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 2010, together with the independent auditors' opinion

Warsaw, 1 March 2011

- data in PLN thousands

Consolidated income statement

	Note	Year ended 31.12.2010	Year ended 31.12.2009
Interest income	6	1 376 609	1 274 163
Interest expense	6	(772 291)	(812 195)
Net interest income		**604 318**	**461 968**
Fee and commission income	7	305 736	281 884
Fee and commission expense	7	(34 209)	(33 514)
Net fee and commission income		**271 527**	**248 370**
Dividend income	8	3 147	3 525
Result on trading activities	9	143 539	203 450
Result on investing activities	10	1 476	15 726
Other operating income	11	51 948	83 743
Net impairment losses on loans and advances	12	(134 162)	(106 504)
General administrative expenses	13,15	(713 975)	(673 770)
Other operating expenses	14	(102 627)	(119 917)
Operating result		**125 191**	**116 591**
Share in profit (loss) of associates	27	1 674	(26)
Profit (loss) before taxation		**126 865**	**116 565**
Income tax expense	16	(14 524)	(15 922)
Net profit (loss) for the year		**112 341**	**100 643**
- attributable to the shareholders of the Bank		112 341	100 643
Earnings per share (in PLN per share):	**17**	**2.61**	**2.33**
From continuing and discontinued operations:		2.61	2.33
- Basic		2.61	2.33
- Diluted		2.61	2.33
From continuing operations:		2.61	2.33
- Basic		2.61	2.33
- Diluted		2.61	2.33

- data in PLN thousands

Consolidated statement of comprehensive income

	Note	Year ended 31.12.2010	Year ended 31.12.2009
Profit (loss) for the year		**112 341**	**100 643**
Other comprehensive income			
Net (loss)/gain on valuation of available-for-sale financial assets		(4 555)	9 244
Income tax effect		865	(1 756)
Other comprehensive income for the year, net of tax		**(3 690)**	**7 488**
Total comprehensive income for the year		**108 651**	**108 131**

- data in PLN thousands

Consolidated statement of financial position

	Note	31.12.2010	Restated 31.12.2009
ASSETS			
Cash and balances with the Central Bank	18	1 379 737	1 279 378
Amounts due from other banks	19	280 920	356 593
Receivables arising from reverse repo transactions	20	651 706	74 655
Held-for-trading securities	21	1 814 899	467 517
Derivative financial instruments	22	220 987	254 618
Loans and advances to customers	23	19 869 177	18 301 366
Securities available for sale	24	3 290 675	2 781 211
Other debt securities	25	109 232	213 109
Investment property	26	63 900	63 200
Investments in subsidiaries and associates	27	31 542	19 367
Intangible assets	28	96 787	88 573
Property, plant and equipment	29	464 818	444 324
Deferred tax asset	37	232 141	88 503
Current tax asset		44 800	-
Other assets	30	78 278	113 087
TOTAL ASSETS		**28 629 599**	**24 545 501**

- data in PLN thousands

Consolidated statement of financial position (continued)

	Note	31.12.2010	Restated 31.12.2009
LIABILITIES			
Amounts owed to other banks	31	1 020 419	476 086
Liabilities arising from repo transactions	32	1 268 921	111 980
Derivative financial instruments and other liabilities held for trading	22	732 098	248 299
Amounts owed to customers	33	21 051 715	19 598 526
Liabilities from issued debt securities	34	1 745 198	1 450 819
Other liabilities	35	241 895	198 100
Deferred tax liability	37	9 814	9 681
Current tax liabilities	37	3	-
Provisions	36	41 697	45 732
Liabilities arising from employee benefits	39	22 822	19 912
TOTAL LIABILITIES		**26 134 582**	**22 159 135**
EQUITY			
Issued share capital	41	43 137	43 137
Reserve capital	42	2 220 155	2 112 164
Accumulated profit/ (loss) from previous years	42	8 487	15 835
Other reserves	42	110 897	114 587
Undistributed profit for the year	42	112 341	100 643
TOTAL EQUITY		**2 495 017**	**2 386 366**
TOTAL LIABILITIES AND EQUITY		**28 629 599**	**24 545 501**

- data in PLN thousands

Consolidated statement of changes in 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 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
Comprehensive income for the year		**-**	**-**	**7 488**	**-**	**100 643**	**108 131**
As at 31 December 2009	**41,42**	**43 137**	**2 112 164**	**114 587**	**15 835**	**100 643**	**2 386 366**
As at 1 January 2010		**43 137**	**2 112 164**	**114 587**	**15 835**	**100 643**	**2 386 366**
Transfer from prior year profits		-	107 991	-	(7 348)	(100 643)	-
Other comprehensive income for the year		-	-	(3 690)	-	-	(3 690)
Net profit for the year		-	-	-	-	112 341	112 341
Comprehensive income for the year		**-**	**-**	**(3 690)**	**-**	**112 341**	**108 651**
As at 31 December 2010	**41,42**	**43 137**	**2 220 155**	**110 897**	**8 487**	**112 341**	**2 495 017**

- data in PLN thousands

Consolidated statement of cash flows

	Note	Year ended 31.12.2010	Restated Year ended 31.12.2009
CASH FLOW FROM OPERATING ACTIVITIES:			
Net profit/loss		**112 341**	**100 643**
Total adjustments:		**(123 892)**	**(863 859)**
Current and deferred tax recognized in the financial result		14 524	15 922
Amortization and depreciation		73 235	72 816
Interest and dividends	46	(92 603)	(84 411)
Profit/loss on investing activities		(864)	(15 044)
Change in provisions		(1 125)	(34 022)
Change in amounts due from other banks	46	32 165	156 576
Change in receivables arising from reverse repo transactions		(577 051)	(74 655)
Change in held-for-trading debt securities		(1 347 382)	62 656
Change in receivables from derivative financial instruments		33 631	750 287
Change in loans and advances to customers		(1 567 811)	(1 235 160)
Income tax paid		(201 335)	-
Change in amounts owed to other banks	46	340 458	(673 143)
Change in liabilities arising from repo transactions		1 156 941	111 980
Change in liabilities from derivative financial instruments		483 799	(1 171 556)
Change in amounts owed to customers		1 453 189	1 457 546
Change in liabilities arising from issues of debt securities	46	(212)	(761)
Change in other liabilities	46	43 798	(156 448)
Other adjustments	46	32 751	(46 442)
NET CASH FLOW FROM OPERATING ACTIVITIES		**(11 551)**	**(763 216)**

- data in PLN thousands

Consolidated statement of cash flows (continued)

	Note	Year ended 31.12.2010	Restated Year ended 31.12.2009
CASH FLOW FROM INVESTING ACTIVITIES:			
Inflows		**102 975 945**	**47 086 051**
Sale of investment securities	25	102 824	535 984
Sale of securities available for sale	24	102 870 826	46 504 626
Sale of intangible assets and property, plant and equipment	11,14	2 295	10 450
Other investing inflows		-	34 991
Outflows		**(103 403 418)**	**(47 469 393)**
Purchase of shares in associates	27	(10 502)	-
Purchase of securities available for sale	24	(103 287 188)	(47 391 259)
Purchase of intangible assets, property, plant and equipment	28,29	(105 161)	(78 134)
Other investing outflows		(567)	-
NET CASH FLOW FROM INVESTING ACTIVITIES		**(427 473)**	**(383 342)**
CASH FLOW FROM FINANCING ACTIVITIES:			
Inflows		**6 701 375**	**3 081 500**
Issue of debt securities to other financial institutions	31	203 875	-
Long-term loans raised from other banks	34	6 497 500	3 081 500
Outflows		**(6 205 500)**	**(2 232 500)**
Redemption of debt securities issued to other financial institutions	34	(6 205 500)	(2 232 500)
TOTAL NET CASH FLOW FROM FINANCING ACTIVITIES		**495 875**	**849 000**
TOTAL NET CASH FLOW		**56 851**	**(297 558)**
Cash and cash equivalents at the beginning of the year	**45**	**1 553 987**	**1 851 545**
Cash and cash equivalents at the end of the year, of which:	**45**	**1 610 838**	**1 553 987**
of restricted use		1 041	936

Accounting policies and additional explanatory notes

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. In the Articles of Association of the Bank it has been stated that the Company shall continue until terminated. The Bank is a non-listed entity.

In 2010, the average number of employees at BGŻ S.A. was 5,050.55 FTEs (full-time employees) in terms of full-time posts and in the Group – 5 051.55 FTEs.

The Bank's main area of activities includes:

- accepting a-vista and term deposits and maintaining deposit accounts,
- maintaining other bank accounts,
- granting loans and cash advances,
- issuing and confirming bank guarantees and letters of credit,
- issuing bank securities,
- conducting bank monetary settlements,
- cheque and bill of exchange transactions and transactions in warrants,
- issuing payment cards and performing transactions with the use of cards,
- forward financial transactions,
- purchase and sale of debts,
- safekeeping of objects and securities and offering safety deposit box services to clients,
- purchasing and sale of foreign currencies,
- issuing and confirming guarantees,
- performing commissioned activities relating to issue of securities,
- intermediary services in cash transfers and foreign currency settlements,
- issuing e-money instruments,
- taking up and purchasing shares and rights attached to shares, shares in other corporate entities or participation units in investment funds,
- liabilities arising from issuing of debt securities
- trading in securities,
- exchanging amounts due from the debtor for his/her assets on terms agreed with the debtor,
- purchasing and sale of real estate,
- providing financial advisory/consulting services,
- conducting brokerage activities (operating Brokerage Office),
- conducting acquisition activities within the meaning of the regulations concerning the organising and functioning of open-ended pension funds,
- acting as depositary within the meaning of the regulations concerning the organising and functioning of open-ended pension funds,
- keeping in custody assets of investment funds,
- operating securities deposit,
- intermediary services in trading in participation units of investment funds,
- providing financial settlement and advisory services in respect of financial market instruments,
- providing trust and factoring services,
- providing transport services in respect of cash and cash equivalents,
- providing insurance intermediary services within the scope allowed by the Insurance Intermediary Services Act,
- providing operating finance leases,
- trading in treasury stamps and numismatic items.

- data in PLN thousands

Accounting policies and additional explanatory notes

As at 31 December 2010, the Bank's Management Board was composed of the following members:

Jacek Bartkiewicz	- President
Hieronymus Jacobus Nijsen	- 1st Vice president
Witold Okarma	- Vice president
Andrzej Sieradz	- Vice president

As of 11 October 2010 Mr Andrzej Sieradz was appointed as the Vice president of the Management Board. As of 30 August 2010 Mr Victor Cuyckens resigned as Vice president of the Management Board and as of 17 December 2010 Mr Michał Gajewski was dismissed as a result of a Resolution of the Supervisory Board.

From the reporting date to the day of the preparation of the consolidated financial statement there were no changes in the composition of the Management Board of the Bank.

Bank Gospodarki Żywnościowej Spółka Akcyjna is an entity operating as part of the 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 a subsidiary as at 31 December 2010:

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

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

<u>Authorization of the financial statements for issue</u>

These consolidated financial statements were prepared as at 31 December 2010 and for the year then ended, and were authorised for issue by the Management Board on 1 March 2011.

The stand-alone financial statements of the Bank were prepared as at 31 December 2010, and were authorised for issue by the Management Board on 1 March 2011

The above financial statements include data for the years 2009 and 2010.

2 Description of significant accounting policies

2.1 Basis for the preparation of the financial statements

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

2.2 Going concern

These consolidated financial statements were prepared under the assumption that the Group's companies would continue as a going concern in the foreseeable future, this is for the period of at least 12 months following the reporting date. As at the date of signing the consolidated financial statements, the Management Board BGŻ S.A. is not aware of any facts or circumstances that would indicate a threat to the Bank's continued activity or a significant limitation in the Group's companies business for the period of at least 12 months following the reporting date.

2.3 Statement of compliance with IFRS

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 authorization of these financial statements for issue, due to the current process of IFRS endorsement in the European Union and the nature of the Bank's activities, there is no difference between the IFRS applied by the 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 other Group entity keeps its 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.

Implementation of new IFRSs

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

- IFRS 2 *Share-based Payments – Group Cash-settled Share-based Payment Transactions* – applicable to annual periods beginning on or after 1 January 2010. The amendment clarifies the method of accounting for group cash-settled share-based payment transactions. This amendment replaces IFRIC 8 and IFRIC 11. The implementation of this amendment did not have any impact on the financial position or performance of the Group.
- IFRS 3 *Business Combinations (revised) and IAS 27 Consolidated and separate financial statements' (amended)* - applicable to annual periods beginning on or after 1 July 2009. The revised IFRS 3 introduces significant changes to the method of accounting for business combinations that take place after that date. These changes relate to valuation of non-controlling interests, recognition of costs directly related to the transaction, initial

recognition and subsequent valuation of contingent payment and settlement of business combinations achieved in stages. These changes have effect on the value of recognized goodwill, the result for the period in which the acquisition took place and the results reported in the subsequent periods.

- The revised IAS 27 requires that the changes of interest in the equity of a subsidiary (not resulting in the loss of control) shall be accepted as transactions with the owners. In consequence, such transactions shall not result in the emergence of goodwill or the recognition of profit or loss. Additionally the standard modifies the method of the allocation of losses incurred by the subsidiaries and the treatment of the loss of control over them. The modifications to IFRS 3 and IAS 27 will influence the future transactions of the acquisition or loss of control over subsidiaries as well as the transactions with non-controlling shareholders.

  The amendment did not have any effect on the financial position or performance of the Group.

- IAS 39 *Amendments to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items* – applicable to annual periods beginning on or after 1 July 2009. The amendments relate to the recognition of one-sided risk in a hedged item and designation, in appropriate circumstances, inflation as hedged risk or part of the risk. The amendment did not have any effect on the financial position or performance of the Group.
- IFRIC 17 *Distributions of Non-cash Assets to Owners* – applicable to annual periods beginning on or after 1 July 2009. This interpretation contains guidelines for the accounting treatment of distribution to owners of non-cash assets in the form of reserve/ accumulated profits distribution or dividend payment. This interpretation did not have any effect on the financial position or performance of the Group.

- Improvements to IFRSs (published in May 2008) – in May 2008, IASB published the first set of improvements to the already published IFRSs. The amendments that were applied by the Group as of 1 January 2010 were as follows:
  - IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations* – the amendment explains that if a subsidiary company meets classification criteria of a held-for-sale entity then all its assets and liabilities are classified as held for sale even if after the transaction of sale the parent retains non-controlling interest in such subsidiary company. This amendment does not have any impact on the financial position or performance of the Group.
- *Improvements to IFRSs (published in April 2009)* – in April 2009, IASB published the second set of improvements to the already published IFRSs, mainly in order to remove inconsistencies and unclear statements. Different transitional provisions are binding for individual standards. Application of the below standards resulted in changes in the Bank's accounting policies, but did not have any effect on the financial position or performance of the Group.
  - IFRS 8 *Operating Segments:* It was explained, that segment assets and segment liabilities are included only in the measures used by the main body responsible for operational decisions. Due to the fact that the main body of the Bank responsible for taking operational decisions is in the process of reviewing segment assets and segment liabilities the Group continues to disclose the required information in Note 5.
  - IAS 36 *Impairment of assets:* explains that the largest unit to account for impairment testing of the post-merger goodwill is the operating segment within the meaning of IFRS 8, before aggregation for reporting purposes. This

amendment did not have any impact on the consolidated financial statements of the Group.

- IAS 39 *Financial Instruments: Recognition and Measurement:* the amendment explains that the alternative of earlier exercise of an option is closely related to the host contract if the option exercise price gives the lender the return in the amount approximating to the present value of interest "lost' for the period to the expiry of the host contract. This amendment does not have any effect on the financial position or performance of the Group.

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

- Amendments to IAS 32 *Financial instruments: Presentation: Classification of Rights Issues* – applicable to annual periods beginning on or after 1 February 2010,
- IAS 24 *Related Party Disclosures (revised in November 2009)* – applicable to annual periods beginning on or after 1 January 2011,
- IFRS 9 *Financial Instruments* – applicable to annual periods commencing on or after 1 January 2013. At the date of authorization of these financial statements, not endorsed by the EU.
- Amendments to IFRIC 14 IAS 19 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: Prepayments of a Minimum Funding Requirements* – applicable to annual periods beginning on or after 1 January 2011,
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* – applicable to annual periods beginning on or after 1 July 2010,
- Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters – applicable to annual periods beginning on or after 1 July 2010,
- Improvements to IFRSs (published in May 2010) – certain changes are applicable to annual periods commencing on or after 1 July 2010, and other – to annual reporting periods commencing on or after 1 January 2011. At the date of authorization of these financial statements, not endorsed by the EU.
- Amendment to IFRS 7 Financial Instruments – Disclosures: Transfer of Financial Assets - effective for financial years beginning on or after 1 July 2011 – not endorsed by EU till the date of approval of these financial statements,
- Amendments to IAS 12 Income Tax: Deferred Tax: Recovery of Underlying Assets – effective for financial years beginning on or after 1 January 2012 - not endorsed by EU till the date of approval of these financial statements,
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters - effective for financial years beginning on or after 1 July 2011 - not endorsed by EU till the date of approval of these financial statements.

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

2.4 Restated data

Restated data for prior reporting periods presented in these consolidated financial statements include presentation changes introduced to the consolidated financial statements prepared for the year ended 31 December 2010.

Accounting policies and additional explanatory notes

Consolidated statement of financial position

	Issued data 31.12.2009	Restatement	Restated 31.12.2009
Assets			
Receivables arising from reverse repo transactions	-	74 655	74 655
Held-for-trading securities	430 329	37 188	467 517
Derivative financial instruments	254 693	(75)	254 618
Other assets	113 064	23	113 087
Liabilities			
Liabilities arising from repo transactions	-	111 980	111 980
Derivative financial instruments and other liabilities held for trading	248 488	(189)	248 299

Commentary:

Separate presentation of receivables and liabilities arising from repo/reverse repo transactions in assets and liabilities. Restatement of data in relation to comparative period opening balance is immaterial and therefore data as of 1 January 2009 are not presented.

2.5 Consolidation

Subsidiaries

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

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

2.6 Valuation of foreign currency items

a) Functional and presentation currency

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

(b) Transactions and balances

Transactions denominated in foreign currencies are translated to functional currency at the exchange rate prevailing on the transaction date.
At the reporting date, assets and liabilities expressed in currencies other than Polish zloty are translated into Polish zloty using the average NBP rate prevailing for the given currency at

- data in PLN thousands

the year-end. Any exchange differences resulting from conversion are recorded under trading result or finance costs, or – in cases defined in accounting policies – are capitalised in the cost of the assets. Non-monetary foreign currency assets and liabilities recognized at historical cost are translated at the historical exchange rate prevailing on the transaction date. Non-monetary foreign currency assets and liabilities recognized at fair value are translated to Polish zloty using the rate of exchange binding as at the date of re-measurement to fair value.

The main foreign currency exchange rates used in the preparation of these financial statements, prevailing on 31 December 2010 and 31 December 2009, were as follows:

	31.12.2010	31.12.2009
1 EUR	3.9603	4.1082
1 USD	2.9641	2.8503
1 GBP	4.5938	4.5986
1 CHF	3.1639	2.7661
100 JPY	3.6440	3.0890

2.7 Interest income and expense

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

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

Once a financial asset or group of similar assets has been written 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).

2.8 Net fee and commission income

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

2.9 Dividend income

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

Accounting policies and additional explanatory notes

2.10 Result on trading activities

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

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

2.11 Result on investing activities

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

2.12 Other operating income and other operating expenses

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

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

2.13 Corporate income tax

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

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

In 2010 and 2009, the current tax expense and the deferred tax liability were calculated using the 19% rate.

2.14 Classification and valuation of financial assets

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

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

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

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

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

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

2.14.2 Financial assets and liabilities at fair value through profit 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 2010 and 31 December 2009, and in the years then ended, none of the Group's financial assets were classified upon initial recognition at fair value through profit or loss.

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

As at the reporting date, financial assets and liabilities classified at fair value through profit or loss are measured at fair value as from the date of the transaction. Any gains or losses arising from changes in the fair value of the "financial assets or liabilities at fair value through profit or loss' are recognized in the income statement under result on trading activities in the period in which they arose. Interest and purchased discounts or premiums are amortized to the interest result using the effective interest rate method.

The best indicator of fair value of a financial asset or liability upon its initial recognition is fair value of paid or received payment, unless fair value of this instrument can be measured by comparison with different actual market transactions concerning the same instrument (unmodified) or on the basis of valuation techniques based on measurable market data.

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

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

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

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

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

2.14.3 Loans and receivables

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

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

Accounting policies and additional explanatory notes

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

2.14.4 Held-to-maturity investments

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

2.14.5 Available-for-sale assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the preceding categories. Available-for-sale financial assets are measured at fair value, without deducting transaction costs, and taking into account their market value at the reporting date. Where no quoted market price from a regulated market is available and there is no possibility of determining their fair value using alternative methods, the available-for-sale financial assets are measured at cost, adjusted for any impairment losses. Positive and negative differences between the fair value (if a quoted market price determined on the regulated market is available or if the fair value can be determined using another reliable method), and the acquisition cost, net of deferred tax, of the financial assets available for sale, are taken to the revaluation reserve. Any decrease in the value of the financial assets available for sale resulting from impairment losses is taken to the income statement, and recorded under finance cost.

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

2.14.6 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 recognized amounts and intends either to settle this on a net basis, or to realise the asset and simultaneously settle the liability.

2.14.7 Sell and buy back transactions

Securities under repo or sell-back transactions with maintaining by the Bank the risks and benefits resulting from an asset in spite of its transfer are not de-recognized in the statement of financial position. The corresponding liabilities are recognized as financial liabilities under 'Liabilities arising from repo transactions'.

Reverse repo and buy sell back transactions are recognized as 'Receivables arising from reverse repo transactions'. The difference between the selling price and the repurchase value is treated as interest and calculated using the effective interest rate, over the term of the underlying loan contract.

2.14.8 Investments in associates

Investments in associates are valued in the Group's financial statements using the equity method.

2.15 Impairment of financial assets

2.15.1 Financial assets carried at amortized cost

An assessment is made at each 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:

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 (egg. 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.

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 income statement in the collective assessment for impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the current value of estimated future cash flows (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 income statement. If a loan or held-to-maturity investment has variable interest rate, then the discount rate used to determine impairment loss is the current effective interest rate established in the loan agreement. In practice, the Group may determine impairment losses using the fair value of the financial instrument, based on the current market price.

The calculation of present value of estimated future cash flows of a collateralised financial asset includes cash flows from the sale of the collateral, less costs of its acquisition and sale; irrespective of whether or not the sale 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 recognized in the income statement is reduced as appropriate.

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

2.15.2 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.

2.16 Renegotiated loan agreements

In the case that a loan was renegotiated and in consequence the repayment deadlines were prolonged or if other terms of the agreement were changed such exposure is not classified as overdue. The Bank recognizes the balance sheet value of the financial assets which, if there were no change of the repayment deadlines or change of the terms of an agreement, would not be overdue. The Management Board of the Bank regularly verifies that all terms of a renegotiated agreement are fulfilled and whether the Bank will receive the future payments. The loans still under individual or group impairment loss assessment are valued with the use of the initial effective interest rate.

2.17 Non-current assets held for sale

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

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, rather than through continuing use. This condition is considered to be fulfilled if and only if the sale transaction is highly probable and the non-current asset (or the disposal group) is available for immediate sale in its present condition. Classification of a given non-current asset (or a disposal group) into the held-for-sale category reflects the intention of the entity's management to complete the sale within one year from the date of the change in the asset's (disposal group's) classification.

Discontinuing operation is a component of the Group that has either been disposed of or is classified as 'held for sale' and (a) represents a major line of business or geographical area of operations (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or (c) is a 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.

2.18 Investment property

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

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

- It is probable that the future economic benefits associated with the investment property will flow to the entity, 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..

Collateralized property that have been seized are recognized as investment property, unless they meet the criteria for non-current assets held for sale.

2.19 Intangible assets

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

Accounting policies and additional explanatory notes

Capitalized software development costs are amortized over the estimated period of use of the software.

Amortization of intangible assets is charged on a straight-line basis in order to allocate their initial cost or revalue amount, less residual value, on a systematic basis over their useful lives. The amortization rates for particular intangible asset groups are as follows:

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

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

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

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

2.20 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 re-valued amount, less residual value, on a systematic basis over their useful lives. The depreciation rates are as follows:

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

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

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

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

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

2.21 Financial liabilities valued at amortized cost

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

2.22 Provisions

Provisions are recognized 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 costs to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the estimated future cash flows to present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

2.23 Financial guarantees

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

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

2.24 Employee benefits

The Group creates a provision for future liabilities towards employees in respect of jubilee bonuses, retirement and pension benefits and unused annual leave allowance. These provisions are created using the actuarial method, as described in Note 36 to these financial statements.

Group employees are entitled to the following employee benefits:

2.24.1 Jubilee bonuses

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

2.24.2 Retirement benefits

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

2.24.3 Provision for unused annual leave

Provision for unused annual leave is calculated as the product of the average daily remuneration of the given employee, and the number of his/her unused annual leave days as at the balance sheet day.

2.24.4 Allocation of profit for employee purposes, and special funds

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

2.25 Issued share capital

2.25.1 Share issued costs

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

2.25.2 Treasury shares

When the Bank's own shares are re-acquired by the Bank or other Group entities included into 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.

2.26 Statutory reserve capital

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

2.27 Other reserves

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

Other reserves include a reserve, which is created as the result of the revaluation of financial instruments held for sale.

Accounting policies and additional explanatory notes

2.28 General banking risk reserve from net profit distribution

The general banking risk reserve was established in accordance with the Banking Act dated 29 August 1997 from the net profit for the year. The general banking risk reserve can be appropriated only with the approval of the shareholders at the Annual General Meeting.

2.29 Trust activities

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

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

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

2.30 Cash and cash equivalents

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

3 Financial risk management

Risk management in the Group is concentrated directly in the Bank, as the Bank's assets account for 99.93% of the Group's assets (as at 31 December 2010). Accordingly, all data relating to particular risks have been presented for the Bank.

3.1 Financial instruments strategy

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

The Bank uses financial market instruments primarily to manage the following risks: the liquidity risk, interest rate risk and currency risk resulting from the core business in accordance with the internally accepted risk appetite and medium- and long-term market trends.

Moreover the Bank offers to its clients access to the instruments of the financial market in order to hedge against market risk (fluctuations in foreign exchange and interest rates) present in the core business activity. In 2009 and 2010 the Bank restructured its lending process by allowing its client access to derivatives in conformity with the requirements of the Markets in Financial Instruments Directive and by ensuring an enhanced internal control over the scale and profile of the increased risk. The majority of transactions with clients is closed on the inter-bank market, however due to their character (low amounts of individual transactions, non-standard characteristics) a part of the risk remains in the books of the Bank within the trading book, limited by a conservative policy and market risk limits.

Accounting policies and additional explanatory notes

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:

- stable growth of the loan portfolio,
- keeping the share of non-performing loans in the loan portfolio at a level acceptable by the Bank,
- ensuring the compliance of credit procedures and products in accordance with the Bank's strategy.

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 any 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 organizational structure. In order to limit such exposure, the Banking Act has set out limits for a bank's maximum exposure. In accordance with article 71.1 of the Banking Act, the total of the amounts due to a bank, the off-balance sheet liabilities granted by the bank, shares held directly or indirectly in another entity, additional payments made in respect of the share capital of a limited liability company, or contributions or limited liability amounts – depending on which of the two is the higher - in a limited partnership or a limited joint-stock partnership, in respect of a single entity or group of entities related by capital or organizational structure, must not exceed the concentration limits, which are as follows:

- 20% of the bank's own capital, where any of the entities related by capital or organizational structure is an affiliate of the bank,
- 25% of the bank's own capital, where the entities related by capital or organizational structure are not affiliates of the bank.

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

- data in PLN thousands

The Bank monitors concentration limits in accordance with article 71 of the Banking Act. At the end of 2010, the Bank's financial exposure to clients / groups of clients related by capital or organizational structure was no higher than the concentration limit of exposures. 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 organizational structure was equal or higher than 10% of the Bank's own capital and amounted to ca. 23% of the Bank's own capital. According to the balance at the end of 2009 the limits given in article 71 of the Banking Act were not breached. As at 31 December 2009 the total exposure equal or higher than 10% of the Bank's own capital amounted to 13% of the Bank's own capital.

In monitoring geographical concentration, the Bank analyses all of its loan exposures, including from both retail and institutional clients. As at 31 December 2009, the respective geographical concentrations were as follows: Central Area – 22%, Eastern Area – 23%, Western Area – 19%, Southern Area – 17%, Northern Area – 19%. At the end of 2010, the allocation of exposure to particular geographical areas was again found to be in proportion, and was as follows: Central Area – 21%, Eastern Area – 22%, Western Area – 21%, Southern Area – 17%, Northern Area – 19%.

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

Share of non performing loans, by region*

Regions:	Engagement		Share of non-performing exposures	
	31.12.2010	31.12.2009	**31.12.2010**	31.12.2009
Central	**4 387 654**	4 210 778	**17.6%**	13.8%
Eastern	**4 592 577**	4 322 346	**2.7%**	3.5%
Western	**4 223 133**	3 649 455	**3.9%**	3.3%
Northern	**3 906 220**	3 545 773	**2.2%**	3.3%
Southern	**3 472 222**	3 183 544	**5.0%**	3.7%

* loans with indentified impairment

As at 31 December 2010, the greatest exposure was characteristic for the Central region. For this region, the comparatively greatest share of 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 Bank classifies the industries based on the Polish Classification of Activities (2007 PCA code). The structure of the Bank's exposure to particular industries at the end of 2010, similar to that at the end of 2009, is characterized by concentration on the following three industries: Agriculture, Wholesale Trade and Food Production. In 2009, the Bank's exposure to these three industries accounted for 58% of total exposure; while in 2010 – for 65%.
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 2010 and 2009, the largest share of non performing exposures by industry was in the manufacture of electronic products and wearing industry.

Accounting policies and additional explanatory notes

*Share of non-performing loans, by industry (gross balance sheet value) **
in PLN '000

Industry	Engagement		Share of non-performing exposures	
	31.12.2010	31.12.2009	**31.12.2010**	31.12.2009
Agriculture	**4 857 429**	3 764 239	**3.5%**	3.8%
Wholesale trade; wholesale and retail trade in vehicles	**1 716 754**	1 452 122	**7.7%**	8.2%
Food production	**1 689 632**	1 679 634	**14.0%**	16.9%
Manufacture of coke and refined petroleum products, chemicals and chemical products, rubber and plastic products	**532 202**	573 035	**2.2%**	0.6%
Construction	**485 390**	448 275	**16.0%**	14.5%
Retail trade	**390 238**	346 133	**7.9%**	5.8%
Manufacture of products of wood and cork, paper and paper products, furniture	**382 763**	356 030	**8.9%**	7.3%
Production of metallic, other mineral non-metallic materials	**369 837**	325 964	**18.6%**	12.2%
Real estate activities	**364 933**	357 271	**2.8%**	3.1%
Transportation and storage	**251 518**	201 867	**14.6%**	15.9%
Other business activity	**246 197**	283 769	**1.5%**	0.9%
Manufacture of machinery and equipment, motor vehicles	**240 863**	270 349	**7.0%**	4.7%
Hotels and restaurants	**184 303**	140 524	**12.6%**	10.5%
Financial and insurance activities	**114 090**	112 891	**16.6%**	11.1%
Manufacture of electronic and optical products, electrical equipment	**136 294**	147 024	**28.6%**	27.6%
Manufacture of wearing apparel, textiles, leather and related products	**99 848**	98 701	**29.1%**	27.5%
Professional, scientific and technical activities	**87 889**	59 340	**5.7%**	3.7%
Electricity, gas, steam, hot water production and supply	**71 743**	44 313	**0.6%**	1.2%
Human health and social work activities	**56 210**	133 392	**2.6%**	1.5%
Water supply; sewerage, waste management	**44 113**	55 241	**5.1%**	0.3%
Other service activity	**42 443**	20 095	**1.5%**	3.0%
Education, arts, entertainment and culture	**39 232**	28 637	**1.2%**	0.8%
Other goods production	**35 096**	31 341	**5.9%**	4.0%
Forestry and logging	**22 088**	12 479	**6.6%**	3.0%
Information and communication	**20 894**	18 042	**10.2%**	1.9%
Mining and quarrying	**16 990**	23 341	**2.9%**	0.0%
Fishing industry	**16 638**	10 020	**0.0%**	0.0%
Other industries	**175 499**	946 163	**11.1%**	4.5%
Retail Custormers	**7 890 680**	6 971 664	**4.4%**	2.6%

* 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 2010 and 31 December 2009, no breach of concentration limits for this collateral group was noted. During 2009 the Bank modified its approach to monitoring of collateral concentration. Collaterals of low liquidity are analysed first.

Structure of receivables delinquency

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

The structure of the loan portfolio classified as exposures with identified evidence of impairment and without such including the number of overdue days are presented in the tables below.

Credit portfolio structure classified by impairment and delinquency 31.12.2010 (balance sheet value in PLN '000)

Exposure cathegory	with no evidence of impairment				with evidence of impairment	
	0 days	1-30 days	31-60 days	61-90 days		total
Retail current account loans	135 264	2 040	2 468	1 562	3 698	145 032
Loans for the purchase of residential premises	6 214 070	132 225	53 934	27 210	93 551	6 520 990
Mortgage loans	126 095	8 342	3 582	1 312	5 676	145 007
Cash loans	532 576	29 958	10 112	4 852	39 209	616 707
Student loans	210 081	1 067	1 043	18	2 695	214 904
Other retail exposures	6 066	7	-	-	44	6 117
Operating loans for farmers	193 850	902	1 227	113	6 154	202 246
Investment loans for farmers	3 022 767	6 418	7 496	1 182	44 180	3 082 043
Operating loans for micro-enterprises	19 820	106	151	-	1 781	21 858
Investment loans for micro-enterprises	634 674	1 135	10 883	3 707	23 033	673 432
Current account loans for farmers and micro-enterprises	956 232	4 201	10 098	4 522	14 546	989 599
Investment loans for SME and large enterprises	4 939 922	1 761	4 798	10 449	328 776	5 285 706
Current account loans for SME and large enterprises	1 350 567	2 508	1 346	1 056	62 574	1 418 051
Finance institutions exposures	8 075	-	-	-	233	8 308
Public sector	200 129	-	-	-	-	200 129
Exposures in the Irregular Loans Department	21 434	83	-	-	63 731	85 248
Factoring	255 243	9 955	-	-	2 414	267 612
Total	**18 826 865**	**200 708**	**107 138**	**55 983**	**692 295**	**19 882 989**

Accounting policies and additional explanatory notes

Credit portfolio structure classified by impairment and delinquency 31.12.2009 (balance sheet value in PLN '000)

Exposure cathegory	with no evidence of impairment				with evidence of impairment	
	0 days	1-30 days	31-60 days	61-90 days		total
Retail current account loans	125 483	181	649	455	1 320	128 088
Loans for the purchase of residential premises	5 590 519	55 140	37 702	14 895	38 600	5 736 856
Mortgage loans	182 638	5 491	3 772	1 559	5 350	198 810
Cash loans	467 279	14 878	8 900	4 123	13 517	508 697
Student loans	242 544	4	328	29	1 740	244 645
Other retail exposures	9 077	4	51	-	41	9 173
Operating loans for farmers	240 698	711	542	587	2 141	244 679
Investment loans for farmers	2 712 270	7 234	7 472	678	19 999	2 747 653
Operating loans for micro-enterprises	17 463	151	185	60	1 399	19 258
Investment loans for micro-enterprises	497 182	852	6 347	1 392	6 619	512 392
Current account loans for farmers and micro-enterprises	710 819	4 109	4 820	2 954	5 227	727 929
Investment loans for SME and large enterprises	5 001 549	3 387	8 448	5 136	334 830	5 353 350
Current account loans for SME and large enterprises	1 341 092	2 560	1 983	810	48 258	1 394 703
Finance institutions exposures	119	-	-	-	-	119
Public sector	180 598	-	-	-	-	180 598
Exposures in the Irregular Loans Department	22 951	1 442	1 191	159	65 584	91 327
Factoring	212 344	2 080	-	202	211	214 837
Total	**17 554 625**	**98 224**	**82 390**	**33 039**	**544 836**	**18 313 114**

The level of possible credit loss on exposures without identified impairment indicators is also reflected in the values of PD (probability of default) parameters assigned to these exposures at the reporting date. These parameters describe the probability of the occurrence of events in accordance with which an objective impairment indicator will be identified for a given loan exposure in the following 12 months.

Accounting policies and additional explanatory notes

Credit portfolio structure with no impairment evidence (net balance sheet value in PLN '000)

Exposure cathegory	31.12.2010		31.12.2009	
	value	PD	value	PD
Retail current account loans	141 334	1.62%	126 768	1.47%
Loans for the purchase of residential premises	6 427 439	2.04%	5 698 256	1.61%
Mortgage loans	139 331	5.55%	193 460	5.77%
Cash loans	577 499	8.05%	495 181	5.45%
Student loans	212 209	1.26%	242 904	1.27%
Other retail exposures	6 073	8.05%	9 132	5.45%
Operating loans for farmers	196 092	1.23%	242 538	1.31%
Investment loans for farmers	3 037 862	1.01%	2 727 654	1.05%
Operating loans for micro-enterprises	20 077	3.74%	17 859	5.28%
Investment loans for micro-enterprises	650 399	2.77%	505 773	2.46%
Current account loans for farmers and micro-enterprises	975 052	2.08%	722 702	1.73%
Investment loans for SME and large enterprises	4 956 930	1.68%	5 018 521	1.73%
Current account loans for SME and large enterprises	1 355 477	1.75%	1 346 444	1.48%
Finance institutions exposures	8 075	-	119	-
Public sector	200 129	-	180 598	-
Exposures in the Irregular Loans Department	21 518	37.96%	25 743	34.09%
Factoring	265 198	1.68%	214 626	1.73%
Total	**19 190 694**	**-**	**17 768 278**	**-**

For Clients from the sector of Large as well as Small and Medium Enterprises who apply full accounting the Bank determines internal rating classes in accordance with the accepted credit policy. Rating classes are set on the basis of a risk model dedicated to this part of credit portfolio. To this end, input data include annual financial data presented by the client as well as a general qualitative rating of the market situation. The structure of non-impaired financial assets as per internal Bank ratings is presented in the table below.

Exposure portfolio structure of enterprises with an internal rating, with no impairment evidence

Internal rating code*	31.12.2010	31.12.2009
	Share	Share
R08	-	-
R09	0.2%	0.2%
R10	6.9%	6.5%
R11	1.0%	1.4%
R12	8.2%	2.7%
R13	11.9%	10.5%
R14	12.6%	10.0%
R15	19.3%	24.5%
R16	18.4%	15.5%
R17	11.3%	12.5%
R18	6.8%	11.7%
R19	1.8%	2.7%
R20	1.6%	1.8%
Total	**100.0%**	**100.0%**

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

- data in PLN thousands

Accounting policies and additional explanatory notes

No impairment loss is recognized 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:

	31.12.2010	31.12.2009
Fair value of collateral relating to receivables assessed on an individual basis, for which impairment indicators have been identified	1 658 742	1 503 827
Fair value of collateral relating to receivables assessed on an individual basis, for which no impairment indicators have been identified	24 416	15 446

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

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

Re-negotiated loan agreements

In the case that a loan was renegotiated and in consequence the repayment deadlines were prolonged or if other terms of the agreement were changed such exposure is not classified as overdue. The Bank recognizes the balance sheet value of the financial assets which, if there were no change of the repayment deadlines or change of the terms of an agreement, would not be overdue. The Management Board of the Bank regularly verifies that all terms of a renegotiated agreement are fulfilled and whether the Bank will receive the future payments. The loans still under individual or group impairment loss assessment are valued with the use of the initial effective interest rate.

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

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 aimed at the restoration of the ability to repay by the Bank's debtor, partially or in total, the Bank's receivable. Those actions include among others: change in the 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.

- data in PLN thousands

Accounting policies and additional explanatory notes

Data regarding the restructured receivables is presented below:

	Balance sheet value without interest 31.12.2010	Net balance sheet value 31.12.2010	Balance sheet value without interest 31.12.2009	Net balance sheet value 31.12.2009
Amounts due from banks	627	136	648	58
Loans and advances to customers	194 181	150 763	240 647	197 651
- companies	166 010	129 470	215 050	179 329
- households	28 171	21 293	25 597	18 322
Repurchased debts	5 633	5 829	-	-
Total restructured receivables	**200 441**	**156 728**	**241 295**	**197 709**

3.3 Market risk and ALM (Assets and Liabilities Management)

Organization of risk management process

The Bank assigns items included and not included in the statement of financial position to the banking or trading book to properly reflect the specifics of a financial market transaction, i.e. transaction purpose, dominant risks and accounting treatment. The precise criteria of this classification are determined by the policies introduced by the Bank's Management Board resolution which regulate the aim of running a given book, acceptable scale, profile and types of risks taken, methods of their measurement and limiting, rights and placement of the Bank's individual organizational entities in the process of risk generation, measurement, limiting and reporting.

Transaction making and settlement, valuation and risk assessment processes are performed by independent units within the Bank's structure. The Bank's Management Board, taking into account the long-term Bank's strategy and financial plan, determines the risk profile by distributing the capital available to specific business lines, which further – in the form of risk limits – is assigned to the books by the Balance Sheet and Risk Management Committee (hereinafter referred to as BRMC). The Bank's Treasury Department is operationally responsible for the current risk measurement of the trading and the banking book, acting within the accepted risk limits and realising the guidelines of the BRMC. It is the Bank's the Financial Risk Management Department (hereinafter referred to as FR) that is responsible for risk measurement and reporting of risk scale and limit breaches, while Financial Instruments Valuation Department (hereinafter referred to as FIV) performs independent valuation and calculation of management result. Individual operational divisions run accounting records and settle transactions. The acceptance system of 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 FR through to the Bank Management Board Member supervising the Finance and Risk Area. Independently from the above described process all breaches are reported and discussed at the monthly BRMC meetings.

Risk measures

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

- Value at Risk (VaR) model, which indicates the maximum acceptable amount of loss that may be incurred on a given item under normal market conditions within a given time horizon, that may be exceeded with a given probability. Nevertheless, it does not indicate the maximum loss exposure of the Bank. The Bank applies the parametric model with a modified variance-covariance matrix and exponential weighing of historical events, available historical scenarios, including 2-week long events with over 10-year long history of market data, 99% confidence interval and 1-day position holding period for the trading book. and assumes the following: 99% confidence level, 1-day position holding period for the trading book and 1 month for the banking book.

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

Risk in the banking book (ALM)

The Bank's policy with respect to the banking book is to earn additional income in excess of product margins, while avoiding the risk of instability of client deposits, capital or net profit. The Bank achieves this goal by keeping or matching the natural risk exposure resulting from deposit and lending activities within current risk limits or middle- and long-term financial market trends.

The Bank's banking book includes deposits and loans – transferred to the head office of the Bank via Funds Transfer Pricing (FTP) system – strategic items (long-term investments, obligatory reserve conversion bonds, own debt and loan issues), 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). In 2010, the Bank decided to modify the method of management of structural interest rate risk position and the long-term financial risk: items representing resources accumulated by clients on current and savings accounts as well as overdrafts were transferred for management to BRMC, that is also where the investment portfolio of the Bank originated which aims to increase the profitability of assets held as liquidity provision.

The competitive circumstances of the local financial market and the expectations of the Clients are the main factors shaping the product policy of the Bank, particularly the application of variable interest rate for medium- and long-term credit products and financing such assets with short-term fixed interest deposits and accounts.

At the end of 2010, and after taking into account contractual revaluation/maturity dates for standard products (based on inter-bank market rates) and replicated risk profile for products with unidentified maturity (current and savings accounts, overdraft facilities) and products for which price is set by the Bank's Management Board or using the multiplier method is dependent on the market rates (e.g. preferential loans with the subsidies of the Agency of Restructuring and Modernization of Agriculture), average duration – which as an average period till the interest revaluation – of assets remained stable at the level of approx. 1.6 months, and less than 1.8 months for liabilities. It means that for 99% of assets and 100% of liabilities the interest is revalued in the course of 1 year, for 90% assets and 80% of liabilities within 3 months and for 65% assets and 55% of liabilities within one month – it is a structure similar to the structure of the Bank for the year 2009.

Accounting policies and additional explanatory notes

Interest rate gap: 31.12.2010 (in PLN '000)

	Up to one month	1-3 months	3-12 months	1-5 years	Over 5 lat	Non-interest bearing	Total
Assets							
Cash and balances with the Central Bank	787 612	-	-	-	-	-	787 612
Amounts due from other banks	16 234	-	39 605	578	-	-	56 417
Securities held for trading	1 842 260	-	-	-	-	-	1 842 260
Loans and advances to customers	11 342 964	5 737 284	2 253 494	434 756	4 197	-	19 772 695
Investment securities:	1 288 531	363 000	259 000	1 324 500	-	-	3 235 031
– available-for-sale	1 288 531	363 000	259 000	1 324 500	-	-	3 235 031
– other debt securities	-	-	-	-	-	-	-
Other assets	1 466 747	80 720	13 618	-	-	-	1 561 085
Total assets	**16 744 348**	**6 181 004**	**2 565 717**	**1 759 834**	**4 197**	**-**	**27 255 100**
Liabilities							
Amounts owed to banks	- 680 925	- 2 067	- 8 300	-	-	-	- 691 292
Amounts owed to customers	-13 079 506	-4 833 639	-4 421 087	- 49 276	-	-	-22 383 508
Other borrowed funds	- 511 000	-1 095 500	- 150 000	-	-	-	-1 756 500
Other liabilities	- 11 613	-	-	-	-	-	- 11 613
Total liabilities	**-14 283 044**	**-5 931 206**	**-4 579 387**	**- 49 276**	**-**	**-**	**-24 842 913**
Off-balance sheet							
Net off-balance sheet liabilities	341 845	-1 642 122	1 210 658	- 538 839	4 657	-	- 623 801
Total cumulative interest rate gap	**2 803 149**	**1 410 826**	**607 814**	**1 779 532**	**1 788 386**	**1 788 386**	

Interest rate gap: 31.12.2009 (in PLN '000)

	Up to one 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	753 830	-	-	-	-	-	753 830
Amounts due from other banks	165 645	-	212	-	-	-	165 857
Securities held for trading	340 232	-	-	-	-	-	340 232
Loans and advances to customers	12 012 333	4 547 382	1 953 672	350 488	13 184	-	18 877 059
Investment securities	1 365 565	1 133 765	322 200	224 255	-	-	3 045 785
– available-for-sale	1 155 011	1 133 765	322 200	224 255	-	-	2 835 231
– other debt securities	210 554	-	-	-	-	-	210 554
Other assets	305 185	214	20	318	398	-	306 135
Total assets	**14 942 790**	**5 681 361**	**2 276 104**	**575 061**	**13 582**	**-**	**23 488 898**
Liabilities							
Amounts owed to banks	- 283 379	- 30 995	- 115 000	-	-	-	- 429 374
Amounts owed to customers	-9 714 835	-4 715 844	-5 036 305	- 63 682	-	-	-19 530 666
Other borrowed funds	- 209 821	-1 015 584	- 228 393	-	-	-	-1 453 798
Other liabilities	- 49 896	- 66	- 30 812	-	-	-	- 80 774
Total liabilities	**-10 257 931**	**-5 762 489**	**-5 410 510**	**- 63 682**	**-**	**-**	**-21 494 612**
Off-balance sheet							
Net off-balance sheet liabilities	207 900	4 926	6 193	- 210 000	- 16 000	-	- 6 981
Total cumulative interest rate gap	**4 892 759**	**4 816 557**	**1 688 344**	**1 989 723**	**1 987 305**	**1 987 305**	

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

a) based on the resolution of the Management Board, variable interest rate contracts are assigned a monthly revaluation period, which falls on the first working day of the month

b) preferential loans with an interest rate equating the NBP rediscounting rate calculated using appropriate multiplier are assigned monthly revaluation period,

c) accounts and overdrafts are recognized in two parts: statistically designated, overlapping sediment (current accounts: 12 x 1 year, savings accounts: 3 x 3 months, overdraft: 1 x 1 month) and a fluctuating part, represented by resources with 1-day revaluation,

d) trading book items are treated as short-term and presented in the period up to 1 month, as they are measured at fair value and generate almost no net interest income,

Accounting policies and additional explanatory notes

e) calculation of interest rate gap is based on the constant (additive) and multiplier margins over market rates for the products based on variable reference rate, e.g. WIBOR, LIBOR, EURIBOR, NBP rediscounting rate.

The profile of the cumulative interest rate gap of the Bank is characterized by the predominance of assets in the revaluation periods ranging from 1 to 3 months. Increase in interest rates of 50bps, all other things being equal, would cause the net interest income of the Bank to grow in the period of 1 year by approx. PLN 18m, however, a gradual increase in interest rates by 200bps over the period of 1 year would cause an increase in net interest income by approx. PLN 33m; net interest income volatility is greater due to the existence of interest oversensitive liabilities (a part of the costs does not drop together with market rates) and the multiplier effect of preferential loans:

Net interest income volatility (PLN '000)

	31.12.2010	31.12.2009
Immediate increase of interest rates by 50bps	18 023	14 508
Gradual change of interest rates by 200 bps:		
- up	33 254	31 875
- down	(67 081)	(44 256)

The comparison of net interest volatility at the end of 2010 and 2009 indicates that the risk remains at the similar level, compliant with the risk appetite accepted by the Bank and the interest rate changes expected in the mid-term.

Risk in the trading book

Trading activities are complementary and are carried out to support the sales of financial products to corporate finance non-bank customers (direct sales) and retail customers (via structured products). Opening for this purpose its own positions, the Bank generates income from short-term changes in price parameters (currency rates, interest rates, and prices of securities etc.) while keeping the size of the exposure within predefined limits. In response to the continuously tense situation on the global financial markets it was only possible to purchase Polish treasury and NBP securities for the debt securities portfolio in 2010 – similarly as in 2009 – it was prohibited to open positions in the equity, commodity and loan instruments; it was temporarily prohibited to open positions in T-bond futures contracts. FX Options positions offered to customers, in accordance with the prior policy, were unconditionally and immediately closed on the inter-bank market.

In the year following the 2008 and 2009 financial crisis, clients – especially the non-banking financial institutions – began to return to the market, particularly due to the extremely strong conviction as to the inevitability of interest rate increases. Due to the prioritization of the use of inter-bank loan limits and risk limits primarily aiming to secure structural interest rate and liquidity risks, the Bank focused in the trading book on the realization of spot and forward transactions on debt securities – in order to manage the rising demand of the Clients, the Bank gradually increased the exposure in T-bills, T-bonds and NBP money bills what in connection with the exposures resulting from the previously performed derivative transactions IRS, CIRS and Cross-Currency Basis Swap remaining in the portfolio resulting in the increase of the risk expressed with the use of Value-at-Risk and Stress Tests, which generally still remain on the level in accordance with the Bank's risk appetite.

Risk in the trading book (PLN '000)

	31.12.2010	31.12.2009
FX VaR[1]	46	54
IR VaR[1]	674	400
Stress test[2]	3 806	4 235

1/ The Bank uses the parametric method with the kurtosis correction and exponential weighing, 99% confidence interval and 1-day position holding period

2/ The most intense from 20 available historical scenarios, including 2-week long events with over 10-year long history of market data.

The very stable exposure and low risk was maintained in the area of FX transactions which resulted, on one hand, from the generally lower supply of transactions from the clients still remembering the 'toxic options' and losses which many companies suffered due to that reason; and on the other - from the more stringent requirements and a selective loan policy chosen by the Bank after the events of 2009. The diminished activity particularly resulted in the volume of foreign exchange exposure in course of one working day (so called intraday).

3.4 Liquidity risk

Liquidity risk – organization of risk management process

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

In addition, the Bank has at its disposal a comprehensive emergency plan, including progress of events scenarios and procedures to follow in the case of an internal liquidity crisis or a banking system crisis.

Liquidity risk measures

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

External standards include supervisory short- and long-term liquidity ratios introduced by the Resolution of the PFSA.

Liquidity risk

In 2010, the Bank maintained safe level of financial liquidity. The financial resources held allows the Bank to timely discharge all its liabilities. The portfolio of the most liquid securities was kept at a high level thus fully hedging a possible outflow of resources of the largest depositors. The surplus of liquid assets over the minimal limit increased over the year by PLN 1.46 billion, including PLN 0.62 billion of net value of securities freezed in short-term (maturing in 7 days) repo and reverse repo transactions.

Liquid assets in PLN '000

	31.12.2010	31.12.2009
inter-bank deposits up to 1M	30 064	200 196
highly liquid securities	4 838 010	2 904 657
liquid assets limit	3 300 000	3 000 000
net financing from inter-bank market	(589 295)	(119 724)
surplus/shortage of liquid assets	**1 568 074**	**104 853**

In 2009 for the last 3 days of January and the first three weeks of February the Bank did not maintain the M4 supervisory long-term liquidity standard; the other standards were maintained.

Supervisory liquidity measures

	31.12.2010	31.12.2009
M1	1 846 833	2 054 298
M2	1.15	1.27
M3	2.70	3.42
M4	1.05	1.08
limit	**1.00**	**1.00**

At the end of December 2010 the surplus of the outside inter-bank market sources of finance over loans balance amounted to PLN 3.6 billion (of which PLN 1.27 billion unstable sources from liabilities arising from repo transactions) with only PLN 0.5 billion deficit to fully cover the loan portfolio with stable deposits.

Dynamics of loans and their sources of finance (PLN '000)

	31.12.2010	31.12.2009
stable finance sources	20 135 854	18 714 799
unstable finance sources	4 081 869	2 273 802
Loans	20 618 567	18 969 399
finance buffer	**3 599 155**	**2 019 202**
stable finance sources surplus/gap	**(482 714)**	**(254 600)**

The realigned liquidity gap indicates that although the Bank still financed long-term assets with short-term liabilities in 2010, it managed to improve this structure thanks to, among others, appropriate pricing policy, modifications of standards and individual liquidity margins, promotion of medium-term retail deposits and intensified actions aimed at securing deposits from the agricultural and food processing sector. In July 2010, long-term resources, i.e. for 5 years, from the European Bank for Reconstruction and Development in the amount of EUR 50m were acquired for the financing of structural projects in the SMEs and Micro sector.

During the year, the stability of the Bank's sources of finance remained high mainly due to low fluctuation of retail deposit balances, increase of balances of resources deposited by the Micro and SME sector (excluding migration between individual products), seed cash of large enterprises and budget entities, the increasing balance of certificates of deposit and the credit line granted by EBRD. The stability of sources of finance decreased at the year- end due to high volume of repo transactions as they are treated as unstable sources of finance.

	31.12.2010		31.12.2009	
	balance	stable (%)	balance	stable (%)
retail clients	11 275 043	94.3%	11 041 843	94.5%
enterprises	8 036 535	88.3%	6 912 718	88.4%
budget entities	1 632 707	40.1%	1 569 540	53.9%
certificates of deposit	1 756 500	88.7%	1 464 500	90.0%
EBRD credit Line	198 015	100.0%	-	-
banks and other unstable sources	2 165 980	0.0%	513 839	0.0%
Total	**25 064 780**	**80.3%**	**21 502 440**	**87.0%**

Accounting policies and additional explanatory notes

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

Liquidity gap in general

31 December 2010 (in PLN '000)	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:	72 266	118 006	396 691	2 414 487	4 691 400
- housing and mortgage loans	*23 384*	*45 197*	*193 955*	*1 781 463*	*4 558 409*
Loans and advances to corporate custormers	1 312 458	565 686	2 055 715	5 917 200	2 509 028
Loans and advances due and receivable	85 643	7 253	33 288	250 784	442 559
Debt securities	1 763 068	60 404	2 765 855	181 008	388 572
Inter-bank placements	5 928		205		
Cash and balances with the Central Bank (NBP)	632 966				741 957
Non-current assets					464 818
Other assets	675 841				
Off-balance liabilities (received, derivatives)	7 703 753	1 183 204	7 744 539	131 904	28 896
Liabilities					
Deposits from retail customers	2 340 951	1 422 901	3 223 606	3 849 348	434 151
Deposits from corporate customers	1 891 701	141 924	480 581	1 539 322	798 114
Inter-bank deposits	617 800	400			
Negotiated deposits	2 794 811	1 409 795	918 932	128 523	
Certificates of deposit	511 000	1 095 500	150 000		
Equity and subordinated deposits			112 501		2 374 189
Other liabilities	1 315 267				
Off-balance liabilities (granted, derivatives)	9 695 242	1 299 321	6 831 824	781 956	303 349
Total receivables	**12 251 923**	**1 934 553**	**12 996 293**	**8 895 383**	**9 267 230**
Total liabilities	**19 166 772**	**5 369 841**	**11 717 444**	**6 299 149**	**3 909 803**
Partial liquidity gap as at 31 December 2010	-6 914 849	-3 435 288	1 278 849	2 596 234	5 357 427
Cumulative liquidity gap as at 31 December 2010	-6 914 849	-10 350 137	-9 071 288	-6 475 054	- 1 117 627

Liquidity gap in general

31 December 2009 (in PLN '000)	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:	82 209	84 872	397 068	1 473 037	4 881 652
- housing and mortgage loans	*20 279*	*41 743*	*200 353*	*974 980*	*4 769 628*
Loans and advances to corporate customers	2 258 514	525 131	1 806 973	4 606 577	2 288 025
Loans and advances due and receivable	276 051	3 096	13 931	105 253	185 741
Debt securities	1 355 472	875 002	905 026	254 407	19 274
Inter-bank deposits	165 645		212		
Cash and balances with the Central Bank (NBP)	707 395				571 912
Non-current assets	326 838	96	3 049	69 241	171 728
Other assets	312 413	17 988	116 849	91 746	5 293
Off-balance liabilities (received, derivatives)	3 648 711	2 008 130	470 659	3 047 966	97 604
Liabilities					
Deposits from retail customers	3 342 291	950 087	3 342 011	3 335 710	44 157
Deposits from corporate customers	2 388 460	131 954	398 035	1 451 272	
Inter-bank deposits	306 047	39 595	12 350		
Negotiable deposits	2 407 861	1 352 859	334 852	118 479	
Certificates of deposit	210 000	1 022 000	232 500		
Equity and subordinated liabilities			107 991		2 269 888
Other liabilites	277 752	17 479	169 115	46 116	7 885
Off-balance liabilities (granted and derivatives)	6 245 658	2 967 434	1 159 059	1 021 143	102 433
Total receivables	**9 133 248**	**3 514 315**	**3 713 767**	**9 648 227**	**8 221 229**
Total liabilities	**15 178 069**	**6 481 408**	**5 755 913**	**5 972 720**	**2 424 363**
Partial liquidity gap as at 31 December 2009	-6 044 821	-2 967 093	-2 042 146	3 675 507	5 796 866
Cumulative liquidity gap as at 31 December 2009	-6 044 821	-9 011 914	-11 054 060	-7 378 553	-1 581 687

Accounting policies and additional explanatory notes

In the above analysis of the Bank's liquidity risk profile for the year 2010, the following assumptions were used, which causes 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 savings accounts are presented in two parts: calculated statistical core deposits (including stable part of the balance on the current accounts, split in the period from 1 to 10 years and from 1 to 5 years respectively) and fluctuating part (1 day). Based on an internal analysis, this means that the Bank considers that the above realignment correctly reflects possible inflows from such accounts,
c) overdraft facilities and past maturity date loans are presented in two parts: calculated statistical core deposits (including stable part of the balance on the current accounts, split for 1 to 2 years, in the case of loans due up to 10 years) and fluctuating part (1 day),
d) early repayment of housing and mortgage loans takes place in 15% of 5 year and 25% of 5-10 year loans,
e) all expected flows from financial instruments are taken into consideration, including derivatives based on their valuation as at the analysis day (e.g., expected IRS, FX Swap, FRA, FX Forward, FX Option transaction amount settlements).

3.5 Country risk and counterparty risk

The global economic slowdown resulted originally from the problems with the sub-prime loans in USA in 2008 – and spread in 2009 all over the world in the form of the trust deficit between financial institutions and the liquidity crisis and in 2010 in the form of anxiety over the financial situation of certain countries resulted in the Bank continuing in 2010 the conservative policy in the area of taking on country and counterparty risk.

Country risk and counterparty risk – organization of risk management system

The Bank operates locally and offers mediation in entering into financial market transactions to its corporate clients. The problem of 'toxic options' made the Bank tighten its credit limit procedures in 2009 and 2010: the decision process regarding transaction limits was moved to the Head Office, new agreement templates better securing parties' interests were implemented and a new limit structure was introduced which enables verification of the compatibility of the transaction with clients' declared needs related to hedge their business activity by limiting and monitoring the instrument types, currency pairs, duration of transactions or volume of open currency positions. Additionally, the Bank implemented uniform and clear rules for safeguarding of exposures. These processes coincided with the implementation of MiFID directive regulations.

Within the limits for financial institutions and countries, the Bank tightened its cooperation with the majority shareholder by adjusting the size and the structure of the available limits to the Rabobank Group policy, which aims at consolidating the exposure and taking advantage of the Group's strength in negotiating the conditions and prices in inter-bank transactions. In 2010, the Bank widened its cooperation with non-bank financial institutions – investment funds, pension funds and insurance funds – agreeing the limits for global companies with the Group. The Bank remains an active participant on the local inter-bank market.

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

Accounting policies and additional explanatory notes

methodology also takes into account the mechanism of net compensation, embedded into ISDA-type agreements and package deals concluded with non-banking clients.

Country risk

The Bank continued the conservative policy in the area of taking country risk – in May 2010, it performed another review of its country limits, decreasing the maximum possible exposure from PLN 7.8 billion to PLN 2.6 billion. The review included the withdrawal of limits for Ireland, Spain, Portugal (mainly due to the deteriorating public financial standing of these countries, their credit scoring and the deterioration of economic ratios) as well as Romania, Luxemburg (due to unused limit) and decrease of other limits, adjusting it to the real Bank needs and its risk appetite.
According to the balance as at 31 December 2010, the vast majority of the Bank's country exposure related to credit transactions: 88% related to syndicated loans granted in the previous years (Croatia, Germany, Hungary), 10% – to the exposures resulting from discontinued operations of financing of foreign banks (Russia, Romania, the USA, France) and only 2% are transactions of finance market with a positive net valuation (Ireland – swaps and options performed before limit closure). The Bank's risk appetite and actual exposure is as follows:

Exposure by countries rating (in '000 PLN)

	31.12.2010			31.12.2009		
	Limit	Exposure	%	Limit	Exposure	%
Rating AAA-A	2 425 000	61 192	3%	7 475 000	66 500	1%
Rating BBB	144 000	151 455	105%	350 000	142 986	41%
Rating BB	-	20 615	-	30 000	26 423	88%
Rating B	-	-	-	-	-	-

Banking and financial Client risk

Similar to the country risk, in 2010 the Bank continued with its trend to reduce bank limits that was initiated in October 2008: the size of available facilities decreased in 2010 from PLN 5.6 bln to PLN 3.5 bln in the case of limits intended for the financial market transactions and from PLN 1.3 bln to PLN 0.3m to be used for commerce financing transactions.

In the area of inter-bank market transactions, the majority of the available limits constitute facilities for banks operating in Poland and owned by the State Treasury or by branches of foreign banks. The Bank has also a very restricted – to two – list of limits for foreign banks, that are required to execute transactions in foreign currencies to hedge own and client positions. In the area of commerce financing, during the last 2 years the Bank stopped financing foreign banks and the transactions concluded earlier have been gradually extinguished. At present, the limits regarding commerce financing transactions – mainly letters of credit and guarantees – are granted exclusively to realize client needs for the pre-agreed amount and time, in accordance with business justification.

Bank exposure (in PLN '000)

	31.12.2010	31.12.2009
Financial market transactions		
- available limits	3 483 500	5 579 700
- used	12 101	255 072
Trade financing transactions		
- available limits	300	1 305 250
- used	41 826	77 710

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As at the end of 2010 the majority of the financial market exposures consisted of IRS transactions and bonds of one of the cooperative apex banks; the remaining operations had either a passive character (accepted deposits) or the current valuation of Bank liabilities towards its counterparties was negative (FX Swap, FRA transactions) and as such the operations do not generate credit risk – the scale of such operations as at 31 December 2010 is about PLN 800m.

The cooperation of the Bank with NBFIs (non-bank financial institutions) i.e. investment, pension and insurance funds – is limited to transactions including debt treasury securities covered by the system delivery-vs-payment provided by the Clearing House; thus although the aggregate value of the available limits amounts to PLN 201m granted to 66 entities, their use through the major part of 2010 was zero.

Non financial counterparty risk

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

According to the situation at the end of 2010 the Bank had over 200 such limits (almost 3 times more than in 2009) but only about 25% was actively used (40% in 2009) – mainly through the transactions IRS and CIRS concluded in previous years (about 75% of the joint exposure amounting to less than PLN 50m in 2010, 37% of joint exposure in 2009) and the current FX Forward/NDF operations (about 20% of exposures in 2010, 52% in 2009) and FX Spot (5% in 2010, 0% in 2009). According to the state as at 31 December 2010 the Bank did not have in its possession any FX options with Clients, while at the end of 2009 the joint total, – positive for the Bank – valuation of open option transactions amounted to PLN 13.6m (about 11% of the total exposure.

Non-financial clients exposure in PLN ‘000

	31.12.2010	31.12.2009
Available limits	312 905	247 319
Exposure	49 057	107 764
Share %	16%	44%

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

Concentration of currency assets and liabilities (in PLN thousands)

At 31 December 2010	EUR	USD	CHF	GBP	Other
Assets					
Cash and balances with the Central Bank	65 152	22 892	5 050	13 799	1
Amounts due from other banks	142 375	93 045	19 098	8 689	7 272
Loans and advances to customers	598 046	334 951	3 611 981	1 466	-
Shares	44	-	-	-	-
Other assets	25 530	721	535	2 427	2
Total assets	**831 147**	**451 609**	**3 636 664**	**26 381**	**7 275**
Liabilities					
Amounts owed to banks	293 689	61 392	-	1 009	22
Amounts owed to customers	720 077	390 660	591	26 005	3 619
Other liabilities	21 080	2 725	7	407	727
Total liabilities	**1 034 846**	**454 777**	**598**	**27 421**	**4 368**
Derivatives and commitments	**20 192 407**	**14 196 550**	**4 223 464**	**4 548**	**16 129**
At 31 December 2009					
Assets					
Cash and balances with the Central Bank	38 475	20 166	3 041	8 557	-
Amounts due from other banks	175 448	44 275	33 145	750	6 893
Loans and advances to customers	593 294	333 030	3 324 522	3 680	174
Shares	45	-	-	-	-
Other assets	8 719	2 396	33 882	2 452	2
Total assets	**815 981**	**399 867**	**3 394 590**	**15 439**	**7 069**
Liabilities					
Amounts owed to banks	34 165	83 325	-	1 635	428
Amounts owed to customers	701 331	406 277	756	15 535	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**

3.6 Operating risk

The Bank defines operating risk as a possibility of suffering loss or unjustified costs caused by improper or unreliable internal processes, people, technical systems or influence of external factors. Within 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.

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Procedures

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

Organization

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

Risk management

An important element of operating risk management system is the early identification of risk, precise evaluation of its size and rules that enable undertaking effective actions against risk. The operating risk identification and reporting system embraces all Bank's organizational units which ensures completeness and accuracy of data that constitute a 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 supplies the central risk database, which is a basis for regular reports for the Bank's Management. Authorized Bank employees have access to a special application, in which operating risk events are reported.

Economic capital and risk evaluation

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

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

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

- data in PLN thousands

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the Securities and Exchange Commission, dated 14 May 2002, the Resolution of the National Depository for Securities, dated 8 August 2002, and internal regulations concerning maintaining securities accounts, rendering trust services in respect of transactions in treasury bonds and bills, shares, money bills and non-treasury debt instruments and foreign bonds. Orders for the purchase or sale of securities on the Warsaw Stock Exchange may be placed with Biuro Maklerskie BGŻ S.A. (the Bank's brokerage office), as well as with any brokerage house chosen by the client. The average monthly turnover on transactions on behalf of the clients in non-treasury bills, treasury bonds and non-treasury debt instruments amounts to PLN 29 304 thousand in 2010, and to PLN 48 192 thousand in 2009.

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 the valuation levels described above:

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

31.12.2009	Level 1	Level 2	Level 3	Total
Financial assets:	**1 885 333**	**1 398 443**	**211 260**	**3 495 036**
Financial assets at fair value through profit or loss	467 517	-	-	467 517
Derivatives	125	244 114	2 069	246 308
Financial assets available for sale	1 417 691	1 154 329	209 191	2 781 211
Financial liabilities	**-**	**243 038**	**4 865**	**247 903**
Derivatives	-	243 038	4 865	247 903

- data in PLN thousands

Accounting policies and additional explanatory notes

In 2010, the Bank did not implement any changes in the re-measurement to fair value method which would result in transfers of financial assets and liabilities between the individual levels referred to above.

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

		Gains/losses					
	Opening balance	Through profit or loss	*Including items presented as of 31.12.2010*	Through statement of comprehensive income	*Including items presented as of 31.12.2009*	Settlement	Closing balance
Financial assets:	**211 260**	**7 531**	**7 483**	**3 361**	**3 327**	**(59 649)**	**162 503**
Derivatives	2 069	(1 341)	(377)	-	-	-	728
Available for sale financial assets	209 191	8 872	7 860	3 361	3 327	(59 649)	161 775
Financial liabilities	**(4 865)**	**2 865**	**(3)**	**-**	**-**	**-**	**(2 000)**
Derivatives	(4 865)	2 865	(3)	-	-	-	(2 000)

		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 31.12.2008*	Settlement	Closing balance
Financial assets:	**241 987**	**12 817**	**11 186**	**5 616**	**4 911**	**(49 160)**	**211 260**
Derivatives	3 200	(1 131)	(979)	-	-	-	2 069
Available for sale financial assets	238 787	13 948	12 165	5 616	4 911	(49 160)	209 191
Financial liabilities	**(4 949)**	**84**	**(188)**	**-**	**-**	**-**	**(4 865)**
Derivatives	(4 949)	84	(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 2010 amounts to 2.25 p.p., is assessed material.

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

Change in credit margin	by 1%	by 25%	by 50%	by 100%
Change in fair value (PLN '000)	-49	-1 228	-2 444	-4 840

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 Group's statement of financial position.

2010	Carrying amount	Fair value
Financial assets		
Amounts due from other banks	280 867	279 503
Receivables arising from reverse repo transactions	651 706	650 316
Amounts due from customers under overdraft facilities	2 524 203	2 537 365
Loans and advances to customers:		
- companies	5 309 037	5 289 961
- households	11 720 073	11 974 225
- public institutions	213 902	213 583
- other entities	100 241	100 190
- other receivables	1 721	1 721
Other debt securities	109 232	109 058
Financial liabilities		
Amounts owed to other banks	1 020 419	1 017 829
Liabilities arising from repo transactions	1 268 921	1 269 451
Amounts owed to customers and debt securities issued	22 796 913	22 758 859
2009	**Carrying amount**	**Fair value**
Financial assets		
Amounts due from other banks	356 593	355 499
Receivables arising from reverse repo transactions	74 655	74 818
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		

- data in PLN thousands

Amounts owed to other banks	476 086	476 035
Liabilities arising from repo transactions	111 979	112 006
Amounts owed to customers and debt securities issued	21 049 345	21 011 774

a) Amounts due from other banks

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

b) Loans and advances to customers

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

c) Other debt securities

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

d) Amounts owed to other banks

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

e) Amounts owed to customers

The fair value of fixed and variable interest rate deposits is based on future cash flows discounted using the money market interest rates 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 judgments 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, are 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

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

Assessment of the impairment of individually significant assets

Financial assets are assessed for whether or not there is objective evidence to show that they are impaired. 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 high probability of the borrower's bankruptcy or other financial reorganization, 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 and the so called soft evidence recognized based on the gathered supplementary evidence regarding the economic and financial position of a client. Future cash flows from a group of financial assets assessed for impairment on a collective basis are estimated based on the history of losses incurred on assets with similar credit risk characteristics.

In 2010 the Bank updated the parameters of the model used to calculate impairment allowances. The update included the increase of the recovery parameter at the moment of insolvency (Recovery Rate) and a prolongation of the loss identification period. In the case of recovery at the moment of insolvency the change was imposed by the practical observation of recoveries and historical data also in the later classes of delinquency than it was initially assumed in the model (decrease of allowances for provisions by PLN 80.3m). In the case of the loss identification the Bank has stated that in order to make the situation of the Bank safer it will be justified to prolong this period for the retail customers (recognition of provisions for the amount of PLN 3.2m). The changes introduced resulted in the reversal of allowances for the impairment of the financial assets amounting to PLN 77.1m and were recorded in the income statement.

b) Fair value of derivative financial instruments (derivatives)

The fair value of financial instruments not listed on active markets is determined using valuation techniques (e.g. pricing models). These methods are assessed and reviewed on a regular basis by qualified independent employees, i.e., employees not involved in developing these methods. All models are approved before they are used, and adjusted to ensure that the results obtained reflect the factual data and comparable market prices. The models that the 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 judgment. In making this judgment, apart from other factors, the Group must assess normal share price fluctuations. Furthermore, impairment losses may need to be recognized if there is evidence of a deterioration in the issuer's financial standing, the industry or economy sector, the technology or cash flows from operating and financing activities.

d) Investments held to maturity

The Group follows IAS 39 guidance concerning the classification, as assets held-to-maturity, of non-derivative financial assets with fixed or determinable payments and fixed maturity. This classification is, to a significant extent, based on the Group's judgment. In making this judgment, 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

Based on client and product identification the following operating reporting segments were formed by the Bank for management purposes: 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 'STW' 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 the Bank, 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 presented in the Other Segment.

Real impairment allowances are allocated to the Irregular Loans Segment (there is impairment evidence identified) or to the Other segment (no evidence of impairment identified)

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 Group applies a simplified cost and depreciation/amortization allocation model.

Expenses were split into eight groups: infrastructural, IT, telecommunication, human resources, promotion / marketing and market research, sponsoring and Public Relations, legal, business and general. Depreciation/amortization were separated from each of these groups and allocated by employment.

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.

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

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

Accounting policies and additional explanatory notes

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 Bank 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).

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 preferential 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 Segment includes activity on the Bank's 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 Segment 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.

The Irregular Loans Segment presents 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).

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

- data in PLN thousands

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

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

- other operating income
- other operating costs

Reporting as of operating segments	2010	2009
Result on financial operations	83 371	163 894
Foreign exchange result	66 465	58 781
	149 836	**222 675**
Income statement:		
Dividend income	3 147	3 525
Result on trading activities	143 539	203 450
Result on investing activities	1 476	15 726
Share in income of associaties	1 674	(26)
	149 836	**222 675**
Result on other operations	22 556	36 643
Depreciation	(73 235)	(72 817)
	(50 679)	**(36 174)**
Income statement:		
Other operating income	51 948	83 743
Other operating expenses	(102 627)	(119 917)
	(50 679)	**(36 174)**

- data in PLN thousands

Accounting policies and additional explanatory notes

2010	Retail Banking	Corporate Banking	Treasury Banking	Bank&Risk Management Com.	Other	Irregular Loans	Reconciliation	Capital Group of BGŻ S.A.
Income statement								
Net interest income	234 754	319 892	(21 350)	67 468	(34 935)	66 918	(28 429)	**604 318**
Net fee and commission income	92 357	174 556	498	-	4 536	1 503	(1 923)	**271 527**
Result on financial operations	20	270	98 034	1 055	-	(1 330)	(14 678)	**83 371**
Foreign exchange result	13 825	34 043	18 988	-	(491)	100	-	**66 465**
Result on other operations	1 303	(11)	-	-	13 694	4 892	2 678	**22 556**
Net impairment write-offs	-	-	-	-	(49 192)	(87 111)	2 141	**(134 162)**
Risk allowance (SRC)	(54 226)	(133 688)	(123)	-	188 037	-	-	**-**
Total costs of banking activities	(238 298)	(174 541)	(10 935)	(6 618)	(230 964)	(52 305)	(314)	**(713 975)**
Depreciation/Amortization	(24 295)	(15 163)	(362)	-	(27 564)	(5 849)	(2)	**(73 235)**
Segment result	**25 440**	**205 358**	**84 750**	**61 905**	**(136 879)**	**(73 182)**	**(40 527)**	**126 865**
Profit (loss) before taxation	**-**	-	-	-	-	-	**-**	**126 865**
Income tax expense	**-**	-	-	-	-	-	**-**	**(14 524)**
Net profit (loss) for the year	**-**	-	-	-	-	-	**-**	**112 341**
Statement of financial position								
Segment assets	7 566 186	11 953 141	3 022 866	1 108 126	7 506 743	612 486	**(3 139 949)**	**28 629 599**
Segment liabilities	11 314 324	8 851 800	2 335 182	1 718 096	12 288 849	-	**(10 373 669)**	**26 134 582**
Equity	-	-	-	-	-	-		**2 495 017**
Total equity and liabilities	-	-	-	-	-	-		**28 629 599**

- data in PLN thousands

Accounting policies and additional explanatory notes

Restated 2009	Retail Banking	Corporate Banking	Treasury Banking	Bank&Risk Management Com.	Other	Irregular Loans	Reconciliation	Capital Group of BGŻ S.A.
Income statement								
Net interest income	201 968	355 210	41 130	(118 939)	(36 563)	55 105	(35 943)	**461 968**
Net fee and commission income	86 679	150 452	1 253	-	6 419	1 875	1 692	**248 370**
Result on financial operations	2	19 075	100 616	7 278	-	(493)	37 416	**163 894**
Foreign exchange result	21 238	34 857	3 252	-	(740)	174	-	**58 781**
Result on other operations	5 411	22	-	-	16 044	7 804	7 362	**36 643**
Net impairment write-offs	-	-	-	-	(34 176)	(57 935)	(14 393)	**(106 504)**
Risk allowance (SRC)	(36 575)	(133 746)	(332)	-	170 653	-	-	**-**
Total costs of banking activities	(174 619)	(165 262)	(10 059)	1 914	(271 515)	(53 888)	(341)	**(673 770)**
Depreciation/Amortization	(17 626)	(15 096)	(409)	-	(33 268)	(6 417)	(1)	**(72 817)**
Segment result	**86 478**	**245 512**	**135 451**	**(109 747)**	**(183 146)**	**(53 775)**	**(4 208)**	**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	703 776	210 546	4 906 718	464 808	**108 353**	**24 545 501**
Segment liabilities	11 058 576	8 082 538	694 971	1 420 148	6 841 677	-	**(5 938 775)**	**22 159 135**
Equity	-	-	-	-	-	-		**2 386 366**
Total equity and liabilities	-	-	-	-	-	-		**24 545 501**

- data in PLN thousands

Accounting policies and additional explanatory notes

6 Net interest income

	12 months ended 31.12.2010	12 months ended 31.12.2009
Interest income, of which relating to		
Amounts due from other banks	27 670	41 101
Amounts due from customers under overdraft facilities	186 690	163 648
Loans and advances to customers, after considering reversal of loans interests discount on impairment losses, of which	960 616	906 796
- companies	307 851	331 800
- households	642 523	563 605
- public institutions	8 964	7 285
- other entities	1 278	4 106
Debt acquired from customers	18 520	12 962
Other amounts due from customers	2 850	3 374
Debt securities	180 263	146 282
- at fair value through profit or loss account (trading)	33 432	14 661
- available for sale	140 836	118 837
- other debt securities	5 995	12 784
	1 376 609	**1 274 163**
Interest expense, of which relating to:		
Amounts owed to banks	100 667	82 428
Amounts owed to customers	671 624	729 767
	772 291	**812 195**
Net interest income	**604 318**	**461 968**

In the 12-month period ended 31 December 2010, 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 1 343 177 thousand (PLN 1 259 502 thousand for the 12-month period ended 31 December 2009), 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 772 291 thousand (PLN 812 195 thousand for the 12-month period ended 31 December 2009).

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 2010 and 2009 which is PLN 61 066 thousand and PLN 68 752 thousand respectively.

- data in PLN thousands

7 Net fee and commission income

	12 months ended 31.12.2010	12 months ended 31.12.2009
Fee and commission income		
Fee and commission income from banks	13 224	9 731
Fee and commission income from customers	292 512	272 153
- on loans and advances	88 349	77 650
- on domestic settlements	1 365	1 538
- on foreign settlements	4 985	7 912
- on account service	116 557	105 970
- on guarantee commitments	13 365	13 899
- on brokerage operations	15 232	14 709
- on credit cards	48 342	46 282
- other	4 317	4 193
	305 736	**281 884**
Fee and commission expense		
Fee and commission expense from banks	4 466	2 747
Fee and commission expense from customers	29 743	30 767
	34 209	**33 514**
Net fee and commission income	**271 526**	**248 369**

8 Dividend income

	12 months ended 31.12.2010	12 months ended 31.12.2009
Held-for-trading securities	65	3
Available-for-sale securities	3 082	3 522
	3 147	**3 525**

- data in PLN thousands

Accounting policies and additional explanatory notes

9 Result on trading activities

	12 months ended 31.12.2010	12 months ended 31.12.2009
Equity instruments	**(96)**	**66**
- Equity instrument income	36	72
- Equity instrument expense	(132)	(6)
Debt instruments	**882**	**1 719**
- Debt instrument income	53 133	23 230
- Debt instrument expense	(52 251)	(21 511)
Derivatives	**(524 339)**	**499 704**
- Derivatives income	646 284	2 137 367
- Derivatives expense	(1 170 623)	(1 637 663)
Foreign exchange result	**667 092**	**(298 039)**
Result on trading activities	**143 539**	**203 450**

The 'Foreign exchange result' includes differences resulting from the value of 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 31.12.2010	12 months ended 31.12.2009
Assets available for sale:	**2 179**	**16 219**
- Debt instruments income	2 870	4 747
-Equity instruments income	865	15 390
- Debt instruments expense	(225)	(3 918)
- Equity instruments expense	(1 331)	-
Other debt securities:	**(703)**	**-**
- Debt instruments income	105	-
- Debt instruments expense	(808)	-
Income on share in capital	**-**	**(493)**
Total	**1 476**	**15 726**

- data in PLN thousands

11 Other operating income

	12 months ended 31.12.2010	12 months ended 31.12.2009
From management of third-party properties	1 520	2 574
From sale or liquidation of property, plant and equipment, intangible assets and assets held-for-sale	5 606	4 959
From recovered statute –barred receivables, written off or bad debts, repayments of derecognized receivables	8 166	13 175
Sales of goods and services	9 845	9 687
Reversal of provisions for other receivables (excluding loan receivables) (note 30)	532	488
Reversal of fixed asset impairment write-downs	14	34
Reversal of provisions for future liabilities (note 36 and note 39)	9 171	37 876
From recovery of costs incurred	2 414	2 019
Investment property valuation	700	-
Other operating income	13 980	12 931
Other operating income, total	**51 948**	**83 743**

The 'Other operating income' line item includes incidental income and surplus income.

12 Impairment losses on loans and advances

	12 months ended 31.12.2010	12 months ended 31.12.2009
Amounts due from other banks	4 912	(7 518)
Loans and advances to customers	(138 313)	(97 956)
Liabilities granted	(761)	(788)
Other debt securities and investments in subsidiaries, associates and minority entities	-	(242)
Impairment losses on loans and advances, total	**(134 162)**	**(106 504)**

In 2010 the Bank updated the parameters of the model used to calculate impairment allowances. The update included the increase of the recovery parameter at the moment of insolvency (Recovery Rate) and a prolongation of the loss identification period. In the case of recovery at the moment of insolvency the change was imposed by practical observation and historical data indicating on recoveries also in the later classes of delinquency than it was initially assumed in the model (decrease in impairment allowances by PLN 80.3m). In the case of the loss identification the Bank has stated that in order to make the situation of the Bank safer it will be justified to prolong this period for the retail customers (increase in impairment allowances by PLN 3.2m). The changes introduced resulted in the reversal of allowances for the impairment of the financial assets amounting to PLN 77.1m and were recorded in the income statement.

- data in PLN thousands

13 General administrative expenses

	12 months ended 31.12.2010	12 months ended 31.12.2009
Employee benefit costs (Note 15)	381 988	369 020
Materials and energy	34 269	29 411
External services	162 508	163 846
Other non-personnel costs	117 717	94 176
Taxes and charges	5 029	4 877
Contributions and amounts transferred to the KNF	12 464	12 440
General administrative expenses, total	**713 975**	**673 770**

14 Other operating costs

	12 months ended 31.12.2010	12 months ended 31.12.2009
Due to the management of third-party assets	1 312	1 457
Due to the sale or liquidation of property, plant and equipment, intangible assets and assets or sale	3 311	2 581
Due to recognized provisions for other receivables (other than loans and advances) (Note 30)	1 049	5 523
Due to provisions for liabilities (Notes 36 and 39)	10 233	15 965
Due to debt recovery	5 415	3 875
Donations	2 656	404
Amortization and depreciation (Notes 28 and 29)	73 235	72 817
Investment property valuation	-	13 800
Other operating expenses	5 416	3 495
Other operating expenses, total	**102 627**	**119 917**

The 'other operating expenses' line item includes among others costs of penalties and fines.

15 Employee benefits

	12 months ended 31.12.2010	12 months ended 31.12.2009
Payroll	315 955	313 350
Including: retirement pay	205	235
Social security	40 420	38 382
Other	25 613	17 288
Employee benefits, total	**381 988**	**369 020**

- data in PLN thousands

Accounting policies and additional explanatory notes

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.

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 31.12.2010	**12 months ended 31.12.2009**
Current tax	(157 164)	(636)
Deferred tax	142 640	(15 286)
Income tax expense	**(14 524)**	**(15 922)**
Profit (loss) before taxation	126 865	116 565
Statutory tax rate	19%	19%
Income tax based on profit before taxation	**(24 104)**	**(22 148)**
Permanent differences	(5 409)	(2 020)
- receivables written-off		
- non-tax-deductible material costs	(2 291)	283
- other permanent differences	(1 739)	(1 540)
Impairment allowance	(1 379)	(763)
Other differences	12 834	5 624
Tax expense/ tax income	2 155	2 622
	(14 524)	**(15 922)**

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

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

	12 months ended 31.12.2010	**12 months ended 31.12.2009**
Profit (loss) before taxation	**126 865**	**116 565**
Total current tax liability, of which:	**(157 164)**	**(636)**
- current tax liability on the Group's income	(156 534)	-
- current tax liability on shares in profits of other companies	(630)	(636)
Deferred tax income/ (deferred tax expense)	**142 640**	**(15 286)**
Tax income/ (Tax expense) on the profits of the Group	(14 524)	(15 922)
Net profit (loss)	**112 341**	**100 643**

For more information on deferred tax, please see Note 37.

17 Earnings per share

	12 months ended 31.12.2010	12 months ended 31.12.2009
Basic:		
Earnings attributable to the Bank's shareholders	112 341	100 643
Weighted average number of ordinary shares (in millions)	43	43
Basic earnings per share (in PLN per share)	2.61	2.33
Diluted earnings per share (in PLN per share)	2.61	2.33

Diluted earnings per share equals basic earnings per share, due to the lack of any 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

	31.12.2010	31.12.2009
Cash on hand (treasury)	611 467	558 053
Cash in current account	768 260	721 287
Other funds	10	38
Cash and balances with the Central Bank, total	**1 379 737**	**1 279 378**

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 2010, the interest rate for funds on the obligatory reserve account was 3.375% (as at December 2009 it was 3.375%).

As at 31 December 2010 the declared obligatory reserve balance on the current account held with the National Bank of Poland was PLN 747 238 thousand (31 December 2009: PLN 593 208 thousand).

19 Amounts due from other banks

	31.12.2010	31.12.2009
Current accounts	223 054	106 217
Placements with other banks	6 133	165 868
Loans and advances	52 478	85 765
Purchased debts	360	7 126
Amounts due from other banks (gross)	**282 025**	**364 976**
Impairment allowances (negative value)	(1 105)	(8 383)
Amounts due from other banks (net), total	**280 920**	**356 593**

- data in PLN thousands

Accounting policies and additional explanatory notes

As at 31 December 2010, variable interest rate loans and placements with other banks amounted to a total of PLN 71 208 thousand (2009: PLN 255 870 thousand) while those of fixed interest rate PLN 210 817 thousand (2009: PLN 690 thousand).

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

	31.12.2010	31.12.2009
Provisions for amounts due from other banks at the beginning of the period	**8 383**	**1 713**
Creation of provisions	9 022	11 650
Reversal of provisions	(13 934)	(4 132)
Provisions applied	(3 016)	-
Other changes	650	(848)
Provisions for amounts due from other banks at the end of the period	**1 105**	**8 383**

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

	Individually assessed	Collectively assessed	TOTAL
Loans and advances	508	237	745
Other receivables	360	-	360
Total impairment losses	**868**	**237**	**1 105**

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

	Individually assessed	Collectively assessed	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**

Amounts due from other banks, by maturity date

	31.12.2010	31.12.2009
< 1 month	229 838	279 844
1 -3 months	10	1 792
3 – 1 year	39 606	28 710
1-5 years	2 710	44 845
> 5 years	9 861	9 785
Total amounts due from other banks by maturity date	**282 025**	**364 976**

- data in PLN thousands

Accounting policies and additional explanatory notes

20 Receivables arising from reverse repo transactions

	31.12.2010	31.12.2009
Up to 1 month	651 706	74 655
Total	**651 706**	**74 655**

21 Held-for-trading securities

	31.12.2010	Restated 31.12.2009
Held for trading securities:		
- treasury bills	349 289	167 842
- bonds issued by central government institutions	1 465 610	299 675
TOTAL	**1 814 899**	**467 517**
of which: valued using the market quotation method	*1 814 899*	*467 517*

Change in held-for-trading debt securities appears as follows:

	2010	2009
As at 1 January	**467 517**	**530 173**
Purchase of securities	318 507 626	68 436 677
Re-purchase of securities	(385 732)	(350 442)
Disposal of securites	(316 798 871)	(68 158 786)
Change of re-measurement to fair value	1 554	(1 787)
Change in discount and premium adjustments, interest due, FX differences	22 805	11 682
As at 31 December	**1 814 899**	**467 517**

Held-for trading securities, by maturity date:

	31.12.2010	31.12.2009
With no maturity date	-	-
< 1 month	-	-
1 -3 months	8 438	94 351
3 – 1 year	595 981	194 043
1-5 years	375 683	172 608
> 5 years	834 797	6 515
Total held-for-trading securities	**1 814 899**	**467 517**

- data in PLN thousands

22 Derivative financial instruments

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

As at 31.12.2010		Nominal value	Fair value of assets	Fair value of liabilities
Trading derivatives				
Currency derivatives:				
- FX Spot transactions		231 844	351	(301)
- NDF transactions		378 940	7 933	(671)
- Currency forwards		272 446	4 691	(2 297)
- Currency swaps		25 221 191	126 637	(632 992)
- Currency options purchased and sold in OTC transactions		4 965	160	(235)
Total currency derivatives from OTC transactions		**26 109 386**	**139 772**	**(636 496)**
Interest rate derivatives:				
- Interest rate swap contracts		25 728 978	66 172	(73 420)
- Inter-currency interest rate swap contracts		2 593 876	2 154	(11 829)
- FRA contracts		4 582 050	1 386	(1 213)
- OTC interest rate options		-	-	-
- Other interest rate contracts		708 198	376	(488)
Total interest rate derivatives from OTC transactions		**33 613 102**	**70 088**	**(86 950)**
Interest rate futures on the regulated market:		24 752	-	(47)
Interest rate options on the regulated market:		-	-	-
Total interest rate derivatives from regulated market transactions:		**24 752**	**-**	**(47)**
Options purchased and sold in OTC transactions		105 164	5 007	(8 558)
Total equity derivatives from OTC transactions		**105 164**	**5 007**	**(8 558)**
TOTAL:		**59 852 404**	**214 867**	**(732 051)**
Of which:	*- valued using the market quotation method*	*24 752*	*-*	*(47)*
	- valued using model-based method	*59 827 652*	*214 867*	*(732 004)*
Settlements in respect of derivative transactions		X	-	-
Settlements in respect of the purchase and sale of options		X	6 120	(47)
TOTAL		**59 852 404**	**220 987**	**(732 098)**

- data in PLN thousands

Accounting policies and additional explanatory notes

As at 31.12.2009	Restated Nominal value	Restated Fair value of assets	Restated 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	754 428	18 036	(20 108)
Total currency derivatives from OTC transactions	**12 489 197**	**154 669**	**(150 088)**
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	52 681	-	-
Total interest rate derivatives from OTC transactions	**9 378 881**	**85 230**	**(88 904)**
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**	**-**
Options purchased and sold in OTC transactions	122 817	6 284	(8 911)
Total equity derivatives from OTC transactions	**122 817**	**6 284**	**(8 911)**
TOTAL:	**22 016 047**	**246 308**	**(247 903)**
Of which: - valued using the market quotation method	*25 152*	*125*	*-*
- valued using model-based method	*21 990 895*	*246 183*	*(247 903)*
Settlements in respect of derivative transactions	X	17	(19)
Settlements in respect of the purchase and sale of options	X	8 293	(377)
TOTAL	**22 016 047**	**254 618**	**(248 299)**

Accounting policies and additional explanatory notes

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

31.12 2010	Fair value of asset						Fair value of liability					
	Total	<= 1 month	> 1 month <= 3 months	> 3 months <= 12 months	1 year <= 5 years	> 5 years	Total	<= 1 month	> 1 month <= 3 months	> 3 months <= 12 months	1 year <= 5 years	> 5 years
Derivatives												
Currency derivatives												
- FX Spot transactions	**351**	351	-	-	-	-	**(301)**	(301)	-	-	-	-
- NDF transactions	**7 933**	429	1 878	5 626	-	-	**(671)**	(112)	(345)	(214)	-	-
- Currency Forwards	**4 691**	116	634	3 941	-	-	**(2 297)**	(484)	(905)	(908)	-	-
- Currency swap transactions	**126 637**	83 734	11 756	31 147	-	-	**(632 992)**	(258 406)	(2 419)	(372 167)	-	-
- Currency options purchased and sold in OTC transactions	**160**	-	-	-	160	-	**(235)**	-	-	-	(235)	-
Total currency derivatives from OTC transactions	**139 772**	**84 630**	**14 268**	**40 714**	**160**	**-**	**(636 496)**	**(259 303)**	**(3 669)**	**(373 289)**	**(235)**	**-**
Interest rate derivatives:												
- Interest rate swap contracts	**66 172**	722	3 242	39 906	10 747	11 555	**(73 420)**	(3 388)	(637)	(37 799)	(21 052)	(10 544)
- Inter-currency interest rate swap contracts	**2 154**	-	-	-	-	2 154	**(11 829)**	(3 043)	-	(5 249)	(3 537)	-
- FRA contracts	**1 386**	1 098	288	-	-	-	**(1 213)**	(1 213)	-	-	-	-
- other interest rate contracts	**376**	376	-	-	-	-	**(488)**	(488)	-	-	-	-
Total interest rate derivatives from OTC transactions:	**70 088**	**2 196**	**3 530**	**39 906**	**10 747**	**13 709**	**(86 950)**	**(8 132)**	**(637)**	**(43 048)**	**(24 589)**	**(10 544)**
Interest rate futures on the regulated market:	**-**	-	-	-	-	-	**(47)**	-	(47)	-	-	-
Interest rate options on the regulated market:	**-**	-	-	-	-	-	**-**	-	-	-	-	-
Total interest rate derivatives from regulated market transactions:	**-**	**-**	**-**	**-**	**-**	**-**	**(47)**	**-**	**(47)**	**-**	**-**	**-**
Options purchased and sold in OTC transactions	**5 007**	-	728	482	3 797	-	**(8 558)**	-	(2 000)	(1 198)	(5 360)	-
Total equity derivatives from OTC transactions:	**5 007**	**-**	**728**	**482**	**3 797**	**-**	**(8 558)**	**-**	**(2 000)**	**(1 198)**	**(5 360)**	**-**
Settlements of derivative transactions	**-**	-	-	-	-	-	**-**	-	-	-	-	-
Settlements of purchase and sale transactions	**6 120**	-	1 324	1 024	3 772	-	**(47)**	-	(14)	(17)	(16)	-
TOTAL:	**220 987**	**86 826**	**19 850**	**82 126**	**18 476**	**13 709**	**(732 098)**	**(267 435)**	**(6 367)**	**(417 552)**	**(30 200)**	**(10 544)**

- data in PLN thousand

Accounting policies and additional explanatory notes

31.12 2009	Restated Fair value of asset Total	<= 1 month	> 1 month <= 3 months	> 3 months <= 12 months	1 year <= 5 years	> 5 years	Restated Fair value of liability 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	**18 036**	1 135	3 162	13 739	-	-	**(20 108)**	(1 139)	(3 296)	(15 673)	-	-
Total currency derivatives from OTC transactions	**154 669**	**80 078**	**42 888**	**31 703**	**-**	**-**	**(150 088)**	**(116 334)**	**(13 928)**	**(19 826)**	**-**	**-**
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	**-**	-	-	-	-	-	**-**	-	-	-	-	-
- other interest rate contracts	**-**	-	-	-	-	-	**-**	-	-	-	-	-
Total interest rate derivatives from OTC transactions:	**85 230**	**933**	**9 702**	**4 773**	**56 869**	**12 953**	**(88 904)**	**-**	**(9 756)**	**(8 116)**	**(60 535)**	**(10 497)**
Interest rate futures on the regulated market:	**125**	-	125	-	-	-	**-**	-	-	-	-	-
Total interest rate derivatives from regulated market transactions:	**125**	**-**	**125**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Options purchased and sold in OTC transactions	6 284	-	-	612	5 672	-	(8 911)	-	-	(1 651)	(7 260)	-
Total equity derivatives from OTC transactions:	**6 284**	**-**	**-**	**612**	**5 672**	**-**	**(8 911)**	**-**	**-**	**(1 651)**	**(7 260)**	**-**
Settlements of derivative transactions	**17**	17	-	-	-	-	**(19)**	(19)	-	-	-	-
Settlements of purchase and sale transactions	**8 293**	259	10	2 300	5 724	-	**(377)**	(193)	(10)	(160)	(14)	-
TOTAL:	**254 618**	**81 287**	**52 725**	**39 388**	**68 265**	**12 953**	**(248 299)**	**(116 546)**	**(23 694)**	**(29 753)**	**(67 809)**	**(10 497)**

Maturity dates

- For NDF, Currency forwards, FX swap, currency options and options for indices, IRS, CIRS calculated as the difference in the days between transaction maturity date and reporting date

- For FX spot, FRA, derivatives not included in the statement of financial position calculated as the difference between the date of the currency and the reporting date

- data in PLN thousand

Accounting policies and additional explanatory notes

23 Loans and advances to customers

	31.12.2010	31.12.2009
Amounts due from customers under overdraft facilities	2 625 560	2 310 279
Loans and advances to customers:	17 599 576	16 288 454
- businesses, including:	5 280 957	5 268 654
- investment loans	2 726 581	2 527 232
- operating loans	2 026 163	2 312 219
- households, including:	12 073 695	10 794 849
- real-estate loans	6 558 916	5 784 991
- preferential loans	2 957 880	2 755 871
- public sector institutions	214 429	212 334
- other entities	30 495	12 617
Purchased debt	291 397	230 848
Realised guarantees and suretyships	5 976	5 860
Other receivables	43 764	62 406
Other	1 721	2 301
Loans and advances to customers, gross	**20 567 994**	**18 900 148**
Impairment allowances (negative value)	(698 817)	(598 782)
Loans and advances to customers, net	**19 869 177**	**18 301 366**

Preferential loans and advances (granted with additional payments from government agencies) granted to enterprises amounted to a total of PLN 534 258 thousand as at 31 December 2010, and PLN 567 657 thousand as at 31 December 2009.

Impairment allowances for loans and advances

	31.12.2010	31.12.2009
Losses incurred but not reported (IBNR)		
Gross statement of financial position exposure	19 246 702	17 811 113
Impairment allowance on exposures analyzed on the portfolio basis	(69 820)	(54 583)
Net exposure	**19 176 882**	**17 756 530**
Impaired exposures		
Gross statement of financial position exposure	1 321 292	1 089 035
Impairment allowance on exposures analyzed on the portfolio and individual basis	(628 997)	(544 199)
Net exposure	**692 295**	**544 836**

As at 31 December 2010, variable interest rate loans and advances amounted to a total PLN 19 556 360 thousand (2009: PLN 15 682 606 thousand), while those of fixed interest rate, PLN 1 011 634 thousand (2009: PLN 774 739 thousand).

- data in PLN thousand

Accounting policies and additional explanatory notes

Impairment losses on loans and advances

	31.12.2010	31.12.2009
Amounts due from customers under overdraft facilities	101 357	85 185
Loans and advances to customers:	540 373	445 393
- businesses, including:	170 077	157 333
- investment loans	50 073	42 675
- operating loans	96 484	97 944
- households, including:	369 414	286 968
- real estate loans	87 629	45 104
- preferential loans	71 852	79 677
- public sector institutions	527	458
- other entities	355	634
Purchased debts	21 911	16 169
Realised guarantees and suretyships	3 461	3 924
Other receivables	31 715	48 111
Total impairment allowances	**698 817**	**598 782**

Individually and collectively assessed loans and advances, as at 31 December 2010

	Individually assessed	Collectively assessed	Other receivables	TOTAL
Amounts due from customers under overdraft facilities	81 514	2 544 046	-	2 625 560
Loans and advances to customers:	569 725	17 029 851	-	17 599 576
- businesses	451 139	4 829 818	-	5 280 957
- households	118 123	11 955 572	-	12 073 695
- public sector institutions	80	214 349	-	214 429
- other entities	383	30 112	-	30 495
Purchased debts	16 449	274 948	-	291 397
Realised guarantees and suretyships	5 244	732	-	5 976
Other receivables	40 781	2 983	-	43 764
Other (not settled means)	-	-	1 721	1 721
Total loans and advances to customers	**713 713**	**19 852 560**	**1 721**	**20 567 994**

- data in PLN thousand

Accounting policies and additional explanatory notes

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

	Individually assessed	Collectively assessed	Other receivables	TOTAL
Amounts due from customers under overdraft facilities	71 037	2 239 242	-	2 310 279
Loans and advances to customers:	545 976	15 742 478	-	16 288 454
- businesses	450 883	4 817 771	-	5 268 654
- households	94 467	10 700 382	-	10 794 849
- public sector institutions	51	212 283	-	212 334
- other entities	575	12 042	-	12 617
Purchased debts	9 618	221 230	-	230 848
Realised guarantees and suretyships	4 217	1 643	-	5 860
Other receivables	59 123	3 283	-	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**

Impairment losses on loans and advances, classified as individually and collectively assessed, as at 31 December 2010

	Individually assessed	Collectively assessed	TOTAL
Amounts due from customers under overdraft facilities	22 300	79 057	101 357
Loans and advances to customers, of which:	185 939	354 434	540 373
- businesses	120 726	49 351	170 077
- households	64 926	304 488	369 414
- public sector institutions	32	495	527
- other entities	255	100	355
Purchased debts	14 649	7 262	21 911
Realised guarantees and suretyships	2 251	1 210	3 461
Other receivables	31 336	379	31 715
Impairment allowances	**256 475**	**442 342**	**698 817**

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

	Individually assessed	Collectively assessed	TOTAL
Amounts due from customers under overdraft facilities	27 793	57 392	85 185
Loans and advances to customers, of which:	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 suretyships	2 319	1 605	3 924
Other receivables	46 431	1 680	48 111
Impairment allowances	**261 598**	**337 184**	**598 782**

- data in PLN thousands

2010	Amounts due under overdraft facilities	Loans and advances to customers	businesses	households	public sector institutions	other entities	Purchased debts	Realised guarantees and suretyships	Other receivables	Total
Impairment allowances at the beginning of the period	**85 185**	**445 393**	**157 333**	**286 968**	**458**	**634**	**16 169**	**3 924**	**48 111**	**598 782**
Allowance recognized	171 735	842 258	300 960	540 794	463	41	15 491	11 105	5 133	1 045 722
Allowance reversed	(136 904)	(738 808)	(281 868)	(455 732)	(873)	(335)	(9 270)	(11 553)	(10 874)	(907 409)
Write-off	(18 496)	(40 725)	(35 286)	(5 439)	-	-	-	-	-	(59 221)
Change in interest income in relation to IBNR	2 408	10 289	2 418	7 385	471	15	137	2	4	12 840
Other changes	(2 571)	21 966	26 520	(4 562)	8	-	(616)	(17)	(10 659)	8 103
Impairment allowances at the end of the period	**101 357**	**540 373**	**170 077**	**369 414**	**527**	**355**	**21 911**	**3 461**	**31 715**	**698 817**

2009	Amounts due under overdraft facilities	Loans and advances to customers	businesses	households	public sector institutions	other entities	Purchased debts	Realised guarantees and suretyships	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 recognized	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**

- data in PLN thousands

Loans and advances, by maturity date

	31.12.2010	31.12.2009
< 1 month	428 526	262 819
1 -3 months	439 955	552 679
3 – 12 months	2 554 337	2 422 894
1-5 years	3 241 080	3 487 342
> 5 years	10 989 484	9 831 301
Overdue loans	2 914 612	2 343 113
Total loans and advances, by maturity date	**20 567 994**	**18 900 148**

24 Securities available for sale

	31.12.2010	31.12.2009
Debt securities carried at fair value:	3 285 607	2 779 793
- NBP money bills	1 299 188	1 149 124
- treasury bills	98 214	608 227
- bonds issued by central government institutions	1 722 737	809 464
- debt securities issued by financial institutions	5 111	5 205
- debt securities issued by non-financial institutions	126 551	169 265
- bonds issued by public sector entities	33 806	38 508
Equity securities	5 068	1 418
Total securities available for sale	**3 290 675**	**2 781 211**
of which:		
- valued using the market quotation method	*1 824 601*	*1 417 691*
- valued using model-based method	*1 466 074*	*1 363 520*

The valuation of debt securities available for sale is prepared using a discounted cash flow model with the use of current market interest rates and consideration of the 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:

	2010	2009
As at 1 January	**2 781 211**	**1 822 475**
Purchase of securities	103 287 188	47 391 259
Re-purchase of securities	(99 580 438)	(34 487 382)
Disposal of securities	(3 290 388)	(12 017 244)
Change on re-measurement to fair value	(4 555)	9 243
Change in interest due, FX differences, discount and premium adjustments	97 657	62 860
As at 31 December carrying amount	**3 290 675**	**2 781 211**

The carrying amount of fixed interest rate debt securities available for sale is PLN 2 870 384 thousand (PLN 2 481 878 thousand in 2009), while that of the variable interest rate debt securities is PLN 415 222 thousand (PLN 297 914 thousand in 2009).

In accordance with the Act on the Bank Insurance Fund (BFG) from 14 December 1994, as of 31 December 2010 the Bank had treasury bills presented in the statement of financial position at the amount of PLN 81 910 thousand (nominal value PLN 83 400 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 2009: PLN 77 999 thousand of PLN 78 600 thousand nominal value).

Securities available for sale, by maturity:

	31.12.2010	31.12.2009
With no maturity date fixed	5 068	1 418
Up to 1 month	1 299 189	1 150 593
From 1 to 3 months	5 540	817 752
From 3 to 12 months	497 154	359 418
From 1 to 5 years	1 468 062	429 290
Over 5 years	15 662	22 740
Total securities available for sale	**3 290 675**	**2 781 211**

25 Other debt securities

	31.12.2010	31.12.2009
Debt securities carried at amortized cost:	109 232	213 110
- restructuring bonds	109 232	212 699
- debt securities issued by non-financial entities	-	411
Impairment losses	-	(1)
Total other debt securities	**109 232**	**213 109**

The carrying amount of variable interest rate securities is PLN 109 232 thousand (2009: PLN 213 109 thousand), while fixed interest rate securities were non-existent in 2010 and 2009.

Movements in other debt securities are as follows:

	2010	2009
As at 1 January	**213 109**	**750 589**
Purchase of securities	-	(310)
Re-purchase of securities	(404)	(439 942)
Repayment of restructuring bonds’ instalment	(102 420)	(96 042)
Change in interests due, EIR adjustments, discount and premium adjustments	(1 053)	(1 186)
As at 31 December	**109 232**	**213 109**

- data in PLN thousands

The redemption of the restructuring bonds from the held to maturity portfolio in the years 2010 and 2009 amounted to PLN 42 857 thousand in each year.

Other debt securities, by maturity:

	31.12.2010	31.12.2009
Up to 1 month	-	-
From 1 to 3 months	-	205
From 3 to 1 year	109 232	205
From 1 to 5 years	-	212 699
Over 5 years	-	-
Total other debt securities	**109 232**	**213 109**

26 Investment property

As at 31 December 2010, 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 2010 by an external value at PLN 63.9m. The valuation was made using mixed approach and residual method.

	2010	2009
Opening balance	**63 200**	**77 000**
Revaluation	700	(13 800)
Sale	-	-
Closing balance, including:	**63 900**	**63 200**
- purchase price	12 246	12 246
- revaluation to fair value	51 654	50 954

27 Investments in subsidiaries and jointly controlled entities

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

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

	31.12.2010	31.12.2009
- In financial sector entities	31 542	19 367
Total investments	**31 542**	**19 367**

- data in PLN thousands

Shares in subsidiaries and associates as at 31 December 2010

Entity name	Cost	Revaluation/ (impairment) adjustment	Carrying amount	BGŻ S.A. %share in the entity's capital	Share capital	Profit for the year	Total income
BGŻ Leasing Sp. z o.o.	30 102	1 440	31 542	49%	64 294	3 367	33 980
Total	**30 102**	**1 440**	**31 542**	**-**	**-**	**-**	**-**

Shares in subsidiaries and associates as at 31 December 2009

En-tity name	Cost	Revaluation/ (impairment) adjustment	Carrying amount	BGŻ S.A. %share in the entity's capital	Share capital	Profit for the year	Total income
BGŻ Leasing Sp. z o.o.	19 600	(233)	19 367	49%	39 495	(230)	16764
Total	**19 600**	**(233)**	**19 367**	**-**	**-**	**-**	**-**

28 Intangible assets

	31.12.2010	31.12.2009
Licenses	75 481	74 273
Other intangible assets	787	750
Expenditures on intangible assets	20 519	13 550
Intangible assets, total	**96 787**	**88 573**

- data in PLN thousands

2010	Licenses	Other intangible assets	Expenditure on intangible assets	Total
VALUE AT COST				
As at 1 January	**294 372**	**3 705**	**13 710**	**311 787**
Increases:	*26 844*	*417*	*34 094*	*61 355*
- transfer from/to expenditures	26 706	416	-	27 122
- purchases	138	1	34 094	34 233
Decreases	*(7 067)*	*(194)*	*(27 125)*	*(34 386)*
- transfer from/to expenditures	-	-	(27 122)	(27 122)
- sale, liquidation, donation, shortage	(7 067)	(194)	(3)	(7 264)
As at 31 December	**314 149**	**3 928**	**20 679**	**338 756**
ACCUMULATED AMORTIZATION				
As at 1 January	**220 099**	**2 955**	**160**	**223 214**
Movements:	*18 569*	*186*	-	*18 755*
- amortization charge for the year	25 636	380	-	26 016
- sale, liquidation, donation, shortage	(7 067)	(194)	-	(7 261)
- impairment losses	-	-	-	-
As at 31 December	**238 668**	**3 141**	**160**	**241 969**
NET CARRYING AMOUNT				
as at 1 January	**74 273**	**750**	**13 550**	**88 573**
as at 31 December	**75 481**	**787**	**20 519**	**96 787**

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**

- data in PLN thousands

29 Property, plant and equipment

	31.12.2010	31.12.2009
Fixed assets, of which:	448 795	440 322
- land and buildings	282 929	293 831
- tangible fixed assets	165 866	146 491
Assets under construction	16 023	4 002
Property, plant and equipment, total	**464 818**	**444 324**

Movements in certain items of property, plant and equipment in 2010 and 2009 are presented below:

2010	Land and buildings	Tangible fixed assets	Assets under construction	Total
VALUE AT COST				
As at 1 January	**427 867**	**566 076**	**4 002**	**997 945**
Increases:	*2 271*	*56 728*	*70 545*	*129 544*
- transfer from construction in progress	2 184	56 337	-	58 521
- Purchase	-	385	70 545	70 930
- other	87	6	-	93
Decreases:	*(3 749)*	*(23 243)*	*(58 524)*	*(85 516)*
- transfer from construction in progress	-	-	(58 521)	(58 521)
- sale, liquidation, donation, shortage, theft	(3 749)	(23 243)	-	(26 992)
- other	-	-	(3)	(3)
As at 31 December	**426 389**	**599 561**	**16 023**	**1 041 973**
ACCUMULATED DEPRECIATION				
As at 1 January	**134 036**	**419 585**	**-**	**553 621**
Movements:	*9 424*	*14 110*	-	*23 534*
- depreciation charge for the year	10 409	36 810	-	47 219
- sale, liquidation, donation, shortage	(985)	(22 686)	-	(23 671)
- impairment losses	-	(14)	-	(14)
As at 31 December	**143 460**	**433 695**	**-**	**577 155**
NET CARRYING AMOUT				
Balance as at 1 January	**293 831**	**146 491**	**4 002**	**444 324**
Balance as at 31 December	**282 929**	**165 866**	**16 023**	**464 818**

- data in PLN thousands

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
- Rother	-	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)
- Rother	-	(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
- impairment losses	(2 910)	(28 173)	-	(31 083)
- sale, liquidation, donation, shortage	9 066	(9 066)	-	-
As at 31 December	**134 036**	**419 585**	**-**	**553 621**
NET CARRYING AMOUT				
Balance as at 1 January	**311 003**	**118 284**	**20 148**	**449 435**
Balance as at 31 December	**293 831**	**146 491**	**4 002**	**444 324**

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

30 Other assets

	31.12.2010	Restated 31.12.2009
Other, of which:		
- assets available for sale	399	-
- settlements with debtors	73 088	48 938
- other prepayments	5 325	25 071
- commission income receivable	8 828	8 982
- settlements of card payments	17 915	56 717
- other	361	1 494
Other assets	**105 916**	**141 202**
Impairment allowance (other than loans and advances)	(27 638)	(28 115)
Other assets, total	**78 278**	**113 087**

- data in PLN thousands

31 Amounts owed to other banks

	31.12.2010	31.12.2009
Cash in current accounts	164 321	226 503
Term deposits	639 820	218 568
Loans and advances taken out	206 804	30 842
Other liabilities	9 474	173
Amounts owed to other banks, total	**1 020 419**	**476 086**

Deposits are at fixed and floating rates.

In the first half of 2010 the Bank was granted a loan from the European Bank of Reconstruction and Development totalling EUR 50m for long-term finance for infrastructural loans for SME Clients. This loan is granted for 5 years, whereas the repayment of the principal begins in 3 years. The interest on this loan amounts to 6M EURIBOR plus 125 bps.

Amounts owed to other banks, by maturity

	31.12.2010	31.12.2009
Up to 1 month	757 649	374 062
From 1 to 3 months	53 462	57 772
From 3 months to 1 year	12 430	13 351
From 1 to 5 years	196 878	30 901
Amounts owed to other banks	**1 020 419**	**476 086**

32 Liabilities arising from repo transactions

	31.12.2010	31.12.2009
Up to 1 month	1 268 921	111 980
Total	**1 268 921**	**111 980**

33 Amounts owed to customers

	31.12.2010	31.12.2009
Other financial institutions:	**1 090 373**	**477 619**
Current accounts	15 200	19 732
Term deposits	1 072 109	454 939
Other liabilities	3 064	2 948
- liabilities arising from monetary collateral	2 580	2 606
- other	484	342
Retail customers:	**11 369 506**	**11 110 229**
Current accounts	6 326 540	5 736 505
Term deposits	5 034 689	5 363 125
Other liabilities	8 277	10 599
- liabilities arising from monetary collateral	4 641	6 344
- other	3 636	4 255

- data in PLN thousands

	31.12.2010	31.12.2009
Corporate customers:	**6 871 791**	**6 346 684**
Current accounts	3 476 534	3 188 886
Term deposits	3 321 879	3 075 258
Other liabilities	73 378	82 540
- liabilities arising from monetary collateral	72 061	78 158
- other	1 317	4 382
Public sector customers:	**1 720 045**	**1 663 994**
Current accounts	870 988	762 208
Term deposits	848 932	901 557
Other liabilities	125	229
- liabilities arising from monetary collateral	118	115
- other	7	114
Amounts owed to customers, total	**21 051 715**	**19 598 526**

Amounts owed to customers, by maturity

	31.12.2010	31.12.2009
Up to 1 month	14 940 210	13 756 711
From 1 to 3 months	2 639 316	2 245 610
From 3 months to 1 year	3 228 831	3 239 800
From 1 to 5 years	236 524	349 584
Over 5 years	6 834	6 821
Amounts owed to customers, total	**21 051 715**	**19 598 526**

34 Debt securities issued

In 2008, the Bank signed with three financing banks a number of agreements for issue of bearer bank securities (Certificates of Deposit - CDs), 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.

- data in PLN thousands

	Average interest rate (%) in 2010	Average interest rate (%) in 2009	31.12.2010	31.12.2009
Certificates of deposit				
- Quatro certificate of deposit with variable interest rate and maturity date of one year from purchase date, not quoted	-	-	874	1 065
- other certificates of deposit	4.4439	5.1118	1 756 500	1 464 500
Debt securities issued, total (excluding interest)	**-**	**-**	**1 757 374**	**1 465 565**
Interest, discount, commission	-	-	(12 176)	(14 746)
Debt securities issued, total	**-**	**-**	**1 745 198**	**1 450 819**

Movements in debt securities issued

	2010	2009
Balance at the beginning of the period	1 450 819	612 551
Increases:	*6 580 880*	*3 130 886*
- issuance of certificates of deposit	6 497 500	3 081 500
- purchased discount from certificates of deposit	74 228	31 067
- accrued discount from certificates of deposit	9 121	12 448
- accrued interest from certificates of deposit	-	5 871
- commission and other fees related to certificates of deposit accounted for according to EIR	31	
Decreases:	*(6 286 501)*	*(2 292 618)*
- redemption of certificates of deposit	(6 205 500)	(2 232 500)
- redemption of Quatro securities	(192)	(712)
- sold discount from certificates of deposit	(80 789)	(51 990)
- purchased interest from certificates of deposit	0	(7 269)
- purchased interest from Quatro securities	(20)	(49)
- commission and other fees related to certificates of deposit accounted for according to EIR	-	(98)
Balance of debt securities issued at the end of the period	**1 745 198**	**1 450 819**

35 Other liabilities

	31.12.2010	31.12.2009
- inter-bank settlements	85 167	51 089
- settlements with creditors	77 023	79 756
- accrued expenses	48 353	32 856
- including employee expenses	21 810	10 752
- deferred income	6 752	8 361
- other public settlements	24 600	26 038
Other liabilities, total	**241 895**	**198 100**

- data in PLN thousands

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.

36 Provisions

	31.12.2010	31.12.2009
Restructuring provision	-	4 600
Provision for guarantees, suretyships, unused credit facilities	4 050	2 870
Provision for court cases	15 136	14 449
Other provisions, of which:	22 511	23 813
- provision in accordance with UOKiK (Office of Competition and Consumer Protection) decision	11 883	11 883
- provision for potential liabilities relating to the return of subsidies to preferential loans	9 025	10 157
Total provisions	**41 697**	**45 732**

Restructuring provision	**Year ended 31.12.2010**	**Year ended 31.12.2009**
Carrying amount at the beginning of the period	**4 600**	**7 812**
Increases	-	4 600
Utilization	(2 761)	(6 293)
Reversal	(1 839)	(1 519)
Carrying amount at the end of the period	**-**	**4 600**

Provision for guaranties, sureties and unused credit facilities	**Year ended 31.12.2010**	**Year ended 31.12.2009**
Carrying amount at the beginning of the period	**2 870**	**4 018**
Increases	13 692	25 185
Reversal	(12 931)	(24 397)
Other changes	419	(1 936)
Carrying amount at the end of the period	**4 050**	**2 870**

Provision for court cases	**Year ended 31.12.2010**	**Year ended 31.12.2009**
Carrying amount at the beginning of the period	**14 449**	**27 511**
Increases	1 948	3 807
Utilization	(454)	(282)
Reversal	(1 384)	(17 094)
Reclassification/transfer	577	507
Carrying amount at the end of the period	**15 136**	**14 449**

Other provisions	**Year ended 31.12.2010**	**Year ended 31.12.2009**
Carrying amount at the beginning of the period	**23 813**	**29 368**
Increases	607	3 866
Utilization	(152)	(4 388)
Reversal	(1 180)	(4 526)
Reclassification/transfer	(577)	(507)
Carrying amount at the end of the period	**22 511**	**23 813**

1. As at 31 December 2010, the value of court proceedings under which the Bank is a defendant was PLN 71 490 thousand, while the value of claims initiated by the Bank amounted to PLN 41 466 thousand.

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

2. Based on the decision dated 29 December 2006, the President of the Office of Competition and Consumer Protection imposed on the Bank a cash penalty in the amount of PLN 9,650 thousand for setting, together with other banks, fees for transactions made with the use of VISA and MasterCard payment cards, and ordered that the Bank cease to apply the thus set fees with an immediate effect. The Bank filed an appeal against this decision with the Court of the Office of Competition and Consumer Protection in Warsaw together with a complaint regarding the clause of immediate enforceability of court decision. Based on its decision dated 21 August 2008, the District Court in Warsaw being the Court of the Office of Competition and Consumer Protection in Warsaw considered the Bank's appeal and withheld execution of the decision dated 29 December 2006. As a result, the same court issued a decision dated 22 September 2008 to discontinue the proceedings concerning the immediate enforceability clause. During the hearing on 12 November 2008, the same court issued a decision changing the previous appealable decision and ascertained the lack of competition limiting practices (undue sentence). The Office of Competition and Consumer Protection appealed against the latter decision, and the Bank prepared a response. The Court of Appeal in Warsaw after an appeal hearing on 22 April 2010 overruled the judgment of the District Court and referred the case back for rehearing.

   As at 31 December 2010 the provision for the above amounts to PLN 9 650 thousand.

3. Based on his decision dated 31 December 2009, the President of the Office of Competition and Consumer Protection (UOKiK) imposed on the Bank a financial penalty in the total amount of PLN 2,978,087 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.

   As at 31 December 2010 the provision for the above amounts to PLN 2 234 thousand.

4. The bank's subsidiary BFN ACTUS (Company) is a party to the following proceedings before the court

a) Claim against SM INCO: lawsuit for a payment, i.e. 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 awarded to BFN ACTUS the amount of PLN 7.9m together with interest recognizing the 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. The appeal by SM INCO was rejected and the Supreme Court on 9 November 2010 made the decision to refuse to consider the last resort appeal brought by SM INCO, signifieying the final end of the proceeding.

b) Claim by the Company against SM INCO: lawsuit for deprivation of executability of executory title which comprises SM INCO guarantee liability – anti-enforcement proceedings. On 20 August 2010 the District Court in Wrocław made the rulings of the courts on the return of the guarantee fully unenforceable. Although the Court has stated the effectiveness of the offsetting of a liability under guarantee on 22 September SM INCO filed an appeal, which was dismissed on 8 February 2011.

c) Claim by SM INCO: lawsuit for indexation of the amount of guarantee (value of claim – PLN 13.9 million). The amount to be indexed 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. On 30 April 2010 The District Court has ruled dismissing the complaint.

d) As a result of a claim filed by SM INCO: a legal case regarding ‘the removal of the inconsistency between the legal status of the property situated in Wrocław Marszowice and the real legal status of the said property’ by registering SM INCO as the owner of this property instead of presently BFN Actus Sp. z o.o. The plaintiff bases its claim on the alleged nullity of the contract of the sale of this property. The claim remains in contradiction with the claims instigated before and the claims of SM INCO based on the validity of the fact of the sale of the property. None of the courts which have been ruling on this case before indicated the nullity of the sale contract of the property of 21 May 2001 and the pronouncement by the Court of the previous, legally binding, rulings could take place only by recognizing the agreement as legally binding and effective in its part regarding the sale of the property by the Company. The case is in progress. The nearest hearing has been assigned for the 2 March 2011.

The Management Board of the Group assesses the probability of the effectiveness of the SM INCO claim to be below 50%.

- data in PLN thousands

37 Deferred tax

The following movements were recorded on the deferred tax account:

Deferred tax assets

	Base for Deferred Tax as at 31.12.2010	Base for Deferred Tax as at 31.12.2009	Tax for 2010
Interest payable on liabilities	227 502	140 403	16 549
Re-measurement of derivatives and securities, to fair value	733 789	248 383	92 227
Specific provisions (non-tax-deductible), of which utilization is probable	256 336	107 320	28 313
Fees calculated in advance and settled at amortized cost using the effective interest rate method	228 059	208 586	3 700
Provision for jubilee bonuses, retirement benefits, unused annual leave and restructuring provision	22 822	24 512	(321)
Other provisions for personnel costs	21 842	10 769	2 104
Provisions for non-personnel costs	26 512	22 073	844
Allowance for debt securities available for sale	6 603	6 328	52
Other deductible temporary differences	47	377	(63)
Tax loss	112 104	224 208	(21 300)
Total assets, if which:	**1 635 616**	**992 959**	**122 105**
Tax base of deferred tax assets recognized in the income statement (in the current year and in the previous years)	1 629 013	986 631	122 053
Tax base of deferred tax assets recognized in the revaluation reserve	6 603	6 328	52

Based on the current actions taken by the Bank in respect of charging to the costs constituting tax-deductible costs of bad debts impairment allowances on loans for the purposes of the corporate income tax, the deferred tax asset of PLN 256 336 thousand (with the position as at 31 December 2009 on the level of PLN 107 320 thousand) was recognized by the Bank as at 31 December 2010 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 and 2010, the Bank calculated a deferred tax asset in respect of receivables' impairment write-downs based on the historical analysis of the recognition of written-off unrecoverable receivables as tax-deductible costs.

- data in PLN thousands

Deferred tax liabilities

	As at 31.12.2010	As at 31.12.2009	Impact on the 2010 net profit
Loan interest receivable	(104 959)	(126 858)	4 161
Interest receivable on restructuring bonds	(66 373)	(126 985)	11 516
Re-measurement of derivatives and securities to fair value	(217 781)	(246 382)	5 434
Property valuation	(51 654)	(50 954)	(133)
Transaction costs on granting loans	(23 169)	(21 110)	(391)
Allowance for debt securities available for sale	(1 537)	(5 818)	813
Total deferred tax liability, of which:	**(465 473)**	**(578 107)**	**21 400**
Tax base of deferred tax liability recognized in the income statement (in the current and previous years)	(463 936)	(572 289)	20 587
Tax base of deferred tax liability recognized in the revaluation reserve	(1 537)	(5 818)	813

Presented as

Net deferred tax asset	**232 141**	**88 503**
Net deferred tax liability	**9 814**	**9 681**

38 Discontinued operations

No operations were discontinued during the year 2010 or 2009.

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

- data in PLN thousands

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 (the ratio used for the calculation of the holiday equivalent – 1/21).

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

	31.12.2010	31.12.2009
Jubilee bonuses	324	2 048
Retirement benefits	15 825	14 998
Unused annual leave	6 673	2 866
	22 822	**19 912**

Movements in the balance of liabilities from future employee benefits

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

	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**

The following amounts were recognized in the income statement:

	31.12.2010	31.12.2009
Cost of provisions recognized	(7 678)	(3 692)
Income from provisions reversed	4 768	14 737
Total, recognized in profit or loss	**(2 910)**	**11 045**

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	2010	2011
- discount rate	6.0%	5.5%
- forecast inflation rate	2.5%	2.5%
- forecast salary increase	3.5%	2.5%

- data in PLN thousands

40 Contingent liabilities

The table below presents the balances of liabilities granted and received

	31.12.2010	Restated 31.12.2009
Liabilities granted		
Liabilities granted to the financial institutions, of which:	15 868	38
- unused limits of credit facilities	15 868	38
- guarantees	-	-
Liabilities granted to the non-financial entities, of which:	3 676 310	3 079 908
- unused credit facilities, of which:	2 795 945	2 277 506
- businesses	1 789 405	1 429 230
- households	1 004 015	847 662
- other entities	2 525	614
- guarantees	880 365	802 402
Liabilities granted to the public sector	13 256	21 345
	3 705 434	**3 101 291**
FX swap transactions	232 126	52 298
	3 937 560	**3 153 589**
Liabilities received		
Received from financial institutions	2 257 837	2 062 853
Received from non financial institutions	354	140 747
Received from public sector entities	-	69
	2 258 191	**2 203 669**
Derivative financial instruments (nominal values)		
Liabilities resulting from trading in securities	738 198	52 681
Other derivatives sold	30 509 998	10 579 257
Other derivatives acquired	28 402 083	10 600 717
Options to be received	-	365 547
Options to be given	-	365 547
	59 650 279	**21 963 749**
Liabilities granted, liabilities received and derivative financial instruments, total	**65 846 030**	**27 321 007**
Provisions for guarantees, suretyships and unused credit lines	**(4 050)**	**(2 870)**

- data in PLN thousands

Off-balance sheet liabilities granted, by maturity

	31.12.2010	31.12.2009
Up to 1 month	2 576 437	2 219 533
From 1 to 3 months	135 281	93 319
From 3 months to 1 year	539 408	293 247
From 1 to 5 years	446 825	481 414
Over 5 years	7 483	13 778
Liabilities granted	**3 705 434**	**3 101 291**
Up to 1 month	59 354	62 069
From 1 to 3 months	-	500
From 3 months to 1 year	2 000 822	140 247
From 1 to 5 years	-	2 000 853
Over 5 years	198 015	-
Liabilities received	**2 258 191**	**2 203 669**

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

	31.12.2010
Banking Guarantee Fund	
- nominal value of security	83 400
- type of security	treasury bonds
- maturity date of security	29.06.2011
- carrying amount of security	81 910
Security for transactions in securities made by the BM BGŻ S.A. (Brokerage House), deposited with the National Depository for Securities (KDPW) as part of the Stock Exchange guarantee fund	
- cash	1 041
Security for derivative instruments transactions	
- nominal value of security	200 492
- type of security	'call' deposits (receivables from banks)
	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 (receivables from banks)

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

	31.12.2010	31.12.2009
Liabilities granted		
Unused limits of granted credit facilities	**2 825 069**	**2 298 889**
- contingent	1 165 163	952 110
- non-contingent	1 659 906	1 346 779
Guarantees	**880 365**	**802 402**
- contingent	822	1 283
- non-contingent	879 543	801 119
Liabilities granted, total	**3 705 434**	**3 101 291**

41 Issued share capital

	Number of shares (in millions)	Nominal value
Balance as at 1 January 2009	**43**	**43 137**
Increases/Decreases	-	-
Balance as at 31 December 2009/ 1 January 2010	**43**	**43 137**
Increases/ Decreases	-	-
Balance as at 31 December 2010	**43**	**43 137**

As at 31 December 2010, 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,
- 16 058 045 held by the State Treasury represented by the Minister of the State Treasury,
- 4 303 695 held by Cooperative Centrale Raiffeisen–Boerenleenbank B.A.,
- 1 477 440 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.

The main Shareholders of the Bank are presented in the table below:

31.12.2010		31.12.2009	
Rabobank International Holding B.V.	49.37%	Rabobank International Holding B.V.	49.37%
State Treasury	37.23%	State Treasury	37.24%
Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A.*	9.98%	Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A.	9.98%
Other shareholders	3.42%	Other shareholders	3.41%

*Rabobank Group

- data in PLN thousands

In the year 2010, 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 2010, 152 such agreements were signed with respect to 7 154 shares (in 2009: 133 agreements with respect to 6 819 shares), while 26 of such agreements were concluded with the heirs of the persons authorised. Due to the administrative procedure the agreements concluded in December 2010 (5 agreements for 233 shares) will be registered in the share ledger of the Bank on the 18 January 2011. These transactions caused a slight decrease of the State Treasury share in the Bank's share capital, which as at 31 December 2010 amounted to 37.23% (2009: 37.24%). As at the end of 2010 there were 11 216 A shares available for sale which constitutes 0.07% of the shares remaining in the possession of the State Treasury.

42 Reserve capital and other reserves, retained earnings

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

	2010	2009
Reserve capital		
Balance as at 1 January	**2 112 164**	**1 743 027**
Amounts transferred from retained earnings	107 991	369 137
Conversion of convertible bonds	-	-
Disposal or liquidation of fixed assets	-	-
Balance as at 31 December	**2 220 155**	**2 112 164**
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	**(413)**	**(7 901)**
Gain/ loss on re-measurement to fair value, net	(4 555)	9 244
Deferred tax	865	(1 756)
Balance as at 31 December	**(4 103)**	**(413)**
Other reserves		
Balance as at 1 January	**25 000**	**25 000**
Balance as at 31 December	**25 000**	**25 000**

- data in PLN thousands

Other reserves	**2010**	**2009**
General banking risk reserve	90 000	90 000
Revaluation reserve – available-for-sale financial instruments	(4 103)	(413)
Other reserves	25 000	25 000
	110 897	**114 587**

Accumulated profit/ (loss) from previous years	**2010**	**2009**
Balance as at 1 January	**15 835**	**171 948**
Transfer to reserve capital	(7 348)	(156 113)
Balance as at 31 December	**8 487**	**15 835**

43 Dividend per share

The Bank's stand-alone result is the basis for profit appropriation.

The Bank did not pay any dividend for the year 2009. The Bank's Management Board will not recommend payment of dividend for the year 2010.

44 Appropriation of profit

As a result of the decision of the Ordinary General Meeting of Shareholders of the Bank as of 10 June 2010 the profit of the Bank for the year 2009 was transferred to the reserve capital. The Management Board will recommend to the Annual General Meeting that the entire net profit for the year 2010 is transferred to the reserve capital. The final decision on the appropriation of profit for 2010 will be made by the Annual General Meeting.

45 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.

	31.12.2010	**31.12.2009**
Cash and balances with the Central Bank (Note 18)	1 379 737	1 279 378
Current accounts of banks and other receivables	225 173	108 964
Bank deposits with maturity of up to 3 months	5 928	165 645
Cash and cash equivalents, total	**1 610 838**	**1 553 987**

- data in PLN thousands

46 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:

Interest and profit shares (dividends)	Year ended 31.12.2010	Year ended 31.12.2009
Dividends received	(3 147)	(3 525)
Change in interest received on investment securities	1 054	1 188
Change in interest and valuation of securities available to sale to fair value	(93 101)	(72 103)
Change in interest on certificates of deposit	2 591	(9 971)
Total change in interest and profit shares (dividends)	**(92 603)**	**(84 411)**

Change in amounts due from other banks	Year ended 31.12.2010	Year ended 31.12.2009
Resulting from statement of financial position amounts	**75 673**	**442 127**
Elimination of movements in cash and cash equivalents	(43 508)	(285 551)
Change in amounts due from other banks, total	**32 165**	**156 576**

Change in amounts due to other banks	Year ended 31.12.2010	Year ended 31.12.2009
Resulting from statement of financial position amounts	**544 333**	**(673 143)**
Long-term loans raised from other Banks	(203 875)	-
Change in amounts due to other banks, total	**340 458**	**(673 143)**

Change in liabilities from issued debt securities	Year ended 31.12.2010	Year ended 31.12.2009
Statement of financial position change in issued debt securities	(192)	(712)
Other (interest paid)	(20)	(49)
Change in liabilities from issued debt securities, total	**(212)**	**(761)**

Cash flow from operating activities – other adjustments	Year ended 31.12.2010	Restated Year ended 31.12.2009
Statement of financial position change in other assets	**34 809**	**(45 178)**
Change in investment securities allowance	(1)	(2)
Other adjustments	(2 057)	(1 262)
Cash flow from operating activity – other adjustments, total	**32 751**	**(46 442)**

Change in other liabilities	Year ended 31.12.2010	Year ended 31.12.2009
Statement of financial position change in other liabilities	**43 795**	**(68 580)**
Statement of financial position change in corporate income tax	3	(87 868)
Change in other liabilities, total	**43 798**	**(156 448)**

- data in PLN thousands

47 Solvency ratio

Capital adequacy risk

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

The main instruments of capital adequacy management are:

1. Selection of optimal methods for measuring capital adequacy arising from certain types of risk, in accordance with Resolution no. 76/2010 of the PFSA dated 10 March 2010.
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

	31.12.2010	31.12.2009
Capital requirements		
- credit risk, counterparty risk, dilution and delivery risk for derivative instruments settled in subsequent terms	1 473 225	1 352 719
- settlement – delivery risk	-	-
- equity securities price risk, risk of debt instruments process, currency risk and commodities prices risk	-	-
- operating risk	157 862	149 292
- general interest rate risk	6 952	5 335
Total capital requirement	**1 638 039**	**1 507 346**
Own funds and short-term capital		
- share capital	43 137	43 137
- reserve capital	2 220 155	2 112 164
- reserve capital together with prior years' profits	33 487	40 835
- net profit for the current period (under approval)	112 341	100 643
- net profit for current period and net profit under approval in the amount not verified by the auditor	(112 341)	(100 643)
- General banking risk reserve	90 000	90 000
- revaluation reserve	(5 373)	(2 838)
- decrease of equity for intangible assets	(96 787)	(88 573)
- decrease of equity for capital exposure of financial institutions	(33 292)	(21 116)
- short term capital	12 518	15 697
TOTAL	**2 263 845**	**2 189 306**
Capital adequacy ratio (%)	**11.1%**	**11.6%**

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

In order to calculate capital requirement to cover operating risk the Bank uses the method of basic rate (BIA). The calculation of capital requirement is performed in accordance with annex 14 to the resolution no. 76/2010 of the PFSA dated 10 March 2010. The capital required to cover operating risk is calculated as 15% of average profit from the following 3 years, with the proviso that:

- profit for the year 2007 amounted to: PLN 1 069 653 thousand,
- profit for the year 2008 amounted to: PLN 1 093 858 thousand,
- profit for the year 2009 amounted to: PLN 993 736 thousand.

- data in PLN thousands

Capital required to cover operating risk in 2010 – in the consolidated model – amounted to PLN 157 862 thousand.

Carrying amounts and liabilities granted exposed to credit risk

Type of instrument 31.12.2010	Carrying amount	Risk weighted value
Statement of financial position items	23 854 291	16 770 170
Granted liabilities	3 670 198	1 518 121
Derivatives	337 013	129 450
Total	**27 861 502**	**18 417 741**

Type of instrument 31.12.2009	Carrying amount	Risk weighted value
Statement of financial position items	22 135 884	22 135 884
Granted liabilities	3 100 083	3 100 083
Derivatives	298 474	298 474
Total	**25 534 441**	**25 534 441**

Maximum credit risk (net amount)

	31.12.2010	31.12.2009
Cash and balances with the Central Bank	1 379 737	1 279 378
Amounts due from other banks	280 920	356 593
Receivables arising from reverse repo transactions	651 706	74 655
Held-for-trading securities	1 814 899	467 517
Derivative financial instruments	220 987	254 618
Amounts due from customers under overdraft facilities	2 524 203	2 225 094
Loans and advances to customers	17 344 974	16 076 272
- businesses	5 309 037	5 273 436
- households	11 720 073	10 520 325
- public institutions	213 902	211 876
- other institutions	100 241	68 334
- other receivables	1 721	2 301
Investment securities available for sale	3 290 675	2 781 211
Other debt securities	109 232	213 109
Other assets	1 012 266	817 054
Total	**28 629 599**	**24 545 501**
Contingent irrevocable liabilities	**2 539 449**	**2 147 898**

As stated in Note 2.14.2 to these financial statements, included in valuation of derivative instruments is credit risk. In 2010, the allowance in this respect amounting to PLN 247 thousand (2008: PLN 3 486 thousand) was accounted for. Total amount of the exposures, for which allowance was created, amounted to PLN 45 341 thousand as at 31 December 2010 (2009: PLN 102 567 thousand), while collaterals for these transactions in the form of cash deposits amounted to a total of PLN 10 968 thousand as at 31 December 2010 (2009: PLN 19 482 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 the year 2010, such impairment allowance amounted to PLN 27 920 thousand (2009 PLN 41 803 thousand).

- data in PLN thousands

48 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 2010

	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	**3 152 413**	**866**	**93 131**	**3 246 410**	**11,34%**
Current accounts	254	-	82	336	-
Debt securities	3 125 949	-	-	3 125 949	10,92%
Receivables from derivative instruments	-	-	93 049	93 049	0,33%
Interest	15 292	-	-	15 292	0,05%
Other receivables	10 918	866	-	11 784	0,04%
Liabilities	**958 801**	**-**	**347 086**	**1 305 887**	**4,56%**
Deposits – current accounts	56 461	-	509	56 970	0,20%
Interest payable	1 970	-	-	1 970	0,01%
Deposits/ placements and other liabilities	900 252	-	-	900 252	3,14%
Liabilities due to derivative instruments	-	-	346 577	346 577	1,21%
Other liabilities	118	-	-	118	-
Costs	**91 920**	**-**	**165 032**	**256 952**	**0.05%**
Interest	39 448	-	130	39 578	0.01%
Commission	-	-	1 645	1 645	-
Derivative instruments	-	-	163 257	163 257	0.03%
Other	52 472	-	-	52 472	0.01%
Revenue	**293 157**	**725**	**345**	**294 227**	**0.05%**
Interest*	236 507	-	345	236 852	0.04%
Commission	647	-	-	647	-
Derivative instruments	-	-	-	-	-
Other	56 003	725	-	56 728	0.01%
Liabilities granted	**345**	**-**	**34 057 945**	**34 058 290**	**55.08%**
Irrevocable liabilities granted	345	-	2 000 000	2 000 345	3.24%
Derivative instruments	-	-	32 057 945	32 057 945	51.84%

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

- data in PLN thousands

The above transactions/settlements with the State Treasury (public entities) relate mainly to ministries, voivodeship offices, courts and government agencies (including Agency of Restructuring and Modernization of Agriculture, 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 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**	**8,83%**
Current accounts	533	-	55	588	-
Debt securities	2 060 720	-	-	2 060 720	8,40%
Receivables from derivative instruments	-	-	59 099	59 099	0,24%
Interest	32 630	-	-	32 630	0,13%
Other receivables	14 772	503	-	15 275	0,06%
Liabilities	**1 019 565**	**-**	**55 406**	**1 074 971**	**4,38%**
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	3,18%
Liabilities due to derivative instruments	-	-	49 703	49 703	0.20%
Other liabilities	115	-	-	115	-
Costs	**77 628**	**32**	**2 025**	**79 685**	**0.01%**
Interest	52 201	-	544	52 745	0.01%
Commission	-	-	1 481	1 481	-
Derivative instruments	-	-	-	-	-
Other	25 427	32	-	25 459	-
Revenue	**263 886**	**273**	**527 448**	**791 607**	**0.11%**
Interest*	235 238	-	351	235 589	0.04%
Commission	671	-	-	671	-
Derivative instruments	-	-	527 097	527 097	0.07%
Other	27 977	273	-	28 250	-
Liabilities granted	**-**	**-**	**10 337 654**	**10 337 654**	**37.58%**
Irrevocable liabilities granted	-	-	2 000 000	2 000 000	7.27%
Derivative instruments	-	-	8 337 654	8 337 654	30.31%

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

- data in PLN thousands

Transactions with related parties as at 31 December 2009 and 31 December 2010

	31.12.2010		31.12.2009	
	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	**6 235**	**0.02%**	**6 449**	**0.03%**
Loans and advances	-	-	-	-
Current account	-	-	90	-
Deposits	-	-	-	-
Interest	-	-	-	-
Debt securities	-	-	-	-
Receivables from derivative instruments	6 089	0.02%	6 158	0.03%
Other receivables	146	-	201	-
Liabilities	**9 679**	**0,03%**	**7 363**	**0,03%**
Current accounts	641	-	18	-
Term deposits	-	-	-	-
Interest payable	-	-	-	-
Liabilities from derivative instruments	583	-	1 132	-
Other	8 455	0,03%	6 213	0,03%
Expenses	**10 499**	**-**	**27 501**	**-**
Interest	37	-	575	-
Derivative instruments	1 426	-	20 220	-
Other	9 036	-	6 706	-
Revenues	**889**	**-**	**2 232**	**-**
Interest	889	-	2 232	-
Commission	-	-	-	-
Derivative instruments	-	-	-	-
Other	-		-	-
Contingent liabilities	**43 408**	**0.2%**	**60 422**	**0.22%**
Liabilities granted	-	-	-	-
Liabilities received	-	-	-	-
Derivative instruments	43 408	0.2%	60 422	0.22%

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

Remuneration of the Members of Management and Supervisory Boards

In 2010, the remuneration of Members of Management Board was PLN 8 799 thousand (2009: PLN 9 954 thousand), while that of the Supervisory Board - PLN 577 thousand (2009: PLN 532 thousand).

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

In the year 2010 and 2009, the Bank did not pay any severance pay to the Members of Management or Supervisory Boards.

In 2010, the Bank paid post-employment benefits to the Members of Management Board in the amount of PLN 154 thousand (2009: PLN 116 thousand).

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

The Members of the Management and Supervisory Boards did not take out any loans, allowances, or guarantees in 2010 or 2009.

49 Significant events in 2010

The first Initial Public Offering of the Bank

As at 13 October 2010 a three-party agreement was signed between the Ministry of Treasury, Rabobank and the Bank. The agreement specifies the rules of cooperation regarding the first IPO of the Bank.

In accordance with the decision of the Extraordinary General Meeting of Shareholders the first IPO of the shares of the Bank on the Warsaw Stock Exchange should take place no sooner than 1 May 2011 and before 22 January 2012.

Agreements regarding the distribution of insurance services

As at 18 November 2010 BGŻ S.A. signed a strategic cooperation agreement with Concordia Polska Towarzystwo Ubezpieczeń Wzajemnych, under which the Bank shall become an agent for the sale of insurance products directed to the Clients from the agricultural and food producing sector. The Agreement includes offering to farmers and enterprises from the agricultural and food-producing sector packages which constitute a bundle of obligatory and voluntary insurances including: Third Party Insurances in the agricultural activities, Third Party Insurance of the owners of motor vehicles, farm and residential buildings, agricultural machines and crops insurance.

As at 17 December 2010 BGŻ S.A. undersigned an 8-year cooperation agreement with the insurance group Aviva regarding the distribution of property and life insurances for private Customers and small and medium sized enterprises.

Change of preferential loan interest rules

The Order of the President of the Agency of Restructuring and Modernization of Agriculture No 121/2010 as of 19 November 2010 introduced new rules of the determination of the interest level of preferential loans.

The modifications are connected with the increase from 1.5 to 1.6 of the level of NBP rediscount rate multiplier used to determine the interest level of preferential loans granted after 19th November 2010.

50 Events after the reporting period

As at the date of signing these consolidated financial statements no events after the reporting date occurred in the Bank which would require disclosure in the Financial Statement for 2010.

/ - /
Jacek Bartkiewicz
President of the Management Board

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

/ - /
Witold Okarma
Vice President of the Management Board

/ - /
Andrzej Sieradz
Vice President of the Management Board

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

Warsaw, 1 March 2011