This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

Financial statements of
RAIFFEISEN BANK POLSKA S.A.
for the year 2014

The Management Board presents the financial statements for the year ended 31 December 2014

Piotr Czarnecki	President of the Management Board	*signed on the Polish original* ....
name and surname	*position/function*	*signature*
Maciej Bardan	First Vice-President of the Management Board	*signed on the Polish original* ....
name and surname	*position/function*	*signature*
Jan Czeremcha	Vice-President of the Management Board	*signed on the Polish original* ....
name and surname	*position/function*	*signature*
Ryszard Drużyński	Vice-President of the Management Board	*signed on the Polish original* ....
name and surname	*position/function*	*signature*
Łukasz Januszewski	Member of the Management Board	*signed on the Polish original* ....
name and surname	*position/function*	*signature*
Marek Patuła	Member of the Management Board	*signed on the Polish original* ....
name and surname	*position/function*	*signature*
Piotr Konieczny	Member of the Management Board	*signed on the Polish original* ....
name and surname	*position/function*	*signature*
Patrycja Zenik-Rychlik	Director of Finance Accounting and Tax Department	*signed on the Polish original* ....
name and surname	*position/function*	*signature*

Warsaw, 18 March 2015

Table of contents

STATEMENT OF PROFIT OR LOSS 5
STATEMENT OF COMPREHENSIVE INCOME 6
STATEMENT OF FINANCIAL POSITION 7
STATEMENT OF CHANGES IN EQUITY 8
STATEMENT OF CASH FLOWS 10
NOTES TO THE FINANCIAL STATEMENTS 12
1. GENERAL INFORMATION 12
2. SIGNIFICANT ACCOUNTING POLICIES 13
2.1. Basis of preparation of the financial statements 13
2.2. Statement of compliance 14
2.3. Items in foreign currencies 14
2.4. Determining the financial result 14
2.4.1. Interest income and expense 14
2.4.2. Fee and commission income and expense 15
2.4.2.1. Fee and commision income and expense regarding insurance 15
2.4.3. Net income from financial instruments measured at fair value and from foreign exchange result 17
2.4.4. Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items 18
2.4.5. Other operating income and expenses 18
2.4.6. Other profit / (loss) components 18
2.4.6.1. Employee benefits 18
2.4.6.2. Dividend income 19
2.5. Presentation and valuation of financial assets and liabilities 19
2.6. Financial assets 19
2.6.1. Financial assets measured at fair value through profit or loss 19
2.6.2. Available for sale financial assets 20
2.6.3. Financial assets held to maturity 20
2.6.4. Loans and receivables 21
2.7. Reclassification of financial assets 21
2.8. Impairment of financial assets 22
2.8.1. Assets measured at amortized cost 24
2.8.1.1. Individual impairment assessment 24
2.8.1.2. Collective impairment assessment 25
2.8.2. Impairment of assets available for sale 28
2.9. Investments in subsidiaries 28
2.10. Repo and reverse repo transactions 29
2.11. Derivative financial instruments 29
2.11.1. Recognition and measurement 29
2.11.2. Embedded derivatives 30
2.11.3. Hedge accounting 30
2.11.3.1. Criteria 31
2.11.3.2. Fair value hedge 31
2.11.3.3. Cash flow hedges 32
2.11.3.4. Discontinuing hedge accounting 32
2.12. Financial liabilities 33
2.13. Off-balance sheet liabilities 33
2.14. Method of determining the fair value and amortized cost 34
2.15. Derecognizing financial instruments from the statement of financial position 35
2.16. Intangible assets 36
2.16.1. Costs of completed development projects 37
2.16.2. Other intangible assets 37
2.17. Tangible fixed assets 37
2.18. Leases 38
2.19. Cash and cash equivalents 39
2.20. Provisions 39
2.21. Equity 40
2.22. Income tax expense 40
2.23. Other 41
2.24. Business combination 42

Table of contents

2.25. New standards, interpretations and revisions to published standards ... 43
2.25.1. Standards and Interpretations which have been published and applied by the Bank as of 1 January 2014, to the extend relating to the Bank. ... 43
2.25.2. Standards and Interpretations which have been published but are not yet binding and have not been adopted early by the Bank ... 48
3. CHANGES IN FINANCIAL STATEMENTS PRESENTATION ... 58
4. SIGNIFICANT ESTIMATES ... 59
4.1. Impairment of financial assets ... 60
4.2. Impairment of the loan portfolio ... 60
4.3. Financial instruments valuation method ... 62
4.4. Provisions calculation ... 62
4.5. Intangible assets with an indefinite useful life recognised as a result of a business combination with Polbank EFG S.A. – impairment test ... 63
4.6. Useful life and impairment of property, plant and equipment and other intangible assets ... 65

NOTES TO THE STATEMENT OF PROFIT OR LOSS ... 66

5. INTEREST INCOME AND EXPENSE ... 66
6. NET PROVISIONING FOR IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND PROVISIONS FOR OFF-BALANCE SHEET ITEMS ... 67
7. FEE AND COMMISSION INCOME AND EXPENSE ... 69
8. NET INCOME FROM INSTRUMENTS MEASURED AT FAIR VALUE AND FROM FOREIGN EXCHANGE RESULT ... 70
9. GENERAL ADMINISTRATIVE EXPENSES ... 71
9.1. Salaries, wages and other employee benefits ... 71
9.2. Other administrative expenses ... 71
10. OTHER OPERATING INCOME AND EXPENSE ... 71
11. INCOME TAX EXPENSE ... 72
12. EARNINGS PER SHARE ... 74
12.1. Basic profit per one share ... 74
12.2. Diluted profit per one share ... 74

NOTES TO THE STATEMENT OF FINANCIAL POSITION ... 75

13. CASH AND BALANCES WITH CENTRAL BANK ... 75
14. AMOUNTS DUE FROM BANK ... 75
15. DERIVATIVE FINANCIAL INSTRUMENTS AND EMBEDDED INSTRUMENTS ... 76
15.1. Derivative financial instruments ... 76
15.2. Embedded instruments ... 78
16. HEDGE ACCOUNTING ... 78
17. FINANCIAL ASSETS HELD FOR TRADING ... 80
18. INVESTMENT SECURITIES ... 81
19. LOANS AND ADVANCES TO CUSTOMERS ... 82
20. INVESTMENTS IN SUBSIDIARIES ... 84
21. INTANGIBLE ASSETS ... 85
22. TANGIBLE FIXED ASSETS ... 87
23. OTHER ASSETS ... 89
24. AMOUNTS DUE TO BANKS AND OTHER MONETARY INSTITUTIONS ... 90
25. AMOUNTS DUE TO CUSTOMERS ... 91
26. SUBORDINATED LIABILITIES ... 91
27. LIABILITIES FROM DEBT SECURITIES ISSUED ... 92
28. OTHER LIABILITIES ... 92
29. PROVISIONS ... 93
30. EQUITY ... 94
31. CONTINGENT LIABILITIES ... 95
32. THE BANK AS A LESSEE ... 96
33. PLEDGED ASSETS AND OF LIMITED DISPOSABILITY ... 96
34. SECURITIZATION AND SALE OF BANK'S RECEIVABLES ... 97
34.1. Synthetic securitization of Bank's corporate loan portfolio ... 97
34.2. Sale of receivables ... 97
35. CUSTODY ACTIVITIES ... 97
36. SUPPLEMENTARY INFORMATION TO STATEMENT OF CASH FLOWS ... 98

Table of contents

37. NET INCOME FROM FINANCIAL INSTRUMENTS ... 98
38. FAIR VALUE OF ASSETS AND LIABILITIES ... 99
39. OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES ... 104
40. TRANSACTIONS WITH RELATED PARTIES ... 106
41. EVENTS AFTER THE BALANCE SHEET DATE ... 110

RISK MANAGEMENT ... 112

42. THE NATURE AND SCOPE OF RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS ... 112
43. CREDIT RISK ... 115
44. LIQUIDITY RISK ... 133
45. OTHER MARKET RISKS ... 135
45.1. Market risk ... 135
45.2. Currency risk ... 135
45.3. Interest rate risk for cash flows and fair value ... 137
45.4. Operational risk ... 142

Statement of profit or loss

	Note	For the financial year ended 31 December 2014	For the financial year ended 31 December 2013 restated*
Interest income		1 864 715	2 058 737
Interest expense		-780 053	-983 312
Net interest income	5	**1 084 662**	**1 075 425**
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items	6	-82 388	-305 375
including Proceeds from sale of receivables		*261 712*	*37 074*
Fee and commission income		668 854	717 333
Fee and commission expense		-93 741	-94 095
Net fee and commission income	7	**575 113**	**623 238**
Net income from financial instruments measured at fair value and net foreign exchange result	8	58 414	139 553
Dividend income		43 026	18 000
General administrative expenses	9	-1 234 693	-1 389 424
Other operating income	10	14 504	49 773
Other operating expenses	10	-54 150	-45 747
Profit before tax		**404 488**	**165 443**
Income tax expense	11	-90 350	-36 095
Net profit		**314 138**	**129 348**

Weighted average number of ordinary shares (in units)	*12*	243 335	242 845
Profit attributable to the Bank's equity holders per one ordinary share (in PLN)	*12*	1 291	533
Weighted average number of diluted shares (in units)	*12*	243 335	242 845
Profit attributable to the Bank's equity holders per one diluted share (in PLN)	*12*	1 291	533

*Please refer to Note 3. to the Financial Statements

Statement of comprehensive income

	For the financial year ended 31 December 2014	For the financial year ended 31 December 2013
Net profit	**314 138**	**129 348**
Other taxable income that may be reclassified to profit or loss, including:	**-37 262**	**-9 631**
Valuation of cash-flow hedge derivatives, gross	-52 419	-5 670
Income tax on cash-flow hedge derivatives	9 960	1 077
Valuation of avaiable for sale financial assets, gross	6 416	-6 220
Income tax on available for sale financial assets	-1 219	1 182
Total comprehensive income for the period	**276 876**	**119 717**

Notes presented on pages 12- 143 are an integral part of the Financial Statements.

Statement of financial position

Assets	Note	As at 31 December 2014	As at 31 December 2013 restated*	As at 1 January 2013 restated*
Cash and balances with Central Bank	13	2 683 875	2 422 051	3 099 942
Amounts due from banks	14	628 385	353 941	243 100
Financial assets held for trading	17	361 623	8 770 806	8 763 622
Financial assetes designated upon initial recognition as at fair value through profit or loss		0	0	59 529
Derivative financial instruments	15	900 213	532 963	472 731
Investment securities	18	12 514 086	1 759 711	568 276
Loans and advances to customers	19	34 716 952	33 208 232	35 292 380
Investments in subsidiaries	20	521 208	155 335	155 835
Intantigle assets	21	572 218	609 949	585 297
Tangible fixed assets	22	156 274	199 755	202 842
Deferred income tax assets	11	213 859	291 969	323 673
Current income tax receivables		27 937	77 606	46 094
Other assets	23	224 373	263 130	259 386
Total assets		**53 521 003**	**48 645 448**	**50 072 707**

Liabilities and equity	Note	As at 31 December 2014	As at 31 December 2013 restated*	As at 1 January 2013 restated*
Amounts due to banks and other monetary institutions	24	11 242 801	11 408 415	10 712 183
Derivative financial instruments	15	1 124 388	453 945	368 150
Amounts due to customers	25	33 764 529	30 460 990	31 831 153
Subordinated liabilities	26	320 006	104 003	1 060 442
Liabilities from debt securities issued	27	501 960	0	0
Other liabilities	28	329 416	380 419	383 119
Provisions	29	201 807	201 451	201 152
Total liabilities		**47 484 907**	**43 009 223**	**44 556 199**
Equity		**6 036 096**	**5 636 225**	**5 516 508**
Share capital	30	2 256 683	2 207 461	2 207 461
Supplementary capital		2 287 790	2 214 016	2 282 779
Other capital and reserves	30	947 287	944 550	954 181
Retained earnings	30	544 336	270 198	72 087
Total equity		**6 036 096**	**5 636 225**	**5 516 508**
Total liabilities and equity		**53 521 003**	**48 645 448**	**50 072 707**

*Please refer to Note 3. to the Financial Statements

Statement of changes in equity

	Note	Share capital	Supplementary capital	Other capital and reserves	Retained earnings		Total
					Prior years result	Net profit/(loss) for the year	
As at 1 January 2014		**2 207 461**	**2 214 016**	**944 550**	**140 850**	**129 348**	**5 636 225**
Valuation of available for sale financial assets, net		0	0	5 197	0	0	5 197
Valuation of cash-flow hedge derivatives, net		0	0	-42 459	0	0	-42 459
Net profit for 2014		0	0	0	0	314 138	314 138
Total comprehensive income		**0**	**0**	**-37 263**	**0**	**314 138**	**276 875**
Transfer of net result to retained earnings		0	0	0	129 348	-129 348	0
Transactions with owners		**49 222**	**73 774**	**40 000**	**-40 000**	**0**	**122 996**
Shares issue		49 222	73 774	0	0	0	122 996
Transfer of net result to general banking risk reserve		0	0	40 000	-40 000	0	0
As at 31 December 2014	30.	**2 256 683**	**2 287 790**	**947 287**	**230 198**	**314 138**	**6 036 096**

Notes presented on pages 12- 143 are an integral part of the Financial Statements.

Statement of changes in equity (cont.)

	Note	Share capital	Supplementary capital	Other capital and reserves	Retained earnings: Prior years result	Retained earnings: Net profit/(loss) for the year	Total
As at 1 January 2013		**2 207 461**	**2 282 779**	**954 181**	**141 219**	**-69 132**	**5 516 508**
Valuation of available for sale financial assets, net		0	0	-5 038	0	0	-5 038
Valuation of cash-flow hedge derivatives, net		0	0	-4 593	0	0	-4 593
Net profit for 2013		0	0	0	0	129 348	129 348
Total comprehensive income		**0**	**0**	**-9 631**	**0**	**0**	**119 717**
Transfer of net result to retained earnings		0	0	0	-69 132	69 132	0
Transactions with owners		**0**	**-68 763**	**0**	**68 763**	**0**	**0**
Transfer of net result to statutory supplementary capital		0	-68 763	0	68 763	0	0
As at 31 December 2013	*30.*	**2 207 461**	**2 214 016**	**944 550**	**140 850**	**129 348**	**5 636 225**

Notes presented on pages 12- 143 are an integral part of the Financial Statements.

Statement of cash flows

Operating activities	Note	For the financial year ended 31 December 2014	For the financial year ended 31 December 2013 restated*
Profit before tax		**404 488**	**165 443**
Adjustments:		**525 700**	**230 090**
Depreciation and amortization	*21, 22*	146 238	123 640
Impairment		14 677	0
Unrealized foreign exchange differences		274 407	-30 031
(Gains)/Loss on sale of investments and fixed assets		12 774	-7 307
Transfer of interest and dividend from investing and financing activities		77 604	143 788
Changes in operating assets and liabilities		**12 678 045**	**-2 819 979**
Interbank placements, loans and advances to other banks		-359 277	-105 106
Financial assets held for trading		8 171 823	-429 354
Investment securities		2 347	6 676
Derivative financial instruments		146 648	25 562
Loans and advances to customers		-2 870 463	428 869
Other assets		39 097	-134 114
Amounts due to banks and other monetary institutions		2 479 901	-3 344 063
Amounts due to customers		3 909 965	-531 290
Other liabilities		-51 001	17 622
Provisions		356	299
Dividends received		43 026	18 000
Income tax paid/received		49 970	-24 199
Interest received		1 763 122	2 180 269
Interests paid		-647 469	-929 150
Net cash flow from operating activities		**13 608 233**	**-2 424 446**

*Please refer to Note 3. to the Financial Statements

Financial statements of cash flows (cont.)

Investing activities	***Note***	**For the financial year ended 31 December 2014**	**For the financial year ended 31 December 2013 restated***
Proceeds from sale of investment securities		1 429 174	41 022
Proceeds from sale of fixed assets		2 133	24 286
Purchase of investment securities		-12 157 657	-1 236 585
Purchase of investments in subsidiaries		-380 550	0
Purchase of fixed assets		-84 075	-172 583
Net cash flow from investing activities		**-11 190 975**	**-1 343 860**
Financing activities			
Inflows from subordinated liabilities and long-term bank loans		1 044 347	8 413 991
Outflows from repayment of subordinated liabilities and long-term bank loans		-3 854 408	-5 275 654
Inflows from issued debt securities		500 000	0
Inflows from shares issue		122 996	0
Net cash flow from financing activities		**-2 187 065**	**3 138 337**
Net increase / (decrease) in cash and cash equivalents	*37.*	**230 193**	**-629 969**
Cash and cash equivalents as at 1 January		2 557 428	3 187 397
Cash and cash equivalents as at 31 December		**2 787 621**	**2 557 428**

*Please refer to Note 3. to the Financial Statements

Notes presented on pages 12 – 143 are an integral part of the Financial Statements.

Notes to the financial statements

1. General information

The financial statements of Raiffeisen Bank Polska S.A. have been prepared for the period from 1 January 2014 to 31 December 2014.

The financial statements have been prepared by **Raiffeisen Bank Polska S.A.** with its registered office in Warsaw, 00-549, ul. Piękna 20, registered in the National Court Register as a joint-stock company under the reference number KRS 0000014540.

The Bank has been established for an indefinite period of time.

The Bank operates in retail banking, corporate banking and investment banking in Poland and employed 5 569 people as at the end of 2014 and 6 122 people as at the end of 2013.

These separate financial statements should be read in conjunction with the consolidated financial statements of the Bank for 2014 in order to obtain complete information on the financial standing, results and cash flows of the Bank as a whole.

The Bank's Management Board approved these financial statements on 18 March 2015.

As at 31 December 2014 the Bank's Management Board consisted of:

Piotr Czarnecki	– President of the Management Board
Maciej Bardan	– First Vice-President of the Management Board
Jan Czeremcha	– Vice-President of the Management Board
Ryszard Drużyński	– Vice-President of the Management Board
Łukasz Januszewski	– Member of the Management Board
Piotr Konieczny	– Member of the Management Board
Marek Patuła	– Member of the Management Board

As at 31 December 2014, the Bank's Supervisory Board consisted of:

Karl Sevelda	– Chairman of the Supervisory Board
Martin Grüll	– Deputy Chairman of the Supervisory Board
Herbert Stepic	– Member of the Supervisory Board
Johann Strobl	– Member of the Supervisory Board
Aris Bogdaneris	– Member of the Supervisory Board
Klemens Breuer	– Member of the Supervisory Board
Władysław Gołębiewski	– Member of the Supervisory Board
Peter Lennkh	– Member of the Supervisory Board
Selcuk Sari	– Member of the Supervisory Board

Notes to the financial statements (cont.)

2. Significant accounting policies

2.1. Basis of preparation of the financial statements

The financial statements of the Bank have been prepared for the period from 1 January 2014 to 31 December 2014. Comparative figures have been presented for the period from 1 January 2013 to 31 December 2013. The financial statements have been prepared in Polish zloty (PLN), and all amounts are presented in PLN thousand, unless indicated otherwise.

The financial statements have been prepared on a going concern basis using the assumption that the Bank will continue its business operations substantially unchanged in scope for a period of at least one year from the reporting date.

The financial statements of the Bank consider the requirements of all the International Financial Reporting Standards and International Accounting Standards approved by the European Union and related interpretations ("IFRS EU"). Changes in published standards and interpretations, which became effective from 1 January 2014 and their impact on the financial statements of the Bank have been presented in Note 2.25.1. to the financial statements.

The financial statements do not take into consideration changes in interpretations and amendments to Standards, pending approval by the European Union or approved by the European Union but came into force or shall come into force after the balance sheet date (Note 2.25.2. to the financial statements).

During the period covered by the financial statements the Bank did not introduce significant changes in the accounting policy concerning valuation of assets and liabilities and profit measurement in comparison with previous period, except for changes presented in Note 3 in the financial statements.

The financial statements of the Bank have been prepared based on the following valuation methods:

- at fair value for: derivatives, financial assets and liabilities held for trading, financial assets designated upon initial recognition as at fair value through profit or loss and available-for-sale financial assets, except for those for which the fair value cannot be reliably measured,
- at amortized cost for other financial assets, including loans and advances and other financial liabilities,
- at historical cost for non-financial assets and liabilities,
- non-current assets (or disposal groups) classified as held for sale are measured at the lower of the carrying amount or the fair value less costs to sell.

.

Notes to the financial statements (cont.)

2.2. Statement of compliance

The annual financial statements ('financial statements') of the Bank have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and respective law regulations.

2.3. Items in foreign currencies

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency"). The financial statements are presented in Polish zlotys (PLN) which is the functional currency.

Foreign currency transactions are translated into the functional currency using the current exchange rates from the date of the transaction. Foreign currency cash items presented in the statement of financial position are translated into the functional currency at the current exchange rate as at the balance sheet date (i.e. the average exchange rate published by the National Bank of Poland valid at the end of the reporting period).

All foreign currency translation differences, including gains and losses on the settlement of transactions are recognized in the profit or loss statement, under "Net income from financial instruments measured at fair value and net foreign exchange result", except for foreign exchange translation differences arising from available-for-sale financial assets which are recognized in other comprehensive income.

2.4. Determining the financial result

2.4.1. Interest income and expense

Interest income and expense from financial instruments measured at amortized cost using the effective interest rate method, and included in the calculation of the effective interest rate: discount settlement and commission received or receivable, are recognized in the profit or loss statement. Accrued interest income on financial instruments measured at fair value through profit or loss is also recognized as interest income. Interest income and expense also include settlement of interest on financial instruments designated as hedging items in hedge accounting applied by the Bank.

The effective interest rate method is a method for calculating the amortized 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 discounts future cash payments or receipts to the net carrying amount of the given financial asset or financial liability. In calculating the effective interest rate cash flows are estimated in consideration of the contractual terms of the given financial instrument; however, without accounting for the potential future losses. The calculation includes all interest, commission and fees paid or received between the parties of the contract, transaction costs and all other premiums or discounts, that are an integral part of the effective interest rate.

Notes to the financial statements (cont.)

2.4.2. Fee and commission income and expense

Fees and commissions included in the calculation of the effective interest rate (in accordance with the policies described in Note 2.4.1 to the financial statements) cover fees and commissions received or paid, directly related to the recognition of assets or liabilities, and are presented in interest income or expenses; for example, fees or commissions for checking creditworthiness, assessing and registering guarantees or securities, negotiations related to determining the parameters of the instrument and for preparing the documentation.

Other fees and commissions are recognized on a straight-line or on upfront basis in fee and commission income or expense. As a rule, fees and commissions are recognized in the profit or loss statement in accordance with the percentage of completion method for a particular service.

Commissions recognized on a straight-line basis over the life of the product to which they relate include fees and commissions received and paid, relating to issuing guarantees, fees and commissions for intermediation in sales of products offered by the Bank and for loans and advances received and granted, with unspecified repayment schedules or unspecified dates of changes in interest rates, for which the effective interest rate could not be determined (e.g. overdrafts, revolving loans).

Commissions received or paid for particular services that are not related to the internal rate of return of the loans, advances and other financial assets and liabilities are recognized in the profit or loss statement up-front when the service is provided e.g. commission for money transfers, cash transactions, fees related to handling cash. Fees and commissions resulting from negotiating or participating in negotiations of transactions concluded by third parties, received upon completion of the transaction to which they relate, are recognized on a one-off basis upon finalization of the transaction. Fees relating to syndicated loans are recognized upon completion of the syndication process on condition that the Bank does not retain part of the loan for itself or participates in the syndicated loan on the same terms and conditions as other transaction participants.

2.4.2.1. Fee and commision income and expense regarding insurance

Income from bancassurance

The Bank generates revenues from the „bancassurance", i.e. selling of insurance products through the Bank's distribution channels. In order to reflect the economic substance and the proper revenue and expense recognition regarding offered insurance products, the Bank has adopted separate rules for the presentation and recognition of bancassurance fees depending on whether there is a link between insurance product and financial instrument offered to the same client or not. If two or more transactions are linked, the criteria for revenue recognition are applied jointly to these transactions.

Notes to the financial statements (cont.)

There is a direct link between insurance product and financial instrument when at least one of two conditions is met:

1) a financial instrument is always offered by the Bank with an insurance product,

2) an insurance product is offered by the Bank only with a financial instrument, i.e. it is not possible to purchase an insurance product in the Bank, which is identical regarding its legal form, economic conditions and substance, without purchase of the product combined with a financial instrument.

If none of above mentioned conditions is met, further analysis is preformed regarding connections between selling of financial instrument and insurance based on economic substance analysis, including criteria such as:

a) the level of combined product sales, i.e. percentage of financial instruments with insurance in all agreements concerning financial instruments in the Bank's portfolio,

b) average effective annual interest rate for specific financial instruments in the Bank's portfolio divided into instruments with insurance (by financial instruments according to the Bank's product offer, insurance product and insurance groups) and with no insurance (by financial instruments according to the Bank's product offer),

c) the ability to join the insurance cover without financial instrument,

d) if there is no requirement of the Bank for a client to conclude an insurance agreement with purchasing a financial instrument – the number of insurance agreements for which the terms and the rules are similar and which were concluded in other insurance companies than the company whose products are offered by the Bank together with financial instrument,

e) the number of resignation and returned commissions – divided into financial instruments according to the Bank's product offer, insurance product and insurance groups,

f) the scope of activities performed for the insurer during the insurance agreement term.

The analysis of the links between insurance product and financial instrument includes also the financial instruments, which are not offered together with an insurance agreement.

The analysis of the links between the transactions concerning selling of insurance products and financial instruments is performed every time when a new insurance product is included in the Bank's offer. It is also verified and updated annually for the entire product portfolio to confirm the economic substance of these products and related transactions.

Insurance products not linked to financial instruments

The revenues from insurance products with no link to credit products offered by the Bank are recognized in accordance with the economic substance over the legal form principle and with the income/cost matching principle. Concerning selling of insurance products, when the Bank is only an insurance agent and is not obligated to provide further services or to perform activities for the insurer after selling the insurance product,

Notes to the financial statements (cont.)

the revenues from the sale of insurance products are recognized on the day of commencement or renewal of the insurance policy.

If the sale of insurance products with no link involves a commitment of the Bank to provide additional services, other than concluding an insurance agreement, the Bank recognizes revenues based on the stage of completing the services and as a result the part of the remuneration is deferred and settled over the time, when the Bank is obligated to provide services arising from the offered insurance product. This period is highly correlated with the period when the Bank is exposed to the risk of returning remuneration in case of client's resignation.

In relation to some products clients retain the right to cancel the insurance cover and to reclaim the overpaid premium at any time. For such products the Bank verifies, if the amount of recognized remuneration can be estimated reliably and the economic benefits from the transaction are probable, and performs a reliable estimate of the provision for refunds, which means the amount by which the remuneration should be decreased to reflect the reasonably reliably revenue. The Bank decreases revenues, which were recognized in profit or loss upfront by the estimated provisions on possible reclaims due to early termination of the lease agreement and sell or liquidation of the tangible asset which was a subject of the lease agreement. Provision estimate for refunds is based on an analysis of historical information about the real returns in the past and predictions as to the trend of returns in the future.

Insurance products linked to financial instruments

Fees earned from sales of insurance products linked to financial instruments are an insignificant part of the Bank's revenues. The Bank recognizes revenue from these fees linearly in the period of insurance cover (validity of the policy) and presents them as interest income. As part of the annual review of the accounting policy, the Bank analyzes the significance of the fees from the sale of linked products and estimates the impact on the financial results of the Bank.

The Bank verifies the estimates at least once a year at the balance sheet date, i.e. the settlement periods for insurance commission, the level of commission returns and the level of costs directly linked with insurance agreements. Moreover, at the balance sheet date the Bank performs an assessment, whether the existing policy for recognizing revenue and expenses concerning bancassurance corresponds to the economic substance of these commissions, and whether there is other method of its recognition, which could significantly improve quality of the recognition and presentation in the financial statements.

2.4.3. Net income from financial instruments measured at fair value and from foreign exchange result

Net income from financial assets measured at fair value through profit or loss as well as net foreign exchange results include gains and losses arising from the sale or change in the fair value of financial instruments designated upon initial recognition as at fair value through profit or loss, and gains and losses on the sale and change in the fair value of instruments held for trading.

Notes to the financial statements (cont.)

This result includes realized and unrealized gains/losses on foreign exchange derivatives, interest rate derivatives, debt instruments and equity instruments, as well as the gain/loss on hedging instruments.

The result on hedging instruments includes the offsetting effects of changes in the fair value of the hedging instrument and the hedged item which have an impact on the profit or loss statement, i.e. the ineffective portion of the hedge.

Net foreign exchange results comprise the positive and negative foreign currency translation differences, both realized and unrealized, arising from revaluation of assets and liabilities denominated in foreign currencies and gains / (losses) realized on spot transactions. Revaluation is performed on a daily basis using the average exchange rate announced by the NBP on the balance sheet date (in accordance with the policies described in Note 2.3 Items in foreign currencies to the financial statements).

Net foreign exchange result also includes the foreign exchange component of the fair value measurement of derivative instruments (FX forward, FX swap, CIRS and currency options).

2.4.4. Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items

Net provisioning for impairment losses on financial instruments and provisions for off-balance sheet exposures arise is recorded as a result of impairment recognition of financial assets, mainly from impairment recognition of amounts due from banks, loans and advances to customers and valuation of off-balance sheet exposures (see Note 2.8 Impairment of financial assets to the financial statements) and proceeds from sale of Bank's receivables.

2.4.5. Other operating income and expenses

Other operating income comprises mainly amounts received from sales of services unrelated to the Bank's core operations of the Bank's as well as result on the sale, disposal or impairment of non-current assets (including assets acquired for debt) and reversal of impairment of such items, release of other provisions and revenue from debt collection.

Other operating expenses comprise expenses relating mainly to non-banking activities (production of payment cards, agency contracts and IT service-related contracts) and expenses resulting from incurring a loss on sale or disposal of non-current assets (including assets acquired for debt), impairment losses on non-current assets, costs of creating of other provisions and debt collection costs.

2.4.6. Other profit / (loss) components

2.4.6.1. Employee benefits

Short-term employee benefits include: remuneration, bonuses, paid holiday leave and social insurance contributions, and are recognized as an expense upon being incurred. The Bank calculates provision for unused holiday leave. These provisions are presented in Provisions.

2.4.6.2. Dividend income

Dividend income is recognized in the profit or loss statement on the ex-dividend date, i.e. on the day when the rights to receive dividends are established.

2.5. Presentation and valuation of financial assets and liabilities

All financial instruments are recognized using settlement date accounting.

Offsetting of financial assets and liabilities is performed when the Bank has a valid and legally enforceable right to set-off that is not contingent on a future event. Additional requirement is that the Bank and its counterparties have intention to compensate or to process receivables and payables in a single settlement process or cycle with total elimination or significant decrease of credit or liquidity risk (refer to Note 39 to the financial statements).

Long-term financial assets and liabilities consist of financial assets and liabilities with maturities exceeding 12 months from the balance sheet date.

2.6. Financial assets

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

2.6.1. Financial assets measured at fair value through profit or loss

This category comprises three sub-categories: financial assets held for trading, financial instruments designated upon initial recognition as at fair value through profit or loss and derivative financial instruments.

Financial assets held for trading comprise financial assets purchased for the purpose of selling them in a near term, financial assets constituting part of the portfolio of specific financial instruments managed jointly and for which there is evidence of a recent actual pattern of short-term profit-taking and derivative financial instruments which are not financial guarantee contracts or hedging instruments.

Financial instruments are designated upon initial recognition as at fair value through profit or loss only if:

- applying such a qualification eliminates or significantly reduces measurement or recognition inconsistencies of related gain/losses (the accounting mismatch);
- a group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management policies or investment strategy and in accordance with the adopted internal reporting system on the portfolio condition;
- a financial asset which is recognized jointly includes one or more embedded derivatives and the embedded derivative does not significantly change the cash flows resulting from the underlying contract, and its separation is not allowed.

Notes to the financial statements (cont.)

Financial instruments designated upon initial recognition as at fair value through profit or loss as well as after initial recognition are measured at fair value. The effects of the measurement and exchange rates which are concerning this measurement are recognized in the profit or loss statement, in ”Net income from financial instruments measured at fair value and net foreign exchange result”.

A financial asset is removed from the statement of financial position when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers the contractual rights to receive cash flows from the asset and transfers substantially all the risks and rewards of ownership.

2.6.2. Available for sale financial assets

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as:

- loans and receivables,
- financial assets held to maturity,
- financial assets at fair value through profit or loss.

Financial assets classified as available for sale are measured at fair value apart from those assets where fair value is imposible to credible fix, which are transferred in purchase prise. Effects of changes in fair value, excluding impairment allowances, are recognized in other comprehensive income until the assets matures or is otherwise disposed of. Accumulated gain / loss is then transferred to profit or loss statement.

2.6.3. Financial assets held to maturity

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank’s management has the positive intention and ability to hold to maturity and which do not meet the definition of loans and receivables.

Due to the Bank’s policy and IFRS EU requirements, which does not allow selling financial instruments classified as held to maturity, there is no possibility to taint the held to maturity financial asset portfolio as a result of selling a significant portion of assets classified to this portfolio. However, should the Bank sell such assets, then all assets from the respective category would be reclassified to available for sale financial assets and for the following two consecutive financial years the Bank is not allowed to classify any financial assets as held to maturity.

Held to maturity financial assets are recognized in the statement of financial position as at the date of settlement of the purchase transaction of the asset. Financial assets are initially recognized at fair value adjusted for transaction costs directly attributable to the purchase or issuance of the given asset.

Upon initial recognition, the Bank measures the financial assets at amortized cost using the effective interest rate, taking into account impairment of the assets. The effects of the measurement are recognized in the the profit or loss statement in net interest income.

Notes to the financial statements (cont.)

A financial asset is derecognized from the statement of financial position when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers the contractual rights to receive cash flows from the asset and transfers substantially all the risks and rewards of ownership.

2.6.4. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, other than:

- financial assets which the Bank intends to sell immediately or in the near term (financing granted by the Bank to a customer for the purpose of generating short-term gains; classified as held for trading) and those which the group classified as financial instruments designated upon initial recognition as at fair value through profit or loss;
- financial assets designated by the Bank as available for sale upon initial recognition; or
- assets in respect of which the holder may not recover substantially the whole amount of the initial investment for a reason other than credit deterioration (classified as available for sale).

Loans and advances to other banks and customers, including purchased receivables and investments in debt securities not quoted on an active market are part of the loans and advances category.

Loans and advances are recognized on the date cash is disbursed to the debtor.

Upon initial recognition, the Bank measures the financial assets at amortized cost using the effective interest rate, taking into account impairment, and the effects of the measurement are recognized in the profit or loss statement in net interest income.

A financial asset is eliminated from the statement of financial position when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers the contractual rights to receive cash flows from the asset and transfers substantially all the risks and rewards of ownership, and also when the Bank does not expect any further cash flows from the financial asset.

2.7. Reclassification of financial assets

The Bank may reclassify available for sale financial assets to the loans and advances category if the given asset meets the definition of loans and receivables, or the Bank has the intention and ability to hold the asset during the foreseeable future or until its maturity. The Bank may also reclassify available for sale financial assets to the category of financial assets held to maturity if the change in intention or ability occurred or two consecutive financial years have passed, as discussed in Note 2.6.3 to the financial statements.

In case of reclassifying an available for sale financial asset with a specified maturity date, all gains and losses related to the asset which had been recognized in other comprehensive income are amortized and recognized in the profit or loss statement over the remaining life of the held to maturity investment, using the effective interest method. All differences between the new amortized cost and the maturity amount are amortized over the remaining life of the financial asset using the effective interest method, similarly as when amortizing a premium or discount.

The Bank may reclassify financial assets measured at fair value through profit or loss if exceptional events occur.

A financial asset is reclassified in its fair value as at the reclassification date. Gains or losses which had been recognized in the profit or loss statement until reclassification are not reversed. As at the reclassification date, the fair value of financial assets is deemed to be its new cost or new amortized cost respectively.

2.8. Impairment of financial assets

At each balance sheet date, the Bank assesses whether there are objective impairment triggers of a financial asset or group of financial assets.

Impairment of a financial asset or group of financial assets can be recognized only if there is objective evidence of impairment as a result of an event or events that occurred after the initial recognition of the given asset ("loss event") and if the event (or events) affects the future cash flows attributable to the asset or the group of assets that can be reliably estimated.

It may not be possible to identify a single event causing impairment – in such cases impairment is determined by the accumulated effect of several events. Losses expected as a result of future events, no matter how likely, are not recognised.

Based on the requirements of IAS 39 Financial instruments: Recognition and Measurement requirements and recommendations included in Recommendation R of Polish Financial Supervision Authority, the Bank defined the following loss events catalogue, which reflects the operating profile of the Bank.

For retail portfolio the Bank has defined the following impairment triggers:

- delays in payment over 90 days,
- fraud or attempt of fraud committed by the borrower,
- death of the borrower,
- termination of the loan agreement by the Bank,
- questioning of the credit exposure by the counterparty in court,
- debt enforcement proceedings being initiated against the borrower,
- significant deterioration of scoring assesment,
- restructurization of exposure after 90 days past due,
- significant financial difficulties of the borrower,
- limit blockage for renewable products.

Notes to the financial statements (cont.)

For the corporate loans portfolio, the Bank identifies impairment triggers based on the following criteria:

- significant financial difficulties of the client based on negative assessment of client's financial situation,
- failing to meet terms of the agreement,
- changes in the agreement with consession towards clients, due to economic or legal reasons resulting from client's financial difficulties, consession which in other case would not be granted. As consession is treated each change in agreement with client facing financial difficulties,
- high probability of bankruptcy or other financial reorganization of the client,
- no active market for particular balance sheet exposure due to client's financial difficulties,
- information about opened bankruptcy or liquidation processes,
- agreement termination,
- significant decrease of rating analysis,
- questioning of the balance sheet exposure by the client in court,
- Bank's request to initiate enforcement proceedings towards client,
- unknown client's place of residence or assets
- decrease of the client's rating by known and commonly accepted external agency assessing credibility (rating agency),
- there are macroeconomic signals negatively impacting operating risk of the client,
- there are other negative news about client, other signals, which could negatively influence operating risk of the client,
- significant change in value or quality of significant collateral,
- decrease in cash turnover of accounts in Bnak,
- for Financial Institutions – loss of license,
- for governments and central banks – payment moratorium.

Details of the impairment triggeres are included in Bank's internal regulations.

The process of impairment triggers identification for corporate portfolio is supported by the early warning system implemented by the Bank.

Notes to the financial statements (cont.)

The impairment assessment for financial assets is performed under the individual and group analysis. The individual analysis is applicable for individually significant assets according to segmentation criteria adopted by the Bank and the size of the exposure to the client. The group analysis includes two types of exposures:

- exposures for which no impairment triggers have been identified – exposures are assessed in group analysis process to estimate provision for incurred but not reported losses (IBNR model),
- individually insignificant exposures for which impairment triggers have been identified.

2.8.1. Assets measured at amortized cost

If there is objective evidence of impairment of loans and receivables or financial assets held to maturity measured at amortized cost, the impairment loss is calculated as a difference between the carrying amount of the asset and the present value of the estimated future cash flows (excluding the non-incurred future loan losses). As a rule the initial effective interest rate is used for discounting expected cash flow.

The calculation of estimated future cash flows relating to a secured financial asset includes the cash flows from acquired collateral less the costs of its acquisition and sale, regardless of whether the repossession of the collateral is probable or not.

After calculating and determining the amount of the impairment loss, the carrying amount of the asset is reduced by the the impairment allowance, which is recognized in the profit or loss statement.

Impairment losses are recorded in separate accounts. For balance sheet purposes and in order to determine the current book value of a given financial asset they are presented together with the financial assets which have been impaired.

If in a subsequent period the amount of the impairment loss decreases, due to an event occurring after the impairment was recognized (e.g. improvement of the creditworthiness of the debtor), the previously recognized impairment loss is reversed and the effects of the reversal are recognized in the profit or loss statement. The carrying amount of the asset determined as a result of the reversal of an impairment allowance shall not exceed the carrying amount which would be determined according to amortised cost if the impairment allowance has not been recorded.

Loans and advances which are uncollectable, after limitation period or for which Bank decided to stop further collection, are subject to write off against the impairment allowance. Subsequent recoveries of amounts previously written off are presented in the profit or loss statement, in other operating income.

2.8.1.1. Individual impairment assessment

Impairment triggers for individually significant credit exposures are identified in the standard process of loan portfolio monitoring regarding the financial situation of the client and in the process of restructuring credit exposures arising from client's financial difficulties.

Notes to the financial statements (cont.)

In case of indentifying impairment triggers, the individual credit allowance calculation includes comparing the carrying amount of the analyzed credit exposure with the expected cash flows discounted to the present value using the original effective interest rate of the contract.

The method of estimating future cash flows is based on defining the value of expected cash flows resulting from:

- the voluntary repayment made by the borrower,
- realization of collateral.

The recovery is determined judgementally, including collection scenarios defined by the Bank and the assumptions related to the results of the borrower's financial situation assessment.

If the total discounted value of expected cash flows from the voluntary repayments made by the client and from the realization of collateral is lower than the carrying amount of the credit exposure, the impairment is recognized and the credit allowance is booked.

If during individual analysis the Bank does not identify any objective impairment triggers for an individually assessed financial assets' component or impairment triggers were identified, but based on individual assessment impairment loss was not recognized, the component is included in the group of financial assets, which are the subjects of collective impairment analysis. If the impairment is recognized for the assets' component analyzed individually, the component is not included in the collective analysis.

2.8.1.2. Collective impairment assessment

In the collective approach the group of financial assets with similar credit risk characteristics are identified and collectively assessed for impairment.

Allocation of financial assets into groups with similar credit risk characteristics is carried out according to the segmentation rules used by the Bank including: type of the product, type of the client, loan delinquency and other significant factors. Those characteristics are relevant to the estimation of future cash flows for defined groups of assets, because they indicate the debtors' ability to repay all of their liabilities according to the contractual terms concerning analyzed assets.

The Bank has separate group models for impairment assessment for exposures with no identified impairment triggers and for exposures with identified impairment triggers:

a) exposures for which no impairment triggers have been identified (IBNR)

As far as collective approach regarding exposures for which no impairment triggers have been identified is concerned, the amount of the impairment is calculated using parameters: PD (probability of default) and LGD (loss given default). For exposures to companies Historical Default Rate (HDR) parameter is used instead of PD (historical indicators reflecting the percentage of events of failure to comply with obligations in a given time period).

Notes to the financial statements (cont.)

The PD/HDR parameters are estimated using statistical methods based on historically observed (considering the most recent observation) percentage of impaired loans for groups with similar credit risk characteristics. For each group the PD parameter is calculated in the time horizon corresponding to the loss identification period (LIP).

In order to reflect the amount of loss at the moment of impairment identification, the Bank determines the LGD parameter for each exposure group.

The most important information on the key assumptions and methods of determining by the Bank the PD, LIP and LGD parameters are presented below:

- PD and LIP parameter – retail exposures:

The PD parameter estimation is performed using the latest available history at the time of estimation. The PD parameter is estimated as the average of six indicators reflecting percentage of exposures for which an impairment trigger occurs in the period corresponding to LIP (the average is weighted by the number of exposures from the date of observation). The PD parameters are updated monthly.

The LIP parameter for retail exposures was defined based on analysis aiming at defining moment of event which result in recognition of impairment for the client. As of 31 December 2014 adopted LIP amounted to 9 months for mortgage loans and 6 months for other retail loans.

- PD/HDR and LIP parameter – non-retail exposures:

The HDR/PD parameters used in credit allowance calculation are determined based on the client's credit rating given in the credit assessment process. Credit rating results from the rating scale defined in a given rating system and is updated every quarter. The HDR/PD parameters assigned to each rating class are updated on an annual basis. The adopted LIP parameter value amounts to 6 months and includes impact of the processes related to monitoring of non-retail credit exposures (verification and reporting frequency).

For exposures to corporate and financial institutions, the Bank determines the HDR parameter based on the results of statistical estimation.

For other non-retail exposures, including investment projects, insurance companies, public sector entities, due to the fact that there is no representative sample of clients for which historically an impairment has been recognized, the PD parameter is determined based on assumptions of internal rating systems and experts' expectations regarding the level of expected loss ratio.

- the LGD parameter – retail exposures:

The approach to assigning the LGD parameter differs for secured and unsecured exposures. The LGD parameter for secured exposures is designed to reflect loss due to the failure in recovering the full value of the collateral. For exposures secured by mortgage LGD parameter is calculated based on historical recovery rates (RR), based on actual data from sale process (straight from bailiffs or external real estate borkers) refered to the last used by the Bank (before sale date) collateral valuation.

Notes to the financial statements (cont.)

As far as unsecured exposures are concerned, the LGD parameter is calculated based on historically observed recoveries, decreased by the costs incurred by the Bank to recover its receivables, including the percentage of clients who have settled the outstanding balance due to the Bank in a period of 12 months after the impairment identification. The estimation is performed on the portfolio of accounts for which the Bank has recognized the impairment. The criteria for defining homogeneous groups of clients are established at the level of the product portfolio and the number of months from the impairment identification for the specific account. As the result, for a given product segment the LGD parameter is a curve that increases over time from the moment of the impairment identification. As far as the credit portfolio for which no impairment triggers have been identified is concerned, there is a parameter assigned, which aggregates information about recoveries occurring over the entire recovery period. Moreover, the recoveries are adjusted with historically observed results of selling of impaired loans portfolio and the prices obtained by the Bank from these sales.

- LGD parameter – non-retail exposures:

The LGD parameter is assigned at the level of single credit exposure based on the information about client's collateral value and category. Based on the information about collateral category, there is assigned a parameter reflecting expected cash flows from the collateral realization and the average recovery period. The above-mentioned parameters are determined judgmentally. Depending on the collateral level for individual exposure, the Bank identifies as a recovery source the cash flows from collateral and the voluntary repayment made by the client. In case of repayments from sources other than realization of the collaterals, the assumptions regarding expected recovery level and recovery period are defined judgmentally. The effective value of the LGD parameter assigned to the contract includes recovery from the collateral and other sources, as well as the time value of money.

b) Exposures for which an impairment triggers have been identified

As far as exposures for which impairment triggers have been identified are concerned, the impairment value is determined with a collective method using discounted expected future cash flows calculated based on historical loss or recoveries.

The approach to the impairment calculation differs for secured and unsecured exposures. For secured exposures the impairment is calculated as a difference between the carrying amount of the exposure and the discounted value of expected recovery from collateral (including the average recovery period and recovery rate for the specific collateral type, determined judgmentally). Moreover, it includes the probability of return to a regular debt service and the probability of returning to the impaired category after the "curing" was recognized.

Notes to the financial statements (cont.)

As far as unsecured credit exposures are concerned, the assumptions used for calculation of the LGD parameter have been described in the section dedicated to IBNR model. However, for impaired exposures the estimated LGD parameter value is taken from the part of the LGD curve, which corresponds to each account individual information about the number of months from the impairment identification (months in default).

The calculation of the impairment allowance is verified as a part of the models' risk management process, because the models used by the Bank to calculate credit allowance and estimate risk parameters are subject to the risk of data quality, assumptions, methodology and administration. As a part of the models' risk management process the Bank performs an assessment of the models' administration process and validates historical parameters to minimize the risk of using incorrect parameters. The models' risk management process is supervised by the Models' Validation Committee.

2.8.2. Impairment of assets available for sale

If the decrease in fair value of available for sale assets is recognized in equity and there is objective evidence of its impairment, the accumulated losses which had previously been recognized directly in equity are transferred from equity and recognized in the profit or loss statement, even if the financial asset was not derecognized from the statement of financial position.

The accumulated losses transferred from equity to profit or loss are determined at the amount of the difference between the acquisition cost (net of all repayments of principal and depreciation) and the present fair value (net of all respective impairment losses which had been previously recognized in the profit or loss statement).

In respect of impairment of a financial asset classified as available for sale which had been previously remeasured to fair value and the positive revaluation was recognized in equity, the impairment loss first decreases equity and then – if the amount of previously recognized positive revaluation is insufficient to cover the impairment loss – the difference is recognized in the profit or loss statement, in '"Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items".

The impairment losses on equity instruments classified as available for sale financial assets are not reversed through profit or loss.

In respect of debt instruments, if in the following period the fair value of an available for sale debt instrument increases and the increase may be objectively attributed to an event which occurs after the impairment loss has been recognized in the profit or loss statement, the impairment loss has to be reversed and the amount of the reversal is recognized through the profit or loss.

2.9. Investments in subsidiaries

Subsidiaries are entities in respect of which the Bank posesses, directly or indirectly, more than 50% of votes at the General Shareholders Meeting or in case of which the Bank exercises control over its core business operations.

Notes to the financial statements (cont.)

The Bank exercises control over investee only when at the same time the Bank:

- has power over the investee,
- from its involvement with the investee it is exposed to variable returns or has rights to these returns,
- has the ability to use its power over investee to affect its returns.

2.10. Repo and reverse repo transactions

Reverse repo and repo transactions are sale or purchase transactions of securities with a simultaneous promise of resale or repurchase at a given date and contractual price.

As at the moment of commencement, sell buy back or repo transactions are recognized in Amounts due to banks and other monetary institutions" or "Amounts due to customers", depending on the counterparty of the transaction.

Buy sell back, or reverse repo transactions are presented in assets: as "Amounts due from banks" or "Loans and advances to customers", depending on the counterparty of the transaction.

Repo and reverse repo transactions are measured the same as other items presented in the given group of assets or liabilities. The difference between the sale and repurchase price is recognized over the period of the contract using the effective interest rate in interest income/expense respectively.

The Bank assesses the degree of risks and rewards related to the asset that remain within the Bank. Securities which are a part of repo or reverse repo transactions are not derecognized from the statement of financial position and are measured on the terms and conditions specified for particular securities portfolios.

2.11. Derivative financial instruments

2.11.1. Recognition and measurement

Derivative instruments are classified as held for trading and presented separately in the statement of financial position on the assets or liabilities side. Derivative instruments are measured at fair value excluding transaction costs which will be incurred on their sale. A derivative instrument is an asset if its fair value is positive and a liability if its fair value is negative.

The most appropriate basis for determining the fair value of a financial instrument upon initial recognition is its transaction price (i.e. the fair value of the payment made or received). In other situation, its fair value may be determined on the basis of a valuation model, the data for which was obtained from an active market. The techniques used are based, among other things, on models of discounted cash flows, profitability curves and option modelling.

Changes in the fair value are recognized in the profit or loss statement – this amount is included in the net income from financial instruments measured at fair value (with the exception of a different manner of recognition in case of hedge accounting – see Hedge accounting, Note 2.11.3. to the financial statements).

Notes to the financial statements (cont.)

Underlying amounts of derivative transactions are shown in off-balance sheet items from the transaction date over the period of duration.

2.11.2. Embedded derivatives

Embedded derivatives are components of a compound instrument which also includes the underlying contract that is not a derivative which causes part of the cash flows from the compound instrument change in a manner similar to the cash flows from the independent derivative, e.g. based on the interest rate, foreign exchange rate, credit or price index, price of the financial instrument, credit rating or another variable – on condition that the variable is not specific to any of the parties to the contract.

Whether a given contract includes an embedded derivative is determined upon the commencement of the contract. A second assessment is made only if there are changes to the contract which have a significant impact on the cash flows stated in the agreement.

IFRS EU require separating the embedded instruments which meet specific terms and conditions from the underlying contract.

A derivative is shown separately when the following terms and conditions are jointly met:

- the compound instrument is not measured at fair value through profit or loss;
- the economic character and risks of the embedded instrument are not closely related to the economic character and risks of the underlying contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative instrument.

Separated embedded instruments are measured according to the policies for derivative instruments, while the underlying contract – on the basis of the appropriate IFRS EU.

The measurement is presented in the statement of financial position in “Derivative financial instruments”. Changes in the fair value of separated derivative instruments are recognized in the profit or loss statement in “Net income from financial instruments measured at fair value and net foreign exchange result”.

In this category the Bank includes instruments embedded in structured instruments. In embedded instruments the Bank also includes its convertible bonds which are measured at cost taking into consideration of potential impairment.

2.11.3. Hedge accounting

The Bank may use derivative financial instruments to hedge against foreign exchange and interest rate risks resulting from its operating, financing and investing activities. For this purpose the Bank uses fair value hedges and cash flow hedges.

Notes to the financial statements (cont.)

2.11.3.1. Criteria

The Bank may use hedge accounting when all the terms and conditions set out below are met:

- upon setting up a hedge, the hedge relationship was officially established and documented as well as the purpose of the entity's risk management and its hedging strategy were defined. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the hedged risk and the manner in which the entity will assess the effectiveness of the hedging instrument in compensating the threat of changes to the fair value of the hedged item or the cash flows related to the hedged risk,
- a hedge was expected to be highly effective in compensating changes to the fair value or cash flows resulting from the hedged risk in accordance with the initially documented risk management strategy relating to the concrete hedge relationship,
- in case of cash flow hedges, the planned hedge transaction must be highly probable and must be exposed to changes in cash flows which as a result may have an impact on the profit or loss statement,
- the effectiveness of a hedge may be reliably assessed, i.e. the fair value or cash flows related to the hedged item and resulting from the hedged risk, and the fair value of the hedging instrument, may be reliably measured,
- the hedge is assessed on a current basis and its high effectiveness in all reporting periods for which the hedge had been established is determined.

The Bank designates certain derivative instruments to be fair value or cash flow hedges. Upon setting up the hedge, a hedge relationship is officially established and the purpose of the Bank's risk management and its hedging strategy is determined. The documentation includes the identification of the hedging instrument, the hedged item or transaction and the nature of the hedged risk. Upon establishing the hedge and then on a current basis, the Bank also documents and assesses the effectiveness of the hedging instrument in compensating the threat of fair value changes of the hedged item.

2.11.3.2. Fair value hedge

Fair value hedge constitute hedges against the risk of changes to the fair values of recognized assets or liabilities, or a probable future commitment, or an isolated part of such an asset, a liability or probable future commitment which may be attributed to a specific risk, and which could have an impact on the profit or loss statement.

Gains or losses resulting from revaluation of the hedging instrument to its fair value (in respect of a hedging derivative instrument) or the foreign exchange component of its carrying amount (in respect of financial instruments other than derivatives) are presented in the profit or loss statement.

Notes to the financial statements (cont.)

In respect of a hedged item which otherwise would be measured at amortized cost, gains and losses related to the hedged item and resulting from the hedged risk adjust the carrying amount of the item and are recognized in the profit or loss statement.

In respect of a hedged item constituting an available for sale financial asset, gains and losses resulting from the hedged risk are recognized in the profit or loss statement.

The difference between a change in the fair value of a hedging instrument and a change in the fair value of a hedged item, which is the result of the effectiveness of the hedge, is recognised in profit or loss statement in "Net income from financial instruments measured at fair value and net foreign exchange result".

2.11.3.3. Cash flow hedges

Cash flow hedges constitute hedges against the risk of cash flow fluctuations which may be attributed to a specific risk related to a recognized asset or liability or a highly probable planned transaction, and which could have an impact on the profit or loss statement.

Changes in the fair value of a derivative financial instrument designated as a cash flow hedge are recognized directly in other comprehensive income concerning the part including the effective part of the hedge. Amounts recognized directly in other comprehensive income are transferred to the profit or loss statement in the same period or periods in which the planned hedged transaction affects the profit or loss statement. The ineffective part of a hedge is recognized in the profit or loss statement, in "Net income from financial instruments measured at fair value and net foreign exchange result".

2.11.3.4. Discontinuing hedge accounting

The Bank discontinues hedge accounting, when:

- the hedging instrument expires, is sold, released or exercised – in such an instance accumulated gains or losses related to the cash flow hedging instrument which were recognized directly in other comprehensive income over the period in which the hedge was effective are recognized in a separate item in other comprehensive income until the planned transaction is executed,
- the hedging instrument ceases to meet the criteria for hedge accounting – in such an instance accumulated gains or losses related to the cash flow hedging instrument, which were recognized directly in other comprehensive income over the period in which the hedge was effective, are recognized in a separate item in other comprehensive income until the planned transaction is executed,
- the planned transaction is no longer considered probable (in respect of cash flow hedges) – in such case all the accumulated gains or losses related to the hedging instrument which were recognized directly in other comprehensive income over the period in which the hedge was effective, are recognized in the profit or loss statement,

Notes to the financial statements (cont.)

- the Bank invalidates a hedge relationship – in such case all the accumulated gains or losses related to the hedging instrument, which were recognized directly in other comprehensive income over the period in which the hedge was effective, are recognized in the profit or loss statement (unless the cash flow hedge was related to the realization of the planned transaction – in such case all the accumulated gains or losses related to the hedging instrument, which were recognized directly in other comprehensive income over the period in which the hedge was effective, are recognized in a separate item in other comprehensive income until the planned transaction is executed or until the planned transaction is no longer considered probable – in such case it is reclassified to the profit and loss statement).

If a replacement of one hedging instrument with another or extending the validity of a given instrument is a part of documented hedging strategy adopted by the entity, it is not considered as an expiry or release of a hedging instrument.

2.12. Financial liabilities

Financial liabilities are classified to categories: financial liabilities at fair value through financial result and other financial liabilities.

The Bank decides on classifying a financial liability at the moment of its initial recognition.

Derivative instruments are classified as financial liabilities held for trading. Derivative financial instruments are measured at fair value through financial result (unless they are designated as effective hedging instruments; see Hedge accounting, Note 2.11.3. to the financial statements).

Liabilities other than those measured at fair value through financial result including mainly amounts due to banks and customers and subordinated liabilities are classified to other financial liabilities. Financial liabilities are initially recognized at fair value plus or minus transaction costs related directly to the issuance of a given financial liability.

After initial recognition, other financial liabilities are subsequently measured at amortized cost, using the effective interest rate method.

2.13. Off-balance sheet liabilities

In the course of its operating activities, the Bank concludes transactions which at the moment of the conclusion are not recognized in the statement of financial position as assets or liabilities but result in arising of contingent liabilities. A contingent liability is:

- a potential commitment which arises as a result of past events the existence of which will be confirmed only upon the occurrence of one or more uncertain future events which are not fully controlled by the Bank, or

- a current commitment which arises as a result of past events but is not recognized in the statement of financial position because the expensing of cash or other assets to meet this commitment is improbable or the amount of the liability cannot be reliably assessed.

The Bank's key off-balance sheet liabilities constitute credit lines granted and granted financial guarantees which require that the provider makes specified payments to cover the loss incurred by the holder as a result of its defaulting on its payments in accordance with the terms and conditions of the debt instrument. Such financial guarantees are given by the Bank to other banks, financial institutions and other organizations on behalf of customers with the aim of securing loans, overdrafts and other banking financing products.

Financial guarantees are initially recognized at fair value on the date the guarantee is given. After initial recognition the Bank's liabilities resulting from such guarantees are measured at a value greater of: value determined in accordance with IAS 37: Provisions, contingent liabilities and contingent assets and initial value adjusted, where applicable, for accumulated impairment.

For off-balance sheet liabilities exposed to the risk of the principal's default the provisions are recognized. The provision for off-balance sheet liabilities is calculated based on the set limit and recoverable receivables understood as the present value of estimated future cash flows discounted using market interest rates. Future cash flows relating to off-balance sheet liabilities are calculated on the basis of the available limit and the term of maturity of the liability and the likelihood of outflow of funds from the Bank.

Within off-balance sheet exposures the Bank also presents non-financial guarantees, e.g. performance guarantees, tender guarantees, warranties and "standby" letter of credits.

2.14. Method of determining the fair value and amortized cost

The Bank decides the classification of a financial asset at the moment of its initial recognition. Upon initial recognition financial assets are measured at fair value as a general rule. After initial recognition financial assets measured at fair value through profit or loss and financial assets available for sale are, as a rule, measured by the Bank at fair value.

Market prices published by reliable sources such as Reuters, Bloomberg services, WSE, etc. are used to measure financial instruments at fair value. Financial instruments are measured with reference to the prices published in the above services on the BID page in respect of assets. The following are used to measure financial instruments:

- closing prices for regulated markets,
- fixing prices for the OTC market,
- prices given by intermediaries (Brokers) for OTC markets if there are no fixing prices.

Notes to the financial statements (cont.)

If a reliable market price is not available for a financial instrument, the instrument is measured based on the theoretical price constructed on the basis of the profitability curve. The profitability curve is based on market quotations from the money market and swap contracts for particular currencies. The model is adjusted by credit risk.

The Bank does not measure equity instruments not quoted on an active market at fair value because they cannot be reliably measured. These instruments are measured at cost net of impairment losses.

After initial recognition the Bank measures financial assets held to maturity, loans and receivables at amortized cost.

The amortized cost method is a method for determining the value of a financial instrument by deducting repayment of the principal amount from its value at initial recognition, adding or deducting accumulated amortization of all differences between the initial cost and the value of the instrument at maturity calculated using the effective interest method, and deducting impairment losses.

2.15. Derecognizing financial instruments from the statement of financial position

A financial asset is derecognized from the statement of financial position when the contractual rights to the cash flows from the financial asset expire, or when the Bank transfers the financial asset to another entity. The transfer takes place when the Bank transfers the contractual rights to receive cash flows from the asset or when the Bank retains the contractual rights to the cash flows from the financial asset but accepts the contractual obligation to transfer those flows to an entity outside the Bank.

When transferring a financial asset, the Bank assesses to what extent it retains the risks and rewards related to ownership. In this case:

- if the Bank transfers substantially all the risks and rewards of ownership, it eliminates the respective financial asset from its statement of financial position and at the same time recognizes separately as assets and liabilities all the rights and obligations retained by the Bank or those which arose during the transfer,
- if the Bank retains substantially all the risks and rewards of ownership of the financial asset, it continues to recognize the financial asset in its statement of financial position,
- if the Bank does not transfer or retain substantially all the risks and rewards of ownership of the financial asset, it determines whether it retained control over the said financial asset. If the Bank has retained control, the financial asset is recognized in the statement of financial position up to the amount resulting from continued exposure, and if the control no longer exists the financial asset is derecognized from the statement of financial position and at the same time all rights and obligations retained by the Bank or arising during the transfer are separately recognized as assets or liabilities.

The Bank derecognizes a financial liability (or its part) from its statement of financial position when the liability specified in the contract has been settled, annulled, or has expired.

Notes to the financial statements (cont.)

2.16. Intangible assets

Intangible assets are non-cash assets without a physical form, but identifiable and controlled by the Bank, leading to future inflows of economic rewards to the Bank directly related to the assets.

Intangible assets include specifically:

- software licences,
- cost of completed development projects,
- brand,
- customer relationship base,
- goodwill.

The Bank's intangible assets are initially recorded at historical cost – i.e. purchase price or cost of development.

The cost of purchase or development of computer software comprises:

- the purchase price due to the supplier net of rebates and discounts granted plus import customs and excise duty and non-recoverable VAT,
- all other directly attributable expenses or costs related to adapting acquired software for use or its proprietary development, in accordance with the purpose planned by the Bank, accrued as of the date of purchase or commencement of production to the date of commissioning for use.

Direct expenses or costs comprise specifically:

- costs of external consultations,
- costs of launching and testing the software,
- employee benefit expenses relating to the Bank's employees, in respect of the software purchased or manufactured under the given IT project, incurred exclusively in connection with its adaptation to the Bank's requirements or its proprietary development. These costs include short-term employee benefits (personnel costs) covering: wages and salaries, overtime, bonuses related to specific software, all derivatives related to the above employee benefits.

Subsequent valuation includes reducing the amount by accumulated amortization over the estimated useful life of the asset and accumulated impairment losses following from the impairment tests conducted (if significant evidence of impairment is discovered during periodic reviews of intangible assets). Intangible assets with an unspecified useful life are not amortized.

Reviews for potential impairment are conducted as at each balance sheet date. If such evidence is present, the recoverable value of the assets is determined. The recoverable amount is the higher of: the fair value less costs to sell and the value in use.

Notes to the financial statements (cont.)

Impairment allowance is recognized in the profit or loss statement in "Other operating expenses" in the period to which it relates if the book value of an intangible asset exceeds its recoverable amount. In respect of other assets impairment allowance may be reversed but only up to the level of the book value which the asset would have (net of accumulated amortization) had the impairment allowance not been recorded.

Gains or losses on sales of intangible assets are presented in other operating income or expenses respectively.

2.16.1. Costs of completed development projects

The costs related to a given stage of research relating to a project or costs related to maintaining intangible assets are recognized in expenses as they are incurred.

The costs related to a stage of development works upon their completion, if they meet qualification criteria, are recognized as intangible assets. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs for a period greater than one year, are recognized as intangible assets.

The amortization period is equal to the economic useful life of the undertaken development work.

2.16.2. Other intangible assets

Apart from the activated costs of completed development projects, intangible assets include mainly software licenses purchased which are capitalized at their purchase price, i.e. the costs incurred on the purchase and adapting the software to be used in accordance with Bank requirements.

Amortization of software is calculated using the straight-line method to allocate the cost over the estimated useful life (usually 5 to 10 years).

2.17. Tangible fixed assets

Property, plant and equipment are recognized at historical cost (purchase price or cost of production) net of accumulated depreciation and accumulated impairment allowances.

Historical cost includes expenditure that is directly attributable to the acquisition and adapting for use, or production of the assets.

Leasehold improvements are costs incurred mainly to adapt the leased premises earmarked for servicing customers for Bank purposes.

Subsequent expenses are included in the carrying amount of the property, plant and equipment item or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the purchase price or cost of production of the item can be measured reliably.

All other repairs and maintenance expenses are charged to the profit or loss statement during the financial period in which they are incurred.

Notes to the financial statements (cont.)

Property, plant and equipment are depreciated on a straight-line basis to allocate the cost net of the residual value, if material, evenly over the estimated useful life.

Depreciation rates applied as a rule to the basic property, plant and equipment items are as follows:

Leasehold improvements (in buildings or apartments)	12 years or in the term of the lease contract, depending which period is longer
Plant and machinery	3 – 5 years
Computers	3 – 5 years
Vehicles	5 years
Other tangible fixed assets	5 – 10 years

The adopted useful lives are reviewed at least once a year.

Reviews for potential impairment are conducted as at each balance sheet date. If evidence of impairment is present, the recoverable value of the assets is determined. The recoverable amount is the higher of: the fair value less costs to sell and the value in use.

Impairment allowance is recognized in the profit or loss statement in the period to which it relates if the book value of a component asset exceeds its recoverable amount. An impairment allowance may be reversed only to the level at which the book value of an asset does not exceed the book value – net of depreciation – which would be determined should the impairment allowance not have been recorded.

Gains or losses on sales of fixed assets are presented in other operating income or expenses respectively.

2.18. Leases

The Bank is party to lease contracts on the basis of which it accepts third party fixed assets for use over an agreed period. The Bank classifies lease contracts on the basis of the scope in which the risks and rewards from holding the leased asset are attributable to the lessor and the lessee.

In respect of lease contracts on the basis of which substantially all the risks and rewards following from the possession of assets subject to the contract are transferred to the lessee. The lease is classified as a finance lease.

The leased asset is recognized in the Bank's assets as a fixed asset at the lower of: the fair value of the leased asset or the present value of the minimum lease payments determined as at the date of inception of the lease. At the same time, the Bank recognizes a liability in the same amount.

Lease payments are split between the reduction of the lease liability (in a manner enabling obtaining a fixed interest rate on the outstanding liability) and lease fees. Finance lease expenses are shown directly in the profit or loss statement. Fixed assets subject to finance lease contracts are depreciated in the same manner as fixed assets owned by the Bank. If there is no justified certainty that after the end of the finance lease contract ownership of the leased assets will be transferred, the assets are depreciated over the shorter of: the term of the lease and the estimated economic useful life of the asset.

Notes to the financial statements (cont.)

In respect of lease contracts on the basis of which substantially all the risks and rewards following from the possession of assets subject to the contract are not transferred, the lease is classified as an operating lease.

Lease payments made under operating leases (including lease installments) are recognized in the profit or loss statement on a straight-line basis over the term of the lease.

2.19. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include short-term liquid assets (up to three months) which are not exposed to the risk of significant value changes, such as:

- cash and balances with the central bank,
- cash in nostro accounts and interbank deposits maturing within three months,

Cash equivalents are used to pay short-term cash liabilities and are not held for the purpose of investing or other types of activity.

2.20. Provisions

The Bank creates provisions for future liabilities when the amount or date of their arising is not certain but it is possible to reliably estimate the amount of the liability. These future liabilities are certain or highly probable and they result from past events which the Bank has to meet in accordance with a contractual or constructive obligation and which leads to using assets already possessed, or future assets of the Bank. If the effect of the time value of money is material, the amount of the provision is determined by discounting the forecast future cash flows to their present value, using the discount rate which reflects the current cost of money for the Bank (it may specifically be the risk-free interest rate), taking into consideration the potential risk related to the given obligation.

Provisions are recognized especially against the following:

- future employee commitments following from employment contracts and provisions related to long-term employee benefits measured using actuarial methods,
- the effects of pending litigation,
- restructuring costs.

Provisions for future liabilities are charged against the profit or loss statement, against other operating expenses or general administrative expenses. Unused provisions decrease the Bank's operating expenses as of the date when the risk which justified their establishment was mitigated or ceased to exist.

Notes to the financial statements (cont.)

Restructuring provisions are created when the following terms and conditions are met:

- the Bank has a detailed and formal restructuring plan (which at least specifies the area or part of the area to which the plan relates, base locations covered by the plan, place of employment, functions and estimated number of employees to receive severance payments, the amount of expenditure to be incurred and the period when the plan will be implemented), and
- the Bank started implementing the plan or announced the key elements of the plan to the parties involved (thus arousing expectations of the parties to which the plan relates as to the planned restructuring actions).

The Bank determines the amount of the restructuring costs on the basis of best available assessments of the direct expenditure resulting from restructuring and not related to the Bank's current operations.

2.21. Equity

Equity constitutes capital and reserves created in accordance with the binding legal regulations, i.e. the respective acts and the Memorandum of Association of entities in the Bank.

Share capital comprises currently registered share capital. The amount of share capital presented in the financial statements reflects the share capital of the Bank and is shown in an amount consistent with the Memorandum of Association and entry to the Court Register.

Equity also includes: retained earnings comprising current year's undistributed profit and retained past results, and the following items:

- supplementary capital from share premium and transfers from profit. At least 8% of the profit for a given financial year is transferred to supplementary capital, until it attains a level of at least one third of the share capital,
- other reserves, including the general banking risk reserve, created with transfers from profit and, in accordance with the Bank's Memorandum of Association, earmarked for offsetting balance sheet losses,
- the revaluation reserve from remeasurement of financial instruments classified as available for sale.
- the effective portion of cash flow hedges.

2.22. Income tax expense

Corporate income tax covers current and deferred tax. The current income tax is recognized in the profit or loss statement.

Current tax is calculated based on the accounting profit before tax adjusted by revenues which in accordance with the tax regulations are not included in taxable income, taxable income which is not income for accounting purpose, costs not considered to be tax-deductible costs according to tax regulations and tax-deductible costs which are not considered to be costs for accounting purposes. Moreover, for tax purposes,

Notes to the financial statements (cont.)

the accounting profit before tax is adjusted by prior years' income and expenses realized for tax purposes in a given reporting period, and by income deductions.

In determining the deferred income tax the value of deferred income assets and provisions as at the balance sheet date beginning and ending the reporting period is taken into account. The value of deferred income tax as at the balance sheet date is determined using the liability method, as a change in balance sheet items – deferred income tax assets and provisions.

Due to the fact that the moment of recognizing income as earned or cost as incurred differs under the accounting and tax regulations, the Bank records a deferred tax provision and asset. Deferred tax is recognized at the amount of the difference between the tax value of assets and liabilities and their carrying value for the purpose of financial reporting, using the appropriate tax rate.

Depending on the source of the temporary differences, deferred tax is recognized in the profit or loss statement or (in respect of the effects of measurement of financial assets recognized in other comprehensive income) in the statement of comprehensive income, under other comprehensive income. The Bank records a provision for deferred tax in respect of all positive temporary differences.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is measured using the tax rate, which according to expectations shall be applicable in the year in which the asset is realized or the provision released, determined on the basis of tax rates and tax regulations in force as at the end of the reporting period or such in respect of which it is certain at the balance sheet date that they will be binding in the future. Deferred tax assets and provisions are not discounted.

Deferred income tax assets and liabilities are offset when the Bank has a legally enforceable right to offset deferred and current tax receivables with respective liabilities and when the deferred income taxes relate to the tax payer and the same fiscal authority.

2.23. Other

The "Other asstets" include mainly:

- prepaid costs relating to consecutive reporting periods;
- deferred income;
- repossessed assets.

Prepaid costs are recognized at the moment of their payment to the counterparty and gradually transferred to the profit or loss statement on a straight line basis over the period to which the costs relate.

Deferred income includes mainly commission settled on a straight line basis and other income collected in advance which will be transferred to the profit or loss statement in future reporting periods.

Notes to the financial statements (cont.)

Assets repossessed for debts are measured at fair value.

The „Other liabilities" comprise mainly:

- interbank settlements;
- accruals;
- deferred income.

Interbank settlements comprise amounts due to banks which are not settled as at the balance sheet date. These settlements are made through the national clearing house – Krajowa Izba Rozliczeniowa (KIR).

Accruals constitute costs to be paid mainly in respect of internal operations, not documented by a purchase invoice. These costs relate to the current reporting period and are recognized in the books upon delivery of goods or services, i.e. arising of the liability. They are payable later, after the invoices from the suppliers are received.

Deferred income item consists mainly of commissions accounted for linearly and other income received in advance, which will be recognized in the profit and loss statement in future reporting periods.

2.24. Business combination

Business combinations of entities, which are not under common control, are recognized applying the acquisition method. As of the acquisition date, the acquirer shall recognize, separately from goodwill, the identifiable assets acquired and liabilities assumed. The identifiable assets acquired and liabilities assumed in a business combination are recognized at their fair values at the acquisition date.

The goodwill shall be recognized as of the acquisition date measured as the excess of the consideration transferred valued at acquisition-date fair value over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed valued at acquisition-date fair value.

If the net of the acquisition-date amounts of identifiable amounts of assets acquired and liabilities assumed valued at acquisition-date fair value exceed the consideration transferred valued at acquisition-date fair value, the difference is recognized directly in the profit or loss statement.

Notes to the financial statements (cont.)

2.25. New standards, interpretations and revisions to published standards

2.25.1. Standards and Interpretations which have been published and applied by the Bank as of 1 January 2014, to the extend relating to the Bank.

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
IFRS 10 *Consolidated Financial Statements*	May 2011	Financial year starting on or after 1 January 2013 (in the European Union mandatory application from 1 January 2014)	Yes	The new standard replaces the current guidelines for control and consolidation included in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation-Special Purpose Entities. IFRS 10 provides a new definition of control that introduces the same critieria of control for all entities. The Amendment includes both a new definition and implementation guidelines. The above mentioned Amendments did not have significant impact on the Bank's financial statements.
IFRS 11 *Joint Arrangements*	May 2011	Financial year starting on or after 1 January 2013 (in the European Union mandatory application from 1 January 2014)	Yes	The new standard replaces IAS 31 'Interests in Joint Ventures' and the interpretation SIC-13 'Jointly Controlled Entities — Non-Monetary Contributions by Ventures'. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. At the same time, the existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity method is mandatory for all participants of joint ventures. The above mentioned Amendments did not have significant impact on the Bank's financial statements.

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
IFRS 12 *Disclosure of Interests in Other Entities*	May 2011	Financial year starting on or after 1 January 2013 (in the European Union mandatory application from 1 January 2014)	Yes	The new standard applies to entities that have an interest in a subsidiary, a joint ventures, an associate or an unconsolidated structured entity. The standard replaces the disclosure requirements currently found in IAS 27 'Consolidated and separate financial statements' IAS 28 'Investments in associates' and IAS 31 'Interests in Joint Ventures'. IFRS 12 requires entities to disclose information that allow the users of financial statements to evaluate the nature of risks and financial effects associated with the entity's interests in subsidiaries, associates, joint ventures and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarized financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The above mentioned changes have only presentation impact, additional disclosures in case of the Bank were not significant.
Revised IAS 27 *Separate Financial Statements*	May 2011	Financial year starting on or after 1 January 2013 (in the European Union mandatory application from 1 January 2014)	Yes	IAS 27 was changed in connection with the publication of IFRS 10 'Consolidated Financial Statements'. The objective of revised IAS 27 is to describe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10. The above mentioned Amendments did not have significant impact on the Bank's financial statements.

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Revised IAS 28 *Investments in Associates and Joint Ventures*	May 2011	Financial year starting on or after 1 January 2013 (in the European Union mandatory application from 1 January 2014)	Yes	The Amendment of IAS 28 resulted from the IASB's project on joint ventures. The Board decided to incorporate the accounting of joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. Excluding this exception, other guidance remained unchanged. The above mentioned Amendments did not have significant impact on the Bank's financial statements.
Amendments to IAS 32 *Financial Instruments: Presentation* - Offsetting Financial Assets and Financial Liabilities	December 2011	Financial year starting on or after 1 January 2014	Yes	The Amendments introduce additional clarifications to implementation of IAS 32 to address some of the inconsistencies in application criteria for offsetting. The Amendments also clarify the meaning of a description: "an entity currently has a legally enforceable right to set-off" and that some gross settlements can be treated as net settlements in case that specific criteria are met. The above mentioned Amendments did not have significant impact on the Bank's financial statements.
Amendments to IFRS 10, IFRS 11 and IFRS 12	June 2012	Financial year starting on or after 1 January 2014 or earlier of the standards on which they are based (IFRS 10, 11 or 12) were adopted earlier	Yes	The Amendments clarify the transition guidance in IFRS 10. Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period is restated, unless impracticable. The Amendments also provide additional transition relief in IFRS 10, IFRS 11 and IFRS 12, by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the Amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The above mentioned Amendments did not have significant impact on the Bank's financial statements.

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Investment entities - Amendments to IFRS 10, IFRS 12 and IAS 27	October 2012	Financial year starting on or after 1 January 2014	Yes	The Amendments introduce a definition of investment entities to IFRS 10. Entities such as these will be required to account for their subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services related to entity's investment activities. IFRS 12 was also amended, introducing new disclosures on investment entities. The above mentioned Amendments did not have a material impact on the Bank's financial statements.
Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*)	November 2013	Financial year starting on or after 1 January 2014	Yes	The Amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated, as a result of laws and regulations, for the purpose of settlement with a clearing counterparty, when the following criteria are met: • the novation is required by laws or regulations • a clearing counterparty becomes a new counterparty to each of the original counterparties of the derivative instrument • changes to the terms of a derivative contract are limited to those necessary to replace the counterparty The Amendments do not have material impact on financial statements, due to the fact that derivative financial instruments in hedges were not subject to novation in order to settle with the clearing counterparty in compliance with the law.
Recoverable Amount Disclosures for Non-Financial Assets	May 2013	Financial year starting on or after 1 January	Yes	The Amendments clarify that recoverable amount should be disclosed only for individual assets (including goodwill) or cash-generated units for which an impairment loss was recognised or reversed during the period.

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
(Amendments to IAS 36 Impairment of Assets)		2014		The Amendments also require the following additional disclosures when an impairment for individual assets (including goodwill) or cash-generated units has been recognised or reversed in the period and recoverable amount is based on fair value less costs to disposal: • the level of IFRS 13 'Fair value hierarchy' within which the fair value measurement of the asset or cash-generating unit is categorised; • for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation techniques used and any changes in that valuation technique together with the reason for making it; • for fair value measurements categorised within Level 2 and Level 3, each key assumption (i.e. assumptions to which recoverable amount is most sensitive) used in determining fair value less costs of disposal. If fair value less costs of disposal is measured using a present value technique, discount rate(s) used both in current and previous measurement should be disclosed. The Amendments did not influence the Bank's financial statements in a significant manner.

Notes to the financial statements (cont.)

2.25.2. Standards and Interpretations which have been published but are not yet binding and have not been adopted early by the Bank

The following standards and interpretations have been issued by either the International Accounting Standards Committee or by the International Financial Reporting Interpretations Committee, but are not yet in force:

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
IFRS 9 Financial instruments (2014)	July 2014	Financial year starting on or after 1 January 2018	No	The new standard replaces the guidance included in IAS 39 *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets, including a model for calculating impairment. IFRS 9 eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables used to classify financial assets. Under the new standard, financial assets are to be classified on initial recognition into one of three categories: • financial assets measured at amortized cost; • financial assets measured at fair value through profit or loss; or • financial assets measured at fair value through other comprehensive income (OCI). A financial asset is classified as being subsequently measured at amortized cost if the following two conditions are met: • the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and • its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. Otherwise, e.g. in the case of equity instruments of other entities, a financial asset will be measured at fair value. Gains and losses on remeasurement of financial assets measured at fair value are recognised in profit or loss, other than assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets – such remeasurement gains and losses are recognized in OCI.

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
				In addition, at initial recognition of an equity investment that is not held for trading, an entity may irrevocably elect to present all fair value changes from the investment in OCI. The election is available on an individual share-by-share basis. No amount recognised in OCI in relation to the above-described remeasurement is ever reclassified to profit or loss at a later date. The new standard retains almost all of the existing requirements in IAS 39 on the classification and measurement of financial liabilities and on derecognition of financial assets and financial liabilities. However, IFRS 9 requires that the portion of the gain or loss on a financial liability designated at initial recognition as fair value through profit or loss that is attributable to changes in its credit risk be presented in OCI, with only the remaining amount of the total gain or loss included in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, or if the financial liability is a loan commitment or a financial guarantee contract, the entire fair value change is presented in profit or loss. In respect of the financial assets impairment requirements, IFRS 9 replaces the “incurred loss” impairment model in IAS 39 with an “expected credit loss” model. Under the new approach, which aims to address concerns about “too little, too late” provisioning for impairment losses, it will no longer be necessary for a loss event to occur before an impairment allowance is recognized. In short, the expected credit loss model uses a dual measurement approach, under which the loss allowance is measured as either: • 12-month expected credit losses, or • lifetime expected credit losses.

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
				The measurement basis generally depends on whether there has been a significant increase in credit risk since initial recognition. If the credit risk of a financial asset has not increased significantly since initial recognition, the financial asset will attract a loss allowance equal to 12-month expected credit loss. If, however, its credit risk has increased significantly, it will attract an allowance equal to lifetime expected credit losses, thereby increasing the amount of impairment recognized. The standard contains a rebuttable presumption that the condition for recognizing lifetime expected credit losses is met when payments are more than 30 days past due. As at the date of preparation of the financial statements possible outcome of the first time application of the standard was not estimated by the Bank.
IFRIC Interpretation 21 *Levies*	November 2013	Financial year starting on or after 17 June 2014	Yes	The Interpretation provides guidance as to the identification of the obligating event giving rise to a liability, and to the timing of recognising a liability to pay a levy imposed by government. In accordance with the Interpretation, the obligating event is the activity that triggers the payment of that levy, as identified in the relevant legislation and as a consequence, the liability for paying the levy is recognised when this event occurs. The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time. If the obligating event is the reaching of a minimum activity threshold, the corresponding liability is recognised when that minimum activity threshold is reached. The Interpretation sets out that an entity cannot have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period. The Bank does not expect the IFRIC 21 to have a material impact on the financial statements upon initial adoption.

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Amendments to IAS 19 *Employee Benefits* entitled *Defined Benefit Plans: Employee Contributions*	December 2013	Financial year starting on or after 1 February 2015	Yes	The Amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the Amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. It is expected that the Amendments, when initially applied, will not have any material impact on the Bank's financial statements. The Bank does not have any contributions to defined benefit plans.
Improvements to IFRS (2010-2012)	December 2013	Financial year starting on or after 1 February 2015	Yes	Yearly changes to IFRS 2010-2012 contain 8 modifications to 7 standards, including consequential changes to other standards and interpretations. Most of these changes are not expected to have a significant impact on the financial statements of the Bank.
Improvements to IFRS (2011-2013)	December 2013	Financial year starting on or after 1 January 2015	Yes	Yearly changes to IFRS 2011-2013 contain 4 modifications to standards, including consequential changes to other standards and interpretations. Most of these changes are not expected to have a significant impact on the financial statements of the Bank.
IFRS 14 Regulatory deferral accounts	January 2014	Financial year starting on or after 1 January 2016	No	This interim standard: - permits first time adopters of IFRS to continue to use its previous GAAP to account for regulatory deferral account balances both on initial adoption of IFRS and in subsequent financial statements - requires entities to present regulatory deferral account balances and movements therein as separate line items on the face of the financial statements - requires specific disclosures to identify clearly the nature of, and risks associated with, the rate regulation that has resulted in the recognition of regulatory deferral account balances in accordance with this interim Standard. Due to nature of Bank's activity IFRS 14 does not apply.

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11 *Joint Arrangements*)	May 2014	Financial year starting on or after 1 January 2016	No	The Amendments provide guidance on the accounting for the acquisition of an interest in a joint operation that constitutes a business. The acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 *Business Combinations*, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except for those principles that conflict with the guidance in IFRS 11. In addition, the acquirer shall disclose the information required by IFRS 3 and other IFRSs for business combinations. The Bank does not expect the Amendments to have significant impact on the the financial statements.
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*)	May 2014	Financial year starting on or after 1 January 2016	No	The Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The Bank does not expect the Amendments to have significant impact on the the financial statements.
IFRS 15 *Revenue from Contracts with Customers*	May 2014	Financial year starting on or after 1 January 2017	No	The Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Specifically, it replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under the new standard, entities will apply a five-step model to determine when to recognize revenue, and at what amount. The model specifies that revenue should be recognized when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognized:

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
				- Over time, in a manner that depicts the entity's performance; or - At a point in time, when control of the goods or services is transferred to the customer. Included in the Standard are new qualitative and quantitative disclosure requirements to enable financial statements users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. As at the date of the financial statements reliable estimation of the standard impact was not prepared by the Banks.
Agriculture: Bearer Plants (Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture*)	June 2014	Financial year starting on or after 1 January 2016	No	The Amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. IAS 41 *Agriculture* currently requires all biological assets related to agricultural activity to be measured at fair value less cost to sell. Under the new requirements, bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16, because their operation is similar to that of manufacturing. Consequently, the Amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. Due to nature of the Bank's activity the above mentioned Amendments do not apply.
Equity Method in Separate Financial Statements (Amendments to IAS 27 *Separate Financial Statements*)	August 2014	Financial year starting on or after 1 January 2016	No	The Amendments introduce an option for the entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements, in addition to the existing cost and fair value options. The Bank does not expect that the above mentioned Amendments will have a significant impact on the financial statements.

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates*)	September 2014	Financial year starting on or after 1 January 2016	No	The Amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. While IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint venture, IFRS 10 requires full profit or loss recognition on the loss of control of subsidiary. The Amendments require a full gain or loss to be recognised when the assets transferred meet the definition of a business under IFRS 3 *Business Combinations* (whether it is housed in a subsidiary or not). A partial gain or loss (only to the extent of unrelated investors' interests) shall be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The Bank does not expect the Amendments to have a material impact on its financial statements once applied.
Improvements to IFRS (2012-2014)	September 2014	Financial year starting on or after 1 January 2016	No	The *Improvements to IFRSs (2012-2014)* contains 4 Amendments to standards, with consequential Amendments to other standards and interpretations. The main changes were to: · clarify that paragraphs 27-29 of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (dealing with the accounting for assets that are no longer classified as held for sale) will also apply to assets that cease to be classified as held for distribution. This, however, will not apply if an entity reclassifies an asset (or disposal group) without any time lag from held for sale to held for distribution (or vice versa). Such changes in classification are considered a continuation of the original plan of disposal;

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
				· explain how an entity should apply the guidance in paragraph 42C of IFRS 7 *Financial Instruments: Disclosures* to a servicing contract to determine whether the contract represents 'continuing involvement' for the purposes of the disclosure requirements in paragraphs 42E-42H of IFRS 7; · clarify that the additional disclosures required by Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) are not specifically required for inclusion in condensed interim financial statements for all interim periods. However, they are required if the general requirements of IAS 34 *Interim Financial Reporting* require their inclusion; · amend IAS 19 *Employee Benefits* to clarify that the high-quality corporate bonds or government bonds used in determining the discount rate for post-employment benefit obligations should be issued in the same currency in which the benefits are to be paid. Consequently, the assessment of the depth of the market for high quality corporate bonds should be made at the currency level and not at the country level; clarify the meaning of the term 'elsewhere in the interim financial report' per IAS 34 and add to IAS 34 a requirement to include a cross-reference from the interim financial statements to the location of this information.
Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures*)	December 2014	Financial year starting on or after 1 January 2016	No	The Amendments, related to financial reporting of investment entities, address the following matters: • Consolidation of intermediate investment entities Before the Amendments, it was unclear how to account for an investment entity subsidiary that provides investment-related services. As a result of the changes, intermediate investment entities are not permitted to be consolidated. The Amendments also clarify that entities conducting “investment-related services” are those whose main purpose and activities are to provide services that relate to the investment entity parent’s activities.

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
				• Consolidated financial statements exemption for intermediate parents owned by investment entities Intermediate holding entities have a long-standing exemption from preparing consolidated financial statements when they are themselves consolidated by a higher-level parent (and when other relevant criteria are met). The Amendments make this exemption available to an intermediate held by an investment entity, even though the investment entity does not consolidate the intermediate. • Policy choice to equity account for interests in investment entities The Amendments provide an accounting policy choice to a non-investment entity in relation to its stake in an investment entity that it is required to equity account. The non-investment entity's equity accounting can either pick up the investment entity's fair value accounting for its subsidiaries or, alternatively, it can pick up figures as if the investment entity had consolidated all of its subsidiaries.
Disclosure initiative (Ammendments to IAS 1 *Presentation of Financial Statements*)	December 2014	Financial year starting on or after 1 January 2016	No	Key clarifications resulting from the Amendments include the following: · An emphasis on materiality. Specific single disclosures that are not material do not have to be presented – even if they are a minimum requirement of a standard. · The order of notes to the financial statements is not prescribed. Instead, companies can chose their own order, and can also combine, for example, accounting policies with notes on related subjects. · It had been made explicit that companies:

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
				• should disaggregate line items in the statement of financial position and in the statement of profit or loss and other comprehensive income (OCI) if this provides helpful information to users; and • can aggregate line items in the statement of financial position if the line items specified by IAS 1 are immaterial. · Specific criteria are provided for presenting subtotals in the statement of financial position and in the statement of profit or loss and OCI, with additional reconciliation requirements for the statement of profit or loss and OCI. The presentation in the statement of OCI of items of OCI arising from joint ventures and associates accounted for using the equity method follows the standard's approach of splitting items that may, or that will never, be reclassified to profit or loss. It is expected that the Amendments, when initially applied, will not have a significant impact on the Bank's financial statements.

In conclusion, the Management of the Bank does not expect that the introduction of these standards and interpretations to have any material impact on the Bank's use of accounting standards, with the exception of IFRS 9 and IFRS 15 (impact of IFRS 9 and IFRs 15 on the applied accounting policies of the Bank has not yet been evaluated). The Bank intends to use the dates set out in the relevant standards and interpretations (without early application), provided that they will be approved by the EU.

Notes to the financial statements (cont.)

3. Changes in financial statements presentation

The below presented changes were introduced in Bank's Profit or loss and Statement of financial position for the year 2014, data for 2013 was restated to assure financial information in comparable.

- Proceeds from sale of Bank's loan receivables – in the year 2013 presented in Other operating income, from the year 2014 reclassified to "Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items".

	31 December 2014 before presentation changes	Presentation change	31 December 2014 after presentation changes
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items	-344 100	261 712	-82 388
Other operating income	276 216	-261 712	14 504

	31 December 2013 before presentation changes	Presentation change	31 December 2013 after presentation changes
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items	-342 449	37 074	-305 375
Other operating income	86 847	-37 074	49 773

- Customer margin from fx transactions including mainly margin on spot and forward currency buy or sell transactions – in the year 2013 presented in "Net income from financial instruments measured at fair value and net foreign exchange result", from the year 2014 reclassified to Fee and commission income.

	31 December 2014 before presentation changes	Presentation change	31 December 2014 after presentation changes
Fee and commission income	393 015	275 839	668 854
Net income from financial instruments measured at fair value and net foreign exchange result	334 253	-275 839	58 414

	31 December 2013 before presentation changes	Presentation change	31 December 2013 after presentation changes
Fee and commission income	436 529	280 804	717 333
Net income from financial instruments measured at fair value and net foreign exchange result	420 357	-280 804	139 553

Notes to the financial statements (cont.)

- Joint presentation of net income from financial instruments measured at fair value and net foreign exchange result in line Net income from financial instruments measured at fair value - in the year 2013 these items were presented separately in lines Net income from financial instruments measured at fair value and Net foreign exchange result, starting from the year 2014 it is presented Net income from financial instruments measured at fair value and net foreign exchange result.

	31 December 2014 before presentation changes	Presentation change	31 December 2014 after presentation changes
Net income from financial instruments measured at fair value and net foreign exchange result	0	58 414	58 414
Net income from financial instruments measured at fair value	-33 148	33 148	0
Net foreign exchange result	91 562	-91 562	0

	31 December 2013 before presentation changes	Presentation change	31 December 2013 after presentation changes
Net income from financial instruments measured at fair value and net foreign exchange result	0	139 553	139 553
Net income from financial instruments measured at fair value	-37 593	37 593	0
Net foreign exchange result	177 146	-177 146	0

- Provisions for employee benefits – including unused holidays and bonuses – in the year 2013 it was presented in Other liabilities, from the year 2014 it was presented in Provisions.

	31 December 2014 before presentation changes	Presentation change	31 December 2014 after presentation changes
Other liabilities	401 372	-71 956	329 416
Provisions	129 851	71 956	201 807

	31 December 2013 before presentation changes	Presentation change	31 December 2013 after presentation changes
Other liabilities	480 722	-100 303	380 419
Provisions	101 148	100 303	201 451

	1 January 2013 before presentation changes	Presentation change	1 January 2013 after presentation changes
Other liabilities	453 121	-70 002	383 119
Provisions	131 150	70 002	201 152

In Bank's opinion above listed changes better reflect the substance of these items and provide more useful information for the reader's of the financial statements.

4. Significant estimates

The preparation of financial statements in accordance with the IFRS EU requires the Management Board of the Bank to make judgements, estimates and assumptions which affect the adopted accounting policies and the amounts presented in the financial statements and in the additional notes and explanations, in particular the amounts which cannot be clearly established based on other sources. The estimates and assumptions

Notes to the financial statements (cont.)

are made as at the balance sheet date based on the historical data available, information on the situation at the moment of making the estimates and other factors considered appropriate in a given circumstances, including the expectations as to future events, which seem justified in a given situation. In spite of the fact that the estimates are based on the best knowledge concerning the circumstances and actions undertaken by the Bank, the actual results may differ from the estimates. The estimates and assumptions are subject to a regular review. Adjustments in estimates are recognized in the period in which the change of estimate was made, provided that the adjustment only relates to that period, or in the period in which the change was made and in future periods if the adjustment affects both the current and the future periods.

The main judgements, estimates and assumptions adopted by the Bank are described below.

4.1. Impairment of financial assets

The process of monitoring the risk of impairment of financial assets (mainly amounts due from loans and advances and off-balance sheet exposures) is aimed at identifying the impairment events which may occur in the Bank's clients and to prevent from the deterioration of the quality of these assets, and also attempting to identify the impairment triggers and to properly reflect them in the Bank's books (see the impairment triggers of a financial assets or a group of financial assets listed in Note Impairment of financial assets. to the financial statements).

Monitoring the risk of impairment of financial assets includes: analysing the economic and financial situation of the issuer or debtor, verification if the loan covenants are not breached by the the issuer or debtor (including the monitoring of loan repayment delays), analysing the probability of bankruptcy or restructuring of the issuer or debtor and identifying fraud of assets by the debtor.

The impairment allowances in respect of loans, advances and other receivables takes into account the estimates related to the value of collateral.

The Bank performs these estimates as at the balance sheet date. The estimes include cash flows which may arise in connection with claiming collaterals, less costs related to claiming and selling such collaterals. As at the balance sheet date, the Management of the Bank performed a review of the models in order to assure that they properly reflect the current market situation, including the current conditions of the market's liquidity and credit spreads.

4.2. Impairment of the loan portfolio

The Bank performs monitoring of its loan portfolio to assess impairment as a minimum on a quarterly basis.

The monitoring of customers in the corporate portfolio is performed based on periodic individual analysis of exposures this portfolio. An individual counterparty/borrower is treated as one exposure. Impairment allowances are estimated on a one-by-one basis. In calculating impairment allowances, the Bank use of the assessments under which indicators of impairment have been identified, and estimates future cash flows discounted using the effective interest rate, taking account of the estimated value of collateral. When estimating the impairment allowances, the Bank uses internal and external sources of information. The Bank

Notes to the financial statements (cont.)

applies the following, depending on the customer segment (corporate customers, SME, project financing, financial institutions, local and regional authorities, public sector entities, governments and central banks): the internal rating system of the Bank or values estimated based on the Bank's employees professional judgment.

The information on the sensitivity analysis in respect of impairment allowances for amounts due from customers with recognized impairment losses is presented in the table below. The estimate has been performed for the portfolio of loans and advances in which impairment allowance is recognized based on an individual analysis of future cash flows related to repayment and recovery from collaterals. The base value of the allowances calculated under the individual assessment model for balance and off balance sheet exposures is PLN 832 204 thousand, and the base value of discounted recoveries from collaterals and cash repayments is PLN 1 097 118 thousand.

Estimated movement in the allowance for the portfolio of loans and advances analysed case by case based on future cash flows expected from repayment and recovery from collateral	No change in repayment	Repayment by customers up by 10%	Repayment by customers down by 10%
As at 31 Decemeber 2014			
No change in inflows from collateral	832 204	815 699	854 797
Inflows from collateral up by 10%	794 368	778 180	
Inflows from collateral down by 10%	880 386		906 369
As at 31 December 2013			
No change in inflows from collateral	760 063	756 637	768 563
Inflows from collateral up by 10%	721 084	717 810	
Inflows from collateral down by 10%	803 509		816 202

For the retail portfolio impairment assessment is based on collective approach. Collectively assessed exposures are classified as impaired assets when the Bank identifies impairment triggers set for specified group of assets presented in Note 2.8.1.2. The impairment allowance is estimated by classifying the individual exposures homogeneous groups based on the type of customer and type of product (credit card, overdraft, consumer loan, car loan, mortgage loan, micro loan) and the risk scale. The impairment allowance is calculated based on the allocation to the particular groups using the arithmetical model.

If no impairment triggers have been identified on loan exposures, the exposures form the basis for calculating an allowance for losses incurred but not reported (IBNR) based on statistical models.

The methodology, statistical models and their assumptions are based on historical observations and professional judgments of the experts and are apllied for the exposures with similar credit risk. The models and their assumptions are subject to periodic validation to minimize the differences between the estimated and actual loan losses.

Notes to the financial statements (cont.)

4.3. Financial instruments valuation method

The valuation of financial instruments at fair value for which there is an active market is performed based on the market value. When the value of the instrument is not directly available, a theoretical valuation based on the existing, approved by the Bank model can be made. In respect of instruments where the risk factor is the interest rate, the valuation takes into account the yield curve composed of interbank deposits market quota, FRA rates, IRS quotes and swap points, as applicable to the instrument.

For instruments where the risk factor is the foreign exchange rate, the spot interbank rate is taken into account, while the options are measured on the basis of volatility surfaces. All quotes included in the valuation models are retrieved from a centralized repository of market data loaded by the most liquid available quotes for various instruments.

Additionally, the valuation of derivatives includes counterparty risk factor, which estimation is based on an internal rating model of the Bank, including PD, LGD and exposure's tenor.

The valuation models are assessed and verified periodically by qualified independent employees, i.e. those who did not participate in front office activities. The Model Validation Committee also participates in the validation process.

4.4. Provisions calculation

Provisions for current liabilities to employees related to employment, and provisions related to long-term employee benefits comprise provisions for employee motivation programmes. The calculation was performed by an external independent actuary, who used the individual method, separately for each employee. The provisions were calculated as a sum of discounted future payments, for each of the currently employed and based on their remuneration, as at the day of calculation taking into consideration additional assumptions regarding employment turnover. A significant factor affecting the amount of the provision is the adopted discount rate which is based on the return on risk-free securities (Treasury bonds) denominated in the currency in which the employee benefits are paid out and the redemption date of which is similar to the estimated date of realisation the liabilities in respect of employee benefits – mobility, salary increase rates, mortality. A change in the discount rate by +/- 0.5 p.p. would result in a decrease/increase of the provision of ca. PLN 1 664 ths and PLN 1 803 ths respectively (as at 31 December 2013 a decrease/increase in the provision of ca. PLN 1 265 ths and PLN 1 366 ths, respectively).

Notes to the financial statements (cont.)

The following table presents calculated liabilities in respective actuarial assumptions by 0.5 p.p. as of 31 December 2014.

	Retirement, pension and death benefits	Jubilee bonuses
Increase of discounting rate (+0,5%)	3 143	33 306
Decrease of discounting rate (-0,5%)	3 714	36 202

The Bank also books other provisions, including, mainly provisions for the litigation and claims, provisions for restructuring costs. The amount of the provision is estimated taking into account the potential risk related to a given liability based on the forecasted future cash flows. If the effect of the change in the time value of money is significant, these cash flows are discounted to present value using the discount rate reflecting the cost of money for the Bank. Provisions for restructuring costs are determined based on the best available estimates of direct outlays resulting from the restructuring.

4.5. Intangible assets with an indefinite useful life recognised as a result of a business combination with Polbank EFG S.A. – impairment test

As at 31 December 2014 Bank performed impairment test of the intangible assets recognised as a result of a business combination, i.e. the brand “Polbank”, goodwill and customer relationships.

For the purpose of the impairment test the cash generating unit has been determined at the level of the retail segment of the Bank.

Key assumptions used in fair value calculation

Value in use estimation is based mainly on the following variables:

- discount rate estimated on the basis of CAPM model,
- budget forecast accepted by the Management Board of the Bank,
- growth rate used in residual value estimation beyond the period of forecast,
- interest rate level.

The assumptions concerning growth rate depends on the growth of the Polish economy as well as the global economy. The assumption in relation to discount rate depends on growth of financial markets and regulatory environment. Changes of the regulatory environment and higher volatility of financial markets could significantly affect the level of discount rates.

Impairment test - goodwill

As at 31 December 2014 the value in use of the segment was established as the current value of future cash flows from further use of the asset which were assumed in Management Board’s financial forecasts. Value in use estimation was based on the Dividend Discount Model, which is appropriate for banks and financial institutions.

Notes to the financial statements (cont.)

The forecast period is 5 years and is based on assumptions which according to the Management Board reflect the future Bank's activities.

The discount rate was estimated at the level of 8.91% nominal. The calculation utilized the Capital Asset Pricing Model, risk-free interest rate, β-indicator for the Banking sector and premium for the capital risk.

The long-term cash flow growth rate after the forecast period was estimated at the level of 5% nominal, basing on the long-term forecasts of nominal GDP growth.

After the comparison of value in use of the brand and its book value the Bank has not identified any impairment.

Impairment test - brand "Polbank"

The value in use of the brand was established based on the relief from royalty method. This method assumes estimation of the hypothetical paymentsof royalties in a situation when the Bank would pay the brand owner for its use. When the Bank is the owner of the brand, there is no necessity to pay for royalties for what is a hypothetical saving for the Bank.

Cash flows from royalty payments were estimated based on a royalty payment stake, which according to the Management Board is appropriate for the entities in the banking sector, and also based on net income from sales of loans and deposits including credit risk and risk of earlier repayment. Due to indefinite period of income generation by Brand „Polbank", the forecast period of future financial cash flows covers 10 years and is based on assumptions which according to the Management Board reflect the future Bank's activities.

For the calculation The Bank used the Capital Asset Pricing Model, risk-free interest rate, β-indicator for the Banking sector and premium for the capital risk. The required return of equity was assumed at the level of 8.79% nominal. To which was added 1% margin, which reflects the risk of cash flows generating by the brand. The disocunt rate was estimated at the level of 9.79% nominial.

The long-term cash flow growth rate after the forecast period was estimated at the level of 5% nominal, based on the long-term forecasts of nominal GDP growth.

As a result of the impairment test the Bank has not identified any impairment of the brand "Polbank".

Impairment test – customer relationships

Starting from 2014 the Bank divided the customer relationships into two separate intangible assets: customer relationships from granted loans (amortised using diminishing method over 10 years) and customer relationships from received deposits (amortised using diminishing method over 5 years). The value in use of these assets was estimated separately for client relationships from granted loans and received deposits on the basis of forecasted additional net interest income which will be generated by the clients of Polbank EFG S.A. at acquisition date.

Notes to the financial statements (cont.)

For the calculation the Bank used the net interest income generated by clients of the acquired Polbank EFG S.A., who were active at the day of test and compared it with hypothetical net interest income generated by alternative products. The discounted surplus of income generated by former Polbank Clients over the hypothetical net income from alternative products constitute value in use of customer relationships from granted loans and received deposits.

The discount rate was assumed at the level of rate which may be applied for comparable products used in the analysis.

Estimated additional income and additional savings were compared with book value of the asset. As a result of the impairment test the Bank has not identified any impairment of the customer relationships.

4.6. Useful life and impairment of property, plant and equipment and other intangible assets

For the purpose of calculating the depreciation/amortization cost of property, plant and equipment and intangible assets their anticipated useful lives are estimated, which affect directly the relevant depreciation/amortization rates. The adopted useful lives are verified at least once a year. The estimates of the useful lives of the individual property, plant and equipment and intangible asset categories and their verification are based on, among other things, the periods arising from contractual titles related to the period of use of an asset, anticipated wear and tear and utilization of an asset, obsolescence or limitations of use of an asset for technological, market, legal or other reasons.

In the year 2014 due to updgrades made in Bank's main system economic useful life of this system was extended from basic 8 years by further 5 years (till 2024).

Bank expects that brand "Polbank" will generate vast, certain and increasing demand for products and services, which should lead to higher income and operating efficiency in indefinite period of time, that it why this asset has indefinite useful life.

Property, plant and equipment and intangible assets are subject to regular reviews in order to determine whether there were any indications of impairment of these assets. If the impairment triggers are identified, the Bank estimates the amount of the impairment loss as the difference between the carrying amount and the lower recoverable amount. The recoverable amount is the higher of: fair value less costs to sell and value in use. Fair value less costs to sell is estimated on the basis of available market data or valuations performed by independent experts (which are also in principle based on estimates); whereas the value in use is estimated by adopting specific assumptions, among other things, as to amounts and dates of future cash flows, which the Bank can obtain from a property, plant and equipment item or an intangible asset, as well as the risk of a given asset having no liquidity. Adopting different assumptions for valuation purposes might affect the carrying amount of certain property, plant and equipment items and intangible assets.

Notes to the statement of profit or loss

5. Interest income and expense

Interest income	31 December 2014	31 December 2013
Loans and advances to banks	29 550	42 347
Loans and advances to customers	1 385 128	1 565 559
Financial assets designated at fair value	241 414	295 547
Derivative hedging instruments	116 075	113 130
Reverse repo	23 515	0
Investment securities	69 034	42 154
Total	**1 864 715**	**2 058 737**
Interest expense		
Banking deposits	-23 548	-29 078
Customer deposits	-600 665	-795 415
Derivative hedging instruments	-6 716	-5 763
Repo intruments	-6 670	-837
Loans and advances received (including subordinated loans)	-140 494	-152 219
From issuance on own bonds	-1 960	0
Total	**-780 053**	**-983 312**
Net interest income (including):	**1 084 662**	**1 075 425**
Total interest income from financial assets other than designated at fair value through profit or loss	1 507 226	1 650 060
Total interest expense related to financial assets other than designated at fair value through profit or loss	-773 337	-977 549

Interest income from financial assets with impairment in 2014 equaled to PLN 36 775 thousand (presented in Income from loans and advances to customers).

Notes to the statement of profit or loss (cont.)

6. Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items

2014	Impairment allowances and provisions at the beginning of the period	Increases		Decreases				Impairment allowances and provisions at the end of the period	Proceeds from sale of Bank's receivables	Impact on the result for the period
		Impairment allowance recorded during the period	Foreign exchange differences	Impairment allowance reversal	Write-off of assets	Sale of receivables	Reclassification	Foreign exchange differences			
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items valued with individual method											
Amounts due from individuals	6 825	21 571	279	-14 060	0	-207	0	0	14 408	49	-7 462
Amounts due from micro customers	3 511	28 292	0	-18 464	0	-268	0	0	13 071	63	-9 765
Amounts due from large enterprises	672 247	243 534	11 657	-138 988	-24 921	-24 992	79	0	738 616	428	-104 118
Amounts due from SME	66 473	15 167	189	-7 413	-1 365	-12 222	-79	0	60 750	209	-7 545
Off-balance sheet items	14 306	31 067	654	-19 396	0	0	0	0	26 631	0	-11 671
Stock and shares in related parties	2 149	14 677	0	0	0	0	0	0	16 826	0	-14 677
Total	**765 510**	**354 308**	**12 779**	**-198 321**	**-26 286**	**-37 689**	**0**	**0**	**870 302**	**749**	**-155 238**
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items valued with group method (including IBNR)											
Amounts due from banks	205	295	2	-200	0	0	0	0	302	0	-95
Amounts due from individuals	1 299 291	392 037	0	-287 031	0	-773 613	278	-23 869	607 093	181 732	76 726
Amounts due from micro customers	582 245	208 561	30	-134 554	0	-337 267	-251	0	318 764	79 228	5 221
Amounts due from large enterprises	48 956	33 704	700	-22 815	0	0	0	0	60 545	0	-10 889
Amounts due from SME	4 447	718	9	-1 365	0	-149	-26	0	3 633	3	650
Amounts due from the public sector	133	19	0	-17	0	0	0	0	135	0	-2
Off-balance sheet items	8 535	5 100	111	-6 339	0	0	0	0	7 408	0	1 239
Total	**1 943 813**	**640 433**	**852**	**-452 321**	**0**	**-1 111 029**	**0**	**-23 869**	**997 879**	260 963	**72 851**
Total allowances and provisions	**2 709 324**	**994 741**	**13 631**	**-650 641**	**-26 286**	**-1 148 718**	**0**	**-23 869**	**1 868 181**	**261 712**	**-82 388**

Notes to the statement of profit or loss (cont.)

2013	Impairment allowances and provisions at the beginning of the period	Increases: Impairment allowance recorded during the period	Increases: Foreign exchange differences	Decreases: Impairment allowance reversal	Decreases: Write-off of assets	Decreases: Sale of receivables	Decreases: Reclassification	Decreases: Foreign exchange differences	Impairment allowances and provisions at the end of the period	Proceeds from sale of Bank's receivables	Impact on the result for the period restated*
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items valued with individual method											
Amounts due from individuals	374 706	63 747	454	-43 781	0	-39 394	-348 906	-1	6 825	3 291	-16 675
Amounts due from micro customers	271 679	68 017	133	-90 145	0	-30 575	-215 597	0	3 511	2 554	24 682
Amounts due from large enterprises	545 090	405 098	1 242	-252 762	-16 285	0	-10 136	0	672 247	0	-152 336
Amounts due from SME	53 931	25 714	79	-9 822	-2 089	-90	-1 250	0	66 473	8	-15 885
Amounts due from the public sector	0	0	0	0	0	0	0	0	0	0	0
Off-balance sheet items	22 698	26 543	0	-34 902	0	0	0	-34	14 306	0	8 358
Total	**1 268 104**	**589 120**	**1 908**	**-431 412**	**-18 374**	**-70 059**	**-575 890**	**-35**	**763 362**	**5 852**	**-151 856**
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items valued with group method (including IBNR)											
Amounts due from banks	170	130	0	-93	0	0	0	-1	205	0	-37
Amounts due from individuals	1 232 277	793 537	458	-686 452	-51 063	-330 267	340 806	-5	1 299 291	27 587	-79 498
Amounts due from micro customers	337 410	337 031	92	-248 878	-15 453	-43 517	215 559	0	582 245	3 635	-84 518
Amounts due from large enterprises	38 060	27 120	170	-34 977	0	0	18 584	0	48 956	0	7 857
Amounts due from SME	2 472	3 736	2	-2 703	0	0	941	0	4 447	0	-1 033
Amounts due from the public sector	227	35	0	-130	0	0	0	0	133	0	94
Off-balance sheet items	12 134	10 269	16	-13 883	0	0	0	0	8 535	0	3 614
Total	**1 622 750**	**1 171 858**	**737**	**-987 116**	**-66 515**	**-373 784**	**575 890**	**-6**	**1 943 813**	31 222	**-153 520**
Total allowances and provisions	**2 890 854**	**1 760 977**	**2 645**	**-1 418 528**	**-84 890**	**-443 842**	**0**	**-41**	**2 707 175**	**37 074**	**-305 375**

*Please refer to Note 3. to the Financial Statements

Notes to the statement of profit or loss (cont.)

7. Fee and commission income and expense

Fee and commission income	31 December 2014	31 December 2013 restated*
From margin transaction on client's foreign exchange dealings	275 839	280 804
Proceeds from card transactions	89 690	92 843
Handling and maintaining of bank accounts	53 187	54 794
Transfers and other payment transactions	52 630	56 320
Insurance intermediary	30 252	53 810
Custody activities	26 527	27 172
Lending activities	25 293	31 078
Handling of cash	23 062	22 067
Guarantee-related commitments	20 712	21 401
For preparing banking documents	18 044	24 824
Cash receipts	17 588	13 568
From distribution of Open Investment Funds	10 086	14 999
Handling of letters of credit and documentary collection	8 680	8 695
Other	17 264	14 958
Total	**668 854**	**717 333**

Fee and commission expense		
Expenses on payment cards	-23 529	-29 628
Handling of banknote transactions	-20 193	-21 695
Paid to clearing institutions	-16 620	-11 718
Expenses on printing and mailing account statements	-6 926	-12 242
Expenses on brokerage fees (including custody)	-4 407	-2 828
Expenses on service and POS maintenance	-3 583	-4 789
Expenses on BIK services and systems	-3 543	-3 815
Fees and commission for loans received	-681	-6 468
Other	-14 259	-911
Total	**-93 741**	**-94 095**

Net fee and commission income (including):	575 113	623 238
Total commission income related to financial assets other than designated at fair value through profit or loss	366 488	409 357
Total commission expense related to financial assets other than designated at fair value through profit or loss	-89 334	-91 267

*Please refer to Note 3. to the Financial Statements

Notes to the statement of profit or loss (cont.)

8. Net income from instruments measured at fair value and from foreign exchange result

Net income from financial instruments measured at fair value	For the financial year ended 31 December 2014	For the financial year ended 31 December 2013 restated*
Net income realized and unrealized (without the currency component) on currency derivatives	-71 339	-70 895
Net income realized and unrealized (without the currency component) on interest rate based derivatives	37 421	31 102
Net income realized and unrealized on debt instruments	-1 275	824
Net income realized and unrealized on equity instruments	0	28
Total net income from financial instruments measured at fair value	**-35 193**	**-38 940**
Net income from financial instruments in hedge accounting		
Fair value hedge	**257**	**569**
Changes in fair value of the hedged instrument	7 897	-5 706
Changes in fair value of the hedging instrument	-7 640	6 275
Cash flow hedge	**1 787**	**780**
Ineffective part of changes in fair value of hedging insturments included in profit or loss	1 787	780
Total net income from financial instruments in hedge accounting	**2 044**	**1 348**
Net foreign exchange result		
Realized and unrealized foreign exchange differences arising from the currency component of the valuation of derivatives	-267 172	10 285
Realized and unrealized foreign exchange gains/losses on the valuation of other assets and liabilities	358 734	166 860
Total net foreign exchange result	**91 562**	**177 145**
Total net income from financial instruments measured at fair value	**58 414**	**139 553**

*Please refer to Note 3. to the Financial Statements

"Net income realised and unrealised (without the currency component) on currency derivatives" contains gains and losses on swaps, forwards and options, except for the separated currency component which constitutes foreign exchange differences. "Net income realised and unrealised (without the currency component) on interest rate based derivatives" contains gains and losses on IRS and CIRS contracts, except for the separated currency component which constitutes foreign exchange differences. More details on derivatives are provided in Note 15 to the financial statements.

Gains and losses on sale and valuation of financial assets measured at fair value through financial result other than derivatives are presented in "Net income realized and unrealized on debt instruments".

Additional information on hedged and hedging financial instruments is presented in Note 16 to the financial statements.

"Realized and unrealized foreign exchange gains/losses on the valuation of other assets and liabilities" contain profit and loss from revaluation of assets and liabilities denominated in foreign currency.

Notes to the statement of profit or loss (cont.)

9. General administrative expenses

9.1. Salaries, wages and other employee benefits

Salaries, wages and other employee benefits	31 December 2014	31 December 2013
Salaries and wages	-456 203	-506 800
Social insurance costs, including:	-71 077	-82 736
pension insurance	-71 077	-82 736
Costs of jubilee programs	-6 112	-6 300
Other employee benefits	-14 929	-19 369
Total	**-548 320**	**-615 205**

9.2. Other administrative expenses

Other administrative expenses	31 December 2014	31 December 2013
Maintenance and rental of buildings	-152 731	-163 870
including lease installments	-119 086	-127 337
IT and telecommunication costs	-129 767	-156 303
Contribution and payments to Bank Guarantee Fund	-52 763	-44 651
Consulting services	-41 292	-75 521
Marketing costs	-40 026	-59 562
Training costs	-19 388	-26 002
Costs of other lease installments	-7 246	-11 022
Other sundry costs	-96 922	-113 648
Depreciation cost including:	-146 238	-123 640
depreciation cost on intangible fixed assets	-95 625	-74 604
depreciation cost on tangible fixed assets	-50 613	-49 036
Total	**-686 373**	**-774 219**

10. Other operating income and expense

Other operating income	31 December 2014	31 December 2013 restated*
Revenue from non-banking activities	3 207	11 675
Release of other provisions	8 117	14 131
Reversal of expense accrual	0	5 745
Income on disposal of property, plant and equipment	142	4 484
Reversal of impairment allowance on other assets	1 165	874
Other operating income	1 872	12 864
Total	**14 504**	**49 773**

Notes to the statement of profit or loss (cont.)

Other operating expense	31 December 2014	31 December 2013
Expenses on non-banking activities	-255	-429
Expenses on allocation to other provisions	-15 054	-8 848
Impairment of fixed assets	-3 968	-1 820
Costs of sale and disposal of property,plant and equipment and intangible assets	-12 632	-3 767
Debt collection costs	-13 604	-25 049
Other operating expenses	-8 638	-5 834
Total	**-54 150**	**-45 747**

*Please refer to Note 3. to the Financial Statements

11. Income tax expense

CHANGES OF TEMPORARY DIFFERENCES DURING 2014	AS AT THE BEGINNING OF THE PERIOD	CHANGES		AS AT THE END OF THE PERIOD
		Profit or loss statement	Other comprehensive income	
Deferred income tax asset				
Interest accrued, payable (cost), including:	40 261	28 745	0	69 006
Interest on deposits	38 534	29 570	0	68 104
Interest on securities and derivatives	1 727	-825	0	902
Fair value of derivatives (without the currency component) and securities	42 456	-10 248	8 777	40 985
Commission settled using effective interest rate	27 765	3 848	0	31 613
Impairment allowance not recognized as tax-deductible costs	307 918	-141 083	0	166 835
Other (including impairment on other assets)	780	422	0	1 202
Deferred costs	51 227	-11 715	0	39 512
Other	20 228	-2 650	0	17 578
Tax loss	0	36 939	0	36 939
Deferred tax asset, gross	**490 636**	**-95 742**	**8 777**	**403 671**
Deferred tax provision				
Interest accrued, receivable (income), including:	23 171	11 121	0	34 292
Interest on loans	17 791	3 471	0	21 262
Interest on securities and derivatives	5 355	6 965	0	12 320
Discount on securities	25	685	0	710
Fair value of derivatives (without the currency component) and securities	47 002	-16 338	37	30 701
Commission settled using effective interest rate	52 439	-5 113	0	47 326
Difference between depreciation for tax and accounting	26 290	-1 630	0	24 660
Other	49 764	3 068	0	52 832
Deferred tax provision, gross	198 667	-8 892	37	189 812
Deferred tax charge	**291 969**	**-86 850**	**8 740**	**213 859**
Deferred tax asset, net	**291 969**	**-86 850**	**8 740**	**213 859**

Notes to the statement of profit or loss (cont.)

CHANGES OF TEMPORARY DIFFERENCES DURING 2013	AS AT THE BEGINNING OF THE PERIOD	CHANGES			AS AT THE END OF THE PERIOD
		Profit or loss statement	Other comprehensive income	Other	
Deferred income tax asset					
Interest accrued, payable (cost), including:	30 679	9 582	0	0	40 261
Interest on deposits	30 031	8 503	0	0	38 534
Interest on securities and derivatives	648	1 079	0	0	1 727
Fair value of derivatives (without the currency component) and securities	30 364	9 955	2 137	0	42 456
Commission settled using effective interest rate	30 483	-2 718	0	0	27 765
Impairment allowance not recognized as tax-deductible costs	366 285	-58 367	0	0	307 918
Other (including impairment on other assets)	55	725	0	0	780
Deferred costs	55 882	-4 655	0	0	51 227
Other	19 222	694	0	312	20 228
Tax loss carried forward	0	0	0	0	0
Deferred tax asset, gross	**532 970**	**-44 783**	**2 137**	**312**	**490 636**
Deferred tax provision					
Interest accrued, receivable (income), including:	33 927	-10 756	0	0	23 171
Interest on loans	26 616	-8 825	0	0	17 791
Interest on securities and derivatives	6 921	-1 566	0	0	5 355
Discount on securities	390	-365	0	0	25
Fair value of derivatives (without the currency component) and securities	41 769	5 355	-122	0	47 002
Commission settled using effective interest rate	59 068	-6 629	0	0	52 439
Difference between depreciation for tax and accounting purposes	23 544	2 746	0	0	26 290
Other	50 989	-1 224	0	0	49 764
Deferred tax provision, gross	**209 297**	**-10 507**	**-122**	**0**	**198 667**
Deferred tax charge	**323 673**	**-34 276**	**2 259**	**312**	**291 969**
Deferred tax asset, net	**323 673**	**-34 276**	**2 259**	**312**	**291 969**

Calculation of effective tax rate	31 December 2014	31 December 2013
Profit before tax	404 488	165 443
Current income tax at the local tax rate on profit before tax (19%)	-76 853	-31 434
Tax effect of non-deductible expenses	-15 974	-8 080
Tax effect of non-taxable income, including:	2 477	3 419
effect of dividend income	8 162	3 419
release of deferred tax for receivable income	-5 685	0
Total income tax charge	**-90 350**	**-36 095**

Reconciliation of tax referred to income statement	31 December 2014	31 December 2013
Current income tax	0	-1 323
Correction of current income tax regarding previous years	-3 500	-497
Deferred tax:	-86 850	-34 276
Total income tax charge	**-90 350**	**-36 095**

Notes to the statement of profit or loss (cont.)

12. Earnings per share

12.1. Basic profit per one share

The basic profit per one share was calculated by dividing net profit attributable to the ordinary holders of Bank by weighted average number of ordinary shares in the reporting period.

	For the financial year ended 31 December 2014	For the financial year ended 31 December 2013
Net profit attributable to the equity holders of the Bank (in PLN thous.)	314 138	129 348
Weighted average number of ordinary shares in the period (in units)	243 335	242 845
Profit per one share	**1 291**	**533**

12.2. Diluted profit per one share

In 2014 and also 2013 there were not any diluting events relating to profit per one share. During this time Bank did not issue bonds convertible to shares and embedded conversion to shares options. This is the result that diluted profit per one share is equal basic profit per one share.

	For the financial year ended 31 December 2014	For the financial year ended 31 December 2013
Net profit attributable to the equity holders of the Bank (in PLN thous.)	314 138	129 348
Weighted average number of ordinary shares in the period (in units)	243 335	242 845
Diluted profit per one share	**1 291**	**533**

Notes to the statement of financial position

13. Cash and balances with Central Bank

	31 December 2014	31 December 2013
Cash at hand	1 757 367	1 249 206
Balances with the Central Bank, including:	926 508	1 172 845
Mandatory reserves with the Central Bank	926 508	1 040 763
Total	**2 683 875**	**2 422 051**

During the day, the Bank is allowed to use cash deposited on the mandatory reserve accounts for current settlements based on orders sent to the National Bank of Poland. However, the Bank must ensure maintaining an average monthly balance on this account in an appropriate amount as stated in the mandatory reserve declaration. The declared mandatory reserve to be held in December 2014 amounted to PLN 1 151 717 thousand and PLN 1 051 774 thousand in December 2013. These funds bear interest of 0.9 of referencing rate of NBP (0.9 of NBP rediscounting rate as of 31 December 2013). As at 31 December 2014 the interest rate amounted to 1.8 % (as at 31 December 2013 2.475 %).

14. Amounts due from bank

	31 December 2014	31 December 2013
Collateral deposits	496 249	171 768
Cash on current accounts	15 090	15 193
Loans and advances to banks	28 692	42 185
Deposits with other banks	88 656	125 000
Gross amounts due from banks:	**628 687**	**354 146**
Impairment allowance	-302	-205
Net amounts due from banks:	**628 385**	**353 941**

As at 31 December 2014 and as at 31 December 2013 Loans and advances to banks consisted entirely of floating rate receivables and Deposits with other banks comprised fixe rate receivables. The average interest rate of deposits with other banks and loans and advances to banks in 2014 amounted to 2.96 % (in 2013 3.10%). Long term amounts due from banks as at 31 December 2014 amounted to PLN 16 926 thousand (PLN 15 438 thousand as at 31 December 2013).

The principles for recording of repo transactions are presented in Note 2.10. Repo and reverse repo transactions. There were no „buy sell back" transactions with other banks as at the end of both 2014 and 2013.

Notes to the statement of financial position (cont.)

15. Derivative financial instruments and embedded instruments

15.1. Derivative financial instruments

The Bank enters into following derivative instruments, including those used as hedging instruments:

- currency forwards,
- currency options,
- interest rate intruments.

Currency forwards represent commitments to purchase foreign and domestic currencies, including unrealized spot transactions.

Currency and interest rate swaps are commitments to exchange one stream of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross-currency interest rate swaps).

No exchange of principal takes place, except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligations. This risk is monitored on an on-going basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank uses the same rating methods to measure counterparty risk as for its lending activities.

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a specified date or during a specified period, a specific amount of a foreign currency or a financial instrument at a predetermined price. In exchange for the exposure to currency risk and interest rate risk, the seller receives a premium from the buyer. Options may be either exchange-traded or negotiated between the Bank and a customer (OTC). The Bank is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

The nominal amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments. Therefore, they do not indicate the Bank's exposure to credit or price risks. The fair value of derivative financial instruments instruments can be either positive (assets) or negative (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates related to their terms. The aggregate fair value of derivative financial instruments may fluctuate significantly.

Notes to the statement of financial position (cont.)

Fair values of derivative financial instruments are presented below:

	31 December 2014			31 December 2013		
	Nominal value of instruments	Fair values		Nominal value of instruments	Fair values	
		Assets	Liabilities		Assets	Liabilities
Derivative financial instruments in the trading portfolio						
Currency swaps and forwards (fx swap and fx forward)	34 910 817	668 218	591 685	23 008 719	297 942	257 502
Options acquired or sold OTC	2 430 436	23 848	21 226	1 572 777	12 866	12 932
Currency interest rate swaps (CIRS)	1 167 268	0	53 575	815 488	2 360	15 636
Total foreign exchange derivatives	**38 508 521**	**692 066**	**666 486**	**25 396 983**	**313 168**	**286 069**
Interest rate swaps (IRS)	8 902 128	193 723	136 464	6 977 089	101 676	90 931
Forward Rate Agreement (FRA)	13 300 000	13 104	20 857	5 250 000	1 099	2 093
Total interest rate derivatives	**22 202 128**	**206 827**	**157 321**	**12 227 089**	**102 775**	**93 023**
Total	**60 710 649**	**898 892**	**823 807**	**37 624 072**	**415 943**	**379 093**
Derivative financial instruments in cash flow hedges						
FX swaps	4 278 758	1 320	50 325	2 563 493	83 654	46 632
Currency interest rate swaps (CIRS)	5 642 898	0	225 680	2 270 850	33 365	11 302
Total	**9 921 656**	**1 320**	**276 005**	**4 834 343**	**117 019**	**57 934**
Derivative financial instruments in fair value hedges						
Interest rate swaps (IRS)	130 585	0	24 576	133 617	1	16 918
Total	**130 585**	**0**	**24 576**	**133 617**	**1**	**16 918**

Foreign currency transactions with other financial institutions account for 60% of transactions concluded by the bank. The Management has implemented individual limits for financial institutions, which specify, for each counterparty, the allowed amount of a single transaction that can be concluded.

Notes to the statement of financial position (cont.)

15.2. Embedded instruments

The Bank classifies derivative financial instruments embedded in structured products as embedded instruments and presents them separately in "Derivative financial instruments". The position consists of among others of convertible bonds (as stated in Note 2.11.2).

16. Hedge accounting

The Bank applies hedge accounting in fair value hedges of granted fixed rate loans. The Bank uses interest rate swaps as hedging instruments to pay a fixed interest rate coupon in exchange for floating interest rate coupon.

At the end of December 2005, the Bank granted a fixed interest rate loan for a period of 15 years with a nominal value of EUR 45 million and hedged it with an interest rate swap with a nominal value of EUR 44.9 million. The change in the valuation of the loan and of the hedging transaction as at 31 December 2014 and 2013 is presented in the tables below. The information on the ineffective portion of the hedge transferred to the income statement is presented in Note 8.

	31 December 2014	31 December 2013
Result on change in fair value of hedging instrument	-7 640	6 275
Result on change in fair value of hedged instrument	7 897	-5 706
Result on fair value hedge accounting	**257**	**569**
Interest result on derivative hedge instrument	-4 905	-5 196
Nominal value of hedging instrument	130 585	133 617
Nominal value of hedged instrument	130 603	133 635

The Bank applies hedge accounting in cash flow hedges to hedge both interest rate risk and currency risk arising from floating rate mortage loans granted in CHF and floating interest rate deposits taken in PLN. The Bank uses cross-currency interest rate swaps to pay CHF LIBOR 3M coupon and receive WIBOR 3M coupon, based on the nominal amount defined respectively in CHF and in PLN, and a forward transaction to sell CHF.

Nominal and fair values of hedging derivatives are presented in Note 15.

Amounts recognized in the statement of profit or loss and in revaluation reserve for cash flow hedge are presented in the table below.

	31 December 2014	31 December 2013
Revaluation reserves (deferred changes in fair value of hedging instruments recognized as an effective hedge - gross)	-52 419	-5 670
Net interest income on hedging derivatives	114 263	112 563
Ineffective change in fair value of hedging transactions presented in the profit or loss statement.	1 787	780

Notes to the statement of financial position (cont.)

Periods in which the hedge relation will generate cash flows are presented below:

31 December 2014	Maturity					Total
	within 1 months	from 1 to 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	
Derivative financial instruments in cash flow hedges						
Currency swaps and forwards (fx swaps and fx forwards)	2 731 151	1 547 607	0	0	0	4 278 758
Currency interest rate swaps (CIRS)	0	0	0	3 605 330	2 037 568	5 642 898
Total	**2 731 151**	**1 547 607**	**0**	**3 605 330**	**2 037 568**	**9 921 656**
Derivative financial instruments in fair value hedges						
Interest rate swaps (IRS)	0	0	0	0	130 585	130 585
Total	**0**	**0**	**0**	**0**	**130 585**	**130 585**

31 December 2013	Maturity					Total
	within 1 months	from 1 to 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	
Derivative financial instruments in cash flow hedges						
Currency swaps and forwards (fx swaps and fx forwards)	569 171	155 470	1 838 852	0	0	2 563 493
Currency interest rate swaps (CIRS)	0	0	0	1 531 595	739 255	2 270 850
Total	**569 171**	**155 470**	**1 838 852**	**1 531 595**	**739 255**	**4 834 343**
Derivative financial instruments in fair value hedges						
Interest rate swaps (IRS)	0	0	0	0	133 617	133 617
Total	**0**	**0**	**0**	**0**	**133 617**	**133 617**

Notes to the statement of financial position (cont.)

Changes in revaluation reserve for cash flow hedge are presented in the table below:

	31 December 2014	31 December 2013
Revaluation reserves (deferred changes in fair value of hedging instruments recognized as an effective hedge - gross) as at 1 January	**-5 025**	**645**
Revaluation reserves (revaluation with interests realized within the year)	-210 891	91 056
Interest result on derivative financial instruments in cash flow hedges	-114 253	-112 563
Result on revaluation of derivative financial instruments in cash flow hedges	274 514	16 616
Revaluation reserves (deferred changes in fair value of hedging instruments recognized as an ineffective hedge - gross)	-1 787	-780
Revaluation reserves (deferred changes in fair value of hedging instruments recognized as an effective hedge - gross) as at 31 December	**-57 443**	**-5 025**

17. Financial assets held for trading

Financial assets held for trading	31 December 2014	31 December 2013
Bonds and bills issued by the State Treasury	196 511	243 986
Bonds convertible to shares	63 808	67 995
Other financial assets carried at fair value	78 962	8 458 825
Mortgage bonds	22 343	0
Total	**361 623**	**8 770 806**

Financial assets held for trading bear interest based on floating market interest rates.

“Other financial assets carried at fair value” include mainly corporate bonds (as at 31 December 2013 NBP money bills) . The Bank realizes short-term gains on the sale of these instruments.

Convertible bonds are compound financial instruments, the derivative financial instrument embedded in a bond is based on an unquoted equity instrument, fair value of which cannot be reliably estimated either.

In view of the above the entire instrument is classified as held for trading and measured at amortized cost less impairment. The Bank does not expect to use the embedded option of conversion to shares.

Non-current receivables arising from financial instruments measured at fair value at the end of 2014 amounted to PLN 345 780 thousand (PLN 299 135 thousand at the end of 2013).

Notes to the statement of financial position (cont.)

18. Investment securities

2014	As at 1 January	Increases	Decreases (sale and redemption)	Change of accrued interests, discount and valuation	Foreign exchange differences	Impairment	As at 31 December
Investment securities held to maturity							
Treasury bonds	1 248 498	495 876	0	7 179	0	0	1 751 553
Money bills NBP	0	9 699 462	0	0	0	0	9 699 462
Total held to maturity	**1 248 498**	**10 195 337**	**0**	**7 179**	**0**	**0**	**11 451 014**
Investment securities available for sale							
Equity investments	27 069	2 353	0	0	6	-2 348	27 081
Financial instruments blocked for BFG	189 975	1 352 813	-1 370 000	7 978	0	0	180 766
Corporate bonds	294 169	109 404	-59 174	6 954	0	0	351 353
Treasury bonds	0	497 750	0	6 122	0	0	503 872
Total available for sale	511 213	1 962 320	-1 429 174	21 054	6	-2 348	1 063 072
Total	**1 759 711**	**12 157 657**	**-1 429 174**	**28 233**	**6**	**-2 348**	**12 514 086**

2013	As at 1 January	Increases	Decreases (sale and redemption)	Change of accrued interests, discount and valuation	Foreign exchange differences	Impairment	As at 31 December
Investment securities held to maturity							
Treasury bonds	541 209	749 227	-41 022	-916	0	0	1 248 498
Total held to maturity	**541 209**	**749 227**	**-41 022**	**-916**	**0**	**0**	**1 248 498**
Investment securities available for sale							
Equity investments	27 067	0	0	0	2	0	27 069
Financial instruments blocked for BFG	0	189 908	0	67	0	0	189 975
Corporate bonds	0	297 450	0	-3 281	0	0	294 169
Total available for sale	27 067	487 358	0	-3 214	2	0	511 213
Total	**568 276**	**1 236 585**	**-41 022**	**-4 130**	**2**	**0**	**1 759 711**

Information on fair value of financial investment is presented in Note 38. As at 31 December 2014 additional impairment allowance on equity investment was recorded in amount PLN 2 348 thousand, the total impairment allowance amounted to PLN 14 548 thousand (31 December 2013: PLN 12 200 thousand).

Non-current receivables from investment securities as at the end of 2014 amounted to PLN 2 273 822 thousand (PLN 1 540 894 thousand as at the end of 2013).

Notes to the statement of financial position (cont.)

19. Loans and advances to customers

Loans and advances to customers by borrower segment	31 December 2014			31 December 2013		
	Gross amount	Impairment allowance	Net amount	Gross amount	Impairment allowance	Net amount
Individual customers	18 679 544	621 500	18 058 044	19 866 962	1 306 116	18 560 846
Micro customers	2 658 670	331 835	2 326 835	3 142 630	585 756	2 556 874
Large enterprises	14 040 337	799 161	13 241 176	11 888 430	721 203	11 167 227
SME	1 125 636	64 383	1 061 253	954 684	70 920	883 764
Public sector	29 779	135	29 644	39 655	133	39 522
Total	**36 533 966**	**1 817 014**	**34 716 952**	**35 892 361**	**2 684 128**	**33 208 232**

Non-current receivables from loans and advances to customers as at the end of 2014 amounted to PLN 25 464 649 thousand (PLN 24 561 319 thousand as at the end of 2013).

Information on the net provisioning for impairment losses on financial assets and provisions for off-balance sheet items is presented in Note 6.

The value of repurchase transaction (buy sell back) with clients as at 31 December 2014 amounted to PLN 1 651 297 thousand, fair value of securities bought in these transactions amouted to PLN 1 631 976 thousand as at 31 December 2014 (repurchase transaction did not occure as at 31 December 2013).

Notes to the statement of financial position (cont.)

Loans and advances to customers by quality

31 December 2014	Loans and advances to customers -without impairment trigger and not impaired	Group impairment allowance IBNR	Loans and advances to customers -with impairment trigger but not impaired	Group impairment allowance IBNR	Loans and advances valued with individual method	Individual allowance	Loans and advances to customers valued with group method	Group impairment allowance	Net amount
Individual customers	17 790 950	83 662	0	0	32 818	14 407	855 776	523 431	**18 058 044**
Micro customers	1 994 286	32 811	0	0	35 743	13 072	628 641	285 952	**2 326 835**
Large enterprises	12 285 840	39 866	496 215	20 679	1 258 282	738 616	0	0	**13 241 176**
SME	1 028 124	2 337	19 890	1 297	77 622	60 749	0	0	**1 061 253**
Public sector	29 779	135	0	0	0	0	0	0	**29 644**
Total	**33 128 979**	**158 811**	**516 105**	**21 976**	**1 404 465**	**826 844**	**1 484 417**	**809 383**	**34 716 952**

Loans and advances to customers by quality

31 December 2013	Loans and advances to customers -without impairment trigger and not impaired	Group impairment allowance IBNR	Loans and advances to customers -with impairment trigger but not impaired	Group impairment allowance IBNR	Loans and advances valued with individual method	Individual allowance	Loans and advances to customers valued with group method	Group impairment allowance	Net amount
Individual customers	18 327 823	86 584	0	0	13 824	6 825	1 525 314	1 212 706	**18 560 846**
Micro customers	2 291 617	37 959	0	0	7 354	3 511	843 660	544 286	**2 556 874**
Large enterprises	10 346 749	40 063	473 150	8 893	1 068 531	672 246	0	0	**11 167 227**
SME	838 729	1 678	33 535	630	77 957	66 473	4 463	2 139	**883 764**
Public sector	39 655	133	0	0	0	0	0	0	**39 522**
Total	**31 844 573**	**166 418**	**506 685**	**9 523**	**1 167 666**	**749 055**	**2 373 437**	**1 759 131**	**33 208 232**

Notes to the statement of financial position (cont.)

20. Investments in subsidiaries

	31 December 2014	31 December 2013
Raiffeisen-Leasing Polska S.A.	492 687	112 687
Leasing Poland Sp. z o.o	14 600	14 600
Raiffeisen Financial Services Polska Sp. z o.o.	12 621	27 298
Raiffeisen Investment Polska Sp. z o.o.	750	750
Raiffeisen Solutions Sp. z o.o.	550	0
Total	**521 208**	**155 335**

As at 11 December 2014 the Bank signed an agreement with Raiffeisen-Leasing International to buy 50% of shares in Raiffeisen Leasing Polska S.A. ("RLPL"). As a result of this transaction the Bank became the sole shareholder in RLPL. The value of transaction amounted to PLN 380 million.

The most important information on consolidated subsidiaries is presented in the table below:

Name of subsidiary	Country of residence	Assets	Liabilities	Income	Net income	Share (%)
31 December 2014						
Raiffeisen-Leasing Polska S.A.	Poland	6 511 548	5 949 430	353 638	44 183	100,00%
Raiffeisen Financial Services Polska Sp. z o.o.	Poland	14 924	1 595	12 164	928	99,99%
Raiffeisen Investment Polska Sp. z o.o.	Poland	2 632	2 513	1 621	-1 481	49,98%
Raiffeisen Solutions Sp. z o.o.	Poland	292	240	4	-497	100,00%
31 December 2013						
Raiffeisen-Leasing Polska S.A.	Poland	5 464 125	4 906 190	405 608	64 609	50,00%

Notes to the statement of financial position (cont.)

21. Intangible assets

2014	Goodwill	"Polbank" brand	Relations with customers	Computer software	Computer software under development	Advances for intangible assets	Total
GROSS AMOUNT							
As at 1 January	**32 966**	**200 000**	**70 400**	**586 633**	**81 770**	**14 853**	**986 622**
Additions during the year, including:	0	0	**0**	117 925	-44 868	0	**73 057**
Direct additions during the year	0	0	**0**	7 759	65 298	0	**73 057**
Internal development	0	0	**0**	110 166	-110 166	0	**0**
Disposals during the year	0	0	**0**	-63 890	-2 246	-3 883	**-70 019**
Aa at 31 December	**32 966**	**200 000**	**70 400**	**640 668**	**34 656**	**10 969**	**989 660**
ACCUMULATED AMORTIZATION							
As at 1 January	**0**	**0**	**11 745**	**361 326**	**0**	**0**	**373 071**
Amortization charge for the year	0	0	18 139	77 487	0	0	**95 625**
Disposals during the year	0	0	0	-51 913	0	0	**-51 913**
As at 31 December	**0**	**0**	**29 884**	**386 900**	**0**	**0**	**416 784**
IMPAIRMENT							
As at 1 January	**0**	**0**	**0**	**2 051**	**1 550**	**0**	**3 601**
Additions	0	0	0	40	0	0	**40**
Decreases	0	0	0	-2 082	-901	0	**-2 983**
As at 31 December	**0**	**0**	**0**	**10**	**649**	**0**	**658**
NET AMOUNT							
As at 1 January	**32 966**	**200 000**	**58 655**	**223 256**	**80 220**	**14 853**	**609 949**
As at 31 December	**32 966**	**200 000**	**40 516**	**253 759**	**34 007**	**10 969**	**572 218**

In 2014 and 2013, there were no restrictions as to the legal title to intangible assets related to collateral of liabilities.

The amount of contractual commitments for the acquisition of intangible assets as of 31 December 2014 equaled to PLN 2 869 thousand. The agreements will be executed within one year.

The Bank's intangible assets include goodwill, the "Polbank" brand and customer relationships which were recognized as a result of merger with Polbank EFG S.A.

Goodwill and "Polbank" brand have indefinite useful lives, therefore they are not amortized but are subject to annual impairment tests. As at 31 December 2014, the Bank performed an impairment test of goodwill and "Polbank" brand. The test did not reveal a necessity to record an impairment allowance.

Customer relationships are amortized using diminishing method for 5 years (deposits) and 10 years (loans). If impairment triggers are identified they are subject to periodic impairment tests (see Note 2.16.2. to the financial statements).

The impairment test of the "Polbank" brand and goodwill has been described in Note 4.5 to the financial statements.

Notes to the statement of financial position (cont.)

As of 31 December 2014 the Bank recognized impairment on computer software under development due to decisions not to continue selected projects.

2013	Goodwill	"Polbank" brand	Relations with customers	Computer software	Computer software under development	Advances for intangible assets	Total
GROSS AMOUNT							
As at 1 January	**33 279**	**200 000**	**70 400**	**522 198**	**46 001**	**29 220**	**901 098**
Additions during the year, including:	0	0	0	81 887	43 415	0	**125 302**
Direct additions during the year	0	0	0	14 704	112 293	0	**126 997**
Internal development or reclassification	0	0	0	67 183	-68 878	0	**-1 695**
Disposals during the year	-313	0	0	-17 452	-7 646	-14 367	**-39 778**
As at 31 December	**32 966**	**200 000**	**70 400**	**586 633**	**81 770**	**14 853**	**986 622**
ACCUMULATED AMORTIZATION							
As at 1 January	0	**0**	**4 723**	**304 768**	**0**	**0**	**309 491**
Amortization charge for the year	0	0	7 022	67 582	0	0	**74 604**
Disposals during the year	0	0	0	-11 024	0	0	**-11 024**
As at 31 December	**0**	**0**	**11 745**	**361 326**	**0**	**0**	**373 071**
IMPAIRMENT							
As at 1 January	**0**	**0**	**0**	**6 310**	**0**	**0**	**6 310**
Additions	**0**	0	0	270	1 550	0	1 820
Decreases	**0**	0	0	-4 529	0	0	-4 529
As at 31 December	**0**	**0**	**0**	**2 051**	**1 550**	**0**	**3 601**
NET AMOUNT							
As at 1 January	**33 279**	**200 000**	**65 677**	**211 120**	**46 001**	**29 220**	**585 297**
As at 31 December	**32 966**	**200 000**	**58 655**	**223 256**	**80 220**	**14 853**	**609 949**

Notes to the statement of financial position (cont.)

22. Tangible fixed assets

2014	Buildings, apartments and leasehold improvements	Technical equipment and machinery	Vehicles	Other tangible assets	Assets under construction	Advances for property, plant and equipment	Total
GROSS AMOUNT							
As st 1 January	**225 752**	**325 019**	**30**	**37 815**	**6 711**	**3 624**	**598 950**
Additions during the year, including:	2 575	9 533	0	771	3 277	0	**16 156**
Direct additions during the year	604	3 907	0	325	11 320	0	**16 156**
Internal development	1 971	5 626	0	446	-8 043	0	**0**
Disposals during the year	-8 665	-11 777	0	-3 156	-601	-1 255	**-25 454**
As at 31 December	**219 662**	**322 775**	**30**	**35 430**	**9 387**	**2 369**	**589 653**
ACCUMULATED AMORTIZATION							
As st 1 January	**138 515**	**219 519**	**23**	**29 096**	**0**	**0**	**387 153**
Depreciation charge for the year	15 010	32 653	4	2 946	0	0	**50 613**
Disposals during the year	0	-9 686	0	-2 492	0	0	**-12 179**
Reclassification	1 779	-8	0	4	0	0	**1 775**
As at 31 December	**155 304**	**242 478**	**27**	**29 554**	**0**	**0**	**427 363**
IMPAIRMENT							
As st 1 January	**7 995**	**1 317**	**0**	**445**	**2 284**	**0**	**12 041**
Additions	736	4 055	0	30	0	0	**4 821**
Decreases	-8 435	-1 370	0	-461	-581	0	**-10 847**
As at 31 December	**297**	**4 002**	**0**	**14**	**1 703**	**0**	**6 016**
NET AMOUNT							
As st 1 January	**79 242**	**104 183**	**6**	**8 274**	**4 426**	**3 624**	**199 755**
As at 31 December	**64 061**	**76 295**	**2**	**5 862**	**7 684**	**2 369**	**156 274**

Notes to the statement of financial position (cont.)

2013	Buildings, apartments and leasehold improvements	Technical equipment and machinery	Vehicles	Other tangible assets	Assets under construction	Advances for property, plant and equipment	Total
GROSS AMOUNT							
As st 1 January	**265 262**	**268 877**	**0**	**38 883**	**24 902**	**5 969**	**603 893**
Additions during the year, including:	-12 332	73 540	30	2 697	-18 176	0	**45 758**
Direct additions during the year	3 394	28 635	0	2 085	11 472	0	**45 586**
Internal development or reclassification	-15 726	44 904	30	611	-29 648	0	**172**
Disposals during the year	-27 178	-17 397	0	-3 765	-15	-2 345	**-50 701**
As at 31 December	**225 752**	**325 019**	**30**	**37 815**	**6 711**	**3 624**	**598 950**
ACCUMULATED AMORTIZATION							
As at 1 January	**152 333**	**201 208**	**0**	**26 984**	**0**	**0**	**380 525**
Depreciation charge for the year	15 211	29 750	4	4 071	0	0	**49 036**
Disposals during the year	-22 236	-16 863	0	-3 309	0	0	**-42 408**
Reclassification	-6 793	5 424	19	1 349	0	0	**0**
As at 31 December	**138 515**	**219 519**	**23**	**29 096**	**0**	**0**	**387 153**
IMPAIRMENT							
As at 1 January	**15 662**	**3 601**	**0**	**1 263**	**0**	**0**	**20 526**
Additions	0	0	0	21	2 284	0	**2 305**
Decreases	-7 667	-2 284	0	-839	0	0	**-10 790**
As at 31 December	**7 995**	**1 317**	**0**	**445**	**2 284**	**0**	**12 041**
NET AMOUNT							
As at 1 January	**97 267**	**64 068**	**0**	**10 636**	**24 902**	**5 969**	**202 842**
As at 31 December	**79 242**	**104 183**	**6**	**8 274**	**4 426**	**3 624**	**199 755**

In 2014 and 2013, there were no restrictions as to the legal title to tangible fixed assets related to collateral of liabilities.

The amount of contractual commitments for the acquisition of property, plant and equipment as of 31 December 2014 equaled to PLN 47 thousand. The agreements will be executed within one year.

As at 31 December 2014 and 31 December 2013, the Bank did not use any other tangible fixed assets in financial leases.

As at 31 December 2014 Bank recognized impairment of tangible fixed assets due to decisions not to continue development of selected assets or decisions not to further use selected assets.

Notes to the statement of financial position (cont.)

23. Other assets

	31 December 2014	31 December 2013
Financial assets gross, including:		
Collection of bills and cheques	526	176
Sundry debtors	49 098	82 653
Settlements with brokerage offices – receivables	4 414	2 071
Settlements of payment cards transactions - receivables	76 725	89 886
Total financial assets, gross	**130 763**	**174 786**
Impairment allowance	-2 261	-7 916
Total financial assets, net	**128 502**	**166 870**
Non-financial assets gross, including:		
Accruals and prepayments	29 807	36 420
Income receivable	772	2 126
Assets acquired for debt	16 390	2 798
Other	0	3 236
Social and legal settlements	48 902	51 681
Total non-financial assets, gross	**95 871**	**96 260**
Impairment allowance	0	0
Total non-financial assets, net	**95 871**	**96 260**
Total	**224 373**	**263 130**

Non-current receivables as at the end of 2014 amounted to PLN 21 936 thousand (PLN 2 207 thousand at the end of 2013).

Assets acquired for debt consist mostly of real estate purchased by Bank in the year 2014 in order to avoid risk of discountinuing bankruptcy process of Bank's client, Bank plans further sale of this assets. At the day these financial statements were prepared the sale tender was finalized and buyer was chosen.

Social and legal settlements primarily include the amount of disputed claims for overpaid income tax. In 2009 the Bank was subject to two tax inspections concerning the correctness of corporate income tax settlements in 2004 and 2007. In 2012 there was another examination of corporate income tax settlement for 2006. As a result the tax authorities expressed an opinion different to the one of the Management of the Bank as to the tax treatment of the result on investments made in 2004, 2006 and 2007. Tax inspections regarding income tax settlements we finalized with decisions of Director of the Tax Chamber. Bank made and appeal against this decision to Voivodeship Administrative Court.

Voivodeship Administrative Court overruled the decissions issued by the Director of the Tax Chamber for years 2004, 2006 and 2007. The tax authority appealed for cassation for years 2004, 2006 and 2007 to Supreme Administrative Court. As at the date of preparation of the financial statements dates of Supreme Administrative Court hearings have not been set.

Notes to the statement of financial position (cont.)

Risk assessment of the above mentioned dispute made by the Management of the Bank

Polish tax regulations are subject to interpretations and changes, therefore as shown above, it is theoretically possible that interpretation of these regulations by tax authorities may differ from the one applied by the Parent Entity, which may result in tax authorities striving to assess a different amount of tax than that actually paid by the Group. According to art. 70 § 1 of 29 August 1997 of the Tax Code, a tax year can be audited by the tax authorities within 5 years from the end of the calendar year in which the tax payment deadline had passed.

Nevertheless, as at the date of signing the consolidated financial statements, the Management of the Parent Entity maintains its stance regarding the correctenss of income tax settlements of both the Parent Entity and Raiffeisen Leasing Polska S.A. In Management's opinion the standing of the Tax Authority resulting from the inspection is unfounded and expected to be overruled in court.

Change in impairment allowances on other receivables	31 December 2014	31 December 2013
As at 1 January	**7 916**	**4 580**
Creating of impairment losses	3 216	3 656
Use of write off	-5 520	0
Reversal of impairment allowance	-3 350	-320
As at 31 December	**2 261**	**7 916**

24. Amounts due to banks and other monetary institutions

	31 December 2014	31 December 2013
Current accounts	958 165	479 700
Term deposits	858 558	404 122
Loans received	8 012 111	10 524 593
Repo transactions	1 413 968	0
Total	**11 242 801**	**11 408 415**

Non-current amounts due to banks and other monetary financial institutions equalled PLN 5 334 585 thousand at the end of 2014 (PLN 7 254 533 thousand at the end of 2013).

The value of repurchase agreements (sell buy back) with banks as at 31 December 2014 amounted to PLN 1 413 968 thousand, fair value of securities sold under those transactions as at 31 December 2014 amounted to PLN 1 397 146 thousand (zero at the end of 2013).

Notes to the statement of financial position (cont.)

25. Amounts due to customers

	31 December 2014	31 December 2013
Amounts due to individuals	14 011 515	12 666 854
Amounts due to micro customers	1 733 592	2 435 357
Amounts due to large enterprises	15 194 626	12 778 033
Amounts due to SME	2 824 797	2 574 459
Amounts due to the public sector	0	6 286
Total	**33 764 529**	**30 460 990**

Non-current amounts due to customers amounted to PLN 62 178 thousand at the end of 2014 (PLN 20 699 thousand at the end of 2013).

The value of repurchase agreements (sell buy back) with clients as at 31 December 2014 amounted to PLN 208 678 thousand, fair value of securities sold under those transactions as at 31 December 2014 amounted to PLN 206 327 thousand.

26. Subordinated liabilities

	31 December 2014	31 December 2013
A loan of EUR 25 million due in 2017	106 870	104 003
A loan of EUR 50 million due in 2024	213 136	0
Total	**320 006**	**104 003**

Subordinated loans will be repaid by the Bank on the date of their maturity. In both 2014 and 2013 the Bank did not record any delays in repayment schedules nor has it violated any other contractual terms to its liabilities. The loans are not additionally secured. Both loans were granted by Raiffeisen Bank International.

In accordance with the decisions of the Banking Supervision Authority (BSA), the Bank can classify subordinated liabilities as its own funds. For the purpose of calculating the Bank’s own funds, the amounts constituting subordinated loans classified as own funds are gradually amortized in accordance with the regulations of the Polish Financial Supervision Authority.

The whole balance of subordinated debt as at the end of 2014 consist of non-current liabilities similarly as at 31 December 2013.

Notes to the statement of financial position (cont.)

27. Liabilities from debt securities issued

31 December 2014	The beginning of the period	Increases from issue	Change of accrued interests, discount and valuation	The end of the period
Liabilities from debt securities issued	0	500 000	1 960	501 960
Total	**0**	**500 000**	**1 960**	**501 960**

At 19 November 2014 the Bank isssued "Series A bearer bonds of Raiffeisen Bank Polska S.A." amounting to PLN 500 mln. These bonds are not secured, non – subordinated, denominated in PLN maturing at 19 November 2017. The bonds' interest rate is based on Wibor 6M increase by 1,3% interest margin . The interests wil be paid in semi – annual periods.

The issue of "Series A bearer bonds of Raiffeisen Bank Polska S.A." is the first part of Bank's corporate bonds issuance plan in total amount of PLN 2 billion.

28. Other liabilities

	31 December 2014	31 December 2013 restated*
Financial liabilities, including:		
Interbank settlements	87 558	106 406
Settlements with brokerage offices	1 878	1 073
Sundry creditors	130 808	161 414
Settlements related to payment cards	20 764	36 759
Total financial liabilities gross	**241 008**	**305 652**
Non-financial liabilities, including:		
Deferred income	66 323	40 399
Social and legal settlements	17 066	23 058
Other	5 019	11 310
Total non-financial liabilities gross	**88 408**	**74 767**
Total	**329 416**	**380 419**

*Please refer to Note 3. to the Financial Statements

Non-current liabilities as at 31 December 2014 amounted to PLN 26 652 thousand (PLN 22 172 thousand as at 31 December 2013).

Notes to the statement of financial position (cont.)

29. Provisions

Changes during the financial year ended at 31 December 2014	As at 1 January	Provisions or impairment allowance recorded	Provisions or impairment allowance reversed	Provisions or impairment alllowance utilized	Foreign exchange differences	As at 31 December
Provisions for off-balance sheet liabilities assessed individually	14 306	31 067	-19 396	0	654	**26 631**
Provisions for off-balance sheet liabilities assessed collectively IBNR	8 535	5 100	-6 339	0	111	**7 408**
Total provisions for off-balance sheet items	**22 841**	**36 167**	**-25 734**	**0**	**765**	**34 039**
Provisions for disputes and claims	13 380	11 568	-4 576	-495	0	**19 877**
Provision for jubilee benefits	28 590	6 112	0	0	0	**34 702**
Provision for bonus payments	83 804	89 147	-50 611	-73 881	0	**48 460**
Provision for overdue vacations	16 499	10 387	0	-3 390	0	**23 495**
Provision for pension benefits	1 808	1 605	0	-2	0	**3 411**
Restructuring provision	34 005	29 206	0	-25 389	0	**37 822**
Other provisions	524	0	-524	0	0	**0**
Total provisions	**178 610**	**148 026**	**-55 711**	**-103 157**	**0**	**167 768**
Total	**201 451**	**184 192**	**-81 445**	**-103 157**	**765**	**201 807**

Changes during the financial year ended at 31 December 2013	As at 1 January restated*	Provisions or impairment allowance recorded	Provisions or impairment allowance reversed	Provisions or impairment alllowance utilized	Foreign exchange differences	As at 31 December
Provisions for off-balance sheet liabilities assessed individually	22 698	26 543	-34 902	0	-34	14 306
Provisions for off-balance sheet liabilities assessed collectively IBNR	12 134	10 269	-13 883	0	16	8 535
Total provisions for off-balance sheet items	**34 832**	**36 812**	**-48 785**	**0**	**-18**	**22 841**
Provisions for disputes and claims	13 150	664	-434	0	0	13 380
Provision for jubilee benefits	22 290	6 300	0	0	0	28 590
Provision for bonus payments	52 714	132 046	-48 168	-52 787	0	83 804
Provision for overdue vacations	17 288	0	-789	0	0	16 499
Provision for pension benefits	2 119	0	0	-311	0	1 808
Restructuring provision	56 953	10 564	-9 347	-24 166	0	34 005
Other provisions	1 806	0	-279	-1 003	0	524
Total provisions	**166 320**	**149 574**	**-59 017**	**-78 267**	**0**	**178 610**
Total	**201 152**	**186 387**	**-107 802**	**-78 267**	**-18**	**201 451**

*Please refer to Note 3. to the Financial Statements

Impairment provisions for off-balance sheet commitments include impairment provisions for financial guarantees. Financial guarantees and other off-balance sheet commitments are discussed in Note 31.

Provisions for legal disputes comprised, among others:

- provision resulting from a penalty imposed on the Bank by the Office of Competition and Consumer Protection (OCCP) in October 2014 and concerns the practices connected with concluding with customers of agreements relating to joining the group insurance for life and endowment agreement called "Program Pomnażania Oszczędności Kumulatus". Penalty amounted to PLN 21 122 thousand. Decision is not final. Bank filed and appeal. Bank created provision for this penalty in amount of PLN 10 561 thousand, because in Bank's opinion possible outflow would not exceed this amount,

Notes to the statement of financial position (cont.)

- provision in the amount of PLN 7 494 thousand for potential claims resulting from disputes with former Polbank's franchise partners.

The amount of long term provisions as at 31 December 2014 is PLN 3 411 thousand for retirement, pension and death benefits.

The restructuring provision as at 31 December 2014, in the amount of PLN 37 822 thousand (PLN 34 005 thousand as at 31 December 2013) has been created mainly for the purpose of severance payments resulting from the restructuring programs, as well as costs associated with the liquidation of the Bank's branches.

Under the program of employment optimalization in Bank, which resulted in employment reduction in the year 2014, Bank decided to launch another stage of employment reduction, planned for the year 2015. Due to this decision Bank created restructuring provision of PLN 21 448 thousand.

30. Equity

	Par value of shares held		Number of shares (in units)	
Registered share capital	**For the financial year ended 31 December 2014**	**For the financial year ended 31 December 2013**	**For the financial year ended 31 December 2014**	**For the financial year ended 31 December 2013**
As at 1 January	2 207 461	2 207 461	242 845	242 845
Issue of shares	49 222	0	5 415	0
As at 31 December	**2 256 683**	**2 207 461**	**248 260**	**242 845**

All shares have been paid in full. All shares have exactly the same voting and dividend rights. The nominal value of one share is 9 090 PLN. Raiffeisen Bank International AG is the only shareholder, currently in possession of 100% of the Bank's share capital.

Raiffeisen Bank International (RBI) has been created from separated areas of Raiffeisen Zentralbank Österreich AG (RZB) and Raiffeisen International Bank-Holding AG (RI). RBI is a fully consolidated subsidiary of RZB. RZB holds 60.7% stake in RBI. The remaining part of the share capital is in free float on the Vienna Stock Exchange, where Raiffeisen has been listed since 2005.

Other capital and reserves	31 December 2014	31 December 2013
General banking risk reserve	950 019	910 019
Settlement of the purchase of the organized part of entity	-3 883	-3 883
Valuation of avaiable for sale financial assets	159	-5 038
Valuation of derivatives hedging the net cash flow	-46 529	-4 070
Brokerage activities reserve	1 000	1 000
Other reserves	**46 522**	**46 522**
As at 31 December	**947 287**	**944 550**

Notes to the statement of financial position (cont.)

The net profit for the current and prior years was distributed as follows:

Retained earnings	31 December 2014	31 December 2013
As at 1 January	270 198	72 087
Transfer of net result to retained earnings	314 138	129 348
Transfer of net profit to general banking risk reserve	-40 000	0
Transfer of net result to supplementary capital	0	68 763
As at 31 December	**544 336**	**270 198**

Dividends

Based on recommendations of the Managament Board and the Supervisory Board the Bank did not pay dividend from 2013 profit. The Management Board of the Bank would not recommend dividend payment from 2014 profit.

31. Contingent liabilities

The table below presents given and received items off balance sheet:

	31 December 2014	31 December 2013
Guarantees issued		
Bank guarantees	1 766 164	1 492 502
Letters of credit and bank acceptances	253 759	285 205
Total guarantees issued	**2 019 923**	**1 777 707**
Financial liabilities granted		
Granted loan commitments:	4 454 747	4 252 341
With initial maturity up to 1 year	1 970 057	2 075 151
With initial maturity above 1 year	2 484 690	2 177 190
Total financial liabilities granted	**4 454 747**	**4 252 341**
Total	**6 474 670**	**6 030 048**

	31 December 2014	31 December 2013
Guarantees received	**5 888 622**	**5 769 305**
Total	**5 888 622**	**5 769 305**

All loan commitments of the Bank are unconditional, except for granted and unused tranches of mortgage loans and investment loans. A detailed description of the risks related to off-balance commitments is presented in the notes on risk management.

Legal disputes

The total disputed amount in litigations against the Bank equaled PLN 65 883 thousand as at 31 December 2014 roku (PLN 55 965 thousand as at 31 December 2013). The Bank created provisions for cases in which probability of economic outflow was higher than 50%.

Notes to the statement of financial position (cont.)

As at 31 December 2014 the total value of provisions for litigations against the Bank amounted to PLN 19 877 thousand (PLN 13 380 thousand as at 31 December 2013), see Note 29 of the financial statements.

Legal disputes with Tax Authorities comprise separate group of litigations. They were described in Note 23 Other Assets.

32. The Bank as a lessee

In the case of operating leases where the Bank is a lessee, the minimum future lease payments resulting from irrevocable operating lease agreements are as follows:

	31 December 2014	31 December 2013
Up to 1 year	188 572	164 021
1 to5 years	307 560	243 615
More than 5 years	131 010	6 322
Total	**627 141**	**413 958**

The liabilities listed in the table are related to signed operating lease agreements for buildings or apartments for the needs of the Bank's business activities, and operational leases of cars.

33. Pledged assets and of limited disposability

In the following table the information about financial pledged asstets or about asstes of limited disposability is presented.

	Note	31 December 2014	31 December 2013
Cash and balances with Central Bank			
Mandatory reserves with the Central Bank	13	926 508	1 040 763
Amounts due from banks			
Collateral deposits and other	14	496 249	171 768
Investment securities			
Financial instruments blocked for BFG	18	180 766	189 975
Amounts due to banks and other monetary institutions			
Repurchase transactions (sell buy back) - carrying value of liabilities	24	1 413 968	0
Repurchase transactions (sell buy back) -fair value of sold securities		1 397 146	0
Amounts due to customers			
Repurchase transactions (sell buy back) - carrying value of liabilities	25	208 678	0
Repurchase transactions (sell buy back) -fair value of sold securities		206 327	0

All securities sold in repurchase transactions (sell buy back) presented in the table above were purchased by the Bank in reverse repurchase transactions (buy sell back).

Notes to the statement of financial position (cont.)

34. Securitization and sale of Bank's receivables

34.1. Synthetic securitization of Bank's corporate loan portfolio.

In 2006, the Bank has conducted a synthetic securitization of the portfolio of loans granted to corporate customers. The securitization transaction involved concluding an off-balance loan transaction between the Bank and KfW (Kreditanstalt für Wiederaufbau) in order to transfer all credit risks associated with the loans in the securitized portfolio. The original value of securitized assets and liabilities amounted to ca. EUR 250 million. Transactions renewal period lasted for five years, during which the debt that had been repaid was being replaced. In September 2013 the agreement was terminated and from this date only previously reported and not settled credit events being collected remained under the securitization cover. The carrying amount of assets and liabilities covered by this transaction as at the end of the year 2013 amounted to EUR 2.77 mln (EUR 2.77 mln at the end of the year 2013). The main benefit arising from the transaction for the Bank has been the transfer of credit risk (guarantee received), which resulted in a reduction of the regulatory capital requirement and no impairment recognized on the assets within the portfolio.

The amounts of securitized financial assets are presented in the following table.

	Value of transaction	
	31 December 2014	**31 December 2013**
Carrying amount of assets	11 820	11 500
Net position	**11 820**	**11 500**

34.2. Sale of receivables

In 2014, the Bank sold impaired loans and advances to customers with total capital value of PLN 1 255 777 thousand (in 2013 of PLN 443 837 thousand). Portfolios consisted of receivables granted to individuals, micro-entrepreneurs, and corporations. Receivables were in significant part covered by impairment allowance or fully written off from Bank's balance sheet. Total result from transactions of sale of these receivables amounted to PLN 261 712 thousand (in 2013 of PLN 37 074 thousand) and was presented in line Net provision for impairment losses on financial assets and provisions for off-balance sheet items. The buyers of the portfolios were non-standardized closed-end securitization and investment funds unrelated to the Bank. All risks and rewards from sold portfolios were transferred to the buyers.

Above presented transactions have one off character.

35. Custody activities

The Bank acts as a custodian, which involves maintaining or investing assets on behalf of individuals, funds, pension plans and other institutions. Such assets and the related revenues have not been disclosed in the financial statements, because they do not belong to the Bank.

Notes to the statement of financial position (cont.)

As at 31 December 2014 the Custody Unit maintained 564 securities accounts for customers (238 accounts as at 31 December 2013). The total fair value of financial instruments of Custody Unit's clients amounted to PLN 17 100 643 thousand as at 31 December 2014 (9 891 831 thousand as at 31 December 2013).

In the reporting period, the Bank kept publicly traded securities, securities in a material form and securities traded abroad. As a part of providing custody services to customers, the Bank cooperated with several brokerage offices. The Bank acts as a depositary for customers and for its own portfolio, and as a representative and clearing member for an entity that is not a KDPW (National Securities Depository) participant.

36. Supplementary information to statement of cash flows

Cash and cash equivalents	**31 December 2014**	**31 December 2013**
Cash in hand at the Bank	1 757 367	1 249 207
Cash on the current account with the Central Bank	926 508	1 172 845
Cash on Nostro accounts with other banks	15 090	15 193
Deposits with other banks (due within 3 months)	88 656	120 184
Cash and cash equivalents presented in the cash flow statement	**2 787 621**	**2 557 428**

37. Net income from financial instruments

Net income from loans and advances granted to customers and banks

	31 December 2014	**31 December 2013**
Interest income, including:	1 414 678	1 607 906
from loans and advances granted to banks	29 550	42 347
from loans and advances granted to customers	1 385 128	1 565 559
Commission income – fees and commissions on lending activity	25 293	31 078
Costs related to intermediation in the sale of credit products	-1 929	-1 951
Costs related to securitization of loan receivables	-235	-358
Total	**1 437 807**	**1 656 507**

Net income on investment securities

	31 December 2014	**31 December 2013**
Discount income	4 203	467
Interest income	64 831	41 687
Total	**69 034**	**42 154**

The income described above relates to held to maturity and available for sale investments.

Notes to the statement of financial position (cont.)

Net result from financial liabilities measured at amortized cost

	31 December 2014	31 December 2013
Interest expenses – total cost of interest on financial assets not measured at the fair value through profit or loss	-773 337	-977 549
Commission expenses – fees and commissions on loans received	-681	-6 468
Total	**-774 018**	**-984 017**

38. Fair value of assets and liabilities

The main assumptions and methods used by the Bank to measure the fair value of financial instruments are presented below:

- Fair value of loans and advances to banks, granted on the interbank market to manage Bank's liquidity, was estimated as the present value of future cash flows discounted with current interbank interest rate for currency in which the loan had been granted.
- Fair value of loans to customers was estimated with a model based on present value of future cash flows discounted with current interest rate including risk margin and adjusted repayment dates resulting from loan agreements. The margins were selected depending on both currency and major product groups, i.e. fixed term loans, consumer loans and mortgage loans.
- Securities held to maturity (Treasury bonds and NBP money bills) – fair value of securities, for which there is an active market, was determined based on public quotations from the active market (market quotations as at the balance sheet date).
- Fair value of amounts due to customers was estimated based on current market interest rates without any margins, which reflected an average interest rate of deposits offered by the Bank.
- Fair value of amounts due to banks and other monetary institutions, taken on the interbank market to manage Bank's liquidity, was estimated based on the present value of future cash flows discounted with current interbank interest rate for currency in which the loan or deposit had been taken.

The methods for determining the fair value of the individual financial assets and liabilities measured at the fair value, together with the valuation models assigned to them, can be classified into three main levels in the fair value hierarchy:

- *Level I* – financial assets and liabilities measured directly on the basis of prices quoted on an active market or with the use of valuation techniques based solely on market information. The mark-to-market valuation is used mainly with respect to listed securities.
- *Level II* – financial assets and liabilities measured with the use of valuation techniques based on assumptions developed on the basis of market observations or information from an active market. The mark-to-model valuation uses parameterization of models solely on the basis of quotations from an active market for a given type of instrument. Most derivative instruments, including forward transactions in securities, non-liquid treasury securities or securities issued by a central bank, as well as unlisted corporate debt securities and municipal securities, for the valuation of which data is collected from an active market are valued using this type of models.

Notes to the statement of financial position (cont.)

- *Level III* – financial assets and liabilities measured on the basis of valuation techniques commonly used by market participants, whose assumptions are not based on information obtained from an active market. The mark-to-model valuation uses partial model parameterization based on estimated risk factors. This method is applicable to non-linear derivatives concluded on an inactive market, unlisted corporate debt securities, which do not meet the criteria for being classified as Level II, as well as derivatives whose fair value was adjusted for write-downs in respect of credit risk.

A transfer between categories occurs, when a change in valuation model of an asset or a liability requires a reclassification to a different category. The Bank assesses the valuation models at the end of the reporting period.

Financial assets categorized within Level III of fair value hierarchy were characterized by the following estimated parameters:

- credit spread estimated for the day of issue of a security. Credit spread for financial instruments categorized within Level III measured between 30 and 778 base points;
- probability of default indicator (PD). As at the day of financial statements the PD indicator for financial instruments categorized within Level III measured between 1.8% and 100%, while 100% applied to contracts of seventeen customers with recognized impairment;
- loss given default indicator (LGD) measured between 37% and 62%.
- parameter of recovery rate (RR) measured between 38% and 62%.

The effect of estimated parameters on fair value calculation of financial instruments within Level III as at 31 December 2014 was negligable. For debt securities being exposed to credit spread risk the estimated exposure vulnerability to credit spread fluctuation of +/- 100 bps amounted to + 358/ - 359 PLN thousand impact on financial result from profit and loss account and + 1 461/ -1 358 PLN thousand impact on equity. For derivative financial instruments being subject to credit risk the estimated exposure vulnerability to probability of default fluctuation of +/- 100 bps amounted to +/- PLN 2 thousand change in profit or loss. No impact on equity.

Notes to the statement of financial position (cont.)

Changes in financial instruments, which were categorized within Level III of fair value hierarchy, and in Bank's balance sheet measured at fair value, are presented in the table below.

Changes during the period ended of 31 December 2014	Financial assets held for trading	Derivative financial instruments - assets	Investment securities available for sale - debt securities	Derivative financial instruments - liabilities
Balance at the beginning of the period	**67 995**	**13 713**	**48 300**	**37**
Increases, including:	101 449	242	341 979	69
Purchase	101 449	0	107 927	0
Derivatives opened during period	0	29	0	69
Income from financial instruments, included in:	0	30	14	0
Net income from financial instruments measured at fair value	0	30	14	0
Reclassification	0	183	234 038	0
Decreases, including:	-4 187	-13 743	-38 844	-10
Settlement/redemption	0	-9 537	0	-22
Sale	0	0	-38 080	0
Loss from financial instruments, included in:	-4 187	0	-764	27
Net interest income	0	0	-18	0
Net income from financial instruments measured at fair value	-4 187	0	-746	27
Reclassification	0	-4 205	0	-15
Balance at period end	**165 257**	**212**	**351 436**	**96**
Unrealized result on financial instruments held in the portfolio at the end of the period, included in statement of comprehensive income in:	**-3 422**	**-13 501**	**2 729**	**59**
Net interest income	765	1	3 461	0
Net income from financial instruments measured at fair value	-4 187	-13 502	0	59
Revaluation reserves	0	0	-732	0

Changes during the period ended of 31 December 2013	Financial assets held for trading	Derivative financial instruments - assets	Investment securities available for sale - debt securities	Derivative financial instruments - liabilities
Balance at the beginning	0	0	0	0
Reclassification	67 995	13 713	48 300	37
Balance at 31 December	**67 995**	**13 713**	**48 300**	**37**

The table below presents fair values and book values of assets and liabilities split between levels of fair value hierarchy.

Notes to the statement of financial position (cont.)

Position description	31 December 2014					31 December 2013				
	Book value	Fair value	Level I	Level II	Level III	Book value	Fair value	Level I	Level II	Level III
Financial Assets										
Cash and balances with central bank	2 683 875	2 683 875	0	0	2 683 875	2 422 051	2 422 051	0	0	2 422 051
Amounts due from banks	628 385	628 720	0	0	628 720	353 941	354 050	0	0	354 050
Financial assets held for trading	361 623	361 623	196 366	0	165 257	8 770 806	8 770 806	243 936	8 458 875	67 995
Derivative financial instruments:	900 213	900 213	0	900 001	212	532 963	532 963	0	519 250	13 713
Derivative financial instruments held for trading	898 892	898 892	0	898 680	212	415 943	415 943	0	402 230	13 713
Derivative financial instruments in cash flow hedges	1 320	1 320	0	1 320	0	117 019	117 019	0	117 019	0
Derivative financial instruments in fair value hedges	0	0	0	0	0	1	1	0	1	0
Investment securities:	12 514 086	12 513 604	2 435 627	9 699 462	378 516	1 759 711	1 757 159	1 491 816	189 975	75 369
Investment securities held to maturity	11 451 014	11 450 532	1 751 071	9 699 462	0	1 248 498	1 245 947	1 245 947	0	0
Investment securities available for sale, including:	1 063 072	1 063 072	684 556	0	378 516	511 213	511 213	245 869	189 975	75 369
Equity interests	27 081	27 081	0	0	27 081	27 069	27 069	0	0	27 069
Debt securities	1 035 991	1 035 991	684 556	0	351 435	484 144	484 144	245 869	189 975	48 300
Loans and advances to customers, including:	34 716 952	34 033 666	0	0	34 033 666	33 208 232	32 415 033	0	0	32 415 033
Loans and advances granted to individuals	18 058 044	16 219 986	0	0	16 219 986	18 560 846	17 613 666	0	0	17 613 666
Loans and advances granted to micro customers	2 326 835	2 494 972	0	0	2 494 972	2 556 874	2 587 070	0	0	2 587 070
Loans and advances granted to large enterprises	13 241 176	14 164 325	0	0	14 164 325	11 167 227	11 281 458	0	0	11 281 458
Loans and advances granted to small and medium enterprises	1 061 253	1 124 710	0	0	1 124 710	883 764	892 937	0	0	892 937
Loans and advances granted to public sector entities	29 644	29 673	0	0	29 673	39 522	39 903	0	0	39 903
Other financial assets	128 502	128 502	0	0	128 502	166 870	166 870	0	0	166 870
Total financial assets	**51 933 636**	**51 250 203**	**2 631 993**	**10 599 462**	**38 018 749**	**47 214 573**	**46 418 932**	**1 735 752**	**9 168 099**	**35 515 081**

Notes to the statement of financial position (cont.)

Position description	31 December 2014					31 December 2013				
	Book value	Fair value	Level I	Level II	Level III	Book value	Fair value	Level I	Level II	Level III
Financial liabilities										
Amounts due to banks and other monetary institutions	11 242 801	11 017 449	0	0	11 017 449	11 408 415	11 460 896	0	0	11 460 896
Derivative financial instruments:	1 124 388	1 124 388	0	1 124 292	96	453 945	453 945	0	453 907	37
Derivative financial instruments held for trading	823 807	823 807	0	823 711	96	379 093	379 093	0	379 055	37
Derivative financial instruments in cash flow hedges	276 005	276 005	0	276 005	0	57 934	57 934	0	57 934	0
Derivative financial instruments in fair value hedges	24 576	24 576	0	24 576	0	16 918	16 918	0	16 918	0
Amounts due to customers, including:	33 764 529	33 581 191	0	0	33 581 191	30 460 990	30 649 502	0	0	30 649 502
Amounts due to individuals	14 011 515	13 942 773	0	0	13 942 773	12 666 854	13 810 883	0	0	13 810 883
Amounts due to micro customers	1 733 592	1 729 937	0	0	1 729 937	2 435 357	1 167 178	0	0	1 167 178
Amounts due to large enterprises	15 194 626	15 093 148	0	0	15 093 148	12 778 033	12 666 733	0	0	12 666 733
Amounts due to small and medium enterprises	2 824 797	2 815 333	0	0	2 815 333	2 574 459	2 996 466	0	0	2 996 466
Amounts due to the public sector	0	0	0	0	0	6 286	8 242	0	0	8 242
Subordinated liabilities	320 006	308 651	0	0	308 651	104 003	104 481	0	0	104 481
Liabilities from debt securities issued	501 960	501 960	0	0	501 960	0	0	0	0	0
Other liabilities	241 008	241 008	0	0	241 008	305 652	305 652	0	0	305 652
Total financial liabilities	**47 194 692**	**46 774 646**	**0**	**1 124 292**	**45 650 354**	**42 733 005**	**42 974 475**	**0**	**453 907**	**42 520 568**

Other explanatory notes

39. Offsetting of financial assets and liabilities

In 2014 and 2013 offsetting criteria were not fulfilled, therefore there were no cases of financial assets and liabilities offset on the balance sheet dates.

However, in order to minimalize credit risk losses, the Bank concludes master netting arrangements or similar agreements. The clauses of these agreements provide right for net settlement only in case of default, insolvency, bankruptcy or when a counterparty in unable to meet its obligations.

Master netting arrangements concluded by the Bank contain:

- ISDA agreements or other based on a local law
- repo and reverse repo agreements.

Disclosures presented in the tables below refer to financial assets and liabilities subject to master netting arrangements or similar and may be potentially compensated in the statement of financial position. Additionally received and pledged cash collaterals for derivative and repo/reverse repo transactions were shown. They were established according to standard sector conditions. Collaterals in the form of cash deposits result from Credit Support Annex (CSA) or similar agreements, annexed to ISDA framework agreements or other based on local law.

31 December 2014	Gross amount of recognised financial assets	Net amount of financial assets presented in the statement of financial position	Related amount not offset in the statement of financial position		Net amount*
			Financial instruments	Cash collateral received	
FINANCIAL ASSETS					
Derivative financial instruments	900 213	900 213	530 091	44 590	333 506
Reverse repurchase, securities agreements	1 651 297	1 651 297	1 631 976	0	19 321
Total	**2 551 510**	**2 551 510**	**2 162 067**	**44 590**	**352 827**

31 December 2014	Gross amount of financial recognised liabilities	Net amount of financial liabilities presented in the statement of financial position	Related amount not offset in the statement of financial position		Net amount*
			Financial instruments	Cash collaterals pledged	
FINANCIAL LIABILITIES					
Derivative financial instruments	1 124 388	1 124 388	530 091	496 249	98 048
Repurchase, securities agreements	1 622 646	1 622 646	1 603 473	0	19 173
Total	**2 747 034**	**2 747 034**	**2 133 564**	**496 249**	**117 221**

Other explanatory notes

31 December 2013	Gross amount of recognised financial assets	Net amount of financial assets presented in the statement of financial position	Related amount not offset in the statement of financial position		Net amount*
			Financial instruments	Cash collateral received	
FINANCIAL ASSETS					
Derivative financial instruments	532 963	532 963	212 372	50 958	276 897
Total	**532 963**	**532 963**	**212 372**	**50 958**	**276 897**

31 December 2013	Gross amount of financial recognised liabilities	Net amount of financial liabilities presented in the statement of financial position	Related amount not offset in the statement of financial position		Net amount*
			Financial instruments	Cash collaterals pledged	
FINANCIAL LIABILITIES					
Derivative financial instruments	453 945	453 945	212 372	171 768	69 805
Total	**453 945**	**453 945**	**212 372**	**171 768**	**69 805**

*based on calculation per contract

Reconciliation of carrying amounts of financial assets and liabilities subject to master netting arrangements or similar agreements to the individual line item amounts presented in the statement of financial position:

31 December 2014	Net carrying amount	Financial statement positions of financial condition	Carrying amount of financial statement position	Carrying amount of non disclosure items in offsetting note
FINANCIAL ASSETS				
Derivative financial instruments	900 213	Derivative financial instruments assets	900 213	0
Reverse repurchase, securities agreements	1 651 297	Loans and advances to customers	34 716 952	33 065 655
FINANCIAL LIABILITIES				
Derivative financial instruments	1 124 388	Derivative financial instruments liabilities	1 124 388	0
Repurchase, securities agreements	1 413 968	Amounts due to banks and other monetary institutions	11 242 801	9 828 833
	208 678	Amounts due to customers	33 764 529	33 555 851

31 December 2013	Net carrying amount	Financial statement positions of financial condition	Carrying amount of financial statement position	Carrying amount of non disclosure items in offsetting note
FINANCIAL ASSETS				
Derivative financial instruments	532 963	Derivative financial instruments assets	532 963	0
FINANCIAL LIABILITIES				
Derivative financial instruments	453 945	Derivative financial instruments liabilities	453 945	0

Other explanatory notes

40. Transactions with related parties

The Bank identifies the following related entities:

- Parent entities:
  - ultimate parent entity – Raiffeisen Zentralbank Österreich AG (RZB).
  - parent entity – Raiffeisen Bank International AG (RBI).
- The Bank's consolidated subsidiaries – Raiffeisen-Leasing Polska S.A., Raiffeisen Insurance Agency Sp. z o.o., Raiffeisen-Leasing Service Sp. z o.o., Raiffeisen Financial Services Polska Sp. z o.o., Raiffeisen Solutions Sp z o.o, Raiffeisen-Leasing Real Estate Sp z o.o, Raiffeisen Investment Polska Sp. z o.o. Jednostki zależne wobec Banku nieobjęte konsolidacją - RI Inwestycje Sp. z o.o., Leasing Poland Sp. z o.o., Telpol3 S.A. (in liquidation)
- Members of the Bank's key personnel and the key personnel of the parent entities,
- Other entities - other related entities – entities controlled by the parent entities and subsidiaries, and entities having significant influence on Raiffeisen Zentralbank Österreich AG.

As a part of ordinary operations, a number of transactions was concluded with members of the Bank's key personnel. The Bank's key personnel includes members of Bank's Management Board and members of the Bank's Supervisory Board, listed in Note 1 to the financial statements. Transactions with members of the Bank's key personnel can comprise mainly loans, deposits and foreign currency transactions. In 2014 and 2013 no transactions were concluded with members of the key personnel of the Bank's Parent Entities or with persons related to the members of the Bank's key personnel or the Parent Entities' key personnel.

Other explanatory notes (cont.)

Statement of financial position items	Parent Company		Consolidated Subsidiaries		Members of the Bank's and the Parent Entities' key personnel		Other related entities	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Amounts due from banks	476 186	159 829	0	0	0	0	59 203	5 845
Interbank deposits	0	0	0	0	0	0	0	0
Derivative financial instruments (assets)	586 962	302 372	16	0	0	0	166	93
Loans and advances	0	0	1 979	7	3 253	2 589	0	101
Other receivables	101	0	15	289	0	0	-6	22
Amounts due to clients	0	0	824 318	510 091	7 312	5 417	6 019	0
Loro accounts and other current accounts	4 153	157 899	89 111	126 202	0	0	6 966	9 075
Interbank deposits	9 901	0	0	0	0	0	116 878	128 275
Loans and advances received	7 186 733	10 140 351	0	0	0	0	681 968	0
Derivative financial instruments (liabilities)	976 123	366 129	89	0	0	0	471	87
Subordinated liabilities	320 006	104 003	0	0	0	0	0	0
Other liabilities	16 432	9 061	84	1 510	0	0	0	190

Statement of comprehensive income items	Parent Company		Consolidated Subsidiaries		Members of the Bank's and the Parent Entities' key personnel		Other related entities	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Interest income	112 969	56 308	32	20	227	0	1 107	1 840
Interest expenses	-140 622	-143 266	-4 650	-3 616	-15	0	-5 106	-3 361
Commission income	2 294	1 443	142	110	0	0	2 011	1 923
Commission expenses	-1 223	-3 411	-311	-829	0	0	-723	-63
Net income from financial assets measured at fair value through profit or loss	-36 245	98 424	7	0	0	0	-181	-40
Net impairment allowance and write downs	0	0	-14 677	0	0	0	0	0
Other operating income and expenses	9 671	-4 157	1 061	0	0	0	0	0
General administrative expenses	-42 290	-35 221	-16 781	-12 770	0	0	-6 667	-3 651
Income from dividend	0	0	42 956	18 000	0	0	0	0

Other explanatory notes (cont.)

Off-balance sheet commitments	Parent Company		Consolidated Subsidiaries		Members of the Bank's and the Parent Entities' key personnel		Other related entities	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Guarantees and letters of credit	179 288	249 242	2 567	1 208	0	0	20 373	24 919
Financial liabilities granted	0	0	986	1 049	0	0	0	0
Guarantees receiv ed	196 808	0	0	0	0	0	54 461	0

Other explanatory notes (cont.)

Transactions with the Bank’s Parent Entity comprised transactions aimed at providing financing for the Bank's operations (mainly interbank deposits, loans received and subordinated loans) and closing of open positions resulting from derivative transactions. As a result, interest expenses, net income from financial instruments and general administrative expenses were recognized in the statement of profit or loss.

Off balance sheet committments for guarantees and letters of credits relate to the Bank guarantee liabilities issued on other Group banks request, for guarantees received relate to guarantees of repayment of loans taken in the Bank or re-guarantees received from other banks and relating to guarantees issued by the Bank.

The costs of settlements with members of the Bank’s key personnel for the financial year comprise remuneration:

Remuneration of members of the Bank's key personnel	2014	2013
Short-term remuneration of the Management Board (salary)*	8 106	7 901
Short-term remuneration of the Supervisory Board	2 108	256
Remuneration connected with employment termination **	1 700	341
Variable remuneration of the Management Board paid in the current reporting period ***	6 832	3 635
Total	**18 746**	**12 134**

* concerns Members of the Management Board who hold the function actively

** including remuneration of Members of the Management Board for the period after release from active holding the of the function and unused holiday payment

*** variable remuneration for the period before current reporting period

In August 2013, as the result of another annual edition of Share Incentive Program, the President of the Management Board and Members of the Management Board have been granted 19 736 conditional shares of Raiffeisen Bank International AG. Management Board of the Group decided not to issue new tranche form the beginning 2014. Nevertheles the condition of actually conducting part from 2011 to 2013 stay wiyhout any changing.

Additionally, the Members of the Management Board signed a non-compete clause due upon termination of their contracts. Non-compete clause duration ranges from 3 to 12 months, counting from the end of the notice period. Throughout that period remuneration equal to the last basic salary before the termination of the contract is paid. The Bank may waive the non-compete clause within 30 days of the termination of the contract.

Other explanatory notes (cont.)

41. Events after the balance sheet date

Following the decision of the Central Bank of Switzerland not to hold the Swiss frank (CHF) at a fixed exchange rate with euro (EUR), Polish zloty weakened roughly with relation to CHF (in the daytime of SNB decision by about 16-17%). Bank's Management Board believes that strong appreciation of CHF to PLN did not lead to crossing of the regulatory ratios (CAD, LCR, Polish liquidity regulatory ratios), they remained on safe level, well above the required regulatory minimum. From credit risk perspective no risk of significant one off risk charges shoud arise. However to minimize further potential losses of credit risk the Bank has set the action plan stenghtening monitoring of receivables quality, early warning and customer information processes.

In the table below loans and advances to customers in CHF are presented by gross value, impairment loss and net value:

	Gross amount	Impairment allowance	Net amount
Indiv idual customers	11 255 940	144 511	11 111 429
Micro customers	589 178	22 179	566 999
Large enterprises	179 249	44 329	134 920
SME	2 324	1	2 323
Total	**12 026 691**	**211 020**	**11 815 671**

The change in value of exposures in CHF after appreciation (translated into PLN) compared to amount as of year end is presented below (change in % of exposures in CHF to total loans and advances to customers):

Currency	Gross amount PLN/CHF = 3.5447	% in total gross loans	Gross amount PLN/CHF = 4,300	% in total gross loans
PLN	14 736 869	40%	14 736 869	38%
EUR	9 050 820	25%	9 050 820	23%
CHF	12 026 692	33%	14 589 324	37%
USD	649 787	2%	649 787	2%
Other	69 798	0%	69 798	0%
Total	**36 533 966**	**100%**	**39 096 598**	**100%**

Value of LTV in mortgage CHF loans after CHF fx rate appreciation (compared to data as of 31 December 2014) compared to total mortgage portfolio is presented below:

	31 December 2014 (fx rate PLN/CHF 3.5)		15 January 2015 (fx rate PLN/CHF 4.3)	
Currency	Average LTV	Average weighted LTV	Average LTV	Average weighted LTV
PLN	55.9%	50.2%	55.9%	50.2%
EUR	70.0%	77.0%	70.5%	77.5%
CHF	119.2%	133.8%	144.6%	162.3%
USD	62.0%	70.7%	62.0%	70.7%
Total	**98.7%**	**113.4%**	**114.4%**	**136.8%**

Other explanatory notes (cont.)

Appreciation of CHF fx rate influenced mortgage loans structure by estimated DTI ratio (Debt to income ratio – outflows connected with servicing of loan commitments to average client's net income). Assuming no change in client's income from the date of application for loan, with LIBOR CHF at -0.11% and PLN/CHF fx rate at 3.5 at the year end, around 58% of the whole mortgage loan portfolio had DTI below 50%. Increase of PLN/CHF fx rate to 4.2 resulted in decrease of ratio of loans with DTI below 50% to 46%. For further analysis the Bank estimated that client's income increase by index presented by Central Statistical Office of Poland. Including effect of income increase and LIBOR CHF at -0.75% portion of loans with DTI below 50% increases to 77%.

The systemic solutions for FX risk associated with CHF-denominated portfolios proposed by various state and supervisory bodies may cause the Bank to incur losses in future periods.

No other events significant to Bank's financial statemenets have occured after the balance sheet date.

Risk management

42. The nature and scope of risk associated with financial instruments

In its activity, the Bank follows an active approach to the risk management, involving its identification, measurement, monitoring and mitigating. The Bank follows the principle that an effective risk management and control system is based on three well-adjusted elements:

- the organizational structure, comprising a segregation of duties and competences, including a clear indication of functions performed by specific organizational units in the risk management and control process,
- the methods for monitoring, measurement and estimation of risk, which are necessary for the Bank to correctly identify the risks undertaken,
- actions focused on using modern techniques for hedging and transferring risks in order to adjust the type and profile of the risks undertaken by the Bank to the risk appetite described in the adopted strategic plans.

Organizational structure

The basic assumption adopted in the construction of the risk management and control system is to separate units controlling the risk from business units, i.e. the units that undertake risks. This is reflected in the Bank's organizational structure. Risk management and risk control constitute a process, which is carried out at three basic levels:

1. Decisions made by the Bank's Supervisory Board and Management Board through the system of risk committees:

    a) The Asset-Liability Committee, which is mainly responsible for:

    - managing the Bank's assets and liabilities;
    - development and acceptance of strategic plans in the area of balance sheet management from the products and prices perspective;
    - assessment of interest rate risk, liquidity and financing risk, foreign exchange risk and capital adequacy risk, as well as management of such risks;
    - observing the external environment and measuring its effect on profitability and capital;
    - determining the investment portfolio parameters;
    - managing the economic capital allocation.

Risk management (cont.)

b) The Operational Risk Steering Committee, which is responsible for:

- management of operational risk issues within the Bank, including issues relating to safety and security, in order to reduce operational risk exposure and the size of operating losses;
- promoting economic profit by improving the safety and quality of the bank's processes;
- supervision over the process of planning the continuity of the Bank's operations;
- ensuring compliance with legal acts, rules and regulations of the government, the Central Bank and other regulators.

c) The Credit Portfolio Risk Steering Committee, performing mainly the tasks related to:

- development and implementation of the policies and strategies for credit risk management;
- regular monitoring of the loan portfolio risk;
- analysis of the effect of external factors on the loan portfolio risk;
- supervision over the process of calculation, estimation and validation of risk parameters.

d) Credit Committee, which is responsible for making lending decisions, within the scope of the assigned competencies.

e) Doubtful Debts Committee is a part of doubtful credit exposures management and is treated as a decision making body for those kinds of exposures.

f) The Risk Models Validation Committee is responsible for managing the model risk and for the methodological aspects of the risk management system. It performs its function by supervising:

- creation, development (changes) and maintenance of models used in the Bank to measure risks;
- the process for evaluating the quality of the models used;
- the process for estimating parameters and calculating risk measures;
- the system for capital adequacy assessment (ICAAP);
- it also ensures regulatory compliance in the area of capital adequacy assessment, risk measuring processes, models and methodologies.

2. Control performed by the Risk Management Department, Corporate Credit Risk Management Department and Retail Credit Risk Management Department.
3. Operational risk management – performed on the level of individual organizational units risk taking.

Risk management (cont.)

The principles for managing individual risks are implemented based on written strategies, policies and rules.

Capital management process

The main objective of capital management process is to maintain stable capital adequacy in the long term by ensuring a proper process of identification, measurement, monitoring, mitigation and capital risk reporting.

Regulatory requirements in respect of capital adequacy is total capital ratio defined in article 92 par. 1 point c of Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013.

The minimal level of total capital ratio of the Bank was stated in the Capital Plan for year 2014 and determined on the level of 10%, which was maintained throughout the entire year.

The Bank calculated the capital ratio based on the resolution mentioned above.

The amounts of regulatory capital and capital requirement determined for the purposes of calculating the total capital ratio were as follows:

	Method of calculating the requirement	31 December 2014	31 December 2013
Credit and counterparty risk	Standard	2 746 648	2 740 957
Market risk	Standard	65 128	40 003
Operational risk	Standard	302 798	300 109
Regulatory capital		**3 114 574**	**3 081 069**
Own funds		**5 424 071**	**4 833 648**
Total capital ratio		**13.93**	**12.55**

The main source of own funds to cover the capital requirements is Tier I capital (core capital), which is supplemented with subordinated liabilities (Tier II capital). Tier I capital amounted to PLN 5 153 885 thousand at the end of 2014 (PLN 4 828 371 thousand as at the end of 2013), and Tier II capital amounted to PLN 270 187 thousand (PLN 5 276 thousand as at the end of 2013).

Major changes in the amount of own funds during the year 2014 were as follows: including in the own funds result from the year 2013 and purchase of 50% shares in Raiffeisen-Leasing Polska S.A. Capital Tier II increased due to new subordinated loan in the amount of EUR 50 million taken in March 2014.

In 2014 the Bank complied with the regulatory requirements in respect of the total capital ratio.

Economic capital calculation

Economic capital is defined as capital with a purpose of covering unexpected losses the Bank incurs or may incur as a result of realization of risks that occur in Bank's operations or in its economic environment. The Bank carries out the process of internal capital assessment and reviews the process itself in compliance with Polish FSA (KNF) Resolution No. 258/2011 on Detailed Principles of Functioning of the Risk Management System (...) and and Detailed Conditions of Internal Capital Assessment by Banks and of Reviewing the Process of Internal Capital.

Risk management (cont.)

The results of the process are reported to relevant Bank committees. The methodology for internal capital assessment is revied annualy and updated both in terms of identification of risk types and the applied methodology. Both the Management Board and Supervisory Board of the Bank are informed about the results of the review.

Economic capital is calculated based on the main types of risk the Bank is exposed to, namely: credit risk, operational risk, liquidity risk, interest rate risk and currency risk. For the remaining identified types of risk, which are considered material, the Bank periodically evaluates the risk levels and acts upon results to controll the risk. Additionally, based on an internal model for risks difficult to measure, the Bank calculates a capital buffer added to the total of economic capital.

Aggregation of the results of the individual models is based on the Gaussian copula. Economic capital is calculated as a difference between value at risk (assuming a confidence level of 99.95% and a period of one year) and the reserves held for risks included in the calculation.

43. Credit risk

Credit risk is the possibility to incur a loss due to a debtor not meeting the terms of the agreement.

The aim of credit risk management is to increase the safety of the Bank’s lending activity by ensuring the highest quality of credit risk assessments and effectiveness of the decision-making process, as well as an effective credit exposure monitoring with regard to the individual customers and the Bank’s loan portfolio.

With respect to individual customers, the Bank monitors their economic and financial situation, loan history, collateral provided and capital and organizational relations. The procedures implemented and modified in this area are aimed at identifying exposures and taking actions that are adequate to changes in the risk levels.

Credit risk monitoring on the portfolio level includes preparing regular, periodical analysis of the Bank’s loan portfolio, which ensures identification of adverse trends and concentrations, as well as performing ad hoc portfolio reviews, mainly in connection with changes in the external environment.

Credit risk monitoring procedures applied by the Bank also include the principles for monitoring of collaterals and their periodical reviews. The scope and frequency of these reviews depends on the type of collateral and comprises: collateral’s value and its changes, the correctness, completeness and validity of documents associated with the collateral as well as insurance documents for collaterals (a review of insurance policies, payment schemes, validity dates).

The Bank’s exposure to credit risk arises mainly from its lending activity and, to a lesser extent, from the sales and operations on the trading portfolio, derivative instruments and participation in payment transactions and settlements of securities on Bank’s own account and its customers’ accounts.

The Bank applies internal procedures that allow determining the level of credit risk associated with granting a given customer a loan or providing other services bearing credit risk, as well as the level of risk acceptance.

Risk management (cont.)

Implementation and modification of procedures in this area aims at both identifying and acting accordingly to the changing risk.

The Bank supports a clear and transparent system of lending competences based on the multi-level system of credit committees with various, clearly defined competences. Each and every person involved in the decision-making process is responsible for the risk and return on transactions which are subject to their decisions.

In order to ensure independence of the credit risk assessments and quality of Bank's loan portfolio, a clear division of responsibilities between business units and risk units has been introduced.

Business units are responsible for the management of individual credit exposures.
Risk management units are responsible for monitoring of risk of Bank's entire loan portfolio and, as part of their duties, for performing, among others, the following functions:

- implementation of lending strategies, policies and procedures;
- ensuring proper application of credit process standards approved by the Bank;
- monitoring of credit risk provisions levels,
- managing the portfolio of non-performing loans.

Before concluding a loan agreement, the Bank makes an assessment of the customer's creditworthiness. Assessment of a customer is supported by the rating and scoring systems used by the Bank. Systems such as this constitute an important element of credit risk management within the Bank.

In case of corporate customers, a customer's creditworthiness is assessed based on a rating system to classify the customer into one of the rating categories. The rating category is determined on the basis of an analysis of quantitative factors (annual and interim financial statements), qualitative factors, and additional warning signals. The rating category affects determination of standard risk costs and is an important parameter in Bank's portfolio management.

The Bank also estimates the risks associated with the purpose of the loan and customer's ability to service debt, in particular based on financial surpluses generated by the customer. The Bank grants loans to customers characterized by high creditworthiness.

Retail customers' creditworthiness is assessed with the use of scoring cards. The Bank grants loans to customers characterized by high creditworthiness. However, in order to reduce potential losses resulting from debt not being serviced, the Bank strives to conclude collateral agreements, in particular, with regard to long-term loans.

Actions undertaken in respect of collateral, including establishing collateral that will ensure the highest possible level of recovery in the event of debt collection, are meant to properly secure Bank's interests. Therefore, collateral established for loans serviced on a timely basis and overdue loans or impaired and not impaired loans, maintains the same quality. The policies regarding legal collateral are part of the internal regulations of the Bank.

Risk management (cont.)

The Bank accepts the following collaterals as measures to mitigate the consequence of credit risk realization:

- residential property mortgage,
- commercial property mortgage,
- registered pledge,
- pledged deposit,
- cash blocked on a bank account,
- bank guarantee,
- BGK guarantee,
- sovereign or municipal guarantee,
- corporate guarantee,
- suretyship,
- transfer of ownership as a security,
- assignment of receivables,
- bill of exchange,
- loan insurance,
- authorization to manage a bank account.

Discounted value of recoveries from collateral used in the model of individual allowance calculation amounted to PLN 761 774 thousand (PLN 790 562 thousand in 2013).

The Bank maintains close control over net open positions of derivative instruments, i.e. the differences between the call and put contracts, in terms of both their amount and maturity. At any time, the amount subject to credit risk is limited to the present fair value of instruments with positive fair value (i.e. assets), which in case of derivative instruments constitutes a small fraction of contract's value or the nominal values used to express the volume of existing instruments.

Exposure to credit risk on derivative instruments is managed as a part of the general credit limits for customers, together with the potential exposure to risk resulting from market changes.

Valuation techniques used by the Bank for derivative financial instruments are usually based on maximum use of input data originating from active markets, including: interest rates, foreign exchange rates and implicit volatilities. In the absence of appropriate input from an active market, the Bank usually utilizes its own estimations of parameters necessary for pricing purposes based on Bank's best knowledge and experience.

The main purpose of contingent liabilities is to ensure availability of funds as they are required. Those liabilities are related to the unused portion of loans, guarantees and letters of credit granted.

Risk management (cont.)

With respect to the credit risk on granted loan commitments, the Bank is exposed to potential losses equal to the total amount of granted loan commitments. The likely loss is lower however than the entire amount of unused loan commitments based on the fact that the majority of those commitments depends on borrowers meeting certain credit criteria. The Bank monitors periods of validity of its granted loan commitments, because credit risk is generally higher the longer the period.

Guarantees and letters of credit, which constitute Bank's irrevocable commitments to pay client's third party liabilities in an event that the client is unable to pay, are subject to the same credit risk as loans.

Risk management (cont.)

As at 31 December 2014	Financial assets presented in the statement of financial position							
Classes of exposure with instrument types assigned to them	amounts due form banks	cash and balances with the Central Bank	trading assets	derivatives	investment securities	loans and advances	other	Total
Cash and cash equivalents	**0**	**1 757 367**	**0**	**0**	**0**	**0**	**0**	**1 757 367**
Exposures to governments and central banks	**0**	**926 508**	**196 511**	**0**	**12 135 652**	**0**	**0**	**13 258 671**
Cash and balances with the Central Bank	0	926 508	0	0	0	0	0	**926 508**
Treasury bonds and bills	0	0	196 511	0	2 436 191	0	0	**2 632 702**
NBP bills	0	0	0	0	9 699 462	0	0	**9 699 462**
Exposures to banks	**628 385**	**0**	**69 411**	**708 231**	**0**	**0**	**0**	**1 406 028**
Cash on current and term accounts with other banks	599 995	0	0	0	0	0	0	**599 995**
Loans and advances granted to other banks	28 390	0	0	0	0	0	0	**28 390**
Derivative financial instruments	0	0	0	708 231	0	0	0	**708 231**
Corporate bonds	0	0	47 069	0	0	0	0	**47 069**
Mortgage backed securities	0	0	22 343	0	0	0	0	**22 343**
Exposures to customers	**0**	**0**	**95 700**	**191 982**	**378 434**	**34 716 952**	**0**	**35 383 068**
Loans and advances granted to individuals	0	0	0	0	0	18 058 044	0	**18 058 044**
Loans and advances granted to micro customers	0	0	0	0	0	2 326 835	0	**2 326 835**
Loans and advances granted to large enterprises	0	0	0	0	0	13 241 176	0	**13 241 176**
Loans and advances granted to small and medium enterprises	0	0	0	0	0	1 061 253	0	**1 061 253**
Loans and advances granted to public sector entities	0	0	0	0	0	29 644	0	**29 644**
Investment securities available for sale	0	0	0	0	27 081	0	0	**27 081**
Derivative financial instruments	0	0	0	191 982	0	0	0	**191 982**
Corporate bonds	0	0	31 893	0	351 353	0	0	**383 246**
Bonds convertible to shares	0	0	63 808	0	0	0	0	**63 808**
Other financial assets	**0**	**0**	**0**	**0**	**0**	**0**	**130 763**	**130 763**

Risk management (cont.)

As at 31 December 2013	Financial assets presented in the statement of financial position							
Classes of exposure with instrument types assigned to them	amounts due form banks	cash and balances with the Central Bank	trading assets	derivatives	investment securities	loans and advances	other	**Total**
Cash and cash equivalents	**0**	**1 249 206**	**0**	**0**	**0**	**0**	**0**	**1 249 206**
Exposures to governments and central banks	**0**	**1 172 845**	**8 702 811**	**0**	**1 438 473**	**0**	**0**	**11 314 129**
Cash and balances with the Central Bank	0	1 172 845	0	0	0	0	0	**1 172 845**
Treasury bonds and bills	0	0	243 986	0	1 248 498	0	0	**1 492 484**
NBP bills	0	0	8 458 825	0	189 975	0	0	**8 648 800**
Exposures to banks	**353 941**	**0**	**0**	**417 457**	**0**	**0**	**0**	**771 398**
Cash on current and term accounts with other banks	311 961	0	0	0	0	0	0	**311 961**
Loans and advances granted to other banks	41 980	0	0	0	0	0	0	**41 980**
Derivative financial instruments	0	0	0	417 457	0	0	0	**417 457**
Exposures to customers	0	0	67 995	115 506	321 238	33 208 232	0	**33 712 971**
Loans and advances granted to individuals	0	0	0	0	0	18 560 846	0	**18 560 846**
Loans and advances granted to micro customers	0	0	0	0	0	2 556 874	0	**2 556 874**
Loans and advances granted to large enterprises	0	0	0	0	0	11 167 227	0	**11 167 227**
Loans and advances granted to small and medium enterprises	0	0	0	0	0	883 764	0	**883 764**
Loans and advances granted to public sector entities	0	0	0	0	0	39 522	0	**39 522**
Investment securities available for sale	0	0	0	0	27 069	0	0	**27 069**
Derivative financial instruments	0	0	0	115 506	0	0	0	**115 506**
Corporate bonds	0	0	0	0	294 169	0	0	**294 169**
Bonds convertible to shares	0	0	67 995	0	0	0	0	**67 995**
Other financial assets	**0**	**0**	**0**	**0**	**0**	**0**	**166 870**	**166 870**

Maximum exposure to credit risk for off-balance sheet amounted to:	**31 December 2014**	**31 December 2013**
Guarantees	2 019 923	1 777 707
Off balance liabilities of a financial nature	4 454 747	4 252 341

Risk management (cont.)

All categories of financial assets presented in the statement of financial position are regularly tested for impairment (on an individual or group basis). For the purpose of disclosure they are classified to one of the three categories of receivables: unimpaired not-overdue, unimpaired overdue and impaired. The above mentioned assets are presented in the following table by the gross value and by the customer group:

31 December 2014	Exposure amount			
	analysed on an individual basis	analysed on a group basis	Total	Value of collateral reducing the maximum exposure to credit risk
Not overdue receivables without identified impairment	**128 502**	**33 155 631**	**33 284 133**	**14 583 405**
Amounts due from Central Bank and other banks	-	1 555 195	1 555 195	16 123
Individual customers	-	16 128 215	16 128 215	8 962 412
Micro customers	-	1 774 576	1 774 576	1 007 087
Large enterprises	-	12 642 233	12 642 233	4 151 674
Small and medium enterprises	-	1 031 373	1 031 373	446 109
Public sector	-	24 039	24 039	-
Other financial assets	128 502	-	128 502	-
Overdue receivables without identified impairment	**-**	**2 044 648**	**2 044 648**	**1 048 033**
Individual customers	-	1 662 735	1 662 735	785 517
Micro customers	-	219 710	219 710	117 265
Large enterprises	-	139 822	139 822	136 100
Small and medium enterprises	-	16 641	16 641	9 151
Public sector	-	5 740	5 740	-
Receivables with identified impairment	**1 406 726**	**1 484 417**	**2 891 143**	**1 210 645**
Individual customers	32 818	855 776	888 594	326 663
Micro customers	35 743	628 641	664 384	347 444
Large enterprises	1 258 282	-	1 258 282	519 665
Small and medium enterprises	77 622	-	77 622	16 873
Other financial assets	2 261	-	2 261	-
Total other financial assets, gross	**1 535 228**	**36 684 696**	**38 219 924**	**16 842 083**
Impairment allowances on amounts due from Central Bank and other banks	**-**	**302**	**302**	**-**
Impairment allowances on loans and advances	**826 845**	**990 169**	**1 817 014**	**-**
Impairment allowances on other financial assets	**2 261**	**-**	**2 261**	**-**
Total other financial assets, net	**706 122**	**35 694 225**	**36 400 347**	**16 842 083**

Risk management (cont.)

31 December 2013	Exposure amount			
	analysed on an individual basis	analysed on a group basis	Total	Value of security reducing the maximum exposure to credit risk
Not overdue receivables without identified impairment	**166 870**	**31 771 512**	**31 938 381**	**21 893 521**
Amounts due from Central Bank and other banks	-	1 526 991	1 526 991	15 812
Individual customers	-	16 827 494	16 827 494	15 665 800
Micro customers	-	1 930 905	1 930 905	1 803 157
Large enterprises	-	10 596 944	10 596 944	4 014 430
Small and medium enterprises	-	849 523	849 523	394 323
Public sector	-	39 655	39 655	-
Other financial assets	166 870	-	166 870	-
Overdue receivables without identified impairment	**-**	**2 106 736**	**2 106 736**	**1 695 615**
Individual customers	-	1 500 330	1 500 330	1 199 293
Micro customers	-	360 711	360 711	356 031
Large enterprises	-	222 955	222 955	122 801
Small and medium enterprises	-	22 740	22 740	17 489
Receivables with identified impairment	**1 175 582**	**2 373 437**	**3 549 019**	**1 491 087**
Individual customers	13 824	1 525 314	1 539 138	536 273
Micro customers	7 354	843 660	851 014	542 527
Large enterprises	1 068 531	0	1 068 531	396 284
Small and medium enterprises	77 957	4 463	82 420	16 003
Other financial assets	7 916	-	7 916	-
Total other financial assets, gross	**1 342 451**	**36 251 685**	**37 594 137**	**25 080 222**
Impairment allowances on amounts due from Central Bank and other banks	**-**	**205**	**205**	**-**
Impairment allowances on loans and advances	**749 056**	**1 935 072**	**2 684 129**	**-**
Impairment allowances on other financial assets	**7 916**	**-**	**7 916**	**-**
Total other financial assets, net	**585 479**	**34 316 408**	**34 901 887**	**25 080 222**

The ageing analysis of overdue assets without identified impairment is presented in the following table.

As at 31 December 2014	Past due for					
Overdue receivables - not impaired	Less than 30 days	Between 30 and 90 days	Between 90 and 180 days	Between 180 days and 1 year	More than 1 year	Total
Gross loans and advances - overdue but not impaired	**1 538 647**	**387 670**	**18 957**	**21 687**	**77 687**	**2 044 648**
Individual customers	1 363 099	294 804	2 963	1 800	69	**1 662 735**
Micro customers	135 774	83 859	7	35	35	**219 710**
Large enterprises	32 102	1 387	14 507	19 091	72 735	**139 822**
Small and medium enterprises	7 672	1 880	1 480	761	4 848	**16 641**
Public sector	-	5 740	-	-	-	**5 740**
Total	**1 538 647**	**387 670**	**18 957**	**21 687**	**77 687**	**2 044 648**

Risk management (cont.)

As at 31 December 2013 Overdue receivables - not impaired	Past due for Less than 30 days	Between 30 and 90 days	Between 90 and 180 days	Between 180 days and 1 year	More than 1 year	Total
Gross loans and advances - overdue but not impaired	**1 497 226**	**466 066**	**8 486**	**95 099**	**39 859**	**2 106 736**
Individual customers	1 181 934	308 325	741	72	9 257	**1 500 330**
Micro customers	226 294	129 552	2 657	1 605	604	**360 711**
Large enterprises	85 464	19 789	3 343	90 323	24 036	**222 955**
Small and medium enterprises	3 534	8 400	1 744	3 099	5 963	**22 740**
Total	**1 497 226**	**466 066**	**8 486**	**95 099**	**39 859**	**2 106 736**

Risk management (cont.)

The following table presents credit quality of receivables neithers past due nor impaired from Central Bank, other banks and the Bank’s clients, set up based on internal rating models.

As at 31 December 2014	Exposures								Total amount of exposures
Credit quality of financial assets neither past due nor impaired	to governments and central banks	to banks	to individuals	to micro customers	to large enterprises	to small and medium enterprises	to the public sector	other assets	
Exposures classified in accordance with internal ratings applied by the Bank									
Very good	926 508	571 178	15 368 609	1 285 792	5 735 948	463 096	15 789	0	**24 366 920**
Good	0	21 220	280 698	301 628	3 813 566	329 061	8 250	0	**4 754 423**
Average	0	3 090	0	0	2 628 830	214 136	0	0	**2 846 056**
Bad	0	0	29 337	130 618	324 266	20 793	0	0	**505 014**
Very bad	0	0	0	0	6 047	2 013	0	0	**8 060**
Total exposures classified in accordance with internal ratings applied by the Bank	**926 508**	**595 488**	**15 678 644**	**1 718 038**	**12 508 657**	**1 029 099**	**24 039**	**0**	**32 480 473**
Non-rated exposures	**0**	**33 199**	**449 571**	**56 538**	**133 576**	**2 274**	**0**	**128 502**	**803 660**
Total	**926 508**	**628 687**	**16 128 215**	**1 774 576**	**12 642 233**	**1 031 373**	**24 039**	**128 502**	**33 284 133**

As at 31 December 2013	Exposures								Total amount of exposures
Credit quality of financial assets neither past due nor impaired	to governments and central banks	to banks	to individuals	to micro customers	to large enterprises	to small and medium enterprises	to the public sector	other assets	
Exposures classified in accordance with internal ratings applied by the Bank									
Very good	1 172 845	336 217	13 649 943	0	4 481 331	305 757	19 509	0	**19 965 602**
Good	0	569	166 031	5	3 015 776	272 808	20 146	0	**3 475 335**
Average	0	16 186	0	61	2 533 147	239 626	0	0	**2 789 020**
Bad	0	0	25 917	8	360 461	20 836	0	0	**407 222**
Very bad	0	0	0	0	95 634	3 273	0	0	**98 907**
Total exposures classified in accordance with internal ratings applied by the Bank	**1 172 845**	**352 972**	**13 841 891**	**74**	**10 486 349**	**842 300**	**39 655**	**0**	**26 736 086**
Non-rated exposures	**0**	**1 166**	**2 985 602**	**1 930 831**	**110 597**	**7 231**	**0**	**166 870**	**5 202 297**
Total	**1 172 845**	**354 138**	**16 827 494**	**1 930 905**	**10 596 946**	**849 531**	**39 655**	**166 870**	**31 938 383**

Risk management (cont.)

The below tables present credit quality of trading assets, derivatives and investiment securities, set up based on internal rating models of the Bank.

As at 31 December 2014	Exposures							Total amount of exposures
	to governments and central banks	to banks	to individuals	to micro customers	to large enterprises	to small and medium enterprises	to the public sector	
Exposures classified in accordance with internal ratings applied by the Bank								
Very good	12 332 163	735 392	0	0	677 672	3 275	0	**13 748 502**
Good	0	25 389	0	0	416 301	1 608	0	**443 298**
Average	0	574	0	0	79 384	282	0	**80 239**
Bad	0	0	0	0	7 182	60	0	**7 242**
Very bad	0	0	0	0	0	25	0	**25**
Total exposures classified in accordance with internal ratings applied by the Bank	**12 332 163**	**761 355**	**0**	**0**	**1 180 538**	**5 250**	**0**	**14 279 307**
Non-rated exposures	**0**	**16 287**	**289**	**117**	**503**	**628**	**0**	**17 824**
Total	**12 332 163**	**777 642**	**289**	**117**	**1 181 041**	**5 878**	**-**	**14 297 130**

As at 31 December 2013	Exposures							Total amount of exposures
	to governments and central banks	to banks	to individuals	to micro customers	to large enterprises	to small and medium enterprises	to the public sector	
Exposures classified in accordance with internal ratings applied by the Bank								
Very good	10 141 284	414 220	0	0	272 626	948	0	**10 829 078**
Good	0	53	0	0	333 088	529	0	**333 670**
Average	0	532	0	0	36 020	233	0	**36 785**
Bad	0	0	0	0	4 583	0	0	**4 583**
Very bad	0	0	0	0	9 789	42	0	**9 831**
Total exposures classified in accordance with internal ratings applied by the Bank	**10 141 284**	**414 805**	**0**	**0**	**656 106**	**1 752**	**0**	**11 213 947**
Non-rated exposures	**0**	**2 652**	**389**	**32**	**2**	**52**	**1 742**	**4 868**
Razem	**10 141 284**	**417 457**	**389**	**32**	**656 108**	**1 804**	**1 742**	**11 218 815**

Risk management (cont.)

The following table provides information on concentration of credit risk by industry.

Total amount of gross exposures acc. to the main NACE groups												
31 December 2014	Exposures								Total amount of exposures	Including:		
Name of the industry	to goverments and central banks	to financial institution	with respect of specialist lending	to small and medium enterprises	other to entrepreneurs and the public sector	retail secured on mortgage	retail renewable	other retail		Capital exposures	Exposures with identified impairment	Impairment allowance
Agriculture, forestry and fishing	0	0	0	10 848	84 102	6 709	2 548	3 644	**107 851**	0	4 780	4 078
Mining	0	0	0	880	6 721	865	4	146	**8 615**	0	869	288
Manufacturing	0	0	0	358 303	3 322 489	4 015	614	603	**3 686 023**	0	191 212	150 977
Production and supply of electricity, gas, steam and air conditioning supply	0	0	558 547	1 836	191 770	284 271	68 215	49 548	**1 154 187**	0	269 873	106 917
Water supply, sewerage, waste management and remediation activities	0	0	0	17 730	20 514	378	96	235	**38 952**	0	88	255
Construction	0	0	197 717	51 797	617 241	125 996	34 550	40 522	**1 067 822**	26 017	322 329	251 121
Wholesale and retail trade; repair of motor vehicles, motorcycles,	0	780	0	541 792	2 790 413	697 172	167 031	137 308	**4 334 497**	0	585 766	333 909
Transport and storage	0	0	0	52 671	209 842	171 798	12 233	17 153	**463 697**	0	75 451	26 521
Hotels and restaurants	0	0	20 263	4 513	43 177	99 688	41 916	29 969	**239 526**	0	62 282	34 578
Information and communication	0	627 907	0	9 325	2 109 317	14 803	2 954	7 425	**2 771 732**	2	9 545	7 109
Financial and assurance activities	926 508	0	21 272	1 469	109 577	213 148	45 294	33 536	**1 350 807**	522 300	147 619	70 298
Activities related to real estate	0	0	2 816 711	27 265	515 635	6 742	389	1 042	**3 367 784**	0	258 554	163 861
Professional, scientific and technical activities	0	0	0	19 417	222 104	28 621	3 433	3 238	**276 814**	0	28 506	21 124
Administration activities and supporting activities	0	0	0	13 764	107 811	106 425	7 337	15 580	**250 917**	0	9 253	5 889

Risk management (cont.)

Total amount of gross exposures acc. to the main NACE groups

31 December 2014	Exposures								Total amount of exposures	Including:		
Name of the industry	to goverments and central	to financial institution	with respect of specialist lending	to small and medium enterprises	other to entrepreneurs and the public	retail secured on mortgage	retail renewable	other retail		Capital exposures	Exposures with identified impairment	Impairment allowance
Public administration and defence; compulsory social security and health insurance	0	0	0	64	68	56 829	8 603	8 384	**73 948**	0	13 964	6 833
Education	0	0	0	1 851	18 844	461	14	0	**21 170**	0	203	126
Health care and social assistance	0	0	28 038	9 362	27 525	501	5	115	**65 546**	0	55	1 963
Culture, entertainment and recreation	0	0	0	1 877	16 878	0	0	0	**18 755**	0	375	979
Other service activities	0	0	0	870	13 540	0	0	0	**14 410**	0	0	14
Households	0	0	0	0	0	16 550 991	465 332	1 759 785	**18 776 108**	0	908 158	630 474
Total	**926 508**	**628 687**	**3 642 548**	**1 125 636**	**10 427 568**	**18 369 413**	**860 569**	**2 108 232**	**38 089 162**	**548 319**	**2 888 882**	**1 817 316**

Risk management (cont.)

Total amount of gross exposures acc. to the main NACE groups

31 December 2013	Exposures								Total amount of exposures	Including:		
Name of the industry	to goverments and central banks	to financial institution	with respect of specialist lending	to small and medium enterprises	other to entrepreneurs and the public sector	retail secured on mortgage	retail renewable	other retail		Capital exposures	Exposures with identified impairment	Impairment allowance
Agriculture, forestry and fishing	0	0	0	14 150	54 686	2 669	2 675	2 803	**76 984**	0	8 568	6 693
Mining	0	0	0	5 363	2 488	0	56	0	**7 907**	0	2 357	1 340
Manufacturing	0	0	98 304	632 007	2 975 081	635	526	86	**3 706 640**	0	307 696	173 078
Production and supply of electricity, gas, steam and air conditioning supply	0	0	574 860	10 738	187 658	44 689	65 055	26 832	**909 833**	0	90 397	71 453
Water supply, sewerage, waste management and remediation activities	0	0	0	15 789	26 831	100	51	15	**42 787**	0	1 219	735
Construction	0	0	350 491	263 097	485 682	17 242	36 346	18 406	**1 171 263**	26 017	375 252	278 002
Wholesale and retail trade; repair of motor vehicles, motorcycles,	0	0	50 805	1 341 932	2 526 227	91 487	171 223	57 678	**4 239 353**	0	596 199	444 400
Transport and storage	0	0	0	172 250	171 952	11 404	8 515	5 215	**369 336**	0	67 832	46 080
Hotels and restaurants	0	0	71 049	196 757	29 344	11 428	38 334	12 444	**359 357**	0	76 410	45 762
Information and communication	0	0	0	38 154	1 055 723	1 511	2 312	1 099	**1 098 798**	2	7 454	8 509
Financial and assurance activities	1 172 845	354 146	39 892	30 228	390 320	34 841	41 612	14 652	**2 078 535**	156 385	91 506	46 931
Activities related to real estate	0	0	2 554 896	60 244	432 928	0	146	0	**3 048 213**	0	266 885	173 610
Professional, scientific and technical activities	0	0	0	123 108	190 098	853	2 478	825	**317 362**	0	29 297	20 683
Administration activities and supporting activities	0	0	8 315	40 730	112 401	16 691	6 249	5 539	**189 925**	0	12 469	9 655
Public administration and defence;	0	0	0	17 591	353	5 042	7 158	2 976	**33 120**	0	6 680	4 563
Education	0	0	0	47 361	17 883	455	7	0	**65 707**	0	10 827	7 190
Health care and social assistance	0	0	0	120 508	36 869	0	0	0	**157 377**	0	13 632	10 026
Culture, entertainment and recreation	0	0	0	27 027	17 219	0	0	0	**44 247**	0	7 119	4 977
Other service activities	0	0	0	113 611	10 298	0	0	0	**123 908**	0	24 248	19 366
Households	0	0	0	0	0	16 600 225	1 109 832	2 213 212	**19 923 269**	0	1 545 057	1 311 282
Total	**1 172 845**	**354 146**	**3 748 612**	**3 270 646**	**8 724 041**	**16 839 271**	**1 492 577**	**2 361 781**	**37 963 919**	**182 404**	**3 541 104**	**2 684 334**

Risk management (cont.)

Practices „Forbearance"

With reference to document 2012/853 from European Securities and Markets Authority and instruction from European Banking Authority in relation to disclosures concern the forborne exposure Bank implemented following practices for classification of those exposures .

The exposures flagged as forborne are loan agreements with reference to which concession agreement with debtors, who experience or will experience the difficulties in meeting their financial commitments, was reached. The concession agreement applies one of the following actions:

- changes in current agreement conditions, which – as it is judged – the debtors could not meet the financial commitments due to the financial difficulties ("at risk"),leading to insufficient ability to service the debt and the change would not take place if debtor did not face financial difficulties;
- full or partial refinancing of debt agreement at risk, which would not take place if debtor did not face financial difficulties.

Exposures are not reported as forborne, when all of the below conditions are met:

- the agreement is no longer considered at risk, including situations when it was removed from agreement at risk category after analysis of debtor's financial situation, which proved the agreement does not fulfill conditions required to consider it as at risk,
- from the date the exposure was as not at risk passed at least two year probation period,
- the regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period,
- none of the exposures to the debtor is more than 30 days past-due at the end of the probation period.

When the concession agreement leads to significant change in conditions or future expected cash flows, compared to market conditions or expected future cash flows from current financial assets, current financial asset is derecognized from the statement of financial position, and new financial assets is recognized in the statement of financial position, at the recognition date , in value lowered by impairment loss due to credit risk applicable for the new financial asset. The difference between impairment losses due to credit risk are recognized in profit or loss. This recognition is not related to the change or lack of change in legal form of the transaction and is based on its economic substance.

With reference to non-retail exposures the forbearance agreement, changing the conditions of agreement due to the debtor financial difficulties is treated as one of the triggers to perform individual impairment loss test and analysis of impairment loss of the exposures is required.

The retail exposures flagged as forborne for which impairment trigger was identified are covered by collective model of impairment . The retail exposures flagged as forborne for which impairment trigger was not identified are covered by IBNR model. The details of the impairment loss calculation for loans exposures are presented in Note 2.9. to the Financial Statements.

Risk management (cont.)

The below table presents the value of „forborne" exposure as at 31 December 2014:

Forborne exposures				
31 December 2014	**Gross value**	**Impairment allowance**	**Net value**	**Value of received collateral**
Not impaired exposures	**1 358 810**	**40 099**	**1 318 711**	**819 535**
Non past due	**1 057 638**	**18 211**	**1 039 426**	**646 480**
Individual customers	144 189	2 653	141 536	57 477
Micro customers	139 232	2 316	136 915	75 675
Large enterprises	763 137	12 801	750 336	506 126
Small and medium enterprises	11 080	441	10 639	7 201
Past due	**301 172**	**21 887**	**279 285**	**173 055**
Individual customers	147 883	9 813	138 070	62 319
Micro customers	84 003	7 552	76 450	42 231
Large enterprises	65 967	4 301	61 666	65 275
Small and medium enterprises	3 319	221	3 098	3 231
Impaired exposuers	**996 463**	**467 045**	**529 419**	**372 764**
Group method	**254 536**	**118 365**	**136 171**	**129 812**
Individual customers	120 934	65 795	55 139	51 515
Micro customers	133 602	52 571	81 031	78 298
Individual method	**741 927**	**348 679**	**393 248**	**242 951**
Individual customers	14 040	4 468	9 573	0
Micro customers	14 498	9 476	5 022	0
Large enterprises	697 223	323 113	374 110	239 413
Small and medium enterprises	16 166	11 622	4 543	3 539

In category "Not impaired exposures" are presented loans exposures with impairment trigger identified, but impairment loss not recognized, of gross value PLN 275 381 thousand, and impairment loss (IBNR) of PLN 12 205 thousand.

In the table below are presented by share forborne esposures to loans as of 31 December 2014.

Net amount exposures				
31 December 2014	**Forborne**	**Total Loans and advances to customers by borrower segment**	**% share**	**Under probation***
Individual customers	344 318	18 058 044	**2%**	146 504
Micro customers	299 418	2 326 835	**13%**	87 722
Large enterprises	1 186 112	13 241 176	**9%**	564 773
Small and medium enterprises	18 281	1 061 253	**2%**	5 686
Public sector	0	29 644	**0%**	0
Total	**1 848 130**	**34 716 952**	**5%**	**804 684**

** - the Bank classifies to the category "Under probabation" the exposures towards which previously facilities were undertaken and which are currently under observation before the full recovery*

Risk management (cont.)

In the table below forborne exposures are presented by days past due as of 31 December 2014:

Forborne exposures - gross		Past due					
31 December 2014	Not past due	Less than 30 days	Between 30 and 90 days	Between 90 and 180 days	Between 180 days and 1 year	More than 1 year	Total
Not impaired exposures	**1 057 638**	**140 846**	**89 514**	**5 500**	**4 549**	**60 763**	**1 358 810**
Individual customers	144 189	95 782	50 290	1 664	147	0	**292 072**
Micro customers	139 232	45 063	38 939	0	0	0	**223 234**
Large enterprises	763 137	0	1	3 107	4 212	58 647	**829 104**
Small and medium enterprises	11 080	0	284	729	189	2 116	**14 400**
Impaired exposuers	**292 213**	**22 846**	**60 287**	**50 024**	**51 039**	**520 054**	**996 463**
Individual customers	7 314	9 502	17 625	23 825	3 763	72 945	**134 974**
Micro customers	7 873	12 916	11 088	10 969	9 708	95 546	**148 100**
Large enterprises	274 026	428	31 575	13 089	35 563	342 542	**697 223**
Small and medium enterprises	3 000	0	0	2 141	2 004	9 021	**16 166**

The limit of concentration

In order to control credit portfolio risk in terms of expected and unexpected loss (capital and impairment allowance), the Bank sets for the purpose of internal control concentration limits as well as manages the exposure within those limits through regular monitoring.

Credit risk limits are determined in Credit policies and accepted by the Management Board of the Bank.

The Bank monitors in compliance with the article 71 of The Banking Act the utilization of concentration limits for individual clients and groups of clients within the same capital or organizational group.
The amounts of acceptable credit concentration limit for a single client or a group of related clients were as follows:

Acceptable concentration limit	31 December 2014	31 December 2013
Bank exposure concentration limit (25%)	1 356 018	1 208 412

The Bank had no exposures exceeding the above mentioned concentration limit.

Exposure to a single borrower is subject to further limitations in the form of specific limits concerning exposure to balance sheet and off-balance sheet risk and daily supply risk limits applicable to items such as foreign exchange forward contracts. The actual risk exposure is compared with the acceptable limits on a daily basis.

Customer balance sheet anf off balance sheet exposures exceeding 10% of Bank’s equity are presented below (PLN 542 407 thousand). They are presented based on exposure to a single customer or a capital group without taking into account any deductions resulting from the use of credit risk reduction techniques or exemptions defined in § 6 of the Resolution on exposure concentration limits. Exposures to governments, central banks and other banks were also included.

Risk management (cont.)

31 December 2014				
Customer No.	Borrower name	Exposure limit	Entity / Group	% share
1	Borrower 1	9 699 462	Entity	179%
2	Borrower 2	6 222 591	Group	115%
3	Borrower 3	6 037 693	Entity	111%
4	Borrower 4	1 201 103	Group	22%

31 December 2013				
Customer No.	Borrower name	Exposure limit	Entity / Group	% share
1	Borrower 1	10 093 094	Group	208,81%
2	Borrower 2	8 648 850	Entity	178,93%
3	Borrower 3	2 027 335	Group	41,94%
4	Borrower 4	1 161 420	Entity	24,03%
5	Borrower 5	870 508	Group	18,01%
6	Borrower 6	801 913	Group	16,59%
7	Borrower 7	661 159	Group	13,68%
8	Borrower 8	607 843	Group	12,58%
9	Borrower 9	522 182	Entity	10,80%
10	Borrower 10	504 719	Group	10,44%
11	Borrower 11	486 110	Group	10,06%
12	Borrower 12	484 528	Group	10,02%

As at 31 December 2014 exposures to borrowers: 1, 2 and 3 relate to the National Bank of Poland and the State Treasury and are not subject to total exposure limit of 25% of equity resulting from § 6 of the Polish FSA Resolution No. 208/2011 of 22 August 2011 with further amendments, on detailed rules and conditions for considering exposure when determining the observance of the exposure concentration limit and the large exposure limit. After applying exceptions set out in § 6 of the Polish FSA Resolution, exposure to those borrowers is below the permissible credit concentration limit which is below 25%.

Risk management (cont.)

44. Liquidity risk

The main purpose of the liquidity risk management process is to develop a structure of financial statement position in Bank that allows the Bank to achieve profit targets defined in the financial plan and, at the same time, maintain Bank's ability to timely settle its liabilities and comply with the both internal and external (regulatory) liquidity risk limits.

The Department of Asset and Liability Management is responsible for managing of both current and inter-day liquidity.

The level of mid-term and long-term liquidity risk incurred by the Bank is assessed based on liquidity reports.

The liquidity reports show the liquidity gap level (statistical analysis of the liquidity gap), i.e. a gap between the maturities of assets and liabilities in particular time periods, based on the level of liquidity ratios achieved, which show the ratio of accumulated inflows to accumulated outflows in any given period.

The reports are prepared for balance sheet and off-balance sheet items in PLN and in base foreign currencies, i.e. EUR, USD, CHF, JPY,GBP as well as other foreign currencies cumulatively. The reports take into account the elements of modeling the behavior of the financial market and that of Bank's customers (e.g. renew of deposits, core deposits on current accounts, the probability of realization of off-balance sheet liabilities, the mandatory reserve and adjustment of receivables due to identified impairment).

In the Bank, mid-term and long-term liquidity risk is managed by the Asset – Liability Committee (ALCO), which determines the desired structure of Bank's balance sheet using a system of limits comprising e.g. the liquidity gap amount, the level of deposit concentration, the ratio of loan portfolio value to the value of deposits.

The Department of Asset and Liability Management operates on the financial market to achieve an appropriate structure of the portfolio of assets and liabilities, so that the required liquidity risk limits are complied with. The Bank's pricing and product policy, as an instrument that affects the structure of the Bank's statement of financial position, is another tool used to manage liquidity risk.

The Bank also calculates on a daily basis regulatory liquidity ratios in accordance with the requirements of Resolution No. 386/2008 of the Polish Financial Supervision Authority as amended. These are:

- measures of short-term liquidity,
- measures of long-term liquidity.

Risk management (cont.)

The following table presents an ageing analysis of financial liabilities in the form of undiscounted cash flows.

31 December 2014 Type of liability	Nominal amount	Carrying amount	Contractual cash flows within 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	Total
Liabilities in respect of derivative financial instruments	**953 543**	**1 124 388**	**509 601**	**340 428**	**202 052**	**114 435**	**1 166 516**
inflows	27 312 088	-	17 540 262	4 093 644	3 699 251	2 039 408	**27 372 564**
outflows	28 265 632	-	18 049 863	4 434 072	3 901 303	2 153 842	**28 539 080**
Financial liabilities	**45 985 374**	**46 070 304**	**33 482 826**	**9 468 309**	**2 565 426**	**1 144 976**	**46 661 537**
Amounts due to banks	11 554 560	11 562 807	3 105 800	5 531 857	2 019 229	1 125 593	**11 782 480**
Amounts due to customers	33 689 806	33 764 529	30 181 117	3 904 316	1 630	1 186	**34 088 249**
Liabilities from issuance of debt securities	**500 000**	**501 960**	**0**	**16 500**	**533 300**	**0**	**549 800**
Other financial liabilities	241 008	241 008	195 909	15 636	11 266	18 197	**241 008**
Guarantee liabilities granted	**2 019 923**	**-**	**0**	**2 019 923**	**0**	**0**	**2 019 923**
Financial liabilities granted	**4 454 747**	**-**	**0**	**1 970 057**	**2 484 690**	**0**	**4 454 747**

31 December 2013 Type of liability	Nominal amount	Carrying amount	Contractual cash flows within 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	Total
Liabilities in respect of derivative financial instruments	**363 647**	**453 945**	**212 715**	**212 142**	**71 797**	**23 032**	**519 685**
Iflows	14 525 519	-	8 872 134	5 201 396	574 103	18 603	**14 666 236**
Outflows	14 889 165	-	9 084 849	5 413 538	645 900	41 634	**15 185 921**
Financial liabilities	**42 202 540**	**42 283 447**	**28 101 551**	**10 341 578**	**4 137 809**	**131 197**	**42 712 135**
Amounts due to banks and other monetary institutions	11 499 474	11 512 418	596 906	6 965 758	4 114 373	130 589	**11 807 626**
Amounts due to customers	30 393 027	30 460 990	27 216 777	3 375 820	1 265	608	**30 594 470**
Other financial liabilities	310 039	310 039	287 867	0	22 172	0	**310 039**
Guarantee liabilities granted	**1 777 707**	**-**	**0**	**1 777 707**	**0**	**0**	**1 777 707**
Financial liabilities granted	**4 252 341**	**-**	**0**	**2 075 151**	**2 177 190**	**0**	**4 252 341**

The following table presents the cumulativse liquidity gap of the Bank including off-balance transactions (without credit lines).

	within 1 month	1 - 3 months	3 - 12 months	1 - 2 years	2 - 3 years	up to 5 years
31 December 2014	-3 685 126	-13 309 921	-14 824 607	-15 333 681	-14 580 601	-12 292 039
31 December 2013	-8 178 736	-11 555 432	-15 473 095	-15 563 334	-16 281 075	-14 524 124

Amounts due to customers in current accounts are presented in liabilities „within 1 month”.

The Bank’s activities are aimed at transforming the maturities of assets and liabilities to reflect the preferences of customers who place their deposits with the Bank and receive loans from it, while maintaining the acceptable level of risk mitigated by mid-term and long-term financing obtained on the interbank market.

Risk management (cont.)

The structure of maturities of assets and liabilities and an ability to replace at acceptable cost interest-bearing liabilities upon their maturities, all are considered significant elements of Bank's liquidity assessment and its exposure to changes in interest rates and foreign exchange rates.

45. Other market risks

45.1. Market risk

Market risk is related to open positions on interest rate, foreign exchange and equity products exposed to changes in market values. For the purposes of determining risk limits, the Bank uses simulation methods relying on the base point value and methods based on the net position value.

The market risk management process is subject to continuous assessment and evolution in order to adjust it to the changing market conditions.

The management process comprises:

- identification of risk factors;
- risk measurement;
- risk monitoring;
- risk reporting.

45.2. Currency risk

Currency risk is a risk of changes in value of individual financial instruments due to fluctuations in foreign exchange rates. In connection with its activity, the Bank is exposed to the effect of fluctuations in foreign exchange rates on its financial position and cash flows.

Currency risk, understood as the probability of incurring a loss, depends on:

- foreign exchange rate fluctuations,
- non-matching receivables and liabilities in foreign currencies.

The main purpose of currency risk management is to identify areas prone to currency risk and take actions aimed at reducing the risk an acceptable level.

For the purposes of currency risk management, the Bank has developed a system of market risk levels. As part of the division of responsibilities in the risk management process the Bank's Management Board determines in its Asset and Liability Management Policy the level of general currency risk appetite, taking into account budget assumptions and the effect of potential losses on the Bank's equity.

Risk management (cont.)

The Bank's currency risk management policy assumes having a foreign exchange position, which enables the Bank to offer its customers competitive foreign exchange quotations. Currency risk is immaterial – the capital requirement in respect of foreign exchange risk is equal to PLN 952 thousand. The Bank uses simulation methods in the management process, utilizing value at risk (VaR) method in calculation of currency risk exposure.

Detailed values of the individual limits are determined by the Asset – Liability Committee and comprise:

- the maximum overnight open position levels for each currency,
- the total overnight and intraday open position levels for all currencies,
- the value at risk limit, determined for a 1-day position maintenance horizon and the confidence level of 99%. Value at risk is determined by the variance — covariance method,
- monthly,quarterly and annual maximum loss limits.

Moreover, for the purposes of calculating the requirement with respect to currency risk exposure, the so-called basic method is used, which determines the acceptable limits of exposure to the risk of unmatched currency receivables and liabilities (i.e. total position) with respect to the Bank's own funds.

Daily reports on Bank's currency position, comprising an analysis of foreign exchange operations in the context of both the compliance with prudential regulatory standards (limits) and the economic results, are presented to the directors of organizational units responsible for risk management and control and to the members of the Management Board.

As at 31 December 2014 and 31 December 2013 the Bank carried out an analysis of the impact of changes in foreign exchange rates on foreign exchange positions of the Group for three foreign currencies (EUR, CHF, USD), which have the largest open position. The results of this analysis are presented in the table below (in PLN thousand):

31 December 2014	Base position	Exposure after rate change of -50 pts	Exposure after rate change of +50 pts	Impact on the profit/loss rate after change of -50 pts	Impact on the profit/loss after rate change of +50 pts
EUR	7 239	7 230	7 247	-8	8
USD	-13 347	-13 328	-13 366	19	-19
CHF	5 568	5 561	5 576	-8	8
Total				**3**	**-3**

31 December 2013	Base position	Exposure after rate change of -50 pts	Exposure after rate change of +50 pts	Impact on the profit/loss rate after change of -50 pts	Impact on the profit/loss after rate change of +50 pts
EUR	-8 945	-8 934	-8 956	11	-11
USD	-1 706	-1 703	-1 708	3	-3
CHF	46 062	45 994	46 130	-68	68
Total				**-54**	**54**

Risk management (cont.)

Assuming that exchange rates fall at the same time by 50 base points, the net short currency position of the Bank would fall by PLN 3 thousand, while with an increase in exchange rate by 50 base points net short currency position of the Bank would increase by PLN 3 thousand.

As at 31 December 2014, Bank's net long currency position amounted to PLN 14 791 thousand, which constituted 0,27% of Bank's own funds (31 December 2013 net currency position of the Bank amounted to PLN 47 175 thousand, which was equal to 0,98 % of Bank's own funds). The following table presents the Bank's balance sheet and off-balance items by currency.

Concentrations of assets, liabilities and off-balance items in foreign currencies and the Bank's foreign exchange position					
31 December 2014	**EUR**	**USD**	**CHF**	**Other**	**Total**
Balance sheet components of foreign exchange position – assets	10 293 433	832 779	11 757 624	364 022	23 247 858
Balance sheet components of foreign exchange position – liabilities	9 520 965	1 899 444	3 854 876	337 390	15 612 675
Off-balance components of foreign exchange position – amounts receivable	11 662 245	14 274 956	2 023 889	423 291	28 384 382
Off-balance components of foreign exchange position – amounts payable	12 427 474	13 221 639	9 921 069	447 940	36 018 121
Net long foreign exchange position (+)	**7 239**	**-**	**5 568**	**1 983**	**14 791**
Net short foreign exchange position (-)	**-**	**13 347**	**-**	**-**	**13 347**

Concentrations of assets, liabilities and off-balance items in foreign currencies and the Bank's foreign exchange position					
31 December 2013	**EUR**	**USD**	**CHF**	**Other**	**Total**
Balance sheet components of foreign exchange position – assets	9 436 399	357 037	11 870 611	237 333	21 901 380
Balance sheet components of foreign exchange position – liabilities	10 686 876	1 594 132	4 344 619	313 374	16 939 001
Off-balance components of foreign exchange position – amounts receivable	9 155 016	10 515 056	1 835 375	419 454	21 924 902
Off-balance components of foreign exchange position – amounts payable	7 913 485	9 279 666	9 315 305	342 301	26 850 757
Net long foreign exchange position (+)	**-**	**-**	**46 062**	**1 112**	**47 175**
Net short foreign exchange position (-)	**8 945**	**1 706**	**-**	**-**	**10 651**

45.3. Interest rate risk for cash flows and fair value

Interest rate risk results from the fact that the possible changes in market interest rates can affect future cash flows or the fair value of financial instruments held by the Bank.

The main objectives of interest rate risk management include identification of the areas in which the Bank is exposed to interest rate risk and shaping the structure of balance sheet, so that maximum net asset values and net interest income can be achieved.

The Bank's policy on interest rate risk management assumes the existence of a system of internal transfer prices in the Bank, as part of which the business units do not incur interest rate risk on their own behalf, but transfer the risk to the units responsible for its central management.

Risk management (cont.)

For the purpose of interest rate risk management in the Bank, a system of market risk levels has been developed. As part of the division of responsibilities in the risk management process the Parent Entity's Management Board in its Assets and Liabilities Management Policy determines the level of general interest rate risk appetite, taking into account the budget assumptions and the effect of potential losses on Group's equity.

Subsequently, the detailed values of the individual limits are determined by the Asset – Liability Committee and comprise:

- the maximum open interest rate position limits measured as the amount of change in the fair value resulting from a 1 base point increase in market interest rates. The limits are diversified with respect to the source of exposure (bank book and trading book), their currency and time period in accordance with the repricing date grid used in the Bank,
- the value at risk limits, determined for the bank and trading books separately, assuming a 1-day position maintenance horizon and the confidence level of 99%. Value at risk is determined by the variance – covariance method. The Bank does not have any open interest rate positions on instruments with non-linear risk profile,
- monthly,quarterly and annual maximum loss limits.

All limits associated with interest rate risk are monitored by the Risk Management Department. Risk is measured on a daily basis. Daily reports on the utilization of different risk limits are distributed in an electronic format to Bank's business units and Member of the Board supervised them.

The Asset – Liability Committee (ALCO) is responsible for periodical control of the interest rate risk management. During its monthly meetings ALCO evaluates the levels of risk to which the Bnak is exposed to and, if necessary, instructs the relevant units to take appropriate steps to mitigate it.

The Bank maintains separate bank and trading portfolios. According to the Regulation of the Parent Entity's Management Board on detailed principles for separating the trading portfolio, it includes:

- transactions concluded with an intention to obtain financial gains in the short term as a result of changes in the market parameters, in particular foreign exchange rates and interest rates;
- all transactions hedging the risk on transactions included in the trading portfolio;
- internal hedging instruments, which mitigate bank portfolio risks.

Due to the fact that the risks on transactions concluded are not uniform, sub-portfolios within the trading portfolio had to be separated, which allows the Group to monitor positions and limits on individual types of transactions.

For the purposes of capital requirement calculation regarding the trading book exposure to interest rate risk, the Bank uses the method of an average, updated period of return. Transactions not classified to the trading portfolio are included in the bank portfolio.

Risk management (cont.)

The following table presents the level of Bank's exposure to interest rate risk, for the bank book and the trading book separately, measured in terms of the amount of the change in the fair value resulting from a 1 base point increase in market interest rates. The values in different maturity brackets are presented as absolute values in order to present the general level of exposure to interest rate risk, irrespective of the direction of a given position (in PLN).

	2014				2013			
	Min.	Max.	Average	As at 31 December	Min.	Max.	Average	As at 31 December
Bank book								
<1Y	958	2 355 458	544 426	**2 355 458**	103 322	655 077	230 032	**459 515**
1 – 3Y	2 439	616 687	93 758	**70 571**	142	491 852	70 648	**26 847**
>3Y	27 969	152 880	99 602	**142 086**	1 567	125 166	23 543	**23 801**
Trading book								
<1Y	84	132 242	38 011	**247**	283	158 556	42 495	**27 003**
1 – 3Y	227	179 534	67 186	**34 900**	38	173 283	30 472	**5 961**
>3Y	32	148 898	39 894	**68 889**	25	49 846	12 323	**15 524**

The following table presents the level of Bank's exposure to interest rate risk, for the bank book and the trading book separately, measured using the value at risk, in accordance with the model parameters defined in the system of limits and described above.

	2014				2013
	Min.	Max.	Average	As at 31 December	As at 31 December
Bank book	1 791	5 328	3 363	3 140	**1 291**
Trading book	483	3 290	1 425	1 638	**715**

The Bank also calculates the value of Earnings-at-Risk, which shows the sensitivity of net interest income in the year time horizon, assuming immediate and identical for all the currencies change in market interest rates by 100 basis points, continuing throughout the duration of the simulation. The result of the measurement as the end of 2014 showed the impact on net interest income of PLN 83 319 thousand, which is about 1.5% of the own funds included in the calculation of the capital adequacy ratio compared to PLN 101 901 thousand for the previous year, representing 2.1% of the funds.

The following table presents an analysis of asset, liabilities and off-balance items sensitivity to changes in interest rates. The table presents the carrying amounts of the Bank's assets and liabilities for the earlier of the two dates: change of the contractual interest rate date or due date.

The fair values of derivative financial instruments used mainly to reduce the Bank's exposure to changes in interest rates are presented under Derivative financial instruments in liabilities in Assets and Liabilities.

Risk management (cont.)

The Bank's exposure to interest rate risk									
31 December 2014	**Non-interest bearing**	**1M**	**3M**	**6M**	**12M**	**2Y**	**5Y**	**>5Y**	**Total**
Assets									
Cash and balances with the Central Bank	1 757 367	926 508	0	0	0	0	0	0	**2 683 875**
Amounts due from banks	0	563 385	65 000	0	0	0	0	0	**628 385**
Financial assets held for trading	0	157 063	96 283	6 711	72 238	12 572	6 488	10 268	**361 623**
Derivative financial instruments	900 213	0	0	0	0	0	0	0	**900 213**
Investment securities	27 081	10 384 100	2 102 906	0	0	0	0	0	**12 514 086**
Loans and receivables granted to customers	0	19 427 443	15 048 502	58 499	58 000	6 776	20 327	97 405	**34 716 952**
Other financial assets	128 502	0	0	0	0	0	0	0	**128 502**
Liabilities									
Amounts due to banks and other monetary institutions	0	3 960 735	7 214 603	30 863	8 600	28 000	0	0	**11 242 801**
Derivative financial instruments	1 124 388	0	0	0	0	0	0	0	**1 124 388**
Amounts due to customers – current	0	22 039 860	8 821 332	1 023 640	1 817 984	59 675	1 401	638	**33 764 529**
Subordinated liabilities	0	0	320 006	0	0	0	0	0	**320 006**
Liabilities from issuance on debt securities	0	0	0	501 960	0	0	0	0	**501 960**
Other financial liabilities	241 007	0	0	0	0	0	0	0	**241 007**
Off-balance-sheet items									
Guarantee liabilities granted	2 019 923	0	0	0	0	0	0	0	**2 019 923**
Financial liabilities granted	4 454 747	0	0	0	0	0	0	0	**4 454 747**

Risk management (cont.)

The Bank's exposure to interest rate risk									
31 December 2013	**Non-interest bearing**	**1M**	**3M**	**6M**	**12M**	**2Y**	**5Y**	**>5Y**	**Total**
Assets									
Cash and balances with the Central Bank	1 381 288	1 040 763	0	0	0	0	0	0	**2 422 051**
Amounts due from banks	0	228 941	120 000	0	5 000	0	0	0	**353 941**
Financial assets held for trading	0	8 590 306	0	5	12 791	70	157 408	10 226	**8 770 806**
Derivative financial instruments	532 963	0	0	0	0	0	0	0	**532 963**
Investment securities	27 069	1 438 473	41 180	252 989	0	0	0	0	**1 759 711**
Loans and receivables granted to customers	0	20 792 525	12 023 758	148 693	73 663	17 145	29 263	123 184	**33 208 232**
Other financial assets	166 870	0	0	0	0	0	0	0	**166 870**
Liabilities									
Amounts due to banks and other monetary institutions	0	1 985 294	9 301 030	0	27 506	75 864	18 721	0	**11 408 415**
Derivatives (FX and IRS)	453 944	0	0	0	0	0	0	0	**453 944**
Amounts due to customers – current	0	21 470 321	3 698 994	1 836 884	3 433 399	20 063	1 230	100	**30 460 991**
Subordinated liabilities	0	0	104 003	0	0	0	0	0	**104 003**
Other financial liabilities	310 039	0	0	0	0	0	0	0	**310 039**
Off-balance-sheet items									
Guarantee liabilities granted	1 777 707	0	0	0	0	0	0	0	**1 777 707**
Financial liabilities granted	4 252 341	0	0	0	0	0	0	0	**4 252 341**

Risk management (cont.)

45.4. Operational risk

Operational risk is defined as a risk of incurring a loss due to ill-adjusted or unreliable processes, people or systems, or due to external events. This definition includes legal risk, but it does not include strategic risk or reputation risk.

For the purposes of calculating the capital requirement for operational risk, the Bank uses the Standardized Approach method, which determines both the method for calculating the capital requirement and the operational risk management requirements.

The aim of the operational risk management is to increase safety of the Bank's operations by implementing effective mechanisms for the identification, assessment and quantification, mitigation, monitoring and reporting operational risk.

The Bank's operational risk management policy should reflect the Bank's operational risk profile and ensure that adequate measures are taken to:

- control the risk at an acceptable level adequate to the Bank's size and the nature of its operations;
- eliminate the reasons and the adverse effects of operational events;
- minimize losses incurred as a result of operational events;
- improve the effectiveness of processes;
- shape the awareness of operational risk.

Bank's operational risk appetite is defined as:

- the value of internal capital allocated to operational risk
- the estimated value of operating losses from operational events identified in the Bank within 12 months.

The main principles of operational risk management in the Bank are as follows:

- the operational risk owners are the managers of business lines and the individual organizational units;
- the operational risk management process is supervised by the Operational Risk Steering Committee;
- there is an independent operational risk management function in place at the Risk Management Department;
- the internal audit function performs an independent review of the operational risk management procedures and process;
- operational risk data is collected regularly;
- exposures are estimated and operational risk is reported;
- actions are taken to reduce operational risk to an acceptable level.

Risk management (cont.)

In accordance with the Operational Risk Management Policy, the following methods and tools for operational risk management are used in the Bank:

- collecting information on operational events;
- monitoring of key risk indicators
- scenario analysis for events characterized by low frequency and high severity,
- assessment of operational risk for the key operational risk areas,
- operational risk reporting ensuring regular and timely flow of information to relevant decisive bodies.