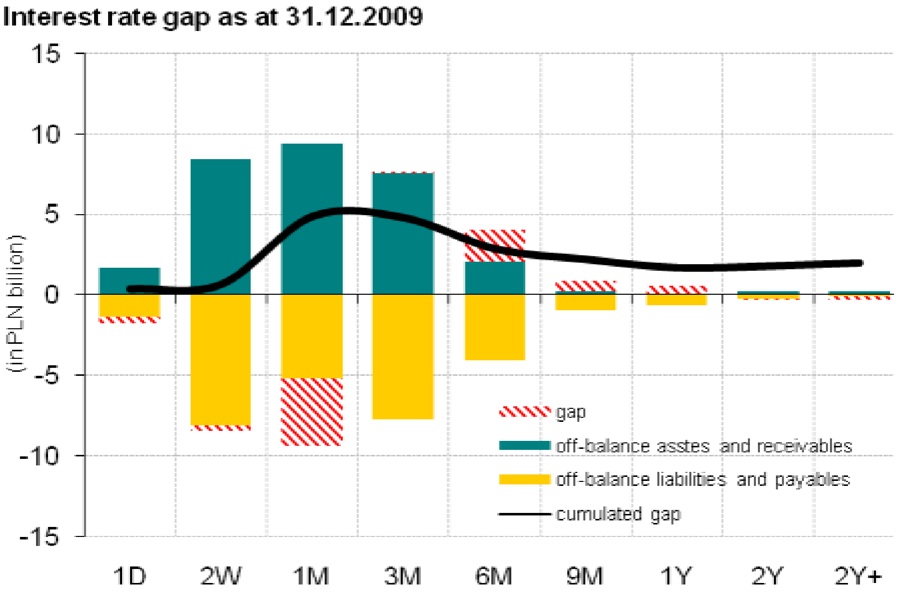
Risk in the banking book (ALM)

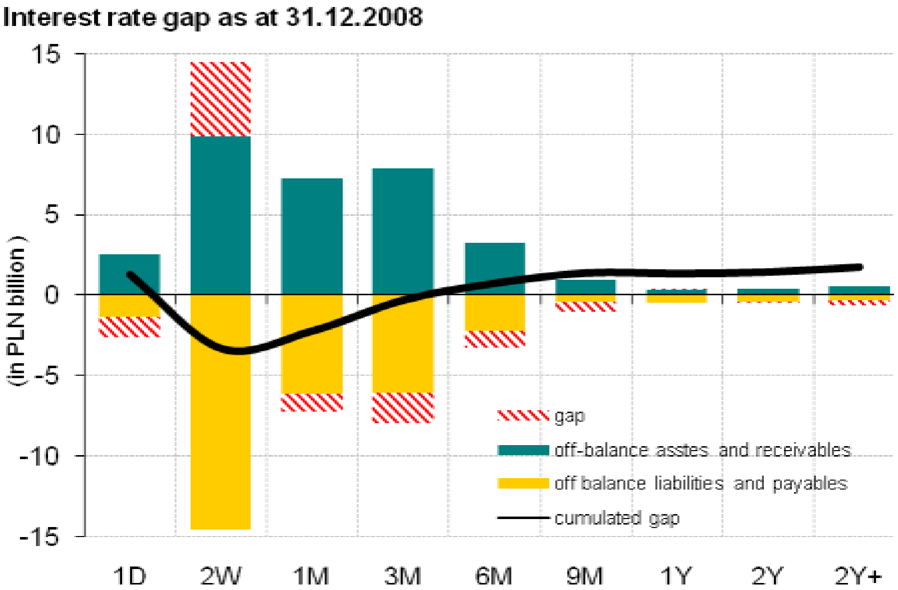
The Bank's policy with respect to the banking book is to earn additional income in excess of product margins, while avoiding the risk of instability of client deposits, capital or net profit, by keeping or matching the natural risk exposure resulting from deposit and lending activities within current risk limits or middle- and long-term financial market trends. The Bank's banking book includes deposits and loans – transferred to the Treasury Department via funds transfer pricing system – strategic items (long-term investments, obligatory reserve conversion bonds, own bonds), financial market liquidity operations (regular and inter-bank deposits), liquid debt securities) and hedging operations (derivative instruments), and non-interest-bearing items (e.g. capital, tangible and intangible assets, taxes and provisions, profit for the period).

The Bank's product policy i.e. application of variable interest rate for credit products financed with short-term fixed interest deposits means that interest rate risk exposure is well matched and is concentrated within short time limits. At the end of 2009, and after taking into account

Notes to consolidated financial statements (continued)

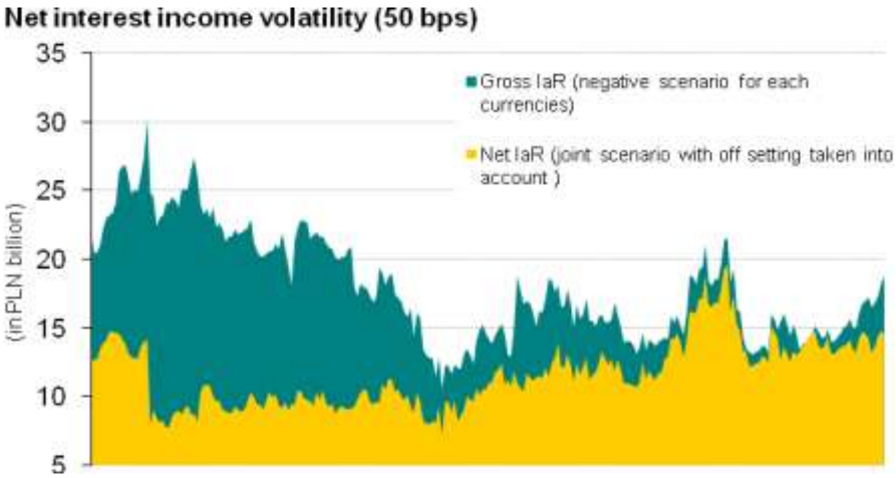
contractual revaluation/maturity dates for standard products (based on inter-bank market rates) and replicated risk profile for products with unidentified maturity profile (current and savings accounts, overdraft facilities) and products for which price is set by the Bank's Management Board, average duration of assets remained stable at the level of approx. 2.18 months, and 2.15 months for liabilities. The duration of off-balance sheet items related to securing of liquidity in foreign currencies and interest rate risk in the banking book, and especially the liquid securities portfolio, was matched as well, but more variable in time, because it had to be adjusted to the current position, market liquidity and availability of inter-bank limits. At the end of 2009, approx. 97/94% of line items – assets/liabilities and off-balance sheet items, respectively – was to be re-valued or would mature within the next 6 months, 90/79% - within 3 months, and 65/52% - within one month.



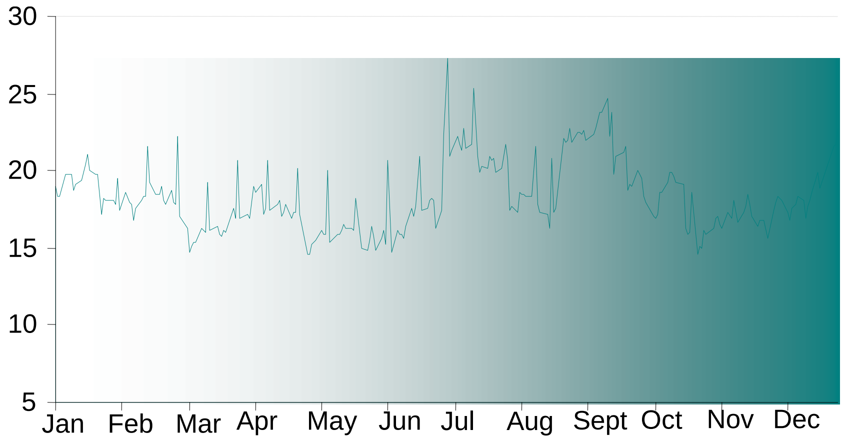


Notes to consolidated financial statements (continued)

A slight predominance of assets in each range of interest rate gap indicates that – after taking into account the net interest result – the Bank's risk profile is interest-increase-oriented i.e. contrary to the trend at the end of 2008, and simultaneously better matched than 12 months earlier. Thanks to the positive balancing of the gap, step change in interest rates by 50 bp (Interest-at-Risk measure) would cause a change in annual interest result not exceeding 4%.



Net interest income volatility on interest rate increase by 50 bp



(In PLN billion)

The basis risk, resulting from application of interest rates that were imperfectly correlated with market interest rates with respect to selected Bank products 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 the interest rates for new commercial products are based on market interest rates.

Notes to consolidated financial statements (continued)

Interest rate gap

As at 31 December 2009 (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	754	-	-	-	-	558	1 312
Amounts due from other banks	166	-	-	-	-	-	166
Securities held for trading	340	-	-	-	-	-	340
Loans and advances to customers	12 012	4 547	1 954	350	14	-	18 877
Investment securities:	1 366	1 134	322	224	-	-	3 046
– available-for-sale	1 155	1 134	322	224	-	-	2 835
– other debt securities	211	-	-	-	-	-	211
Other assets	305	-	-	-	-	-	305
Total assets	**14 943**	**5 681**	**2 276**	**574**	**14**	**558**	**24 046**
Liabilities							
Amounts owed to banks	283	31	115	-	-	-	429
Amounts owed to customers	9 715	4 716	5 036	64	-	-	19 531
Other borrowed funds	210	1 016	228	-	-	-	1 454
Other liabilities	50	-	31	-	-	-	81
Total liabilities	**10 258**	**5 763**	**5 410**	**64**	**-**	**-**	**21 495**
Off-balance sheet liabilities	4 381	1 921	183	210	16	-	6 711
Off-balance sheet receivables	4 589	1 926	189	-	-	-	6 704
Total Cumulative Interest Rate Gap	**4 893**	**4 816**	**1 688**	**1 988**	**1 986**	**2 544**	

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	-	-	-	-	636	1 287
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**	**636**	**22 425**
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**
Off-balance sheet liabilities	7 292	2 912	1 282	521	68	-	12 075
Off-balance sheet receivables	5 656	2 777	2 911	269	-	-	11 613
Total Cumulative Interest Rate Gap	**(2 213)**	**(302)**	**1 336**	**1 792**	**1 738**	**2 374**	

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:

a) a revaluation period of 1M was assigned for contracts with floating interest rate (changes by resolution),
b) a revaluation period of 1 month was assigned for preferential loans with re-discount interest rate of NBP bills,
c) overdraft facilities are presented in two parts: statistical sediment (current 12x1Y, deposit 3x3M, overdraft 1x1M) and fluctuating part (1 dzień),
d) the interest rate gap calculation takes into account margins over market rates for products, based on variable interest rate.

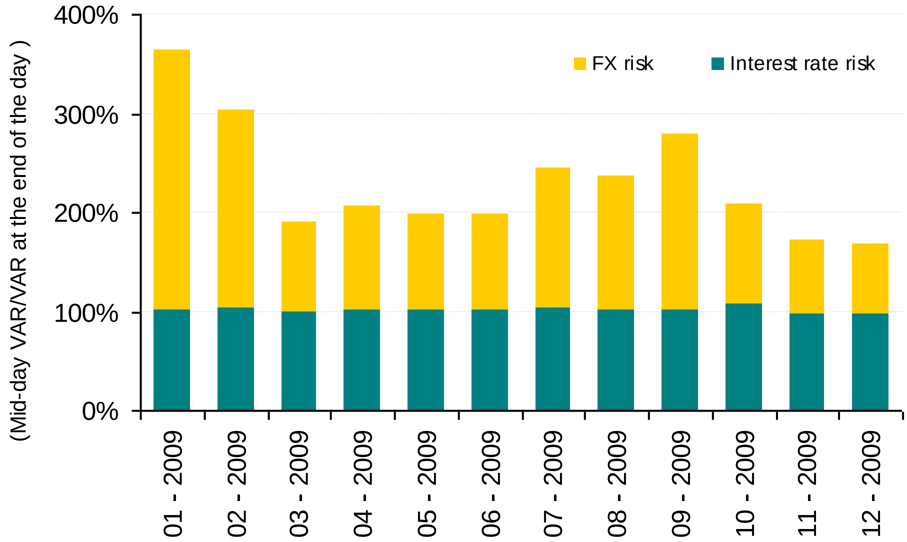
Notes to consolidated financial statements (continued)

Risk in the trading book

Trading activities are complementary and are carried out to support the sales of financial products to corporate customers (direct sales) and retail customers (via structured products). 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. In response to tense market situation in 2009 it was only possible to purchase Polish treasury securities for the debt securities portfolio and based on the decision by Balance Sheet and Risk Management Committee it was prohibited to open positions in equity (except for the Brokerage House portfolio), commodity or credit instruments. Options positions offered to customers, in accordance with the prior policy, were to be unconditionally and immediately closed on the inter-bank market.

In 2009 the turnover of the trading portfolio decreased: the Bank's currency position was closed at the end of each day, in accordance with the binding policy, but the mid-day position was 2-3 times lower than in 2007 or in the first half of 2008. The Value at Risk of the currency portfolio oscillated between 15 and 30% of the limit. It was similar for interest rate risk exposure: clients' activity was limited to transactions involving treasury bills and bonds (mainly in relation to securities purchased with re-sell agreement), that is why the Bank's trading position regarding these types of securities was stable and correlated with the value of available liquidity buffer. Low speculative foreign currency positions were opened in futures contracts on German treasury bonds and resulted from residual positions arising from acceptance or imperfect closure of non-standard CIRS transactions tailored to individual client needs.

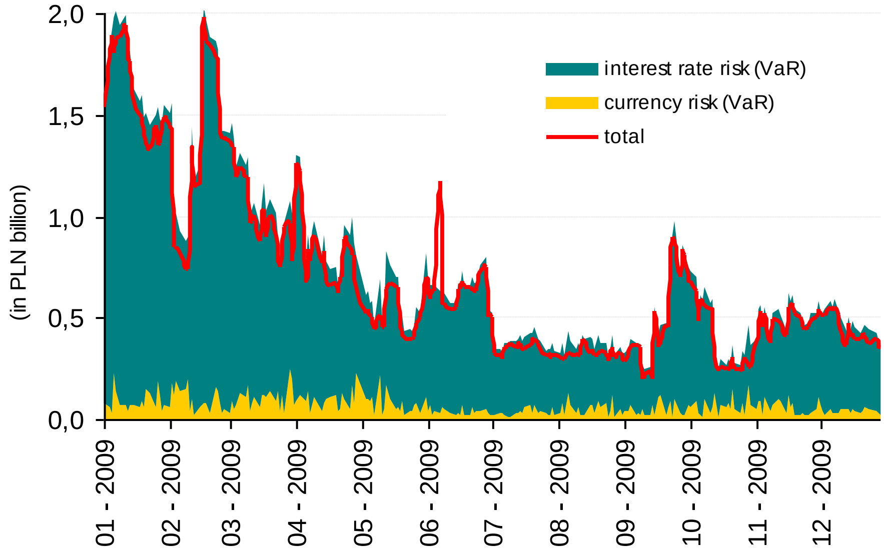
Mid-day VAR vs VAR at the end of the day



Apart from low corporate clients' activity, normalization of variability and restored correlation between base and derivative markets, which both restored the effectiveness of hedging transactions, caused a decrease in VaR in the second half of 2009.

Notes to consolidated financial statements (continued)

VAR of the trading portfolio



3.4 Liquidity risk

Liquidity risk – organisation of risk management process

The Bank has a comprehensive liquidity management system, which embraces not only quick, current and short-term liquidity, but also structural middle- and long-term liquidity. The Bank manages its liquidity risk by shaping the structure of allowed liabilities to ensure that liquidity is maintained at each time, while taking into account the nature of the business conducted 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. 386/2008 of the PFSA on determining liquidity standards for banks, and on best market practice, including the solutions applied in the Rabobank Group. Liquidity risk limits are set by the Balance Sheet and Risk Management Committee based on the Management Board's delegations.

The Bank has a comprehensive emergency plan which describes symptoms and courses of action in various scenarios of deteriorating market or Bank's liquidity situation.

Risk measures

There are internal and external measurements of risk in the Bank.

Internal regulations include, among others, analysis of trends and variability of particular sources of finance in relation to credit portfolio, liquidity gap realigned with behavioural factors and based on it short- and long-term limits of mismatch structure, net cash outflow limits for particular currencies and time horizons, analysis of inter-bank deposits market activity and obligatory reserves level, limits of minimal value of required liquid assets and highly liquid securities, analyses of deposit portfolio stability and concentration, review of volume and age structure of placements made in the Bank by the biggest depositaries. In the year 2009, the Bank implemented an additional monitoring of the plans of loans and deposits sales, by particular business lines and simulation analyses and Stress Tests. External

Notes to consolidated financial statements (continued)

measures include supervisory parameters (implemented by the PFSA resolution) of short-term and long-term liquidity in force from 30 June 2008.

Liquidity risk

The Bank's liquidity situation at the beginning of 2009 required special attention: the surplus of financing from the outside of the inter-bank market amounted to PLN 1.03 billion at the end of 2008 and decreased to the level of PLN 0.9 billion at the end of March 2009 which means that the credit liability was partially financed from unstable deposits. And the required liquid assets level was not complied with. As a result, during the last three days of January and first 3 weeks of February the Bank did not comply with the supervisory (the PFSA) long-term liquidity standard M4.

In response to the breach of the requirement referred to above, the Bank's Management Board adopted set of procedures that would lead to restoration of appropriate level of liquidity buffer. These procedures included, in particular:

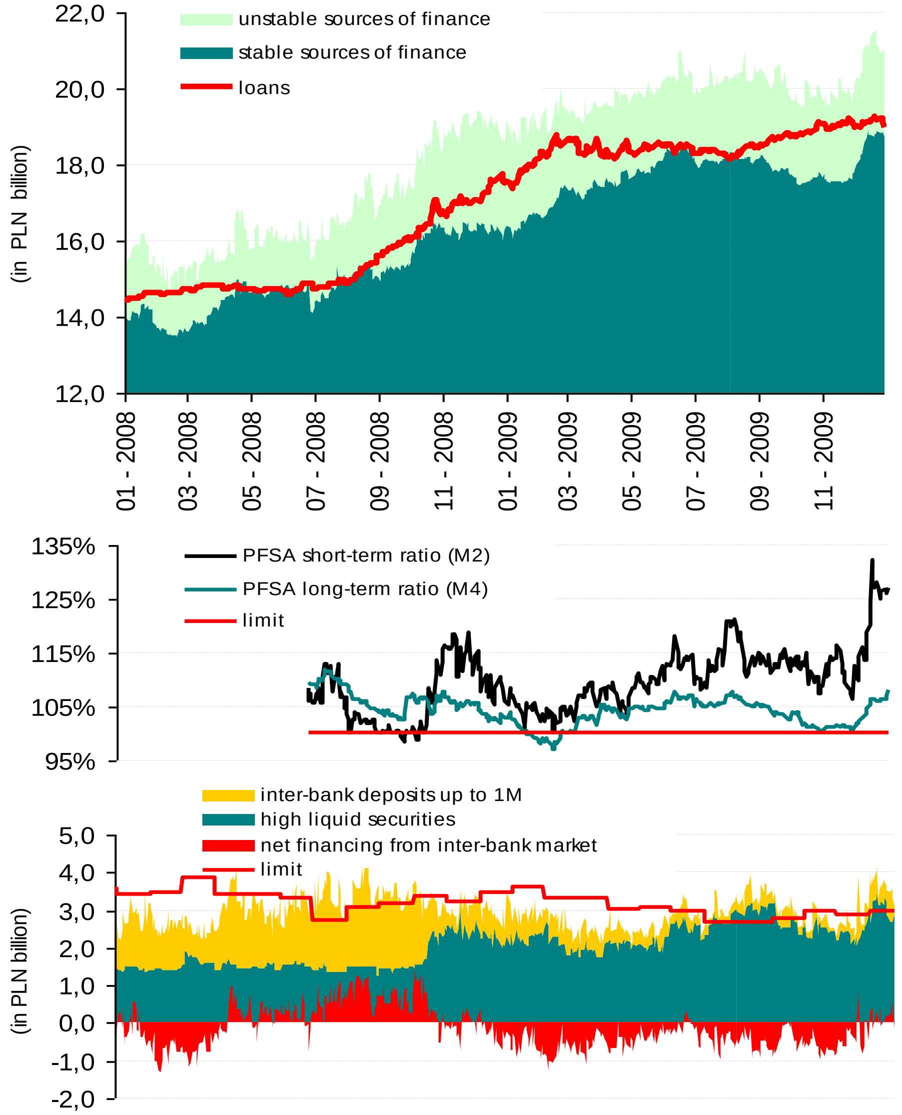
- implementation of more selective credit policy,
- starting up next editions of seasonal deposits campaigns,
- intensification of activities leading to acquisition of deposits from agricultural and food processing sector and negotiated corporate deposits,
- activation of the issue of the Bank's certificates of deposits
- changes in standard and individual liquidity margins,
- starting the works on securitization of part of the Bank's credit portfolio and acquisition of sources of finance in foreign currencies.

Implementation of the above strategy resulted in stabilization of credit campaign and in an increase in stable finance sources to the similar level, which enabled reconstruction of liquid assets portfolio.

Growth in the credit campaign in the 3rd quarter of 2009 caused by seasonal sale of preferential loans, increased companies' demand for working capital facilities and overdraft facilities, increased sale of PLN mortgage loans and expectations of increased seasonal outflow of the cash of public entities at the end of the year made it possible for the Bank to acquire large number of retail deposits from SME/Micro sector supported by corporate deposits and issues of certificates of deposit.

Notes to consolidated financial statements (continued)

Dynamics of loans and their sources of finance, liquidity standards

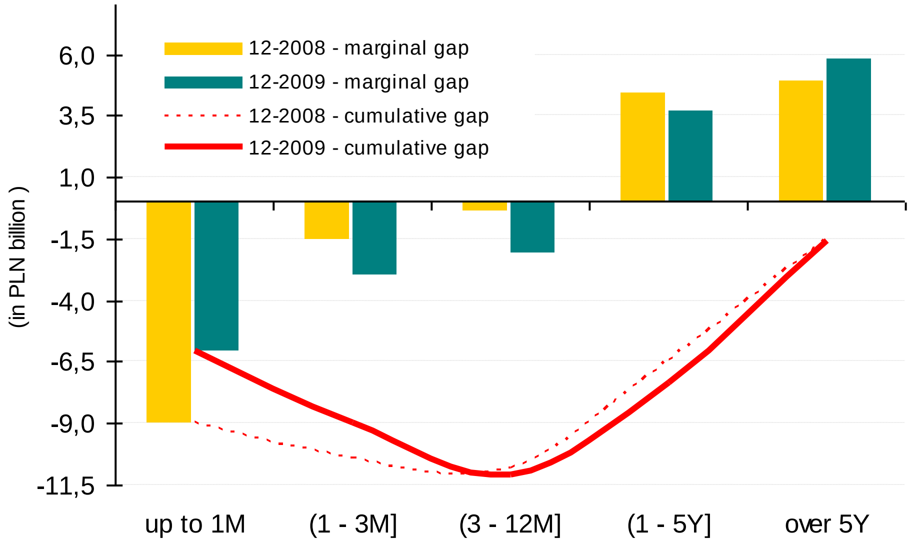


At the end of December 2009 the surplus of the outside inter-bank market sources of finance over loans balance amounted to PLN 2 billion (twice as much as at the end of 2008) with only PLN 0.26 billion deficit to fully cover the loan portfolio with stable deposits (nearly 5 times less than at the end of 2008). Realigned liquidity gap indicates that although the Bank continues to finance long-term assets with short-term liabilities, thanks to the efforts to acquire long-term deposits and thanks to promoting mid-term retail deposits, during 2009 this structure was improved.

PLN thousand

Notes to consolidated financial statements (continued)

Adjusted liquidity gap



During the year, stability of the Bank's sources of finance remained high and – generally – improved, mainly due to low fluctuation of retail deposit balances (excluding migration between individual products), sediment cash of budget entities and the increasing balance of certificates of deposit:

	31.12.2009		31.12.2008	
	balance	stable (%)	balance	stable (%)
Retail clients	11 042	94,5%	10 407	**92,3%**
Companies	6 913	88,4%	6 054	**90,7%**
Budgetary entities	1 570	53,9%	1 458	**43,0%**
Certificates of deposit	1 465	90,0%	616	**90,0%**
Banks and other unstable sources	514	0,0%	1 182	**0,0%**
Total	**21 504**	**87,0%**	**19 717**	**82,6%**

Notes to consolidated financial statements (continued)

Liquidity gap

As at 31 December 2009 (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:	82	85	397	1 473	4 882
· housing and mortgage loans	20	42	200	975	4 770
Loans and advances to corporate customers	2 259	525	1 807	4 607	2 288
Loans and advances due and receivable	276	3	14	105	186
Securities, of which:	1356	875	905	254	19
held for trading	188	125	104	-	-
available for sale	1 150	696	699	-	-
Inter-bank placements	166	-	-	-	-
Cash and balances with the Central Bank (NBP)	707	-	-	-	572
Non-current assets	327	-	3	69	172
Other assets	312	18	117	92	5
Liabilities received and derivatives	3 649	2 008	471	3 048	98
Liabilities and equity					
Deposits from retail customers	3 342	950	3 342	3 336	44
Deposits from corporate customers	2 389	132	398	1 451	-
Inter-bank deposits	306	40	12	-	-
Negotiable deposits SK	2 408	1 353	335	119	-
Certificates of deposit	210	1 022	233	-	-
Equity and subordinated liabilities	-	-	108	-	2 270
Other liabilities	278	18	169	46	8
Liabilities granted and derivatives	6 246	2 967	1 159	1 021	102
Total receivables	**9 134**	**3 514**	**3 714**	**9 648**	**8 222**
Total liabilities	**15 179**	**6 482**	**5 756**	**5 973**	**2 424**
Partial liquidity gap, as at 31 December 2009	**(6 045)**	**(2 968)**	**(2 042)**	**3 675**	**5 798**

Notes to consolidated financial statements (continued)

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:	71	63	310	1 105	3 955
· housing and mortgage loans	15	32	164	827	3 820
Loans and advances to corporate customers	2 001	591	2 138	4 980	2 117
Loans and advances due and receivable	114	3	14	107	189
Securities, of which:	508	406	1 336	814	24
held for trading	303	202	12	-	-
available for sale	200	150	1 235	-	-
other debt securities	-	-	4	414	-
Inter-bank placements	356	-	-	-	-
Cash and balances with the Central Bank (NBP)	620	-	-	-	620
Non-current assets	317	-	4	79	169
Other assets	293	46	111	24	7
Liabilities received and derivatives	6 123	2 098	1 759	3 437	125
Liabilities and equity					
Deposits from retail customers	3 949	1 398	1 975	2 907	45
Deposits from corporate customers	2 538	125	256	1 820	-
Inter-bank deposits	563	358	43	-	-
Negotiable deposits SK	2 213	546	118	120	-
Certificates of deposit	248	118	249	-	-
Equity and subordinated liabilities	-	-	217	-	2 066
Other liabilities	198	34	341	68	4
Liabilities granted and derivatives	9 700	2 103	2 853	1 197	143
Total receivables	**10 403**	**3 207**	**5 672**	**10 546**	**7 206**
Total liabilities	**19 409**	**4 682**	**6 052**	**6 112**	**2 258**
Partial liquidity gap, as at 31 December 2008	**(9 006)**	**(1 475)**	**(380)**	**4 434**	**4 948**

Notes to consolidated financial statements (continued)

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

a) liquid securities are presented in the real liquidity gap in the 1-month, 3-month or 6-month term, according to the item's characteristics and book classification (trading/AFS); securities with short-term maturity (up to 3 months), and securities classified as HTM are presented in a group consistent with their actual maturity,
b) current accounts (and other deposit products e.g., Eskalacja) 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,
c) overdraft facilities and past maturity date loans 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),
d) ll 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).

3.5 Country risk and counterparty risk

Due to the global economic crisis initiated by the sub-prime problem in the USA, which later spread as trust deficit among financial institutions, and due to liquidity crisis, in 2009 the Bank continued its conservative policy with respect to country and counterparty risk.

Country risk and counterparty risk – organisation of risk management system

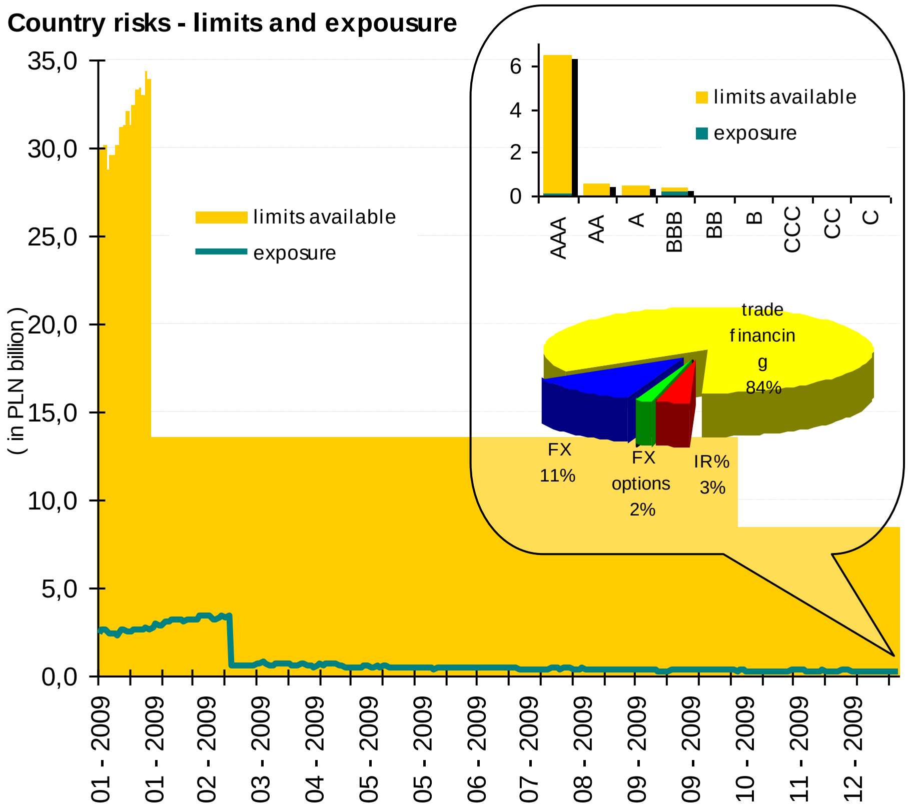
The Bank operates locally and offers mediation in entering into financial market transactions to its corporate clients. The problem of 'toxic options' made the Bank tighten its credit limit procedures in 2009: the decision process regarding transaction limits was moved to the Head Office, new agreement templates better securing parties' interests were implemented and new limit structure was introduced which enables verification of the compatibility of the transaction with clients' declared needs to hedge their business activity by limiting the number of instrument types, currency pairs, duration of transactions or volume of open currency positions. Additionally, the Bank implemented uniform and clear rules for safeguarding of exposures. These processes coincided with the implementation of MiFID directive regulations. The Treasury Department and the Financial Risk Management Department were included in the initial phase of the process of preparation of limit application, while at the stage of target solution development, product professionals were involved to support advisors and analysts in the clients' needs recognition and limit measurement process.

Within the limits for financial institutions and countries, the Bank tightened its cooperation with the majority shareholder by adjusting the size and the structure of the available limits to the Rabobank Group policy, which aims at consolidating the exposure and taking advantage of the Group's strength in negotiating the conditions and prices in inter-bank transactions. In 2009, the Bank launched limits for non-banking financial institutions. Limits for global companies were agreed with the Group on an individual basis. The Bank however stays active on the local inter-bank market.

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

Country risk

During 2009, the Bank reviewed twice – in January and October – the available country limits and decreased the maximum possible exposure from PLN 30 billion to PLN 8.4 billion. During the review, the limits for Greece, Kazakhstan and Ukraine (due to political and/or economical conditions), Portugal and Slovakia (due to non-utilization) were withdrawn and many other were decreased so as to adjust them to the real Bank's needs and risk appetite.



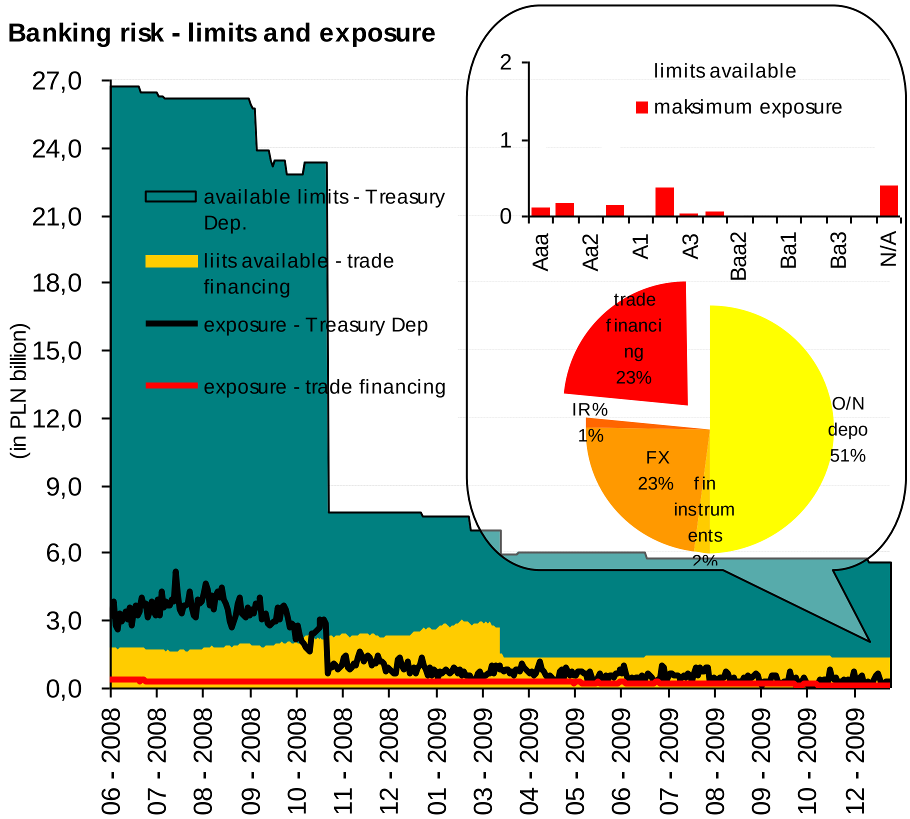
According to the balance as at 31 December 2009, the vast majority of the Bank's country exposure related to credit transactions: 65% related to syndicated loans (Croatia, Germany, Hungary), 20% – to the exposures resulting from discontinued operations of financing of foreign banks (Russia, Romania, the USA), 15% - to the transactions of the Treasury Department (mainly the Netherlands, Germany, Denmark).

Banking risk

Similar to the country risk, in 2009 the Bank continued with its trend to reduce bank limits that was initiated in October 2008: the size of available facilities decreased during 12 months by PLN 3.2 billion to PLN 5.6 billion in relation to the limits available for the Treasury Department, and to PLN 1.3 billion - in relation to limits for the transactions financing foreign trade. In the area of inter-bank market transactions, the majority of the available limits constitute facilities for banks operating in Poland and owned by the State Treasury or by

Notes to consolidated financial statements (continued)

branches of foreign banks. The Bank has also a restricted list of limits for foreign banks that are required to execute transactions in foreign currencies to hedge own and client positions – in such cases the Bank usually does not apply the 'funding' type limit, i.e. the limit which allows a deposit to be granted. In the area of transactions financing trade, in 2008 the Bank ceased to finance foreign banks, however, according to the balance at the end of 2009 there were still 5 transactions maturing in 2010 and 2011. The current Bank's policy concerning foreign trade financing limits the range of available transactions to short-term letters of credit and guarantees with a requirement that there is a strong relation with the Bank's client. In June 2009, the Bank created a full allowance for overdue receivables from a foreign bank. As at 31 December 2009 the restructuring plan was not available

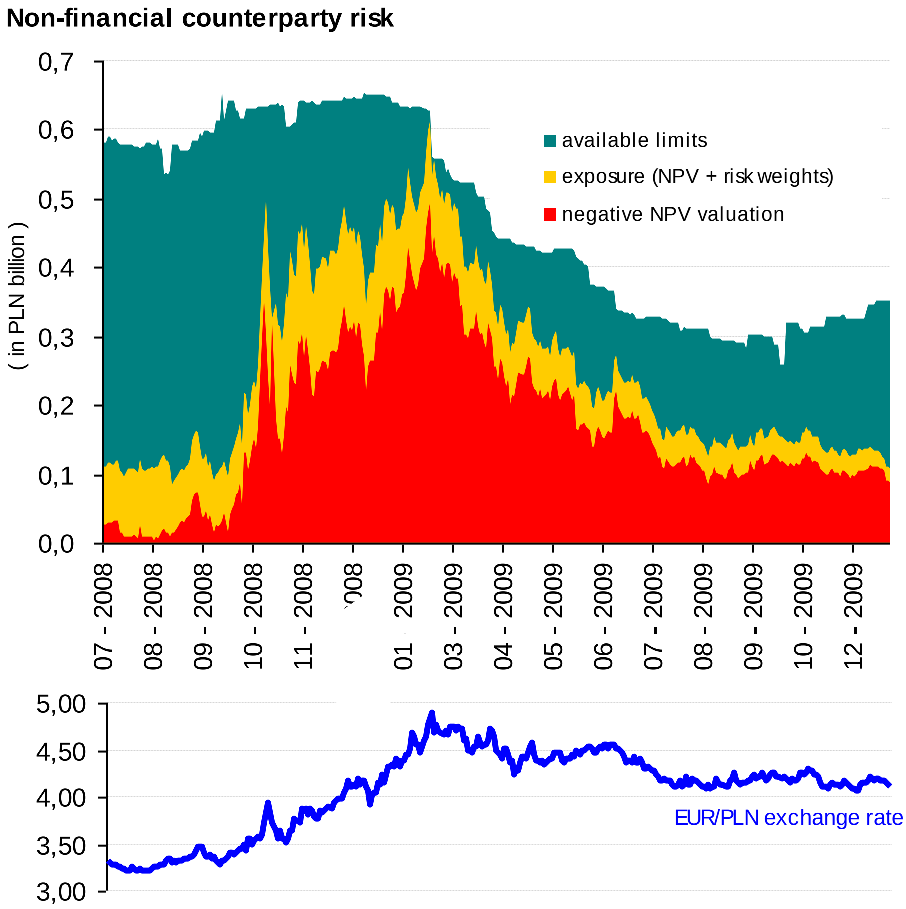


Non financial counterparty risk

The problem of 'toxic options' referred to above which affected practically all banks operating in Poland, including Bank BGŻ, revealed the scale of speculative activities run by clients and the lack of knowledge of the risks related to the purchased instruments on one hand, and the imperfect nature of agreements, credit and monitoring procedures in banks, on the other. Changes in the process of allocating transaction limits at the Bank caused that the number of open positions decreased by 75% during 12 months. Similar effect was observed with respect to the exposure which was fairly stable during the last 5-6 months due to stable EUR/PLN exchange rate and due to the fact that 40% of open positions originated from the restructured, unsettled transactions with 'inherited' negative valuation.

Notes to consolidated financial statements (continued)

In the second half of 2009, the process of limit granting was launched in the new formula (see above) and, additionally, new limits for non-banking financial institutions were granted: insurers, investment funds and pension funds.



Notes to consolidated financial statements (continued)

Concentration of currency assets and liabilities (in PLN thousands)

At 31 December 2009	EUR	USD	CHF	GBP	Other
Assets					
Cash and balances with the Central Bank	38 475	20 166	3 042	8 557	-
Amounts due from other banks	187 331	44 522	33 161	750	7 067
Securities held for trading	-	-	-	-	-
Loans and advances to customers	584 734	334 320	3 358 386	3 674	-
Other assets	5 441	859	1	2 458	2
Total assets	**815 981**	**399 867**	**3 394 590**	**15 439**	**7 069**
Liabilities					
Amounts owed to banks	34 886	87 441	-	1 636	428
Amounts owed to customers	700 610	402 161	756	15 534	1 623
Other liabilities	17 179	1 342	15	600	361
Total liabilities	**752 675**	**490 944**	**771**	**17 770**	**2 412**
Derivatives and commitments	**1 984 524**	**5 966 163**	**3 390 160**	**30 887**	**15 577**
At 31 December 2008					
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 commitments	**6 884 208**	**12 069 735**	**5 405 765**	**47 085**	**186 556**

3.6 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, ensuring that Bank renders services of the highest quality as well as security and compliance of Bank's activities with laws and regulations.

Notes to consolidated financial statements (continued)

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 risk. Operating risk identification and reporting system embraces all Bank's organizational units which ensures completeness and accuracy of data that constitute basis for risk evaluation and decision making that influence the size of the risk borne by the Bank. The Bank's employees are trained among others in identification and reporting of operating risk events and threats.

Reporting

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

Economic capital and risk evaluation

Bank has a 8-year data history of losses caused by operating risk. The data concerning operating risk losses and threats collected by the Bank are used to evaluate economic capital required to cover operating risk that strictly corresponds with Bank's operating profile. The evaluation of economical capital is based on implemented rules and statistical model. Irrespective of the above, according to the regulations in force, the Bank determines regulating capital to cover operating risk. The basic index method (BIA) was selected to calculate it.

The process of operating risk assessment is supplemented by the operating self- assessment method and the Key Operating Risk Indicators Method. The Key Operating Risk Indicators are the tool to monitor operating risk for selected, significant processes of the Bank using the three-grade risk evaluation scale.

3.7 Trust activities

The Group provides safekeeping, trust, business management, investment management and advisory services to third parties, and in doing so, the Group takes decisions in the name and for the benefit of clients, concerning the allocation, purchase and sale of various financial instruments. The Group 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 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 48 192 thousand in 2009, and to PLN 154 183 thousand in 2008.

PLN thousand

Notes to consolidated financial statements (continued)

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

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

Level 1

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

Level 2

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

Level 3

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

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

31.12.2009	Level 1	Level 2	Level 3	Total
Financial assets:	**1 848 145**	**1 398 518**	**209 841**	**3 456 504**
Financial assets at fair value through profit or loss	430 329	-	-	430 329
Derivatives	125	244 189	2 069	246 383
Financial assets available for sale	1 417 691	1 154 329	207 772	2 779 792
Financial liabilites	**-**	**243 227**	**4 865**	**248 092**
Derivatives	-	243 227	4 865	248 092

31.12.2008	Level 1	Level 2	Level 3	Total
Financial assets:	**2 113 758**	**985 698**	**240 568**	**3 340 024**
Financial assets at fair value through profit or loss	530 173	-	-	530 173
Derivatives	-	985 698	3 200	988 898
Financial assets available for sale	1 583 585	-	237 368	1 820 953
Financial liabilites	**34**	**1 403 186**	**4 949**	**1 408 169**
Derivatives	34	1 403 186	4 949	1 408 169

In 2009, the Bank did not implement any changes in the re-measurement to fair value method which would result in transfers of financial assets and liabilities between the individual levels referred to above.

Notes to consolidated financial statements (continued)

Table below shows changes in valuation of financial assets and liabilities classified as level 3 and amounts taken to profit or loss and to the statement of comprehensive income for financial assets and liabilities classified as level 3 as at 31 December 2009.

		Gains/losses					
	Opening balance	Through profit or loss	*Including items presented as of 31.12.2009*	Through statement of comprehensive income	*Including items presented as of 31.12.2009*	Settlement	Closing balance
Financial assets:	**240 568**	**12 817**	**11 186**	**5 616**	**4 911**	**(49 160)**	**209 841**
Derivatives	3 200	(1 131)	(979)	-	-	-	2 069
Available for sale financial assets	237 368	13 948	12 165	5 616	4 911	(49 160)	207 772
Financial liabilities	**(4 949)**	**83**	**(188)**	**-**	**-**	**-**	**(4 865)**
Derivatives	(4 949)	83	(188)	-	-	-	(4 865)

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

In respect to debt instruments available for sale classified as level 3 credit risk margin is taken into account in fair value measurement which is equal to margin for instruments of similar characteristics. The impact of the margin used on the fair value of those instruments, whose weighted average value as at 31 December 2009 amounts to 2.27 p.p., is assessed material.

The impact of changes in estimates of credit margin on fair value presents the table below:

Change in credit margin	by 1%	by 25%	by 50%	by 100%
Change in fair value (PLN thousands)	-96	-2 366	-4 682	-9 169

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

PLN thousand

Notes to consolidated financial statements (continued)

2009	Carrying amount	Fair value
Financial assets		
Amounts due from other banks	356 593	355 499
Amounts due from customers under overdraft facilities	2 225 094	2 225 094
Loans and advances to customers:		
- companies	5 273 436	5 280 537
- households	10 520 325	10 437 315
- public institutions	211 876	212 933
- other entities	68 334	68 106
- other receivables	2 301	2 301
Other debt securities	213 109	211 491
Financial liabilities		
Amounts owed to other banks	476 086	476 035
Amounts owed to customers and debt securities issued	21 049 345	21 011 774
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 receivables	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

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

Notes to consolidated financial statements (continued)

advances granted to customers, the amounts to be received are discounted using current interest rates.

c) Other debt securities

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

d) Amounts owed to other banks

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

e) Amounts owed to customers

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

f) Debt securities issued

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

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 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.

Notes to consolidated financial statements (continued)

Assessment of the impairment of individually significant assets

Financial assets are assessed for whether or not there is objective evidence to show that they are impaired. 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.

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 Group 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 Group must apply judgement. In making this judgment, apart from other factors, the Group 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.

Notes to consolidated financial statements (continued)

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).

5 Business segments

5.1. Segment Reporting

Operating segments were formed based on clients and products identification. The Bank's reporting is split into the following business segments: Retail Banking, Corporate Banking, Treasury Banking, Bank&Risk Management Committee, Irregular Loans and Other. 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 code). The Bank identifies operating segments based on its operational result (segment profit/loss).

For the purpose of segment reporting, the policies of identification of income and expense, and assets and liabilities comply with the accounting policies of BGŻ S.A., except for the costs of business activities, impairment write-downs, depreciation/ amortization and income tax. Income tax items are monitored at the Group level and are not allocated to individual segments.

For the purpose of segments' results evaluation the Group uses Standard Risk Costs (SRC) instead of real impairment allowances. Standard Risk Costs show anticipated losses resulting from the Bank's loan granting activity throughout the duration of each contract. As a result, the total annual sum of SRC allowances may differ from real impairment allowances presented in the Bank's results.
Sum of SRC charged to each segment equals zero in the Group as a whole and is reconciled in the Other Segment.
Real impairment allowances are allocated to the Irregular Loans Segment or to the Other Segment, depending on whether evidence of impairment exists or not. Result on impairment of contracts for which evidence of impairment exists is presented in the Irregular Loans Segment's results, while result on impairment of other contracts is presented in the Other Segment.

For the purpose of reconciliation of management data with the financial data as at the reporting date in accordance with IFRS 8, operating costs and depreciation are allocated to individual segments based on a division key. In order to present full management result by business lines, the Bank applies simplified cost and depreciation/amortization allocation model. Depreciation/amortization were separated from each of these groups and allocated by employment.
Expenses were split into eight groups: infrastructural, IT, telecommunication, human resources, promotion / marketing and market research, sponsoring and Public Relations, legal, business 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 and telecommunication expenses include costs of the following: information systems, IT services, hardware, technical services, and 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, marketing and market research expenses include costs of the following: advertising and promotion campaigns.
Sponsoring and Public Relations expenses include: sponsoring and representation expenses.
Legal costs include: costs of legal services, consultancy costs, bailiff and court fees.
Business costs include: costs which are directly related to and support the primary Group's activity.
General expenses include costs of the following: fees paid for the Bank Guarantee Fund, Polish Automated Clearing House *(Krajowa Izba Rozliczeniowa)* and Loan Information Office.

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

Net interest result in segments is established based on fund transfer prices (FTP) based on market rates. Due to the fact that the majority of the individual segment's revenues constitute interest income and that the Management Board evaluates results of a segment based on its net interest income, the IFRS 8 statement does not present separately interest income and expense, including internal income and expenses between segments.

The Bank'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 income from brokerage services, distribution of investment fund units.
Retail services are performed by branches of the Group and through 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. Corporate clients also have access to the phone (TeleBGŻ) and internet banking (eBGŻ Firma and Home Banking BGŻ).

Notes to consolidated financial statements (continued)

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 BGŻ Leasing), granting subordinated loans to cooperative banks, and entering into currency change and derivative transactions.

The Treasury Banking includes activity on own account on the inter-bank market (including trading transactions), entering into liquidity management transactions, banking and trading book management transactions.

The Bank&Risk Management Committee includes results related to management of strategic items included in this 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. Volatile result disclosed within this segment in 2008 and 2009 resulted from off-setting of business lines' losses on deposits quoted on the market over BID rates taken to FTP measurement. It is an effect of introducing additional 'liquidity cost' which reflects real costs of acquiring finance sources on the market. In 2008 situation on the deposit market was stable and the result on deposits was positive for this segment.

In the **Irregular Loans Segment** are presented results on vindication activity of the Irregular Debt Department in the scope in which it relates to retail clients' and institutional client's exposures.

The Other Segment includes results that are not attributable to any of above listed segments (i.e., capital investments administered by the Risk and Finance Department, strategic capital investments, result of the Support Service Lines, results attributable to the Bank's own accounts and to clients' accounts not attributed to specified segment and reconciling items)..

None of the operating segments was merged with other segment rto create the above operating segments.

5.3. Reconciliation of results with financial reporting data

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

- dividend income
- result on trading activities
- result on investing activities
- share in profits of associates

after deducting costs and income related to equity stakes.

Net impairment allowance reconciles with the consolidated income statement position: Net impairment losses on loans and advances after deducting:

- positions related to result on allowances/ reversed provisions on future liabilities
- positions related to result on change in value of fixed assets and intangible assets

Result on other operations reconciles with the sum of the following consolidated income statement positions:

- other operating income
- other operating costs

PLN thousand

Notes to consolidated financial statements (continued)

adjusted by positions from the first two paragraphs and by depreciation/amortization which was separated in IFRS 8 and which in the consolidated income statement is presented as other operating costs.

Reporting as of operating segments	**2009**	**2008 (after adjustments)**
Result on financial operations	163 400	61 646
Foreign exchange result	58 781	67 339
	222 181	**128 985**
Income statement:		
Dividend income	3 525	3 242
Result on trading activities	203 450	129 338
Result on investing activities	15 726	(5 313)
Share in income of associaties	(26)	(207)
Adjustment:		
1. Expenses/income from capital share	(494)	1 925
	222 181	**128 985**
Net impairment allowances	**(91 166)**	**(42 152)**
Income statement:		
Net impairment allowances of loans	(106 504)	(45 104)
Adjustments:		
1. Change in value of tangible and intangible assets	15 481	84
2. Allowances/Reversal of provisions for future liabilities	(143)	2 868
	(91 166)	**(42 152)**
Result on other operations	**21 798**	**82 298**
Income statement:		
Other operating income	83 743	137 638
Other operating expenses	(119 917)	(118 583)
Adjustments:		
1. Expenses/Income from capital share	494	(1 925)
2. Change in value of tangible and intangible assets	(15 481)	(84)
3. Allowances/Reversal of provisions for future liabilities	143	(2 868)
4. Depreciation	72 816	68 120
	21 798	**82 298**

PLN thousand

Notes to the consolidated financial statements

2009	Retail Banking	Corporate Banking	Treasury Banking	Bank&Risk Management Com.	Other	Irregular Loans	BGŻ S.A.
Income statement							
Net interest income	201 968	355 210	41 131	(118 939)	(72 506)	55 105	**461 969**
Net fee and commission income	86 679	150 452	1 253	-	8 111	1 875	**248 370**
Result on financial operations	2	19 074	100 616	7 278	36 923	(493)	**163 400**
Foreign exchange result	21 238	34 856	3 252	-	(740)	175	**58 781**
Result on other operations	5 411	22	-	-	8 561	7 804	**21 798**
Net impairment write-offs	-	-	-	-	(33 230)	(57 936)	**(91 166)**
Risk allowance (SRC)	(36 575)	(133 746)	(332)	-	170 653	-	**-**
Total costs of banking activities	(174 619)	(165 262)	(10 059)	1 914	(271 856)	(53 888)	**(673 770)**
Depreciation/Amortization	(17 625)	(15 096)	(410)	-	(33 269)	(6 417)	**(72 817)**
Segment result	**86 479**	**245 510**	**135 451**	**(109 747)**	**(187 353)**	**(53 775)**	**116 565**
Profit (loss) before taxation	**-**	-	-	-	-	-	**116 565**
Income tax expense	**-**	-	-	-	-	-	**(15 922)**
Net profit (loss) for the year	**-**	-	-	-	-	-	**100 643**
Statement of financial position							
Segment assets	6 853 501	11 297 799	591 985	210 546	5 015 071	464 808	**24 433 710**
Segment liabilities	11 058 576	8 082 538	583 180	1 420 148	902 902	-	**22 047 344**
Equity	-	-	-		-		**2 386 366**
Total equity and liabilities	**-**	**-**	**-**		**-**		**24 433 710**

PLN thousand

Notes to the consolidated financial statements

2008 (revised data)	Retail Banking	Corporate Banking	Treasury Banking	Bank&Risk Management Com.	Other	Irregular Loans	BGŻ S.A.
Income statement							
Net interest income	258 769	328 410	(3 188)	91 466	(73 168)	62 615	**664 904**
Net fee and commission income	82 627	126 412	1 224	-	5 254	1 273	**216 790**
Result on financial operations	172	542	65 170	-	1 070	(5 308)	**61 646**
Foreign exchange result	37 246	49 410	(19 614)	-	183	114	**67 339**
Result on other operations	5 633	816	-	-	55 413	20 436	**82 298**
Net impairment write-offs	-	-	-	-	(20 730)	(21 422)	**(42 152)**
Risk allowance (SRC)	(14 852)	(86 930)	(468)		102 270	(20)	**-**
Total costs of banking activities	(173 872)	(171 753)	(6 768)	(8 279)	(302 196)	(45 096)	**(707 964)**
Depreciation/Amortization	(15 475)	(14 296)	(384)	-	(33 436)	(4 529)	**(68 120)**
Segment result	**180 248**	**232 611**	**35 972**	**83 187**	**(265 340)**	**8 063**	**274 741**
Profit (loss) before taxation	**-**	-	-	-	-	-	**274 741**
Income tax expense	**-**	-	-	-	-	-	**(61 717)**
Net profit (loss) for the year	**-**	-	-	-	-	-	**213 024**
Statement of financial position							
Segment assets	5 472 385	11 507 730	789 960	724 358	5 264 674	308 261	**24 067 368**
Segment liabilities	10 432 242	5 746 033	113 846	2 563 447	2 933 226	339	**21 789 133**
Equity	-	-	-	-	-	-	**2 278 235**
Total equity and liabilities	-	-	-	-	-	-	**24 067 368**

PLN thousand

Notes to the consolidated financial statements

6 Net interest income

	12 months ended 31.12.2009	12 months ended 31.12.2008
Interest income, of which relating to;		
Amounts due from other banks	41 101	124 051
Amounts due from customers under overdraft facilities	163 648	158 905
Loans and advances to customers, after considering reversal of discount on impairment losses	906 796	984 685
- companies	331 800	407 686
- households	563 605	564 073
- public institutions	7 285	10 187
- other entities	4 106	2 739
Debt acquired from customers	12 962	16 139
Guaranties realised	118	2
Other amounts due from customers	3 256	2 048
Debt securities from all portfolios	146 282	164 779
- at fair value through profit or loss account (trading)	14 661	19 304
- available for sale	118 837	98 649
- other debt securities	12 784	46 826
	1 274 163	**1 450 609**
Interest expense, of which relating to:		
Amounts owed to banks	82 428	117 898
Amounts owed to customers	729 767	667 807
Other	-	-
	812 195	**785 705**
Net interest income	**461 968**	**664 904**

In the 12-month period ended 31 December 2009 , 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 1 259 502 thousand (PLN 1 431 155 thousand for the 12-month period ended 31 December 2008), 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 812 195 thousand (PLN 785 758 thousand for the 12-month period ended 31 December 2008).

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 2009 and 2008 which is PLN 68 752 thousand and PLN 46 965 thousand respectively.

PLN thousand

Notes to the consolidated financial statements

7 Net fee and commission income

	12 months ended 31.12.2009	12 months ended 31.12.2008
Fee and commission income		
Fee and commission income from banks	9 731	6 672
Fee and commission income from customers	272 153	241 136
- on loans and advances	183 620	143 578
- on domestic settlements	1 538	1 785
- on foreign settlements	7 912	5 736
- on guarantee commitments	13 899	8 382
- on brokerage operations	14 709	16 047
- on credit cards	46 282	44 582
- other	4 193	21 026
	281 884	**247 808**
Fee and commission expense		
Fee and commission expense from banks	2 747	3 593
Fee and commission expense from customers	30 767	27 425
	33 514	**31 018**
Net fee and commission income	**248 370**	**216 790**

8 Dividend income

	12 months ended 31.12.2009	12 months ended 31.12.2008
Held-for-trading securities	3	-
Available-for-sale securities	3 522	3 214
Shares in associated entities	-	28
	3 525	**3 242**

PLN thousand

Notes to the consolidated financial statements

9 Result on trading activities

	12 months ended 31.12.2009	12 months ended 31.12.2008
Equity instruments	**66**	**176**
- Equity instrument income	72	221
- Equity instrument expense	(6)	(45)
Debt instruments	**1 719**	**(2 938)**
- Debt instrument income	23 230	11 819
- Debt instrument expense	(21 511)	(14 757)
Derivatives	**499 704**	**(426 995)**
- Derivatives income	2 137 367	2 607 559
- Derivatives expense	(1 637 663)	(3 034 554)
Foreign exchange result	**(298 039)**	**559 095**
Result on trading activities	**203 450**	**129 338**

The "Foreign exchange result" includes gains and losses from spot and forward transactions, options, futures and foreign currency assets and liabilities translated into Polish zloty.

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:

	12 months ended 31.12.2009	12 months ended 31.12.2008
Assets available for sale:	**16 219**	**(5 383)**
- Debt instruments income	4 747	4 448
- Equity instruments income	15 390	-
- Debt instruments expense	(3 918)	(9 831)
Other debt securities:	**-**	**70**
- Debt instruments income	-	70
Income on share in capital	**(493)**	**-**
Total	**15 726**	**(5 313)**

PLN thousand

Notes to the consolidated financial statements

11 Other operating income

	12 months ended 31.12.2009	12 months ended 31.12.2008
From management of third-party properties	2 574	2 261
From sale or liquidation of property, plant and equipment, intangible assets and assets held-for-sale	4 959	9 597
From recovered statute –barred receivables, written off or bad debts, repayments of derecognised receivables	13 175	28 233
Sales of goods and services	9 687	9 787
Reversal of fixed asset impairment write-downs	34	163
Reversal of provisions for future liabilities (note 34 and note 37)	37 876	34 686
Investment property valuation	-	27 687
Other operating income	15 438	25 224
Other operating income, total	**83 743**	**137 638**

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

12 Impairment losses on loans and advances

	12 months ended 31.12.2009	12 months ended 31.12.2008
Amounts due from other banks	(7 518)	(93)
Loans and advances to customers	(97 956)	(44 208)
Liabilities granted	(788)	(980)
Other debt securities and investments in subsidiaries	(242)	177
Impairment losses on loans and advances, total	**(106 504)**	**(45 104)**

13 General administrative expenses

	12 months ended 31.12.2009	12 months ended 31.12.2008
Employee benefit costs (Note 15)	369 020	413 783
Materials and energy	29 411	27 895
External services	163 846	159 730
Other non-personnel costs	94 176	93 841
Taxes and charges	4 877	4 914
Contributions and amounts transferred to the KNF	12 440	7 801
General administrative expenses, total	**673 770**	**707 964**

PLN thousand

14 Other operating costs

	12 months ended 31.12.2009	12 months ended 31.12.2008
Due to the management of third-party assets	1 457	1 174
Due to the sale or liquidation of property, plant and equipment, intangible assets and assets or sale	2 581	4 982
Due to recognised provisions for other receivables (other than loans and advances) (Note 29)	5 523	897
Due to provisions for liabilities (Notes 34 and 37)	15 965	31 991
Due to debt recovery	3 875	3 776
Donations	404	405
Amortisation and depreciation (Notes 27 and 28)	72 817	68 120
Due to the impairment of property, plant and equipment	177	78
Investment property valuation	13 800	-
Other operating expenses	3 318	7 160
Other operating expenses, total	**119 917**	**118 583**

The “other operating expenses” line item includes write-downs against asset held for sale and current assets.

15 Employee benefits

	12 months ended 31.12.2009	12 months ended 31.12.2008
Payroll	313 350	354 893
Including: retirement pay	235	1 052
Social security	38 382	42 677
Other	17 288	16 213
Employee benefits, total	**369 020**	**413 783**

PLN thousand

Notes to the consolidated financial statements

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.

Items	Year ended 31.12.2009	Year ended 31.12.2008
Profit (loss) before taxation	**116 565**	**274 741**
(-) Non-taxable revenue for the current year	**2 148 721**	**2 398 231**
Interest income	39 225	59 679
Income from reversal of specific provisions	623 059	420 008
Income from valuation of securities and derivatives	973 298	1 263 157
income from reversal of provisions for future liabilities	30 952	34 608
Other current year non-taxable revenue	482 187	620 779
(+) Non-tax-deductible expenses for the current year	**1 807 948**	**3 038 630**
Interest expense	132 462	185 183
Impairment write-downs/specific provision costs	739 734	483 398
Costs of valuation of securities and derivatives	557 313	1 741 312
Provisions for the future liabilities and employee benefits	18 103	97 115
Contributions to PFRON	4 018	3 492
Other	356 318	528 130
Taxable profit	**(224 208)**	**915 140**
Deduction from income - donations	**-**	**96**
Taxable profit to calculate current tax, after deductions	**-**	**915 044**
Tax rate	*19%*	*19 %*
Current tax expense	**-**	**173 858**
Deductions from tax	-	124
Current tax expense, after deductions	**-**	**173 734**

PLN thousand

Notes to the consolidated financial statements

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

	12 months ended 31.12.2009	12 months ended 31.12.2008
Current tax	(636)	(174 305)
Deferred tax	(15 286)	112 588
Income tax expense	**(15 922)**	**(61 717)**
Profit (loss) before taxation	116 565	274 741
Statutory tax rate	19%	19%
Income tax based on profit before taxation	**(22 148)**	**(52 201)**
Permanent differences	(2 020)	(5 990)
Impairment allowance for loans and receivables	5 624	-
Other differences	-	(3 526)
Tax expense/ tax income	**(15 922)**	**(61 717)**

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

In 2009, the corporate income tax expense on the Group's financial result is as follows:

- the current tax liability charged to the financial result - PLN 636 thousand, of which:
  - PLN 0 thousand related to the Group's income,
  - PLN 636 thousand related to shares in profits of other companies,
- deferred tax expense - PLN 15 286 thousand.

As a result of the above, the Group's financial result for 2009 was reduced by PLN 15 922 thousand.

The corporate income tax expense is presented in the table below:

	12 months ended 31.12.2009	12 months ended 31.12.2008
Profit (loss) before taxation	**116 565**	**274 741**
Total current tax liability, of which:	**(636)**	**(174 305)**
- current tax liability on the Group's income	-	(173 734)
- current tax liability on shares in profits of other companies	(636)	(571)
Deferred tax income/ (deferred tax expense)	**(15 286)**	**112 588**
Tax income/ (Tax expense) on the profits of the Group.	(15 922)	(61 717)
Net profit (loss)	**100 643**	**213 024**

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

Notes to the consolidated financial statements

17 Earnings per share

	12 months ended 31.12.2009	12 months ended 31.12.2008
Basic:		
Earnings attributable to the Bank's shareholders	100 643	213 024
Weighted average number of ordinary shares (in millions)	43	43
Basic earnings per share (in PLN per share)	2,33	4,94

The Bank does not calculate diluted earnings per share, due to the lack of dilutive causing 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

	31.12.2009	31.12.2008
Cash on hand (treasury)	558 053	635 938
Cash in current account	721 287	655 406
Other funds	38	41
Cash and balances with the Central Bank, total	**1 279 378**	**1 291 385**

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 2009, the interest rate for funds on the obligatory reserve account was 3,375% (as at December 2008, it was 4,73%).

As at 31 December 2009 the declared obligatory reserve balance on the current account held with the National Bank of Poland was PLN 593 208 thousand (31 December 2008: PLN 647 843 thousand).

19 Amounts due from other banks

	31.12.2009	31.12.2008
Current accounts	106 217	8 702
Placements with other banks	165 868	549 650
Loans and advances	85 765	230 263
Purchased debts	7 126	11 796
Amounts due from other banks (gross)	**364 976**	**800 411**
Impairment allowances (negative value)	(8 383)	(1 713)
Amounts due from other banks (net), total	**356 593**	**798 698**

PLN thousand

Notes to the consolidated financial statements

As at 31 December 2009, variable interest rate loans and placements with other banks amounted to a total of PLN 255 870 thousand (2008: PLN 560 024 thousand) while those of fixed interest rate PLN 690 thousand (2008: PLN 224 823 thousand).

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

	31.12.2009	31.12.2008
Provisions for amounts due from other banks at the beginning of the period	**1 713**	**1 380**
Creation of provisions	11 650	1 073
Reversal of provisions	(4 132)	(740)
Other changes	(848)	-
Provisions for amounts due from other banks at the end of the period	**8 383**	**1 713**

Impairment losses on *Amounts due from other banks,*, classified as individually and collectively assessed, as at 31 December 2009

	Individually assessed	Assessed collectively	TOTAL
Loans and advances	625	285	910
Purchased debts	7 126	-	7 126
Other receivables	347	-	347
Total impairment losses	**8 098**	**285**	**8 383**

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**

Amounts due from other banks, by maturity date

	31.12.2009	31.12.2008
< 1 month	279 844	769 976
1 -3 months	1 792	24
3 – 12 months	28 710	319
1-5 years	44 845	19 844
> 5 years	9 785	10 248
Total amounts due from other banks by maturity date	**364 976**	**800 411**

PLN thousand

Notes to the consolidated financial statements

20 Held-for-trading securities

	31.12.2009	31.12.2008
Held for trading securities:		
- treasury bills	208 534	301 629
- bonds issued by central government institutions	221 795	228 544
TOTAL	**430 329**	**530 173**
of which: valued using the market quotation method	*430 329*	*530 173*

Held-for trading securities, by maturity date:

	31.12.2009	31.12.2008
With no maturity date	-	-
< 1 month	-	-
1 -3 months	94 351	91 735
3 – 12 months	156 855	314 819
1-5 years	172 608	117 612
> 5 years	6 515	6 007
Total held-for-trading securities	**430 329**	**530 173**

PLN thousand

21 Derivative financial instruments

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

As at 32.12.2009	Nominal value	Fair value of assets	Fair value of liabilities
Trading derivatives			
Currency derivatives:			
- FX Spot transactions	52 298	31	(166)
- NDF transactions	562 976	27 552	(957)
- Currency Forwards	247 904	16 156	(223)
- currency swaps	10 871 591	92 894	(128 634)
- currency options purchased and sold in OTC transactions	877 245	24 320	(29 019)
Total currency derivatives from OTC transactions:	**12 612 014**	**160 953**	**(158 999)**
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	8 952 210	78 212	(83 247)
- Inter-currency interest rate swap contracts	373 990	7 018	(5 657)
- FRA contracts	-	-	-
- OTC interest rate options	-	-	-
- other interest rate contracts	240 681	75	(189)
Total OTC derivatives:	**9 566 881**	**85 305**	**(89 093)**
Interest rate futures on the regulated market:	25 152	125	-
Interest rate options on the regulated market:	-	-	-
Total interest rate derivatives from regulated market transactions:	**25 152**	**125**	**-**
TOTAL	**22 204 047**	**246 383**	**(248 092)**
Of which: valued using the market quotation method	*25 152*	*125*	*-*
valued using model-based method	*22 178 895*	*246 258*	*(248 092)*
Settlements in respect of derivative transactions	X	17	(19)
Settlements in respect of the purchase and sale of options	X	8 293	(377)
TOTAL	**22 204 047**	**254 693**	**(248 488)**

In the year 2009, currency transactions or interest rate transactions made with other financial institutions account for 11,72% of total transactions in derivative financial instruments made by the Bank.

PLN thousand

Notes to the consolidated financial statements

31.12.2008.	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	6 285 289	201 314	(236 305)
Total currency derivatives from OTC transactions:	**25 403 146**	**734 288**	**(1 219 986)**
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	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	-	-	-
- other interest rate contracts	71 912	49	-
Total OTC derivatives:	**35 215 096**	**254 610**	**(188 149)**
Interest rate futures on the regulated market:	52 019	-	(34)
Interest rate options on the regulated market:	-	-	-
Total interest rate derivatives from regulated market transactions:	**52 019**	-	**(34)**
TOTAL	**60 670 261**	**988 898**	**(1 408 169)**
Of which: valued using the market quotation method	*52 019*	*-*	*(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)**

Notes to the consolidated financial statements

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

31.12 2009	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	**31**	31	-	-	-	-	**(166)**	(166)	-	-	-	-
- NDF transactions	**27 552**	6 575	7 594	13 383	-	-	**(957)**	(501)	(40)	(416)	-	-
- Currency Forwards	**16 156**	10 704	871	4 581	-	-	**(223)**	(57)	(139)	(27)	-	-
- Currency swap transactions	**92 894**	61 633	31 261	-	-	-	**(128 634)**	(114 471)	(10 453)	(3 710)	-	-
- Currency options purchased and sold in OTC transactions	**24 320**	1 135	3 162	14 351	5 672	-	**(29 019)**	(1 139)	(3 296)	(17 324)	(7 260)	-
Total currency derivatives from OTC transactions	**160 953**	**80 078**	**42 888**	**32 315**	**5 672**	**-**	**(158 999)**	**(116 334)**	**(13 928)**	**(21 477)**	**(7 260)**	**-**
Interest rate derivatives:												
- interest rate swap contracts	**78 212**	933	9 702	4 773	51 586	11 218	**(83 247)**	-	(9 756)	(8 116)	(54 878)	(10 497)
- Inter-currency interest rate swap contracts	**7 018**	-	-	-	5 283	1 735	**(5 657)**	-	-	-	(5 657)	-
- FRA contracts	**-**	-	-	-	-	-	**-**	-	-	-	-	-
- OTC interest rate options	**-**	-	-	-	-	-	**-**	-	-	-	-	-
- other interest rate contracts	**75**	75	-	-	-	-	**(189)**	(189)	-	-	-	-
Total OTC derivatives:	**85 305**	**1 008**	**9 702**	**4 773**	**56 869**	**12 953**	**(89 093)**	**(189)**	**(9 756)**	**(8 116)**	**(60 535)**	**(10 497)**
Stock exchange Interest rates futures:	**125**	-	125	-	-	-	**-**	-	-	-	-	-
Stock exchange interest rate options:	**-**	-	-	-	-	-	**-**	-	-	-	-	-
Total of stock exchange interest rate derivative instruments:	**125**	**-**	**125**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL:	**246 383**	**81 086**	**52 715**	**37 088**	**62 541**	**12 953**	**(248 092)**	**(116 523)**	**(23 684)**	**(29 593)**	**(67 795)**	**(10 497)**

PLN thousand

Notes to the consolidated financial statements

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	**201 314**	24 521	49 645	108 442	18 706	-	**(236 305)**	(27 793)	(56 141)	(125 768)	(26 603)	-
Total currency derivatives from OTC transactions	**734 288**	**393 472**	**139 654**	**165 819**	**35 343**	**-**	**(1 219 986)**	**(712 552)**	**(202 895)**	**(273 028)**	**(31 511)**	**-**
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:	**-**	-	-	-	-	-	**(34)**	-	(34)	-	-	-
Stock exchange interest rate options:	**-**	-	-	-	-	-	**-**	-	-	-	-	-
Total of stock exchange interest rate derivative instruments:	**-**	**-**	**-**	**-**	**-**	**-**	**(34)**	**-**	**(34)**	**-**	**-**	**-**
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)**

Maturity dates

- For NDF, Currency forwards, Fxswap, Share options and options for indices, IRS, CIRS calculated as the difference in days between transaction maturity date and reporting date
- For Fxpot, FRA, derivatives not included in statement of fianancial position calculated as the difference between the date of the currency and the reporting date

PLN thousand

Notes to the consolidated financial statements

22 Loans and advances to customers

	31.12.2009	31.12.2008
Amounts due from customers under overdraft facilities	2 310 279	1 935 144
Loans and advances to customers:	16 288 454	15 246 070
- businesses, including	5 268 654	5 967 087
- investment loans	2 527 232	2 651 552
- operating loans	2 312 219	2 963 518
- households, including:	10 794 849	9 067 515
- real-estate loans	5 784 991	4 712 402
- preference loans	2 755 871	2 576 153
- public sector institutions	212 334	198 167
- other entities	12 617	13 301
Purchased debt	230 848	336 507
Realised guarantees and surety ships	5 860	670
Other receivables	62 406	32 883
Other	2 301	31 642
Loans and advances to customers, gross	**18 900 148**	**17 582 916**
Impairment allowances (negative value)	(598 782)	(516 710)
Loans and advances to customers, net	**18 301 366**	**17 066 206**

Preference loans and advances (granted with additional payments from government agencies) granted to enterprises amounted to a total of PLN 567 657 thousand as at 31 December 2009, and PLN 584 027 thousand as at 31 December 2008.

Impairment allowances for loans and advances

	31.12.2009	31.12.2008
Losses incurred but not reported (IBNR)		
Gross statement of financial position exposure	17 811 113	16 669 349
Impairment allowance on exposures analyzed on the portfolio basis.	(54 583)	(48 916)
Net exposure	**17 756 530**	**16 620 433**
Impaired exposures		
Gross statement of financial position exposure	1 089 035	913 567
Impairment allowance on exposures analyzed on the portfolio and individual basis	(544 199)	(467 794)
Net exposure	**544 836**	**445 773**

As at 31 December 2009, variable interest rate loans and advances amounted to a total PLN 15 682 606 thousand (2008: PLN 14 952 972 thousand), while those of fixed interest rate - PLN 774 739 thousand (2008: PLN 529 260 thousand).

PLN thousand

Notes to the consolidated financial statements

Impairment losses on loans and advances

	31.12.2009	31.12.2008
Amounts due from customers under overdraft facilities	85 185	57 702
Loans and advances to customers:	445 393	415 935
- businesses	157 333	160 770
- households	286 968	254 054
- public sector institutions	458	471
- other entities	634	640
Purchased debts	16 169	13 427
Realised guarantees and suretyships	3 924	654
Other receivables	48 111	28 992
Total impairment allowances	**598 782**	**516 710**

Individually and collectively assessed loans and advances, as at 31 December 2009

	Individually assessed	Assessed collectively	Other receivables	TOTAL
Amounts due from customers under overdraft facilities	71 037	2 239 242	X	2 310 279
Loans and advances to customers:	545 976	15 742 478	X	16 288 454
- businesses	450 883	4 817 771	X	5 268 654
- households	94 467	10 700 382	X	10 794 849
- public sector institutions	51	212 283	X	212 334
- other entities	575	12 042	X	12 617
Purchased debts	9 618	221 230	X	230 848
Realised guarantees and suretyships	4 217	1 643	X	5 860
Other receivables	59 123	3 283	X	62 406
Other (not settled means)	-	-	2 301	2 301
Total loans and advances to customers	**689 971**	**18 207 876**	**2 301**	**18 900 148**

PLN thousand

Notes to the consolidated financial statements

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	28 927	1 906 217	X	1 935 144
Loans and advances to customers:	557 670	14 688 400	X	15 246 070
- businesses	466 232	5 500 855	X	5 967 087
- households	90 793	8 976 722	X	9 067 515
- public sector institutions	70	198 097	X	198 167
- other entities	575	12 726	X	13 301
Purchased debts	4 752	331 755	X	336 507
Realised guarantees and suretyships	-	670	X	670
Other receivables	31 799	1 084	X	32 883
Other (not settled means)	-	-	31 642	31 642
Total loans and advances to customers	**623 148**	**16 928 126**	**31 642**	**17 582 916**

Impairment losses on loans and advances, classified as individually and collectively assessed, as at 31 December 2009

	Individually assessed	Assessed collectively	TOTAL
Amounts due from customers under overdraft facilities	27 793	57 392	85 185
Loans and advances to customers:	175 696	269 697	445 393
- businesses	107 574	49 759	157 333
- households	67 521	219 447	286 968
- public sector institutions	26	432	458
- other entities	575	59	634
Purchased debts	9 359	6 810	16 169
Realised guarantees and surety ships	2 319	1 605	3 924
Other receivables	46 431	1 680	48 111
Impairment allowances	**261 598**	**337 184**	**598 782**

PLN thousand

Notes to the consolidated financial statements

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 the consolidated financial statements

2009	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	**57 702**	**415 935**	**160 770**	**254 054**	**471**	**640**	**13 427**	**654**	**28 992**	**516 710**
Allowance recognised	91 970	514 505	233 700	280 629	147	29	28 897	21 678	96 554	753 604
Allowance reversed	(59 165)	(469 092)	(230 560)	(238 138)	(355)	(39)	(27 027)	(18 449)	(81 915)	(655 648)
Write-off	(950)	(20 040)	(4 284)	(15 756)	-	-	-	-	-	(20 990)
Change in interest income in relation to IBNR	1 103	3 517	791	2 500	222	4	38	104	-	4 762
Other changes	(5 475)	568	(3 084)	3 679	(27)	-	834	(63)	4 480	344
Impairment allowances at the end of the period	**85 185**	**445 393**	**157 333**	**286 968**	**458**	**634**	**16 169**	**3 924**	**48 111**	**598 782**

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 allowances at the end of the period	**57 702**	**415 935**	**160 770**	**254 054**	**471**	**640**	**13 427**	**654**	**28 992**	**516 710**

PLN thousand

Notes to the consolidated financial statements

Loans and advances, by maturity date

	31.12.2009	31.12.2008
< 1 month	262 819	871 911
1 -3 months	552 679	498 897
3 – 12 months	2 422 894	2 269 897
1-5 years	3 487 342	3 898 070
> 5 years	9 831 301	9 709 289
Overdue loans	2 343 113	334 852
Total loans and advances, by maturity date	**18 900 148**	**17 582 916**

23 Securities available for sale

	31.12.2009	31.12.2008
Debt securities carried at fair value:	2 779 793	1 820 953
- NBP money bills	1 149 124	-
- treasury bills	608 227	1 064 929
- bonds issued by central government institutions	809 464	518 656
- debt securities issued by financial institutions	5 205	-
- debt securities issued by non-financial institutions	169 265	194 059
- bonds issued by public sector entities	38 508	43 309
Equity securities	1 418	1 522
Total securities available for sale	**2 781 211**	**1 822 475**
of which:		
valued using the market quotation method	*1 417 691*	*1 583 585*
valued using model-based method	*1 362 101*	*237 368*

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

Movements in securities available for sale are as follows:

	2009	2008
As at 1 January	**1 822 475**	**1 752 611**
Purchase of securities	47 391 259	31 600 547
Re-purchase of securities	(34 487 382)	(16 685 584)
Disposal of securities	(12 017 244)	(14 888 848)
Change on re-measurement to fair value	9 243	(5 597)
Change in interest due, EIR adjustments, FX differences, discount and premium adjustments	62 860	49 346
As at 31 December carrying amount	**2 781 211**	**1 822 475**

The carrying amount of fixed interest rate debt securities available for sale is PLN 2 481 878 thousand (PLN 1 579 345 thousand in 2008), while that of variable interest rate debt securities is PLN 297 914 thousand (PLN 241 608 thousand in 2008).

Notes to the consolidated financial statements

In accordance with the Act on the Bank Insurance Fund (BFG) from 14 December 1994, as of 31 December 2009 the Bank had treasury bills presented in the statement of financial position at the amount of PLN 77,999 thousand (nominal value PLN 78,600 thousand) which constituted security of the supplementary deposit cover fund within BFG and were deposited in a separated account in the National Bank of Poland (NBP) (in 2008: PLN 42,525 thousand of PLN 43,000 thousand nominal value)..

Securities available for sale, by maturity:

	31.12.2009	31.12.2008
With no maturity date fixed	1 418	1 522
Up to 1 month	1 150 593	199 330
From 1 to 3 months	817 752	545 574
From 3 to 12 months	359 418	436 208
From 1 to 5 years	429 290	612 952
Over 5 years	22 740	26 889
Total securities available for sale	**2 781 211**	**1 822 475**

24 Other debt securities

	31.12.2009	31.12.2008
Debt securities carried at amortized cost:	213 110	750 591
- NBP bonds	-	434 027
- restructuring bonds	212 699	311 691
- bonds issued by central government institutions	-	3 630
- debt securities issued by non-financial entities	411	1 243
Impairment losses	(1)	(2)
Total other debt securities	**213 109**	**750 589**

The carrying amount of variable interest rate securities is PLN 228 985 thousand (2008: PLN 762 524 thousand), While that of fixe interest rate is PLN 0 (2008: PLN 3 630 thousand).

In 2008, included in the balance of other debt securities were NBP-issued bonds with a value of PLN 434 027 thousand, which the Bank acquired in exchange for the existing non-interest bearing obligatory reserve. In 2009, in accordance with the Resolution no. 1/1/OK/2009 of the NBP Management Board, the NBP bonds were redeemed before their maturity date.

Other debt securities, in order of maturity, are as follows:

	31.12.2009	31.12.2008
Up to 1 month	-	310
From 1 to 3 months	205	207
From 3 to 12 months	205	3 941
From 1 to 5 years	212 699	746 131
Over 5 years	-	-
Total other debt securities	**213 109**	**750 589**

PLN thousand

Movements in other debt securities are as follows:

	2009	2008
As at 1 January	**750 589**	**938 010**
Purchase of securities	(310)	60 000
Re-purchase of securities	(439 942)	(165 489)
Repayment of restructuring bonds' instalment	(96 042)	(89 292)
Change in impairment allowance	2	177
Change in interests due, EIR adjustments, discount and premium adjustments	(1 188)	7 183
As at 31 December	**213 109**	**750 589**

The redemption of the restructuring bonds from the held to maturity portfolio in the years 2008 and 2009 amounted to PLN 42,857 thousand in each year.

25 Investment property

As at 31 December 2009, 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 November 2009 by an external valuer at PLN 63.2 mln. The valuation was made using mixed approach and residual method..

	2009	2008
Opening balance	**77 000**	**49 313**
Revaluation	(13 800)	27 687
Sale	-	-
Closing balance, including:	**63 200**	**77 000**
- purchase price	12 246	12 246
- revaluation to fair value	50 954	64 754

26 Inwestycje w jednostkach stowarzyszonych

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

	31.12.2009	31.12.2008
- In financial sector entities	19 367	19 393
Total investments	**19 367**	**19 393**

PLN thousand

Notes to the consolidated financial statements

Shares in subsidiaries and associates as at 31 December 2009

Entity name	Cost	Revaluation/ (impairment) adjustment	Carrying amount	BGŻ S.A. %share in the entity's capital	Share capital	Profit for the year
BGŻ Leasing Sp. z o.o.	19 600	(233)	19 367	49%	39 495	(230)
Total	**19 600**	**(233)**	**19 367**	**-**	**-**	**-**

Shares in subsidiaries and associates as at 31 December 2008

Entity name	Cost	Revaluation/ (impairment) adjustment	Carrying amount	BGŻ S.A. %share in the entity's capital	Share capital	Profit for the year
BGŻ Leasing Sp. z o.o.	19 600	(207)	19 393	49%	39 725	449
Total	**19 600**	**(207)**	**19 393**	**-**	**-**	**-**

According to the decision of the District Court for the capital city of Warsaw dated 19 November 2009, the subsidiary company, Fundusz Kapitałowy HALS Sp. Z o.o. in liquidation, was removed from the National Court Register.

Income and expenses of Fundusz Kapitałowy HALS Sp. z o.o. in liquidation for the year 2009 are as follows:

	31.12.2009
Expenses	**4 142**
- operating costs	191
- other operating costs	1
- finance costs	3 950
Income	**90**
- sales revenue	32
- other operating revenues	1
- finance income	57

27 Intangible assets

	31.12.2009	31.12.2008
Licenses	74 273	64 429
Other intangible assets	750	303
Expenditures on intangible assets	13 550	16 302
Intangible assets, total	**88 573**	**81 034**

PLN thousand

Notes to the consolidated financial statements

2009	Licenses	Other intangible assets	Expenditure on intangible assets	Total
VALUE AT COST				
As at 1 January	**262 935**	**3 100**	**16 302**	**282 337**
Increases:	*33 347*	*715*	*31 678*	*65 740*
- transfer from/to expenditures	33 308	715	-	34 023
- purchases	39	-	31 678	31 717
Decreases	(1 910)	(110)	(34 270)	(36 290)
- transfer from/to expenditures	-	-	(34 023)	(34 023)
- sale, liquidation, donation, shortage	(1 910)	(110)	(247)	(2 267)
As at 31 December	**294 372**	**3 705**	**13 710**	**311 787**
ACCUMULATED AMORTIZATION				
As at 1 January	**198 506**	**2 797**	**-**	**201 303**
Movements:	21 593	*158*	*160*	*21 911*
- amortization charge for the year	*23 503*	268	-	23 771
- - sale, liquidation, donation, shortage	(1 910)	(110)	-	(2 020)
- impairment losses	-	-	160	160
As at 31 December	**220 099**	**2 955**	**160**	**223 214**
NET CARRYING AMOUNT				
as at 1 January	**64 429**	**303**	**16 302**	**81 034**
as at 31 December	**74 273**	**750**	**13 550**	**88 573**

2008	Licenses	Other intangible assets	Expenditure 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	**42 982**	**521**	**16 496**	**59 999**
as at 31 December	**64 429**	**303**	**16 302**	**81 034**

PLN thousand

Notes to the consolidated financial statements

28 Property, plant and equipment

	31.12.2009	31.12.2008
Fixed assets, of which:	440 322	429 287
- land and buildings	293 831	311 003
- tangible fixed assets	146 491	118 284
Assets under construction	4 002	20 148
Property, plant and equipment, total	**444 324**	**449 435**

The following table presents movements in certain items of property, plant and equipment, in 2009 and 2008:

2009	Land and buildings	Tangible fixed assets	Assets under construction	Total
VALUE AT COST				
As at 1 January	**428 465**	**536 481**	**20 148**	**985 094**
Increases:	*4 333*	*58 229*	*46 372*	*108 934*
- transfer from construction in progress	4 333	58 150	-	62 483
- purchases	-	65	46 352	46 417
- other	-	14	20	34
Decreases:	*(4 931)*	*(28 634)*	*(62 518)*	*(96 083)*
- transfer from construction in progress	-	-	(62 483)	(62 483)
- sale, liquidation, donation, shortage, theft	(4 931)	(28 614)	-	(33 545)
- other	-	(20)	(35)	(55)
As at 31 December	**427 867**	**566 076**	**4 002**	**997 945**
ACCUMULATED DEPRECIATION				
As at 1 January	**117 462**	**418 197**	**-**	**535 659**
Movements:	*16 574*	*1 388*	-	*17 962*
- depreciation charge for the year	10 418	38 627	-	49 045
- sale, liquidation, donation, shortage	(2 910)	(28 173)	-	(31 083)
- impairment losses	9 066	(9 066)	-	-
As at 31 December	**134 036**	**419 585**	**-**	**553 621**
Net carrying amount as at 31 December 2009	**293 831**	**146 491**	**4 002**	**444 324**

PLN thousand

Notes to the consolidated financial statements

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 2008	**311 003**	**118 284**	**20 148**	**449 435**

29 Other assets

	31.12.2009	31.12.2008
Other, of which:		
- settlements with debtors	48 915	32 501
- impairment allowance related to other receivables (excluding loans and advances)	(28 115)	(23 632)
- other prepayments	25 071	18 963
- commission income receivable	8 982	10 347
- settlements of card payments	56 717	28 597
- other	1 494	1 133
Other assets, total	**113 064**	**67 909**

PLN thousand

30 Amounts owed to other banks

	31.12.2009	31.12.2008
Cash in current accounts	226 503	265 332
Term deposits	218 568	831 297
Loans and advances taken out	30 842	52 514
Other liabilities	173	86
Amounts owed to other banks, total	**476 086**	**1 149 229**

Deposits are at fixed and floating rates.

Amounts owed to other banks, by maturity

	31.12.2009	31.12.2008
Up to 1 month	374 062	691 275
From 1 to 3 months	57 772	361 400
From 3 months to 1 year	13 351	43 869
From 1 to 5 years	30 901	52 685
Amounts owed to other banks	**476 086**	**1 149 229**

31 Amounts owed to customers

	31.12.2009	31.12.2008
Other financial institutions:	**477 619**	**320 562**
Current accounts	19 732	22 582
Term deposits	454 939	292 075
Other liabilities	2 948	5 905
- liabilities arising from monetary collateral	2 606	4 751
- other	342	1 154
Retail customers:	**11 110 229**	**10 529 797**
Current accounts	5 736 505	4 447 203
Term deposits	5 363 125	6 072 163
Other liabilities	10 599	10 431
- liabilities arising from monetary collateral	6 344	7 145
- other	4 255	3 286
Corporate customers:	**6 346 684**	**5 731 025**
Current accounts	3 188 886	2 773 233
Term deposits	3 075 258	2 799 779
Other liabilities	82 540	158 013
- liabilities arising from monetary collateral	78 158	60 264
- other	4 382	97 749

PLN thousand

Notes to the consolidated financial statements

	31.12.2009	31.12.2008
Public sector customers:	**1 663 994**	**1 559 597**
Current accounts	762 208	1 090 319
Term deposits	901 557	467 240
Other liabilities	229	2 038
- liabilities arising from monetary collaterals	115	112
- other	114	1 926
Amounts owed to customers, total	**19 598 526**	**18 140 981**

Amounts owed to customers, by maturity

	31.12.2009	31.12.2008
Up to 1 month	13 756 711	12 735 380
From 1 to 3 months	2 245 610	2 367 278
From 3 months to 1 year	3 239 800	1 899 114
From 1 to 5 years	349 584	1 131 984
Over 5 years	6 821	7 225
Amounts owed to customers, total	**19 598 526**	**18 140 981**

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 2009	Average interest rate (%) in 2008	31.12.2009	31.12.2008
Certificates of deposit				
- Quatro certificate of deposit with variable interest rate and maturity date of one year from purchase date, not quoted	X	X	1 065	1 777
- other certificates of deposit	5,1118	6,8778	1 464 500	615 500
Debt securities issued, total (excluding interest)	**X**	**X**	**1 465 565**	**617 277**
Interest, discount, commission	X	X	(14 746)	(4 726)
Debt securities issued, total	**X**	**X**	**1 450 819**	**612 551**

PLN thousand

Notes to the consolidated financial statements

Movements in debt securities issued

	2009	2008
Balance at the beginning of the period	612 551	2 683
Increases:	*3 130 886*	*1 843 521*
- issuance of certificates of deposit	3 081 500	1 810 500
- purchased discount from certificates of deposit	31 067	19 117
- accrued discount from certificates of deposit	12 448	9 963
- accrued interest from certificates of deposit	5 871	3 786
- other		155
Decreases:	*(2 292 618)*	*(1 233 653)*
- redemption of certificates of deposit	(2 232 500)	(1 195 000)
- redemption of Quatro securities	(712)	(751)
- sold discount from certificates of deposit	(51 990)	(35 443)
- purchased interest from certificates of deposit	(7 269)	(2 358)
- purchased interest from Quatro securities	(49)	(30)
- commission and other fees related to certificates of deposit accounted for according to EIR	(98)	(71)
Balance of debt securities issued at the end of the period	**1 450 819**	**612 551**

33 Other liabilities

	31.12.2009	31.12.2008
- inter-bank settlements	51 089	74 429
- settlements with creditors	79 756	69 852
- accrued expenses	32 856	88 164
- including employee expenses	10 752	70 243
- deferred income	8 361	8 727
- other public settlements	26 038	25 508
Other liabilities, total	**198 100**	**266 680**

Accrued expenses include non-personnel costs to pay and personnel costs with related costs to be paid.
Deferred income includes income on fees charged in advance in respect of the Bank's self management.

PLN thousand

Notes to the consolidated financial statements

34 Provisions

	31.12.2009	31.12.2008
Restructuring provision	4 600	7 812
Provision for guarantees, suretyships, unused credit facilities	2 870	4 018
Provision for court cases	14 449	27 511
Other provisions, of which:	23 813	29 368
- provision in accordance with UOKiK (Office of Competition and Consumer Protection) decision	11 883	9 650
- provision concerning transfer of receivables from securitization	-	3 763
- provision for potential liabilities relating to granting preferential loans	10 157	9 701
Total provisions	**45 732**	**68 709**

Restructuring provision	**Year ended 31.12.2009**	**Year ended 31.12.2008**
Carrying amount at the beginning of the period	**7 812**	**18 479**
Increases	4 600	2 048
Utilization	(6 293)	(5 630)
Reversal	(1 519)	(7 085)
Carrying amount at the end of the period	**4 600**	**7 812**

Provision for guaranties, sureties and unused credit facilities	**Year ended 31.12.2009**	**Year ended 31.12.2008**
Carrying amount at the beginning of the period	**4 018**	**2 952**
Increases	25 185	11 861
Reversal	(24 397)	(10 881)
Other changes	(1 936)	86
Carrying amount at the end of the period	**2 870**	**4 018**

Provision for court cases	**Year ended 31.12.2009**	**Year ended 31.12.2008**
Carrying amount at the beginning of the period	**27 511**	**16 904**
Increases	3 807	4 913
Utilization	(282)	(1 545)
Reversal	(17 094)	(9 353)
Reclassification/transfer	507	16 592
Carrying amount at the end of the period	**14 449**	**27 511**

Other provisions	**Year ended 31.12.2009**	**Year ended 31.12.2008**
Carrying amount at the beginning of the period	**29 368**	**55 669**
Increases	3 866	15 448
Utilization	(4 388)	(13 983)
Reversal	(4 526)	(11 174)
Reclassification/transfer	(507)	(16 592)
Carrying amount at the end of the period	**23 813**	**29 368**

Notes to the consolidated financial statements

1. As at 31 December 2009, the value of court proceedings under which the Bank is a defendant was PLN 110 000 thousand, while the value of claims initiated by the Bank amounted to PLN 42 391 thousand.

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

2. Based on the decision dated 29 December 2006, the President of the Office of Competition and Consumer Protection imposed on the Bank a cash penalty in the amount of PLN 9,649,500 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. The Bank claims that it is not possible to propose a reversal of the provision based on the appealable decision of the court of the first instance.

3. Based on his decision dated 31 December 2009, the President of the Office of Competition and Consumer Protection (UOKiK) imposed on the Bank a financial penalty in the total amount of PLN 2,978,087 claiming that the Bank violated the ban on practices breaching collective consumer interests.

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

   The Bank appealed against this decision to the District Court in Warsaw – the court appropriate to the Office of Competition and Consumer Protection.

4. In the first half of 2009, securitization I, realized based on the agreement dated 5 October 2006, was settled in full. The amount of PLN 3,167 thousand increased the Bank's revenues.

5. Subsidiary BFN ACTUS (Company) is a party to the following proceedings before the court

   a) Claim against SM INCO: lawsuit for a payment, ie. a return by SM INCO of the amount of PLN 12.6 million due to the recognition of actio pauliana by the Court. On 15 July 2009 the court passed to BFN ACTUS a favorable judicial sentence. The court recognized effectiveness of offsetting made by the Company in relation to a liability from SM INCO to which the Company was entitled against adjudicated guarantee liability and adjudged an

Notes to the consolidated financial statements

amount of PLN 7.9 mln to be paid for BFN ACTUS. On 8 December 2009 Court of Apeal rejected an appeal by SM INCO. The probability of acceptance of cassation is, in the opinion of the management Board, below 50%. In accordance to the adjudgement of the above mentioned offsetting, the Group reversed the provision equivalent to the amount of guarantee jointly with statutory interest. The liability from SM INCO, for which the provision was created, referred to the return adjudicated to it (jointly with statutory interest since 9 April 2003) and bank guarantee executed by BFN Actus amounting to PLN 3.8 million, which constitute the security for settlement of SM INCO obligation to repurchase the property in Wroclaw-Marszowice on the conditions defined in the property sale agreement dated 23 May 2001.

b) Claim by the Company against SM INCO: lawsuit for deprivation of executability of executory title which comprises SM INCO guarantee liability. In spite of confirmation of effectiveness of the off-setting by the Court and despite the Company's motion, SM INCO did not cancel the execution and as a result, BFN ACTUS brought an opposing suit. The Court granted the Company with claim protection in a form of suspension of execution proceedings launched by SM INCO based on the executory title mentioned above.

c) Claim by SM INCO: lawsuit for valorization of the amount of guarantee (value of claim – PLN 13.9 million) – Business Court decided on 7 January 2010 to institute the suspended proceedings. The amount to be valorized includes part of the property sale price resulting from the sale agreement dated 25 May 2001 in the amount equal to the amount of guarantee. In the Management Board's opinion the claim by SM INCO is groundless both in relation to the accusation that the property price was not paid in total and in relation to the rule that in accordance with article 358 par. 4 of the Civil Code the party which runs a business can not move for a claim to change the amount or the way of fulfillment of payment if the payment remains in connection with the business activity. It needs to be stressed out that the total price for the property purchased from SM INCO was paid in accordance with par. 5 of the Agreement dated 23 May 2001. The reimbursement of the SM INCO guarantee receivable jointly with statutory interest calculated since 9 April 2003 was made by the way of offsetting on 26 March 2009. The Court of Appeal confirmed correctness of this offsetting on 8 December 2009.

PLN thousand

35 Deferred tax

The following movements were recorded on the deferred tax account:

Deferred tax assets

	As at 31.12.2009	As at 31.12.2008	Impact on the 2009 net profit.
Interest payable on liabilities	140 403	144 389	(757)
Re-measurement of derivatives and securities, to fair value	248 383	1 408 876	(220 494)
Specific provisions (non-tax-deductible), of which utilisation is probable	107 320	42 371	12 340
Fees calculated in advance and settled at amortized cost using the effective interest rate method	208 586	150 569	11 023
Provision for jubilee bonuses, retirement benefits, unused annual leave and restructuring provision	24 512	38 034	(2 569)
Other provisions for personnel costs	10 769	74 139	(12 040)
Provisions for non-personnel costs	22 073	17 531	863
Allowance for debt securities available for sale	6 328	12 169	(1 110)
Other deductible temporary differences	377	11 055	(2 029)
Tax loss	224 208	-	42 600
Total assets, if which:	**992 959**	**1 899 133**	**(172 173)**
Tax base of deferred tax assets recognized in the income statement(in the current year and in the previous years)	986 631	1 886 964	(171 063)
Tax base of deferred tax assets recognized in the revaluation reserve	6 328	12 169	(1 110)

Based on the current actions taken by the Bank in respect of justifying impairment allowances on loans as tax deductible in the past, the deferred tax asset of PLN 107 320 thousand recognised by the Bank as at 31 December 2009 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.

In 2009, the Bank calculated a deferred tax asset in respect of receivables' impairment write-downs based on the historical analysis of the probability of receivables irrecoverability.

PLN thousand

Notes to the consolidated financial statements

Deferred tax liabilities

	As at 31.12.2009	As at 31.12.2008	Impact on the 2009 net profit.
Loan interest receivable	(126 858)	(139 703)	2 441
Interest receivable on restructuring bonds	(126 985)	(183 141)	10 670
Re-measurement of derivatives and securities to fair value	(246 382)	(990 352)	141 354
Property valuation	(50 954)	(64 754)	2 622
Ttransaction costs on granting loans	(21 110)	(14 224)	(1 308)
Allowance for debt securities available for sale	(5 818)	(2 415)	(647)
Total deferred tax liability, of which:	**(578 107)**	**(1 394 589)**	**155 132**
Tax base of deferred tax liability recognized in the income statement(in the current and previous years)	(572 289)	(1 392 174)	155 779
Tax base of deferred tax liability recognized in the revaluation reserve	(5 818)	(2 415)	(647)

Presented as:

Net deferred tax asset	**88 503**	**108 166**	**-**
Net deferred tax liability	**9 681**	**12 303**	**-**

36 Discontinued operations

In November 2009 the Bank's subsidiary - Hals – Fundusz Kapitałowy Sp. z o.o was liquidated, which in year 2008 constituted part of the Bank BGŻ S.A. Capital Group.

37 Liabilities arising from employee benefits

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

PLN thousand

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

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

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

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

	31.12.2009	31.12.2008
Jubilee bonuses	2 048	3 941
Retirement benefits	14 998	16 953
Unused annual leave	2 866	10 063
	19 912	**30 957**

Movements in the balance of liabilities from future employee benefits

	Total	Jubilee bonuses	Retirement benefits	Unused annual leave
As at 1.01.2009	**30 957**	**3 941**	**16 953**	**10 063**
Increases	3 692	-	267	3 425
Reversals	(14 737)	(1 893)	(2 222)	(10 622)
As at 31.12.2009	**19 912**	**2 048**	**14 998**	**2 866**

	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)
Reclassification of provisions	-	(112)	112	-
As at 31.12.2008	**30 957**	**3 941**	**16 953**	**10 063**

The following amounts were recognized in the income statement:

	31.12.2009	31.12.2008
Cost of provisions recognized	(3 692)	(9 582)
Income from provisions reversed	14 737	7 074
Total, recognized in profit or loss	**11 045**	**(2 508)**

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	2009	2010
- discount rate	5,5%	6,0%
- forecast inflation rate	2,5%	2,5%
- forecast salary increase	3,5%	3,5%

PLN thousand

38 Contingent liabilities

The table below presents the balances of liabilities granted and received

	31.12.2009	31.12.2008
Liabilities granted		
Liabilities granted to the financial institutions, of which:	38	10 809
- unused limits of credit facilities	38	10 341
- guarantees	-	468
Liabilities granted to the non-financial entities, of which:	3 079 908	3 613 136
- unused credit facilities	2 277 506	2 827 942
- businesses	1 429 230	1 875 284
- households	847 662	951 023
- other entities	614	1 635
- guarantees	802 402	785 194
Liabilities granted to the public sector	21 345	10 276
	3 101 291	**3 634 221**
FX swap transactions	52 298	640 276
	3 153 589	**4 274 497**
Liabilities received		
Received from financial institutions	2 062 853	2 021 102
Received from non financial institutions	140 747	1 380
Received from public sector entities	69	69
	2 203 669	**2 022 551**
Derivative financial instruments (nominal values)		
Liabilities resulting from trading in securities	240 681	71 912
Other derivatives sold	10 579 257	26 892 742
Other derivatives acquired	10 600 717	26 877 898
Options to be received	365 547	3 134 741
Options to be given	365 547	3 052 692
	22 151 749	**60 029 985**
Liabilities granted, liabilities received and derivative financial instruments, total	**27 509 007**	**66 327 033**
Provisions for guarantees, suretyships and unused credit lines	**(2 870)**	**(4 018)**

PLN thousand

Notes to the consolidated financial statements

Off-balance sheet liabilities granted, by maturity

	31.12.2009	31.12.2008
Up to 1 month	2 219 533	2 668 605
From 1 to 3 months	93 319	120 276
From 3 months to 1 year	293 247	320 880
From 1 to 5 years	481 414	513 531
Over 5 years	13 778	10 929
Liabilities granted	**3 101 291**	**3 634 221**
Up to 1 month	62 069	21 449
From 1 to 3 months	500	154
From 3 months to 1 year	140 247	82
From 1 to 5 years	2 000 853	2 000 866
Over 5 years	-	-
Liabilities received	**2 203 669**	**2 022 551**

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

	31.12.2009
Banking Guarantee Fund	
- nominal value of security	78 600
- type of security	treasury bonds
- maturity date of security	17.03.2010
- carrying amount of security	77 999
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	936
Security for derivative instruments transactions	
- nominal value of security	67 979
- type of security	'call' deposits
	31.12.2008
Banking Guarantee Fund	
- nominal value of security	43 000
- type of security	treasury bonds
- 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

Notes to the consolidated financial statements

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

	31.12.2009	31.12.2008
Liabilities granted		
Unused limits of granted credit facilities	**2 298 889**	**2 845 224**
- contingent	952 110	1 282 607
- non-contingent	1 346 779	1 562 617
Guarantees	**802 402**	**788 997**
- contingent	1 283	4 712
- non-contingent	801 119	784 285
Liabilities granted, total	**3 101 291**	**3 634 221**

39 Issued share capital

	Number of shares (in millions)	Nominal value
Balance as at 1 January 2008	**43**	**43 137**
Issue of shares	-	-
Balance as at 31 December 2008/ 1 January 2009	**43**	**43 137**
Increases/ Decreases	-	-
Balance as at 31 December 2009	**43**	**43 137**

As at 31 December 2009, the Bank's issued share capital totalled PLN 43,137 thousand, and was divided into inscribed (registered) shares with a nominal value of PLN 1.00 each. The shareholding structure is as follows:

- 21 297 584 are held by Rabobank International Holding B.V. with its registered office in Utrecht,
- 16 065 570 held by the State Treasury represented by the Minister of the State Treasury,
- 4 303 695 held by Cooperative Centrale Raiffeisen–Boerenleenbank B.A.,
- 1 469 915 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

Notes to the consolidated financial statements

The main Shareholders of the Bank

31.12.2009		31.12.2008	
Rabobank International Holding B.V.	49,37%	Rabobank International Holding B.V.	49,37%
State Treasury	37,24%	State Treasury	37,26%
Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A.	9,98%	Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A.	9,98%
Other shareholders	3,41%	Other shareholders	3,39%

In the year 2009, the Bank continued to conclude agreements on behalf of the State Treasury concerning the free-of-charge disposal of BGŻ SA shares 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 BGŻ S.A. held by the State Treasury.

In 2009, 133 such agreements were signed with respect to 6,819 shares (in 2008: 504 agreements with respect to 26,508 shares). These transactions caused a slight decrease of the State Treasury share in the Bank's share capital, which as at 31 December 2009 amounted to 37.24% (2008: 37.26%).

40 Reserve capital and other reserves, retained earnings

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

	31.12.2009	31.12.2008
Reserve capital		
Balance as at 1 January	**1 743 027**	**1 548 637**
Amounts transferred from retained earnings	369 137	194 390
Conversion of convertible bonds	-	-
Disposal or liquidation of fixed assets	-	-
Balance as at 31 December	**2 112 164**	**1 743 027**
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	**(7 901)**	**(3 327)**
Gain/ loss on re-measurement to fair value, net	9 244	(5 648)
Deferred tax	(1 756)	1 074
Balance as at 31 December	**(413)**	**(7 901)**
Other reserves		
Balance as at 1 January	**25 000**	**25 000**
Balance as at 31 December	**25 000**	**25 000**

PLN thousand

Other reserves	31.12.2009	31.12.2008
General banking risk reserve	90 000	90 000
Revaluation reserve – available-for-sale financial instruments	(413)	(7 901)
Other reserves	25 000	25 000
	114 587	**107 099**

41 Dividend per share

The Bank's net result is the basis for profit appropriation.

The Bank did not pay any dividend for year 2008. The Bank's Management Board will not recommend payment of dividend for the year 2009.

42 Appropriation of profit

The entire profit for the year 2008 and prior year profits arising from transitioning to IFRSs were transferred to reserve capital. The Management Board will recommend to the Annual General Meeting that the entire net profit for the year 2009 is transferred to the reserve capital. The final decision on the appropriation of profit for 2009 will be made by the Annual General Meeting.

43 Cash and cash equivalents

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

	31.12.2009	31.12.2008
Cash and balances with the Central Bank (Note 18)	1 279 378	1 291 385
Current accounts of banks and other receivables	108 964	12 804
Bank deposits with maturity of up to 3 months	165 645	547 356
Cash and cash equivalents, total	**1 553 987**	**1 851 545**

44 Notes to the Statement of cash flows

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

PLN thousand

Notes to the consolidated financial statements

Interest and profit shares (dividends)	Year ended 31.12.2009	Year ended 31.12.2008
Dividends received	(3 525)	(3 242)
Change in interest received on investment securities	1 188	(7 183)
Change in interest and valuation of securities available to sale to fair value	(72 103)	(43 749)
Change in interest on certificates of deposit	(9 971)	-
Total change in interest and profit shares (dividends)	**(84 411)**	**(54 174)**

Change in amounts due from other banks	Year ended 31.12.2009	Year ended 31.12.2008
Resulting from statement of financial position amounts	**442 127**	**917 968**
Elimination of movements in cash and cash equivalents	(285 551)	(786 766)
Change in amounts due from other banks, total	**156 576**	**131 202**

Change in liabilities from issued debt securities	Year ended 31.12.2009	Year ended 31.12.2008
Statement of financial position change in issued debt securities	(712)	(596)
Other (interest paid)	(49)	(30)
Change in liabilities from issued debt securities, total	**(761)**	**(626)**

Cash flow from operating activities – other adjustments	Year ended 31.12.2009	Year ended 31.12.2008
Statement of financial position change in other assets	**(45 156)**	**52 990**
Change in investment securities allowance	(2)	(177)
Investment property valuation	-	(27 687)
Other adjustments	(1 261)	(7 918)
Cash flow from operating activity – other adjustments, total	**(46 419)**	**17 208**

Change in other liabilities	Year ended 31.12.2009	Year ended 31.12.2008
Statement of financial position change in other liabilities	**(68 580)**	**(8 677)**
Statement of financial position change in corporate income tax	(87 868)	(9 170)
Change in other liabilities, total	**(156 448)**	**(17 847)**

45 Solvency ratio

Capital adequacy risk

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

The main instruments of capital adequacy management are:

1. Selection of optimal methods for measuring capital adequacy arising from certain types of risk, in accordance with Resolution no. 380/2008 of the PFSA dated 17 December 2008.

PLN thousand

Notes to the consolidated financial statements

2. Internal Bank procedures setting forth the rules for classifying the banking or trading portfolio, setting the initial position for the trading and banking book transactions, determining the realized market result on the initial position of the trading portfolio, determining the realized loss on the initial position of the banking portfolio and use of price estimation techniques for calculating the realized market result on positions included in the trading portfolio.

Capital Base and Capital Adequacy Ratio

	31.12.2009	31.12.2008
Capital requirements		
- credit risk, counterparty risk, dilution and delivery risk for derivative instruments settled in subsequent terms	1 352 719	1 382 129
- settlement – delivery risk	-	-
- equity securities price risk, risk of debt instruments process, currency risk and commodities prices risk	-	5 187
- operating risk	149 292	140 846
- general interest rate risk	5 335	10 708
Total capital requirement	**1 507 346**	**1 538 870**
Own funds and short-term capital		
- share capital	43 137	43 137
- reserve capital	2 112 164	1 743 027
- reserve capital together with prior years' profits	40 835	196 948
- net profit for the current period (under approval)	100 643	213 024
- net profit for current period and net profit under approval in the amount not verified by the auditor	(100 643)	(128 733)
- General banking risk reserve	90 000	90 000
- revaluation reserve	(2 838)	(10 720)
- decrease of equity for intangible assets	(88 573)	(81 034)
- decrease of equity for capital exposure of financial institutions	(21 116)	(21 143)
- short term capital	15 697	50 262
TOTAL	**2 189 306**	**2 094 768**
Capital adequacy ratio (%)	**11,6%**	**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. 380/2008 of KNF dated 17 December 2008. The capital required to cover operating risk is calculated as 15% of an average profit from the following 3 years, with the provison that:

- profit for the year 2006 amounted to: PLN 821 626 thousand,
- profit for the year 2007 amounted to: PLN 1 070 138 thousand,
- profit for the year 2008 amounted to: PLN 1 094 084 thousand.

Capital required to cover operating risk (consolidated) in 2009 amounted to PLN 142 129 thousand.

Since 2008 the Bank has applied new standards concerning capital adequacy ratio (Basel II Accord). The capital adequacy ratio was calculated using the standard method.

PLN thousand

Notes to the consolidated financial statements

Carrying amounts and liabilities granted exposed to credit risk

Type of instrument 31.12.2009	Carrying amount	Risk weighted value
Statement of financial position items	22 135 884	15 516 543
Granted liabilities	3 100 083	1 232 410
Derivatives	298 474	160 029
Total	**25 534 441**	**16 908 982**

Type of instrument 31.12.2008	Carrying amount	Risk weighted value
Statement of financial position 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**

Maximum credit risk (net amount)

	31.12.2009	31.12.2008
Cash and balances with the Central Bank	1 279 378	1 291 385
Amounts due from other banks	356 593	798 698
Held-for-trading securities	430 329	530 173
Derivative financial instruments	254 693	1 004 905
Amounts due from customers under overdraft facilities	2 225 094	1 877 442
Loans and advances to customers	16 076 272	15 188 764
- businesses	5 273 436	6 048 678
- households	10 520 325	8 841 855
- public institutions	211 876	197 713
- other institutions	68 334	68 876
- other receivables	2 301	31 642
Investment securities available for sale	2 781 211	1 822 475
Other debt securities	213 109	750 589
Other assets	817 031	802 937
Total	**24 433 710**	**24 067 368**
Contingent irrevocable liabilities	**2 147 898**	**2 346 902**

As stated in Note 2.13.2 to these consolidated financial statements, included in valuation of derivative instruments is credit risk. In 2009, the allowance in this respect amounting to PLN 3 486 thousand (2008: PLN 24 777 thousand) was accounted for. The total amount of the exposures, for which allowance was created, amounted to PLN 102 567 thousand as at 31 December 2009 (2008: PLN 334 918 thousand), while collaterals for these transactions in the form of cash deposits amounted to a total of PLN 19 482 thousand as at 31 December 2009 (2008: PLN 15 110 thousand).
Where the maturity date for a derivative instrument lapses or where the instrument is settled before its maturity date, appropriate impairment allowance is recorded in the income statement. In

PLN thousand

Notes to the consolidated financial statements

the year 2009, such impairment allowance amounted to PLN 41 803 thousand (2008 PLN 22 266 thousand).

46 Related party transactions

The Group reports transactions with its subsidiaries and main shareholders.

Transactions and settlements with the BGŻ S.A. shareholders as at 31 December 2009

	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	**2 108 655**	**503**	**59 154**	**2 168 312**	**8,88%**
Current accounts	533	-	55	588	-
Debt securities	2 060 720	-	-	2 060 720	8,44%
Receivables from derivative instruments	-	-	59 099	59 099	0,24%
Interest	32 630	-	-	32 630	0,14%
Other receivables	14 772	503	-	15 275	0,06%
Liabilities	**1 019 565**	**-**	**55 406**	**1 074 971**	**4,40%**
Deposits – current accounts	236 733	-	5 703	242 436	0,99%
Interest payable	2 108	-	-	2 108	0,01%
Deposits/ placements and other liabilities	780 609	-	-	780 609	3,20%
Liabilities due to derivative instruments	-	-	49 703	49 703	0,20%
Other liabilities	115	-	-	115	-
Costs	**77 628**	**32**	**1 606 945**	**1 684 605**	**0,24%**
Interest	52 201	-	544	52 745	0,01%
Commission	-	-	1 481	1 481	-
Derivative instruments	-	-	1 604 920	1 604 920	0,23%
Other	25 427	32	-	25 459	-
Revenue	**136 793**	**273**	**2 132 368**	**2 269 434**	**0,32%**
Interest	108 145	-	351	108 496	0,02%
Commission	671	-	-	671	-
Derivative instruments	-	-	2 132 017	2 132 017	0,30%
Other	27 977	273	-	28 250	-
Lliabilities granted	**-**	**-**	**10 337 654**	**10 337 654**	**37,58%**
Irrevocable liabilities grantem	-	-	2 000 000	2 000 000	7,27%
Derivative instruments	-	-	8 337 654	8 337 654	30,31%

PLN thousand

Notes to the consolidated financial statements

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

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%**
Current 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**	**0,04%**
Interest	74 292	-	-	74 292	0,03%
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%
Lliabilities granted	**-**	**-**	**-**	**-**	**-**
Irrevocable liabilities granted	-	-	-	-	-

PLN thousand

Notes to the consolidated financial statements

Transactions with related parties as at 31 December 2009 and 31 December 2008

	31.12.2009		31.12.2008	
	RABOBANK GROUP (without RABOBANK INTERNATIONAL HOLDING B.V. and COOPERATIEVE CENTRALE RAIFFEISEN-BOERENLEENBANK B.A.)	% share in total assets/ financial result of BGŻ S.A.	RABOBANK GROUP (without RABOBANK INTERNATIONAL HOLDING B.V. and COOPERATIEVE CENTRALE RAIFFEISEN-BOERENLEENBANK B.A.)	% share in total assets/ financial result of BGŻ S.A.
Assets	**6 449**	**0,03%**	**104 031**	**0,43%**
Loans and advances	-	-	65	-
Current accounts	90	-	-	-
Deposits	-	-	90 000	0,37%
Interest	-	-	16	-
Debt securities	-	-	-	-
Receivables from derivative instruments	6 158	0,03%	13 877	0,06%
Other receivables	201	-	73	-
Liabilities	**1 194**	**0,01%**	**164 485**	**0,69%**
Current accounts	18	-	7 000	0,03%
Term deposits	-	-	20 862	0,09%
Interest payable	-	-	77	-
Liabilities from derivative instruments	1 132	0,01%	136 483	0,57%
Other	44	-	63	-
Expenses	**25 786**	**-**	**485 218**	**0,24%**
Interest	575	-	124	-
Derivative instruments	24 674	-	484 496	0,24%
Other	537	-	598	-
Revenues	**6 686**	**-**	**253 711**	**0,12%**
Interest	2 232	-	792	-
Commission	-	-	-	-
Derivative instruments	4 454	-	252 919	0,12%
Other	-	-	-	-
Contingent liabilities	**60 422**	**0,22%**	**7 753 523**	**11,69%**
Liabilities granted	-	-	-	-
Liabilities received	-	-	2 000 000	3,02%
Derivative instruments	60 422	0,22%	5 753 523	8,67%

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

Emoluments of Members of Management and Supervisory Boards

In 2009 r. the remuneration of Members of the Management Board was PLN 9 954 thousand (2008 PLN 8 263 thousand), while that of the Supervisory Board - PLN 532 thousand (2008 PLN 661 tousand).

Apart from the salary, Members of Management Board are entitled to additional benefits, such as medical care package and life insurance.

In the year 2009 and 2008, the Bank did not pay any severance pay to the Members of Management or Supervisory Boards.

In 2009, the Bank paid post-employment benefits to the Members of Management Board in the amount of PLN 116 thousand (2008: PLN 104 thousand).

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

The Members of the Management and Supervisory Boards did not take out any loans, allowances, or guarantees in 2008 or 2009.

47 Significant events in 2009

Agreement concerning initial public offering of Bank BGŻ S.A. shares

On 26 February 2009, a cooperation agreement was signed between the State Treasury, Rabobank International Holding B.V. and Bank BGŻ S.A. According to the agreement, the State Treasury, as the Bank's shareholder, has the right to initiate by 31 December 2011 the process of the initial public offering of the Bank's shares, during which it would be able to sell shares held in the Bank. Rabobank International Holding B.V is obliged to vote for such resolution and the Bank is obliged to prepare and execute this process. In connection with the agreement, the Resolution of the BGŻ Annual General Meeting "on change in the Resolution no. 3 dated 23 August 2007 of the BGŻ Extraordinary Annual General Meeting on the application for admitting the Bank's shares to public trading on regulated market and share dematerialization" becomes irrelevant as regards the date of the initial offering. The definite date of the IPO will be determined jointly by the State Treasury and Rabobank International Holding B.V.

Bonds redemption by the NBP

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 be exchanged for some bonds acquired by banks in connection with 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.

Polish Financial Supervision Authority inspection

In the first half of 2009 KNF carried out a comprehensive inspection in the Bank. The inspection did not find material irregularities which would have impact on the Bank's financial statements.

Notes to the consolidated financial statements

48 Events after the reporting date

As at the date of signing these consolidated financial statements no events after the reporting date occurred in the Bank.

(-)
Jacek Bartkiewicz
President of the Management Board

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Hieronymus Jacobus Nijsen
First Vice-President of the Management Board

(-)
Michał Gajewski
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, 1 March 2010