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.

Consolidated financial statements for the year 2014
RAIFFEISEN BANK POLSKA S.A. GROUP

The Management Board presents the consolidated financial statements of Raiffeisen Bank Polska S.A. Group 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 Polish original ....
name and surname	*position/function*	*signature*
Ryszard Drużyński	Vice-President of the Management Board	Signed on 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 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

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Consolidated 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		2 148 490	2 334 528
Interest expense		-924 161	-1 122 124
Net interest income	*6*	**1 224 329**	**1 212 404**
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items	*7*	-106 555	-361 704
including Proceeds from sale of receivables		261 712	37 074
Fee and commission income		706 231	756 902
Fee and commission expense		-93 470	-93 424
Net fee and commission income	*8*	**612 761**	**663 478**
Net income from financial instruments measured at fair value and net foreign exchange result	*9*	58 478	139 594
General administrative expenses	*10*	-1 349 363	-1 495 357
Other operating income	*11*	67 418	143 742
Other operating expenses	*11*	-61 505	-62 053
Profit before tax		**445 562**	**240 104**
Income tax expense	*12*	-108 623	-56 628
Net profit		**336 939**	**183 476**
Profit/(loss) attributable to non-controlling interest		**-741**	**36 064**
Profit attributable to the equity holders of the Parent Entity		**337 680**	**147 412**
Weighted average number of ordinary shares (in units)	*13*	243 335	242 845
Profit attributable to the Parent Entity equity holders per one ordinary share (in PLN)	*13*	1 388	607
Weighted average number of diluted shares (in units)	*13*	243 335	242 845
Profit attributable to the Parent Entity equity holders per one diluted share (in PLN)	*13*	1 388	607

*Please refer to Note 3. to the consolidated financial statements

Notes presented on pages 12- 162 are an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

	For the financial year ended 31 December 2014	For the financial year ended 31 December 2013
Net profit	**336 939**	**183 476**
Other taxable income that may be reclassified to profit or loss, including:	**-37 264**	**-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	6 415	-6 220
Income tax on available for sale financial assets	-1 219	1 182
Total comprehensive income for the period	**299 676**	**173 845**
Total income attributable to non-controlling interest	**-741**	**36 064**
Total income attributable to the Parent Entity shareholders	**300 417**	**137 781**

Notes presented on pages 12- 162 are an integral part of the consolidated financial statements.

Consolidated statement of financial position

Assets	Note	As at 31 December 2014	As at 31 December 2013 restated*	As at 31 December 2012 restated*
Cash and balances w ith Central Bank	14.	2 683 875	2 422 051	3 099 942
Amounts due from banks	15.	654 891	367 637	246 208
Financial assets held for trading	18.	361 623	8 770 806	8 763 622
Financial assets designated upon initial recognition as at fair value through profit or loss	18.	0	0	59 529
Derivative financial instruments	16.	900 712	534 229	472 748
Investment securities	19.	12 529 109	1 802 410	585 975
Loans and advances to customers	20.	39 819 298	37 653 990	39 587 128
Intantigle assets	21.	589 399	628 741	604 611
Property, plant and equipment	22.	302 996	302 109	310 454
Deffered income tax assets	12.	487 800	500 713	514 982
Current income tax receivables		27 937	80 592	55 710
Other assets	23.	290 725	337 464	367 326
Total assets		**58 648 365**	**53 400 742**	**54 668 235**

Liabilities and equity	Nota	As at 31 December 2014	As at 31 December 2013 restated*	As at 31 December 2012 restated*
Amounts due to banks and other monetary institutions	24.	16 389 675	15 937 209	14 426 649
Derivative financial instruments	16.	1 124 302	453 945	368 262
Amounts due to customers	25.	32 878 290	30 129 775	32 185 908
Subordinated liabilities	26.	320 006	104 003	1 060 442
Liabilities from debt securities issued	27	1 136 394	0	0
Other liabilities	28	380 974	437 034	439 265
Current tax liabilities		47 053	417	2 002
Provisions	31.	220 096	219 707	216 795
Total liabilities		**52 496 791**	**47 282 090**	**48 699 323**
Equity		**6 151 515**	**5 821 095**	**5 689 419**
Share capital	32.	2 256 683	2 207 461	2 207 461
Supplementary capital		2 357 406	2 366 229	2 410 706
Other capital and reserves	32.	947 287	944 550	958 064
Retained earnings	32.	590 139	302 855	113 188
Non-conrolling interest's equity		**59**	**297 557**	**279 493**
Total equity		**6 151 574**	**6 118 652**	**5 968 912**
Total liabilities and equity		**58 648 365**	**53 400 742**	**54 668 235**

*Please refer to Note 3. to the consolidated financial statements

Notes presented on pages 12- 162 are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

	Note	Share capital	Supplementary capital	Other capital and reserves	Retained earnings: Prior years result	Retained earnings: Net profit/(loss) for the year	Total equity attributable to equity holders of the Bank	Non-controlling interest	Total
As at 1 January 2014		**2 207 461**	**2 366 229**	**944 550**	**155 443**	**147 412**	**5 821 095**	**297 557**	**6 118 652**
Valuation of available for sale financial assets, net		0	0	5 196	0	0	5 196	0	5 196
Valuation of cash-flow hedge derivatives, net		0	0	-42 460	0	0	-42 460	0	-42 460
Net profit for 2014		0	0	0	0	337 680	337 680	-741	336 939
Total comprehensive income		**0**	**0**	**-37 264**	**0**	**337 680**	**300 417**	**-741**	**299 676**
Transfer of net result to retained earnings		0	0	0	147 412	-147 412	0	0	0
Acquisition of shares fromnon-controlling interests		0	-99 519	0	-2 924	0	-102 443	-277 557	-380 000
Dividends paid		0	0	0	0	0	0	-20 000	-20 000
Other connected w ith consolidation		0	1 341	0	8 109	0	9 450	800	10 250
Transactions with controlling shares		**49 222**	**89 355**	**40 000**	**-55 581**	**0**	**122 996**	**0**	**122 996**
Shares issue		49 222	73 774	0	0	0	122 996	0	122 996
Transfer of net result to general banking risk reserve		0	0	40 000	-40 000	0	0	0	0
Transfer of net result to supplementary capital		0	15 581	0	-15 581	0	0	0	0
As at 31 December 2014	32	**2 256 683**	**2 357 406**	**947 287**	**252 459**	**337 680**	**6 151 515**	**59**	**6 151 574**

Notes presented on pages 12- 162 are an integral part of the consolidated financial statements.

Consolidated 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 equity attributable to equity holders of the Bank	Non-controlling interest	Total
As at 1 January 2013		**2 207 461**	**2 410 706**	**958 064**	**145683**	**-32 495**	**5 689 419**	**279 493**	**5 968 912**
Valuation of available for sale financial assets, net		0	0	-5 038	0	0	-5 038	0	-5 038
Valuation of cash-flow hedge derivatives, net		0	0	-4 593	0	0	-4 593	0	-4 593
Net profit for 2013		0	0	0	0	147 412	147 412	36 064	183 476
Total comprehensive income		**0**	**0**	**-9 631**	**0**	**147 412**	**137 781**	**36 064**	**173 845**
Transfer of net result to retained earnings		0	0	0	-32 495	32 495	0	0	0
Dividends paid		0	0	0	0	0	0	-18 000	-18 000
Other connected with consolidation		0	0	-3 883	-2 222	0	-6 105	0	-6 105
Transactions with controlling shares		**0**	**-44 477**	**0**	**44 477**	**0**	**0**	**0**	**0**
Transfer of net result to supplementary capital		0	-44 477	0	44 477	0	0	0	0
As at 31 Decemeber 2013	32	**2 207 461**	**2 366 229**	**944 550**	**155 443**	**147 412**	**5 821 095**	**297 557**	**6 118 652**

Notes presented on pages 12- 162 are an integral part of the consolidated financial statements.

Consolidated 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		**445 562**	**240 104**
Adjustments:		**768 427**	**318 447**
Depreciation and amortization	*21,22*	177 403	154 851
Unrealized foreign exchange differences		316 668	-142 365
(Gains) / losses on sale of investments and fixed assets		15 742	-5 298
Transfer of interest and dividend from investing and financing activities		319 473	329 457
Remaining non cash positions		-60 860	-18 198
Changes in operating assets and liabilities		**11 597 232**	**-3 573 324**
Interbank placements, loans and advances to other banks		-360 664	-106 616
Financial assets held for trading		8 171 823	-429 354
Investment securities		2 347	6 676
Derivative financial instruments		147 329	24 201
Loans and advances to customers		-3 782 707	17 998
Other assets		35 996	-89 847
Amounts due to banks and other monetary institutions		2 479 619	-3 343 774
Amounts due to customers		3 561 195	-975 210
Other liabilities		-60 182	31 550
Provisions		-630	-4 663
Income tax paid		31 364	-72 439
Interest received		2 019 242	2 439 962
Interests paid		-647 500	-1 071 808
Net cash flow from operating activities		**12 811 221**	**-3 014 773**

*Please refer to Note 3. to the consolidated financial statements

Consolidated statement of cash flows (cont.)

Investing activities	***Note***	**For the financial year ended 31 December 2014**	**For the financial year ended 31 Decemeber 2013 restated***
Proceeds from sale of investment securities		1 429 174	41 022
Proceeds from sale of fixed assets		3 530	24 362
Cash acquired due to change in consolidation group		38 399	0
Purchase of investment securities		-12 157 658	-1 236 585
Purchase of investments in subsidiaries		-380 000	0
Purchase of fixed assets		-100 434	-181 901
Net cash flow from investing activities		**-11 166 990**	**-1 353 102**
Financing activities			
Inflow s from subordinated liabilities and long-term bank loans		3 462 598	12 167 067
Outflow s from repayment of subordinated liabilities and long-term bank loans		-6 101 825	-8 400 335
Inflow s from issued debt securities		1 134 434	0
Inflow s from shares issue		122 996	0
Dividends paid		-20 000	-18 000
Net cash flow from financing activities		**-1 401 797**	**3 748 732**
Net increase / (decrease) in cash and cash equivalents	37.	**242 434**	**-619 143**
Cash and cash equivalents as at 1 January		**2 571 124**	**3 190 267**
Cash and cash equivalents as at 31 December		**2 813 558**	**2 571 124**

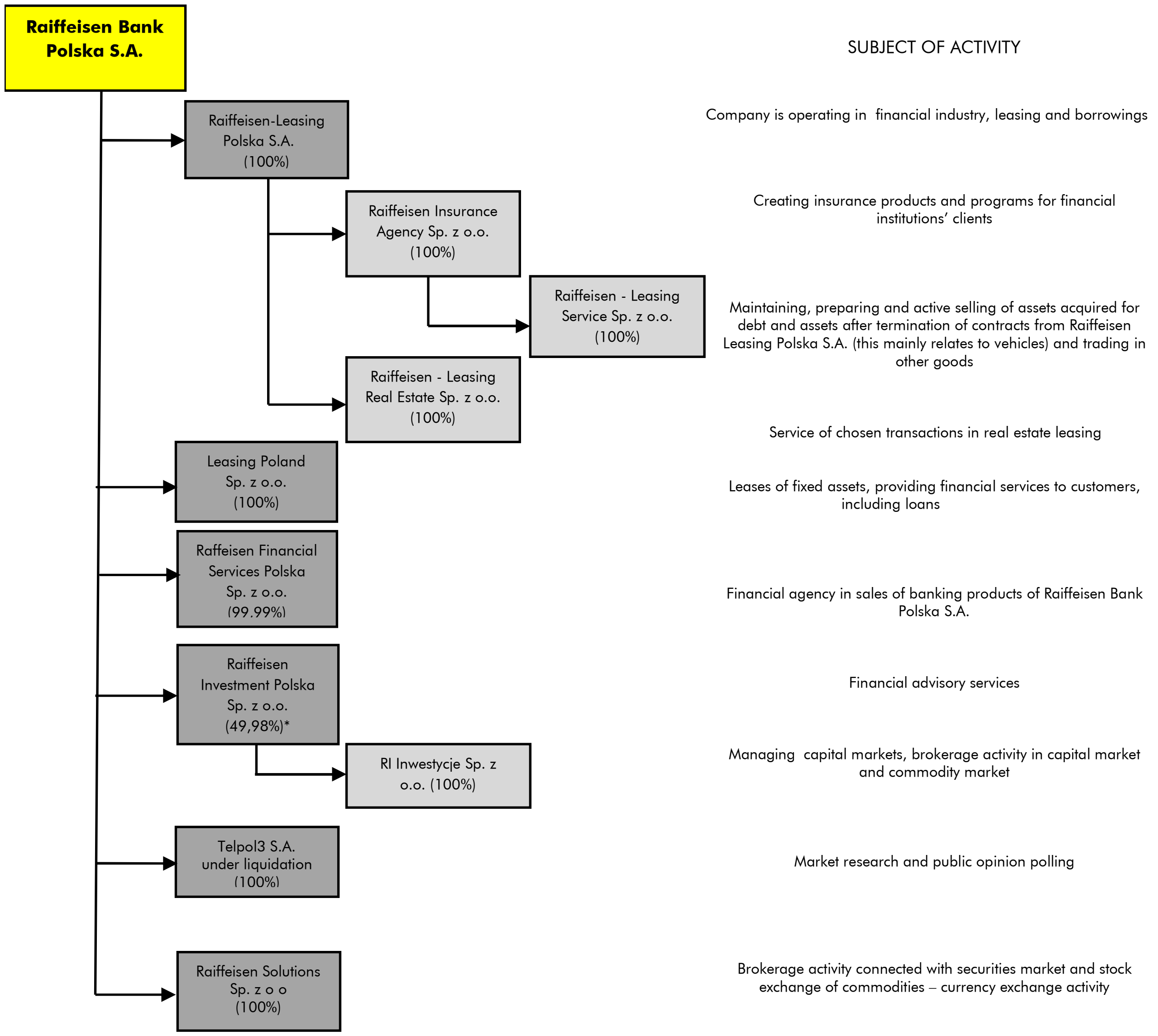
*Please refer to Note 3. to the consolidated financial statements

Notes to the consolidated financial statements

1. General information

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

The Raiffeisen Bank Polska S.A. Group is composed of the following entities:



*** the remaining 50,02% of the Company's shares is held by Raiffeisen Investment AG*

Notes to the consolidated financial statements (cont.)

Subsidiaries consolidated on the full consolidation basis:

- **Raiffeisen Bank Polska S.A. („Parent Entity")**
- **Raiffeisen-Leasing Polska S.A.**
- **Raiffeisen Insurance Agency Sp. z o.o.**
- **Raiffeisen-Leasing Service Sp. z o.o.**
- **Raiffeisen-Leasing Real Estate Sp. z o.o.**
- **Raiffeisen Financial Services Polska Sp. z o.o.**
- **Raiffeisen Investment Polska Sp. z o.o.**
- **Raiffeisen Solutions Sp. z o.o.**

In addition the Group consolidates special purpose entities Compass Variety Funding LTD and ROOF Poland 2014 LTD, both located in Ireland, using which the Group concluded securitization of leasing debts, described in Note 35.2. to the consolidated financial statements. These entities were consolidated because according to IFRS 10 the Parent Entity controls them, despite Parent Entity does not hold any capital exposure in those entities (that is why these entities were not included in the above diagram of capital Group).

Securitized leasing debts are presented in the Group's assets due to unfulfilment of balance sheet exemption conditions relating to assets described in IAS 39 point 19, particularly the condition of immediate obligation to transfer cash flow from an asset.

The following companies: RI Inwestycje Sp. z o.o., Leasing Poland Sp. z o.o. and Telpol3 S.A. (under liquidation) were not consolidated due to their insignificance.

The Group operates in retail banking, corporate banking and investment banking as well as in leasing and factoring area in Poland and employed 6 267 people as at the end of 2014 and 6 575 people as at the end of 2013.

The terms used in these consolidated financial statements shall mean, respectively:

Bank or Parent Entity – Raiffeisen Bank Polska S.A.

Subsidiaries – Raiffeisen-Leasing Polska S.A., Raiffeisen Insurance Agency Sp. z o.o., Raiffeisen Financial Services Polska Sp. z o.o., Raiffeisen-Leasing Service Sp. z o.o., Raiffeisen Leasing Real Estate Sp. z o.o., Leasing Poland Sp. z o.o., Raiffeisen Investment Polska Sp. z o.o., RI Inwestycje Sp. z o.o., Raiffeisen Solutions Sp. z o.o., Telpol3 S.A.(under liquidation)

RZB – Raiffeisen Zentralbank Österreich AG, the ultimate parent of the Group

RBI – Raiffeisen Bank International AG, the Parent Entity for the Bank

Notes to the consolidated financial statements (cont.)

Group – Raiffeisen Bank Polska S.A. Group

RZB Group – the Raiffeisen Zentralbank Oesterreich AG (RZB) Group, which includes, among others, banks from Central and Eastern Europe controlled by RBI and RZB, foreign branches of RZB, Austrian financial institutions and other supporting institutions

Approval of these consolidated financial statements

The Parent Entity's Management Board approved these consolidated financial statements on 18 March 2015.

Shareholders of the Parent Entity

Majority shareholder of Raiffeisen Bank Polska S.A. is Raiffeisen Bank International, which was 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 rest of the capital is in free float on the Vienna Stock Exchange, where Raiffeisen is listed since 2005. RBI is a Parent Entity of Raiffeisen Bank Polska SA and holds 100% of share.

Significant changes within the Group structure in the current reporting period

The following significant changes within the Group structure took place in the current reporting period:

- On 11th December, 2014 the Bank concluded an agreement with Austrian Raiffeisen-Leasing International, based on which 50% of shares of Raiffeisen-Leasing Polska were purchased. As a result of this transaction the Bank became the only shareholder of Raiffeisen-Leasing Polska. The purchase price amounted PLN 380 000 thousand. The carrying amount of the non-controlling interests in Raiffeisen-Leasing Polska on the date of acquisition was PLN 277 557 thousand. The Group derecognized non-controlling interests amounting to PLN 277 557 thousand and recorded the decrease in equity attributable to equity holder of the Bank amounting to PLN 102 443 thousand.

The effect of changes in the ownership interests of Raiffeisen-Leasing Polska on the equity attributable to the equity holders of the Bank during the reporting period is presented in the below table:

Acquisition of interests in subsidiaries	For the financial year ended 31 December 2014
Carrying amount of non-controling interests acquired	277 557
The purchase price paid to non-controlling interests	-380 000
Decrease in equity attributable to equity holders of the Bnak	**-102 443**

- In 2014 the Parent Entity created a company Raiffeisen Solutions Sp. z o.o., dealing with currency exchange and providing brokerage activity connected with securities market and stock exchange of commodities.

Notes to the consolidated financial statements (cont.)

As at 31 December 2014 the Parent Entity'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 Parent Entity'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 consolidated financial statements (cont.)

2. Significant accounting policies

2.1. Basis of preparation of the financial statements

The consolidated 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 consolidated financial statements have been prepared in Polish zloty (PLN), and all amounts are presented in PLN thousand, unless indicated otherwise.

The consolidated 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 consolidated financial statements of the Group consider the requirements of all the International Financial Reporting Standards and International Accounting Standards approved by the European Union and related interpretations ("MSSF EU"). Changes in published standards and interpretations, which became effective from 1 January 2014 and their impact on the consolidated financial statements of the Group have been presented in note 2.24.1. to the consolidated financial statements.

The consolidated financial statements does 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 2.24.2. to the consolidated financial statements).

During the period covered by the financial statements the Group 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 consolidated financial statements.

The consolidated financial statements of the Group 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 consolidated financial statements (cont.)

2.2. Statement of compliance

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

2.3. Items in foreign currencies

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The consolidated financial statements are presented in Polish zlotys (PLN) which is the functional currency for all entities from the Group.

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. Consolidation

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.

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.

Subsidiaries are consolidated using the fully consolidation method from the moment the Group takes full control over them. Subsidiaries cease to be consolidated when the Group loses control over them. The subsidiaries' accounting policies comply with the Group accounting policies.

The Bank as the Parent of Raiffeisen Investment Polska Sp. z o.o. ("RIP") has full control over the company because of the fact that three Bank representatives sit in the Supervisory Board of the subsidiary and it is able to govern the financial and operating policies of RIP.

Notes to the consolidated financial statements (cont.)

Information about non-controlling interest and their impact on the Group activity and the Group's cash flow in reference to the subsidiaries where non-controlling interest exist are presented in the table below:

Name of subsidiary	Raiffeisen Investment Polska Sp. z o.o.		Raiffeisen-Leasing Polska S.A
Registration country and main place of activity	Poland		Poland
Chosen financial data	31 December 2014	31 December 2013	31 December 2013
Assets	2 632	4 381	5 464 125
Liabilities	2 513	2 781	4 906 190
Equity	119	1 600	557 935
Revenues	1 619	6 363	405 566
Net profit (loss)	-1 481	1 135	64 609
Cash flows	-1 823	2 368	443 481
Parent Entity's shares	49,98%	49,98%	50%
Profit/ (loss) attributable to non-controlling interest	-741	0	26 305

The Group consolidates two special purpose entities: Compass Variety Funding Ltd and ROOF Poland 2014 Ltd. In the period covered by these consolidated financial statements no contract provisions requiring from the Group to financially support the consolidated special purpose entities took place, including events or circumstances exposing the Group to potential losses.

According to contract provisions Raiffeisen Leasing Polska S.A. granted loans to the acquirers of securitized leasing receivables in the following value which includes accrued non-paid interest: PLN 77 563 thousand (Compass Variety Funding LTD) and PLN 333 352 thousand (ROOF Poland 2014 LTD).

In the period from the date of the Parent Entity is taking control over the subsidiaries to the date of its ceasing to have control, the subsidiaries are consolidated under the full consolidation method, which consists of summing up particular items of the statements of financial position and the profit or loss statement of the Parent Entity and the subsidiaries in full, and making appropriate consolidation eliminations and adjustments.

Intercompany transactions and balances (mutual receivables and liabilities, and other similar settlements between the consolidated entities), and unrealized gains and losses or revenues and costs arising as a result of intercompany transactions are eliminated. Dividends accrued or paid by subsidiaries to the Parent Entity and to other consolidated entities are also eliminated as well as the carrying value of shares held by the Parent Entity in subsidiaries, and the equity of those entities as at the date of their acquisition.

To eliminate differences in the accounting policies applied by the Parent Entity and the subsidiaries during consolidation, consolidation adjustments are made.

The acquisition of subsidiaries (taking control over them) by the Group is accounted for under the acquisition method.

On the acquisition date all the identifiable acquired assets and liabilities are recognized, as well as all non-controlling interests in the acquired entity, and measured at fair value as at the acquisition date.

Notes to the consolidated financial statements (cont.)

The sum of:

- the amount paid (measured at fair value as at the acquisition date),
- the total of all non-controlling interests in the acquired entity (measured at fair value or at the proportionate share of the non-controlling interests in identifiable net assets of the acquired entity); and
- the share in equity of the acquired entity, which had previously been owned by the Parent Entity (measured at fair value at the acquisition date) – if the merger is conducted in stages

is compared to the net value of identifiable acquired assets and liabilities. If the difference between the said components is an excess, it is recognized as goodwill, otherwise the difference is recognized directly in the profit or loss statement.

In the process of merging with other entities, goodwill and other intangible assets may arise – the respective accounting policies are discussed in Note 2.16. to the consolidated financial statements.

2.5. Determining the financial result

2.5.1. 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 Group.

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.

2.5.2. 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 2.5.1. to the consolidated 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 Group 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.

2.5.2.1. Fee and commision income and expense regarding insurance

Income from bancassurance

The Group generates revenues from the „bancassurance", i.e. selling of insurance products through the Group's distribution channels. In order to reflect the economic substance and the proper revenue and expense recognition regarding offered insurance products, the Group 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.

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

Notes to the consolidated financial statements (cont.)

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 Group's portfolio,

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

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

d) if there is no requirement of the Group 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 Group together with financial instrument,

e) the number of resignation and returned commissions – divided into financial instruments according to the Group'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 Group'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 Group 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 Group 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, 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 Group to provide additional services, other than concluding an insurance agreement, the Group 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 Group is obligated to provide services arising from the offered insurance product. This period is highly correlated with the period when the Group 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 Group 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 Group 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 Group's revenues. The Group recognizes revenue from these fees linearly or using effective interest rate 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 Group analyzes the significance of the fees from the sale of linked products and estimates the impact on the financial results of the Group.

The Group 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 Group 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 the quality of the recognition and presentation in the consolidated financial statements.

2.5.3. Net income from financial instruments measured at fair value

Net income from financial assets measured at fair value through profit or loss includes the gains and losses arising on 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.

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

Notes to the consolidated financial statements (cont.)

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).

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

Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items 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 2.9.1 to the consolidated financial statements) and proceeds from sale of Group's receivables.

2.5.5. Other operating income and expenses

Other operating income comprises mainly amounts received from sales of services unrelated to the Group's core operations 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), costs of impairment losses on tangible and intangible fixed assets and costs of screating of other provisions and debt collection costs.

2.5.6. Other profit / (loss) component

2.5.6.1. 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 Group calculates provision for unused holiday leave. These provisions are presented in Provisions.

2.5.6.2. 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.

2.6. 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 Group has a valid and legally enforceable right to set-off that is not contingent on a future event. Additional requirement is that the Group and its

Notes to the consolidated financial statements (cont.)

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 40 to the consolidated financial statements).

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

2.7. Financial assets

The Group 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.

2.7.1. 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.

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 the respective exchange rate are recognized in the profit or loss statement and presented in position "Net income from financial instruments measured at fair value and net foreign exchange result".

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

Notes to the consolidated financial statements (cont.)

2.7.2. 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, with the exception of those which the fair value is unable to reliably assess, such financial instruments are measured at initial cost. The effects of changes in fair value, excluding impairment allowances, are recognized in other comprehensive income until the asset matures or is otherwise disposed of. The accumulated gain/loss is then transferred to profit or loss statement.

2.7.3. 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 Group'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 Group 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 Group 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 Group is not allowed to classify any financial assets as held to maturity.

Held to maturity financial assets are recognized in the consolidated 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 Group 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 consolidated the profit or loss statement in net interest income.

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

Notes to the consolidated financial statements (cont.)

2.7.4. 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 Group intends to sell immediately or in the near term (financing granted by the Group 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 Group as available for sale upon initial recognition; or
- financial 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 Group 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 consolidated statement of financial position when the contractual rights to the cash flows from the financial asset expire or when the Group 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 Group does not expect any further cash flows from the financial asset.

2.8. Reclassification of financial assets

The Group 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 Group has the intention and ability to hold the asset during the foreseeable future or until its maturity. The Group 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 2.7.3. to the consolidated 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.

Notes to the consolidated financial statements (cont.)

The Group 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 consolidated 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.

2.9. Impairment of financial assets

At each balance sheet date, the Group 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 Group defined the following loss events catalogue, which reflects the operating profile of the Group.

For retail portfolio the Group 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 consolidated financial statements (cont.)

For the corporate loans portfolio, the Group 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 Group,
- for Financial Institutions – loss of license,
- for governments and central banks – payment moratorium.

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

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

Notes to the consolidated 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 Group 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.

2.9.1. 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), discounted using the initial effective interest rate (i.e. the interest rate determined at initial recognition). 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.

2.9.1.1. 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 consolidated 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 Group 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.

2.9.1.2. 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 Group 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 debtor's default) and LGD (loss ratio due to 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 consolidated 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 Group determines the LGD parameter for each exposure group.

The most important information on the key assumptions and methods of determining by the Group 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 consolidated 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 is 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 concerning 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 Group 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.

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 Group 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 Group 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.

2.9.2. 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 consolidated 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 consolidated 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 consolidated 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 consolidated profit or loss statement, the impairment loss has to be reversed and the amount of the reversal is recognized through the consolidated profit or loss.

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.

Notes to the consolidated financial statements (cont.)

Buy sell back, or reverse repo transactions are presented in assets: as “Amounts due from banks” and “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 Group assesses the degree of risks and rewards related to the asset that remain within the Group. 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 consolidated 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 Note 2.11.3. to the consolidated financial statements).

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.

Notes to the consolidated financial statements (cont.)

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 consolidated 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 Group includes instruments embedded in structured instruments. In embedded instruments the Parent Entity also includes its convertible bonds which are measured at cost taking into consideration of potential impairment.

2.11.3. Hedge accounting

The Group 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 Group uses fair value hedges and cash flow hedges.

2.11.3.1. Criteria

The Group 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,

Notes to the consolidated financial statements (cont.)

- 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 Group 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 Group'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 Group 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 consolidated profit or loss statement.

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 consolidated 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 consolidated 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 consolidated 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 consolidated profit or loss statement.

Notes to the consolidated financial statements (cont.)

Changes in the fair value of a derivative financial instrument designated as a cash flow hedge are recognized directly in consolidated other comprehensive income concerning the part including the effective part of the hedge. Amounts recognized directly in consolidated other comprehensive income are transferred to the consolidated profit or loss statement in the same period or periods in which the planned hedged transaction affects the consolidated profit or loss statement. The ineffective part of a hedge is recognized in the consolidated 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 Group 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,
- the Group 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.

Notes to the consolidated financial statements (cont.)

2.12. Financial liabilities

Financial liabilities are classified to categories: financial liabilities at fair value through profit or loss and other financial liabilities.

The Group 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 profit or loss (unless they are designated as effective hedging instruments; see Note 2.11.3. to the consolidated financial statements).

Liabilities other than those measured at fair value through profit or loss 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 Group concludes transactions which at the moment of the conclusion are not recognized in the consolidated 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 Group entities, or
- a current commitment which arises as a result of past events but is not recognized in the consolidated 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 Group'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 Group 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 Group'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 accounted.

Notes to the consolidated financial statements (cont.)

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 Groups' entity.

Within off-balance sheet exposures the Group 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 Group 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 Group 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.

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 Group 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 Group 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.

Notes to the consolidated financial statements (cont.)

2.15. Derecognizing financial instruments from the statement of financial position

A financial asset is derecognized from the consolidated statement of financial position when the contractual rights to the cash flows from the financial asset expire, or when the Group transfers the financial asset to another entity. The transfer takes place when the Group transfers the contractual rights to receive cash flows from the asset or when the Group 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 Group.

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

- if the Group 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 Group 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 Group 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 Group 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 consolidated statement of financial position and at the same time all rights and obligations retained by the Group or arising during the transfer are separately recognized as assets or liabilities.

The Group 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.

2.16. Intangible assets

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

Intangible assets include specifically:

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

Notes to the consolidated financial statements (cont.)

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 Group, 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 Group's employees, in respect of the software purchased or manufactured under the given IT project, incurred exclusively in connection with its adaptation to the Group'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.

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.

Notes to the consolidated financial statements (cont.)

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 Group, 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 Group 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 Group 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 Group 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.

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.

Notes to the consolidated financial statements (cont.)

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 – 8 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 an 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

2.18.1. Group as a lessee

The Group is party to lease contracts on the basis of which it accepts third party fixed assets for use over an agreed period. The Group 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 Group'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 Group. 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 consolidated 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.

2.18.2. Group as a lessor

The Group is party to lease contracts on the basis of which it accepts third party fixed and intangible assets for chargeable use and profit gain over an agreed period. The Group 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.

For finance leases the leased asset is no longer recognized in the consolidated statement of financial position, whereas in finance lease receivables and loans and advances to customers is recognized the amount of receivables equaled net lease investment. Net lease investment is the gross lease investment discounted by the lease interest rate.

The initial direct costs are included in the lease interest rate.

Lease income is recognized through the lease period using the net investment method (prior taxation). They are recognized as interest income.

Initial direct costs incurred in negotiating and arranging a finance lease are deferred at the initial value of financial lease receivables and are recognised in the profit or loss statement through the lease period.

Those lease agreements under which the entire risk and benefits resulting from possession of asset are not, in principle, transferred on the lessee are classified as operating lease agreements.

In respect of operating leases concluded by the Group as lessor, the leased asset is recognized in the consolidated statement of financial position of the Group, because there was no transfer of substantially all the risks and rewards incidental to ownership of an asset to the lessee. Assets under operating lease are presented in the balance sheet in accordance with the nature of these assets.

Revenues from operating lease are recognised as revenue using the straight line method for the period of the lease agreement's term. Costs including amortisation, incurred in order to achieve revenue from lease, are recognised as costs in the profit or loss.

Initial direct costs incurred in connection with negotiations and activities intended to lead to the conclusion of an operating lease agreement increase the balance-sheet value of the leased asset and are recognised as costs over the lease period on the same basis as revenues from lease.

Notes to the consolidated financial statements (cont.)

The Group amortises lease assets in accordance with the standards for amortisation adopted by the Group in reference to similar assets, taking into account the duration of the operating lease agreement.

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 Group 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 Group has to meet in accordance with a contractual or constructive obligation and which leads to using assets already possessed, or future assets of the Group. 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 Group (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 other operating expenses or general administrative expenses. Unused provisions decrease the Group’s operating expenses as of the date when the risk which justified their establishment was mitigated or ceased to exist.

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

- the Group 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

Notes to the consolidated financial statements (cont.)

- the Group 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 Group 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 Group.

Share capital comprises currently registered share capital. The amount of share capital presented in the financial statements reflects the share capital of the Parent Entity 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 Group'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 consolidated 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, 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

Notes to the consolidated financial statements (cont.)

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 Group 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 consolidated profit or loss statement or (in respect of the effects of measurement of financial assets recognized in other comprehensive income) in the consolidated statement of comprehensive income, under other comprehensive income. The Group 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 Group 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 assets” includes 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.

Assets repossessed for debts are measured at fair value.

Notes to the consolidated financial statements (cont.)

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.

Notes to the consolidated financial statements (cont.)

2.24. New standards, interpretations and revisions to published standards

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

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 Group'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 Group's financial statements.

Notes to the consolidated 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 Group 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 Group's financial statements.

Notes to the consolidated 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 Group'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 Group'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 Group's financial statements.

Notes to the consolidated 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 Group'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.

Notes to the consolidated financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36 Impairment of Assets)	May 2013	Financial year starting on or after 1 January 2014	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. 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 Group's financial statements in a significant manner.

Notes to the consolidated financial statements (cont.)

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

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 consolidated 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 consolidated 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 Group.
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 Group does not expect the IFRIC 21 to have a material impact on the financial statements upon initial adoption.

Notes to the consolidated 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 Group's financial statements. The Group 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 Group.
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 Group.
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 Group's activity IFRS 14 does not apply.

Notes to the consolidated 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 Group does not expect the Amendments to have significant impact on 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 Group 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 consolidated 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 Group.
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 Group'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 Group does not expect that the above mentioned Amendments will have a significant impact on the financial statements.

Notes to the consolidated 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 Group 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 consolidated 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. The Group does not expect the improvements to have a material impact on its financial statements once applied.
Investment Entities: Applying the Consolidation Exception	December 2014	Financial year starting on or after 1 January	No	The Amendments, related to financial reporting of investment entities, address the following matters: • Consolidation of intermediate investment entities

Notes to the consolidated financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
(Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures***)**		2016		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. • 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. The Group does not expect the Amendments to have a material impact on its financial statements once applied.

Notes to the consolidated financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
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: • 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 Group's financial statements.

In conclusion, the Management Board of the Parent Entity does not expect that the introduction of these standards and interpretations to have a material impact on the Group'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 Group has not yet been evaluated). The Group 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 consolidated financial statements (cont.)

3. Changes in financial statements presentation

The below presented changes were introduced in the Group'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 the Group'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 provisons 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 of-balance sheet items	-368 267	261 712	-106 555
Other operating income	329 130	-261 712	67 418

	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 of-balance sheet items	-398 778	37 074	-361 704
Other operating income	180 816	-37 074	143 742

- 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	423 689	282 542	706 231
Net income from financial instruments measured at fair value and net foreign exchange result	341 020	-282 542	58 478

	31 December 2013 before presentation changes	Presentation change	31 December 2013 after presentation changes
Fee and commission income	463 598	293 304	756 902
Net income from financial instruments measured at fair value and net foreign exchange result	432 898	-293 304	139 594

Notes to the consolidated 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 and net foreign exchange result, in previous years these items were presented separately - 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	58 478	58 478
Net income from financial instruments measured at fair value	-33 148	33 148	0
Net foreign exchange result	91 625	-91 625	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	139 594	139 594
Net income from financial instruments measured at fair value	-50 092	50 092	0
Net foreign exchange result	189 686	-189 686	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	464 412	-83 438	380 974
Provisions	136 658	83 438	220 096

	31 December 2013 before presentation changes	Presentation change	31 December 2013 after presentation changes
Other liabilities	549 629	-112 595	437 034
Provisions	107 112	112 595	219 707

	1 January 2013 before presentation changes	Presentation change	1 January 2013 after presentation changes
Other liabilities	520 338	-81 073	439 265
Provisions	135 722	81 073	216 795

Notes to the consolidated financial statements (cont.)

- Presentation of advances to clients for insurance premium – till the year 2013 these were presented in Other assets, starting from 2014 - in Loans and advances to customers.

	31 December 2014 before presentation changes	Presentation change	31 December 2014 after presentation changes
Loans and advances to customers	39 740 836	78 462	39 819 298
Other assets	369 187	-78 462	290 725

	31 December 2013 before presentation changes	Presentation change	31 December 2013 after presentation changes
Loans and advances to customers	37 576 928	77 062	37 653 990
Other assets	414 526	-77 062	337 464

	1 January 2013 before presentation changes	Presentation change	1 January 2013 after presentation changes
Loans and advances to customers	39 504 667	82 461	39 587 128
Other assets	449 787	-82 461	367 326

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

4. Significant estimates

The preparation of financial statements in accordance with the IFRS EU requires the Management Board of the Parent Entity to make judgements, estimates and assumptions which affect the adopted accounting policies and the amounts presented in the consolidated 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 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 Group, 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 Group are described below.

Notes to the consolidated financial statements (cont.)

4.1. Impairment of financial assets

The process of monitoring the risk of impairment of financial assets (mainly amounts from loans and advances and off-balance sheet exposures) is aimed at identifying the impairment events which may occur in the Group'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 Group's books (see the impairment triggers of a financial assets or a group of financial assets listed in Note 2.15. to the consolidated 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.

Group 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. The market of various types of collateral in Poland, in particular real estate, has been affected by the current volatility on the global financial markets, which has resulted in the lower liquidity of certain groups of collaterals. As at the balance sheet date, the Management of Parent Entity 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 Group 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 Parent Entity 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 Parent Entity uses internal and external sources of information. The Parent Entity 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 Parent Entity or the subsidiaries, or values estimated based on the Parent Entity or subsidiaries' 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

Notes to the consolidated financial statements (cont.)

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 2.9.1.2 to the consolidated financial statements). 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 methodologies, 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.

As an additional information regarding the lease receivables, the Group assesses the impact of changes in the parameters adopted for the calculation of impairment allowances on lease receivables on the net result, where PD is the probability of debtor's default calculated for the six-month period, LIP - loss identification period, LGD – loss ratio due to default.

Information on the sensitivity analysis with respect to the lease receivables is presented in the table below.

Notes to the consolidated financial statements (cont.)

Estimated change in value of the impairment allowance on lease receivables portfolio resulting from changes in PD and LGD, assuming the current value of the portfolio as at a date.	Increase in PDLIP by 10%		Increase in LGD by 10%		Increase in LGD by 20%	
	Estimated change of impairment allowance		Estimated change of impairment allowance		Estimated change of impairment allowance	
	quantitative	percentage	quantitative	percentage	quantitative	percentage
As at 31 December 2014						
Model RIBNI (IBNI for Micro customers)	1 195	10%	1 195	10%	2 390	20%
Model MIBNI and MIBNI_RE (IBNI for corporate, SME and project finance customers)	868	10%	723	8%	1 446	17%
As at 31 December 2013						
Model RIBNI (IBNI for Micro customers)	1 400	10%	1 400	10%	2 800	20%
Model MIBNI and MIBNI_RE (IBNI for corporate, SME and project finance customers)	665	10%	435	7%	870	14%

4.3. Financial instruments valuation methods

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 Group 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 Group, 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

Notes to the consolidated financial statements (cont.)

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 1 775 thousand and PLN 1 930 thousand respectively (as at 31 December 2013 a decrease/increase in the provision of ca. PLN 1 306 thousand and PLN 1 410 thousand, respectively).

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 discount rate (+0,5%)	3 131	33 207
Decrease of discount rate (-0,5%)	3 730	36 314

The Group 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 Parent Entity 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 Parent Entity.

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.

Notes to the consolidated financial statements (cont.)

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.

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 Boards 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 Group 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

Notes to the consolidated financial statements (cont.)

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.

For the calculation the Bank used the net interest income generated by clients of the aquied bank Polbank, 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 Parent Entity main system economic useful life of this system was extended from basic 8 years by further 5 years (till 2024).

Group 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 Group 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 consolidated statement of profit or loss

5. Segment information

Group divided its operations and identifies income and expenses, assets and liabilities in the following operating segments: “Retail Banking”, “Corporate Banking”, “Financial Institutions and Capital Markets” and “Assets and Liabilities Management and Other Activities”. This division reflects the internal regulations described in the rules for the classification of customers to specific segments in accordance with the Group's existing business model.

Retail Banking - segment includes products and services dedicated to individual clients and micro-companies. The segment comprises of sub-segments: mass and affluent customers, private banking and micro-companies.

Corporate Banking - segment, which includes sub-segments of large, medium and small corporates. It comprises the sale of products and services to businesses and other entities including companies and cooperatives, non-profit institutions, public sector entities and individual entrepreneurs who, due to the criteria for the distribution segments do not belong to the sub-segment of micro-companies.

Financial Institutions and Capital Markets - transactions, products and services dedicated to banking and non-banking financial entities, business services, and currency exchange offices, own activity conducted on its own account is classified as the Issuer’s trading book.

Assets and Liabilities Management and Other Activities, which include assets, liabilities, and the result not attributable to the above segments, in particular:

• the assets, liabilities and result related to Assets and Liabilieties Management activities, ie. the management of liquidity, interest rate risk and currency risk of the Group and its investment portfolio,
• the result on refinancing of assets and liabilities which are not assigned to any of the above mentioned segments,
• the result on consolidated subsidiaries which are not assigned to other segments,

• intercompany eliminations on the Group's consolidated subsidiaries.

The segmentation reflects the principles of classification of customers to specific segments in accordance with the Group's business model, which is based on subjective and financial criteria (such as turnover or net assets). This customer classification used in the segment reporting is different with respect to the classification of customers, which was used in the preparation of the other notes to the financial consolidated statements (in particular, note 20. Loans and advances to customers and 25. Amounts due to customers). The activities of the fully consolidated subsidiaries have been assigned to the above-mentioned segments:
• **Raiffeisen-Leasing Poland S.A.** and **Raiffeisen Insurance Agency Sp. z o.o. -** Retail Banking, Corporate Banking and Asset and Liability Management and Other Activities in accordance with the classification of clients serviced by the subsidiaries,

• **Raiffeisen Financial Services Poland Sp. z o.o.** - Retail Banking,

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

• **Raiffeisen Investment Poland Sp. z o.o.** and **Raiffeisen Solutions Sp. z o.o.** – Financial Institutions and Capital Markets,

• **Raiffeisen-Leasing Service Sp. z o.o.** and **Raiffeisen-Leasing Real Estate Sp. z o.o.** and special purpose entities **Compass Variety Funding LTD i ROOF Poland 2014 LTD.** - Assets and Liabilities Management and Other Activities.

Principles of management information in the Group assume reporting results on segments to the level of gross profit. The individual segments are assigned both the income earned in the course of their activity and the operational costs associated with these activities as well as other components of the income statement.

Allocation of operating expenses to segments of the Group is performed in accordance with a methodology approved by the Board. It is a multi-step process whose end result is to assign all general operating expenses to segments.

Transactions between segments are conducted on usual, commercial terms. Transfer pricing of money in settlements between segments are valued based on market rates or the rates approved by the Assets and Liabilities Committee (ALCO) and is based on currency, tenor or due date of the transaction and liquidity margins.
The allocation of assets and liabilities and related revenues and expenses to segments is based on segmentation of the Groups' customers.

According to the MIS principles within the Group to the result of each segment are allocated also: interest income from the refinancing of equity and subordinated debt and the cost of depreciation of property, plant and equipment and intangible assets. Balance sheet items, with the exception of equity, based on which the above components of P&L were calculated, are recognized in full in the Assets and Liabilities Management and Other Activities segment.

Corporate Banking assets consist of allocated to this segment of balance of loans and advances to customers and corporate securities. The Corporate Banking liabilities consists of balance of allocated to this segment deposits to customers.

Assets and liabilities of the Retail Banking consist of balance allocated to this segment, respectively loans and advances to customers and deposits to customers.

The assets of Financial Institutions and Capital Markets segment consist of the balance of allocated to this segment loans and advances to customers, a part of financial assets held for trading which does not belong to liquidity portfolio, the balance of the reserve requirement, part of the balance of cash held in branches providing foreign exchange services, loans and advances to banks and a positive valuation of derivative financial instruments.

Segment Financial Institutions and Capital Markets consists of allocated to this segment balance of deposits to customers, deposits to banks excluding long-term financing classified to Assets and Liabilities Management and Other Activities segment and negative valuation of derivative financial instruments.

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

Assets and Liabilities allocated to the Asset and Liabilities Management and Other Activities segment consist of items in the statement of financial position which are not assigned to other segments in particular:
• financial assets held for trading and investment securities portfolios which are classified as investment portfolios and liquidity of the Group,

• classified as related to the activities of ALM: liabilities to banks and other entities in respect of long-term funding, including subordinated debt,

• the remaining balance of cash including cash in the central bank.

Assets and liabilities unallocated consist of:

• tangible or intangible,

• assets and liabilities in respect of income tax,

• other assets and liabilities.

For the financial year ended 31 December 2014	Corporate Banking	Retail Banking	Financial Institutions & Capital Markets	Asasets & Liabilities Management & Other Activities	Total
Interest Income	727 634	953 221	66 701	400 934	2 148 490
Interest Expense	-213 107	-304 303	-130 552	-276 199	-924 161
Interest Income (external)	**514 527**	**648 918**	**-63 851**	**124 735**	**1 224 329**
Interest Income (internal)	-11 668	-25 319	99 145	-62 158	0
Net Interest Income	**502 859**	**623 599**	**35 294**	**62 577**	**1 224 329**
Revenues non-interest	318 782	262 070	108 861	-18 474	671 239
Gross Income	**821 641**	**885 669**	**144 155**	**44 102**	**1 895 567**
General administrative expenses	-356 089	-899 950	-54 718	-38 606	-1 349 363
there of: Depreciation	-53 195	-112 830	-4 920	-6 458	-177 403
Provisioning for impairment losses	-154 568	49 633	121	-1 741	-106 555
Other operating result	38 996	28 409	9	-61 501	5 913
Profit before tax	**349 980**	**63 761**	**89 567**	**-57 746**	**445 562**
Taxes					-108 623
Net profit					**336 939**
Loss attributable to non-controlling interest					-741
Profit attributable to the equity holders of the Bank					**337 680**
Allocated assets	16 410 434	22 082 714	5 299 055	13 142 702	56 934 905
Unallocated assets					1 713 460
Total assets	**16 410 434**	**22 082 714**	**5 299 055**	**13 142 702**	**58 648 365**
Allocated liabilities	14 589 454	15 442 358	7 620 153	14 196 702	51 848 666
Unallocated liabilities					648 124
Total liabilities	**14 589 454**	**15 442 358**	**7 620 153**	**14 196 702**	**52 496 791**

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

For the financial year ended 31 December 2013	Corporate Banking	Retail Banking	Financial Institutions & Capital Markets	Asasets & Liabilities Management & Other Activities	Total
Interest Income	797 691	1 033 689	51 520	451 628	2 334 528
Interest Expense	-249 140	-468 316	-136 002	-268 666	-1 122 124
Interest Income (external)	**548 551**	**565 373**	**-84 482**	**182 962**	**1 212 404**
Interest Income (internal)	-43 729	83 200	112 565	-152 036	0
Net Interest Income	**504 822**	**648 573**	**28 083**	**30 926**	**1 212 404**
Revenues non-interest	339 422	331 066	96 724	35 860	803 072
Gross Income	**844 244**	**979 639**	**124 807**	**66 786**	**2 015 476**
General administrative expenses	-374 276	-972 197	-40 147	-108 737	-1 495 357
there of: Depreciation	-48 207	-94 838	-4 093	-7 713	-154 851
Provisioning for impairment losses	-176 602	-180 012	-48	-5 042	-361 704
Other operating result	71 072	19 915	0	-9 298	81 689
Profit/(loss) before tax	**364 438**	**-152 655**	**84 612**	**-56 291**	**240 104**
Taxes					-56 628
Net profit					**183 476**
Profit attributable to non-controlling interest					36 064
Profit attributable to the equity holders of the Bank					**147 412**
Allocated assets	15 365 995	22 566 830	2 862 417	10 755 881	51 551 123
Unallocated assets					1 849 619
Total assets	**15 365 995**	**22 566 830**	**2 862 417**	**10 755 881**	**53 400 742**
Allocated liabilities	13 641 978	14 208 808	3 853 934	14 920 212	46 624 932
Unallocated liabilities					657 158
Total liabilities	**13 641 978**	**14 208 808**	**3 853 934**	**14 920 212**	**47 282 090**

“Non-interest income” from the segments report agree to the sum of “Net fee and commission income” and “Net income from financial instruments measured at fair value” in the consolidated profit and loss account.

The Group operates only on the domestic market.

Revenues from transactions with any single external customer does not represent 10 percent or more of total revenue.

The Group offers a wide range of banking and financial services.

Basic products for Retail customers:

• mortgage loans,

• consumer credit including credit cards and overdraft limits in current accounts,

• financing for micro-companies,

• leasing services,

• deposit products including term deposits and savings accounts,

• brokerage services, investment and insurance products,

• personal accounts and transaction services including cash deposits and withdrawals, transfers, payment terminals service, foreign exchange transactions.

Basic products for Corporate clients include:

• credit products, including corporate loans, credit cards, project finance, trade finance and factoring,

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

• leasing services

• deposit products,

• accounts and transaction services, including cash deposits and withdrawals, transfers, account management, cash management,

• treasury products, including foreign exchange transactions, derivatives, debt securities and issuance services.

Basic products for Financial Institutions are:

• credit products,

• deposit products, accounts, transactional and custody services,

• treasury products including foreign exchange transactions, derivatives, debt securities and issuance services.

6. Interest income and expense

Interest income	For the financial year ended 31 December 2014	For the financial year ended 31 December 2013
Loans and advances to banks	29 650	42 399
Loans and advances to customers	1 668 803	1 841 298
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	**2 148 490**	**2 334 528**
Interest expense		
Banking deposits	-23 557	-29 078
Customer deposits	-596 019	-795 084
Derivative hedging instruments	-6 715	-5 763
Repo intruments	-6 670	-837
Loans and advances received (including subordinated loans)	-288 525	-291 362
Issue of the own bonds	-2 675	0
Total	**-924 161**	**-1 122 124**
Net interest income (including):	**1 224 329**	**1 212 404**
Total interest income from financial assets other than designated at fair value through profit or loss	1 791 001	1 925 851
Total interest expense related to financial assets other than designated at fair value through profit or loss	-917 446	-1 116 361

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 consolidated statement of profit or loss (cont.)

7. 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	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	10 489	21 622	279	-14 373	0	-207	0	0	17 810	49	**-7 200**
Amounts due from micro customers	102 342	71 654	0	-42 683	-2 221	-268	0	0	128 824	63	**-28 908**
Amounts due from large enterprises	770 211	296 469	11 657	-181 328	-27 860	-24 992	79	0	844 236	428	**-114 713**
Amounts due from SME	83 506	30 119	189	-14 505	-4 385	-12 222	-79	0	82 623	209	**-15 405**
Off-balance sheet items	14 306	31 067	654	-19 396	0	0	0	0	26 631	0	**-11 671**
Total	**980 854**	**450 931**	**12 779**	**-272 285**	**-34 466**	**-37 689**	**0**	**0**	**1 100 124**	**749**	**-177 897**
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	1 299 779	392 660	0	-287 234	0	-773 617	278	-23 869	607 997	181 732	**76 306**
Amounts due from micro customers	603 485	223 703	30	-150 900	0	-337 267	-251	0	338 800	79 228	**6 425**
Amounts due from large enterprises	55 013	36 499	700	-25 803	0	0	0	0	66 409	0	**-10 696**
Amounts due from SME	7 516	4 764	9	-2 926	0	-149	-26	0	9 187	3	**-1 835**
Amounts due from the public sector	133	19	0	-17	0	0	0	0	135	0	**-2**
Off-balance sheet items	9 447	5 100	111	-6 339	0	0	0	0	8 319	0	**1 239**
Total	**1 975 578**	**663 039**	**852**	**-473 419**	**0**	**-1 111 033**	**0**	**-23 869**	**1 031 149**	**260 963**	**71 343**
Total allowances and provisions	**2 956 432**	**1 113 970**	**13 631**	**-745 703**	**-34 466**	**-1 148 722**	**0**	**-23 869**	**2 131 273**	**261 712**	**-106 555**

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

2013	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 restated*
		Impairment allowance recorded during the	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	377 497	63 864	454	-43 781	0	-39 394	-348 150	-1	10 489	3 291	**-16 792**
Amounts due from micro customers	372 931	109 118	133	-122 798	-10 779	-30 575	-215 687	0	102 342	2 554	**16 234**
Amounts due from large enterprises	598 401	466 378	1 242	-267 667	-18 008	0	-10 135	0	770 211	0	**-198 711**
Amounts due from SME	74 488	29 871	79	-16 124	-3 462	-90	-1 256	0	83 506	8	**-13 740**
Off-balance sheet items	22 698	26 543	0	-34 902	0	0	0	-34	14 306	0	**8 358**
Total	**1 446 015**	**695 775**	**1 908**	**-485 272**	**-32 249**	**-70 059**	**-575 229**	**-35**	**980 854**	**5 852**	**-204 651**
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	1 233 441	793 972	458	-686 452	-51 063	-330 267	339 695	-5	1 299 779	27 587	**-79 933**
Amounts due from micro customers	351 735	342 276	92	-250 439	-15 453	-43 517	218 790	0	603 485	3 635	**-88 202**
Amounts due from large enterprises	45 204	29 084	170	-38 106	0	0	18 662	0	55 013	0	**9 022**
Amounts due from SME	9 601	4 420	2	-2 807	0	0	-3 699	0	7 516	0	**-1 613**
Amounts due from the public sector	-1 554	35	0	-130	0	0	1 781	0	133	0	**94**
Off-balance sheet items	13 046	10 269	16	-13 883	0	0	0	0	9 447	0	**3 614**
Total	**1 651 643**	**1 180 186**	**737**	**-991 910**	**-66 515**	**-373 784**	**575 229**	**-6**	**1 975 578**	**31 222**	**-157 054**
Total allowances and provisions	**3 097 658**	**1 875 960**	**2 645**	**-1 477 182**	**-98 765**	**-443 842**	**0**	**-41**	**2 956 432**	**37 074**	**-361 704**

*Please refer to Note 3. to the consolidated financial statements

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

8. Fee and commission income and expense

Fee and commission income	For the financial year ended 31 December 2014	For the financial year ended 31 December 2013 restated*
From margin transaction on client's foreign exchange dealings	282 542	293 304
Proceeds from card transactions	89 690	92 843
Insurance intermediary	59 736	80 941
Handling and maintaining of bank accounts	53 180	54 794
Transfers and other payment transactions	52 510	56 211
Custody activities	26 527	27 172
Lending activities	25 293	31 078
Handling of cash	23 062	22 067
Guarantee-related commitments	20 700	21 401
For preparing documents on clients' behalf	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	18 593	15 006
Total	**706 231**	**756 902**

Fee and commission expense	For the financial year ended 31 December 2014	For the financial year ended 31 December 2013
Expenses on payment cards	-23 529	-29 628
Handling of banknote transactions	-20 193	-21 695
Paid to clearing institutions	-16 309	-11 718
Expenses on printing and mailing account statements	-6 929	-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	-370	-6 468
Other	-14 607	-241
Total	**-93 470**	**-93 424**

Net fee and commission income (including):	**612 761**	**663 478**
Total commission income related to financial assets other than designated at fair value through profit or loss	397 161	436 426
Total commission expense related to financial assets other than designated at fair value through profit or loss	-89 062	-90 596

*Please refer to Note 3. to the consolidated financial statements

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

9. Net income from instruments measured at fair value and net 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	-71 338	-83 394
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	**-35 192**	**-51 440**

Net income from financial instruments in hedge accounting	For the financial year ended 31 December 2014	For the financial year ended 31 December 2013
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	For the financial year ended 31 December 2014	For the financial year ended 31 December 2013
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	358 798	179 401
Total net foreign exchange result	**91 626**	**189 686**
Total net income from financial instruments measured at fair value	**58 478**	**139 595**

*Please refer to Note 3. to the Cosolidated 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 16.

Gains and losses on sale and valuation of financial assets measured at fair value 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 17.

"Realized and unrealized foreign exchange gains/losses on the valuation of other assets and liabilities" includes gains and losses on revaluation of assets and liabilities in foreign currencies.

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

10. General administrative expenses

10.1. Salaries, wages and other employee benefits

Salaries, wages and other employee benefits	For the financial year ended 31 December 2014	For the financial year ended 31 December 2013
Salaries and wages	-516 763	-557 335
Social insurance costs, including:	-79 288	-88 682
pension insurance	-77 925	-87 623
Costs of jubilee programs	-6 302	-6 628
Other employee benefits	-17 692	-21 313
Total	**-620 044**	**-673 958**

10.2. Other administrative expenses

Other administrative expenses	For the financial year ended 31 December 2014	For the financial year ended 31 December 2013
Maintenance and rental of buildings	-155 690	-166 167
including lease installments	-119 086	-127 337
IT and telecommunication costs	-135 513	-160 470
Contribution and payments to Bank Guarantee Fund	-52 763	-44 651
Marketing costs	-43 847	-62 799
Consulting services	-43 404	-77 617
Training costs	-20 380	-26 637
Costs of other lease installments	-3 309	-6 299
Other sundry costs	-97 009	-121 908
Depreciation cost including:	-177 403	-154 851
depreciation cost on intangible fixed assets	-100 606	-79 298
depreciation cost on tangible fixed assets	-76 797	-75 553
Total	**-729 319**	**-821 399**

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

11. Other operating income and expense

Other operating income	For the financial year ended 31 December 2014	For the financial year ended 31 December 2013 restated*
Revenue from non-banking activities	38 364	38 876
Release of other provisions	8 143	14 131
Reversal of expense accrual	0	5 745
Income on disposal of property, plant and equipment	1 143	4 626
Reversal of impairment allowance on other assets	3 652	46 460
Reversal of other asset write offs	1 165	874
Other operating income	14 950	33 030
Total	**67 418**	**143 742**

Other operating expense	For the financial year ended 31 December 2014	For the financial year ended 31 December 2013
Expenses on non-banking activities	-255	-489
Expenses on allocation to other provisions	-15 468	-9 095
Impairment of fixed assets	-4 507	-1 820
Costs of sale and disposal of property,plant and equipment and intangible assets	-12 634	-3 767
Debt collection costs	-13 604	-25 049
Other operating expenses	-15 038	-21 833
Total	**-61 505**	**-62 053**

*Please refer to Note 3. to the consolidated financial statements

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

12. Income tax

CHANGES OF TEMPORARY DIFFERENCES DURING 2014	AS AT THE BEGINNING OF THE PERIOD	CHANGES: Other connected with consolidation	CHANGES: Profit or loss statement	CHANGES: Other comprehensive income	AS AT THE END OF THE PERIOD
Deferred income tax asset					
Interest accrued, payable (cost), including:	40 443	0	29 366	0	69 809
Interest on deposits	38 716	0	30 191	0	68 907
Interest on securities and derivatives	1 727	0	-825	0	902
Fair value of derivatives (without the currency component) and securities	42 456	0	-10 245	8 777	40 988
Negative foreign exchange differences	71	0	7 937	0	8 008
Commission settled using effective interest rate	31 921	0	4 307	0	36 228
Impairment allowance not recognized as tax-deductible costs	346 425	300	-174 204	0	172 521
Lease agreements valuation differences	241 169	0	91 834	0	333 003
Other (including impairment on other assets)	833	312	234	0	1 379
Deferred costs	58 288	102	-15 068	0	43 322
Other	21 054	20	-854	0	20 220
Tax loss	0	482	37 578	0	38 060
Deferred tax asset, gross	**782 661**	**1 216**	**-29 115**	**8 777**	**763 539**
Deferred tax provision					
Interest accrued, receivable (income), including:	83 557	0	21 098	0	104 655
Interest on loans	78 177	0	13 448	0	91 625
Interest on securities and derivatives	5 355	0	6 965	0	12 320
Discount on securities	25	0	685	0	710
Bonds valuation	20 412	0	-10 250	0	10 162
Fair value of derivatives (without the currency component) and securities	47 243	0	-16 465	37	30 815
Commission settled using effective interest rate	52 439	0	-2 789	0	49 650
Difference between depreciation for tax and accounting purposes	27 005	0	-1 598	0	25 407
Positive foreign exchange differences	0	0	798	0	798
Other	51 292	0	2 959	0	54 251
Deferred tax provision, gross	**281 949**	**0**	**-6 247**	**37**	**275 739**
Deferred tax charge	**500 713**	**1 216**	**-22 868**	**8 740**	**487 801**
Deferred tax asset, net	**500 713**	**1 216**	**-22 868**	**8 740**	**487 801**

Notes to the consolidated 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
		Other connected with consolidation	Profit or loss statement	Other comprehensive income	Other	
Deferred income tax asset						
Interest accrued, payable (cost), including:	30 959	0	9 484	0	0	40 443
Interest on deposits	30 311	0	8 405	0	0	38 716
Interest on securities and derivatives	648	0	1 079	0	0	1 727
Fair value of derivatives (without the currency component) and securities	30 385	0	9 934	2 137	0	42 456
Negative foreign exchange differences	21 429	0	-21 358	0	0	71
Commission settled using effective interest rate	33 762	0	-1 841	0	0	31 921
Impairment allowance not recognized as tax-deductible costs	400 050	0	-53 625	0	0	346 425
Lease agreements valuation differences	207 188	0	33 981	0	0	241 169
Other (including impairment on other assets)	425	-328	736	0	0	833
Deferred costs	63 428	-101	-5 039	0	0	58 288
Other	20 047	0	695	0	312	21 054
Tax loss	8 841	0	-8 841	0	0	0
Deferred tax asset, gross	**816 514**	**-429**	**-35 873**	**2 137**	**312**	**782 661**
Deferred tax provision						
Interest accrued, receivable (income), including:	85 259	0	-1 702	0	0	83 557
Interest on loans	77 948	0	229	0	0	78 177
Interest on securities and derivatives	6 921	0	-1 566	0	0	5 355
Discount on securities	390	0	-365	0	0	25
Bonds valuation	29 654	0	-9 242	0	0	20 412
Fair value of derivatives (without the currency component) and securities	41 772	0	5 593	-122	0	47 243
Commission settled using effective interest rate	59 068	0	-6 629	0	0	52 439
Difference between depreciation for tax and accounting purposes	24 097	0	2 908	0	0	27 005
Positive foreign exchange differences	0	0	0	0	0	0
Other	61 682	0	-10 390	0	0	51 292
Deferred tax provision, gross	**301 532**	**0**	**-19 461**	**-122**	**0**	**281 949**
Deferred tax charge	**514 982**	**-429**	**-16 412**	**2 259**	**312**	**500 713**
Deferred tax asset, net	**514 982**	**-429**	**-16 412**	**2 259**	**312**	**500 713**

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

Calculation of effective tax rate	31 December 2014	31 December 2013
Profit before tax	445 562	240 104
Current income tax at the local tax rate on profit before tax (19%)	-84 657	-45 620
Tax effect of non-deductible expenses	-19 222	-11 008
Tax effect of non-taxable income, including:	-4 744	0
Total income tax charge	-108 623	-56 628

Reconciliation of tax referred to income statement	31 December 2014	31 December 2013
Current income tax	-82 198	-39 809
Correction of current income tax regarding previous years	-3 556	-407
Deferred tax	-22 868	-16 412
Total income tax charge	**-108 623**	**-56 628**

13. Earnings per share

13.1. Basic profit per one share

The basic profit per one share was calculated by dividing net profit attributable to the ordinary holders of the Group by weighted average number of the 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.)	337 680	147 412
Weighted average number of ordinary shares in the period (in units)	243 335	242 845
Profit per one share	**1 388**	**607**

13.2. 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 the Group did not issue bonds convertible to shares and embedded conversion to shares options. In the result diluted profit per one share is equal to basic profit per one share.

Diluted earnings per 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.)	337 680	147 412
Weighted average number of ordinary shares in the period (in units)	243 335	242 845
Diluted profit per one share	**1 388**	**607**

Notes to the consolidated statement of financial position

14. Cash and balances with the 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 Group 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 Group 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 reference 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 % (2.475% as at 31 December 2013).

15. Amounts due from banks

	31 December 2014	31 December 2013
Collateral deposits	496 249	171 768
Cash on current accounts	40 889	28 867
Loans and advances to banks	28 832	42 185
Deposits with other banks	89 223	125 022
Gross amounts due from banks	**655 193**	**367 842**
Impairment allowance	-302	-205
Net amounts due from banks	**654 891**	**367 637**

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 2.89 % (3.1% as at 31 December 2013). 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.

16. Derivative financial instruments and embedded instruments

16.1. 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 Group'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 Group 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 Group'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 consolidated 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)	34 958 540	668 717	591 600	23 163 852	299 208	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	**38 556 244**	**692 565**	**666 400**	**25 552 117**	**314 434**	**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	**60 758 372**	**899 392**	**823 721**	**37 779 206**	**417 209**	**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 consolidated statement of financial postion (cont.)

16.2. Embedded instruments

The Group 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).

17. Hedge accounting

The Group applies hedge accounting in fair value hedges of granted fixed rate loans. The Group 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 Parent Entity 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.

	2014	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 Group 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 Group 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 16.

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

	2014	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 consolidated 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 month	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						
FX swaps	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 month	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						
FX swaps	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	**0**	**0**	**0**	**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 consolidated statement of financial position (cont.)

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

	2014	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**

18. 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	-
Total	**361 623**	**8 770 806**

Financial asstets held for trading bear interest based on floating market interest rates. Additional information on derivative financial instruments is presented in Note 16.

“Other financial assets carried at fair value” include mainly corporate bonds (as at 31 December 2013 NBP money bills). The Group 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 Parent Entity 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 consolidated statement of financial position (cont.)

19. Investment securities

2014	As at 1 January	Increases	Decreases (sale, redemption and other)	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	69 768	2 724	-28 047	0	6	-2 348	42 104
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	**553 912**	**1 962 691**	**-1 457 221**	**21 054**	**6**	**-2 348**	**1 078 095**
Total	**1 802 410**	**12 158 028**	**-1 457 221**	**28 233**	**6**	**-2 348**	**12 529 109**

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 avaiable for sale							
Equity investments	44 766	25 500	-500	0	2	0	69 768
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	**44 766**	**512 858**	**-500**	**-3 214**	**2**	**0**	**553 912**
Total	**585 975**	**1 262 085**	**-41 522**	**-4 130**	**2**	**0**	**1 802 410**

Information on fair value of financial investment is presented in Note 39. 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 (as at 31 December 2013 PLN 12 200 thousand).

Non-current receivables from investment securities as at the end of 2014 amounted to PLN 2 274 245 thousand (PLN 1 540 894 thousand as at the end of 2013).

Notes to the consolidated statement of financial position (cont.)

20. Loans and advances to customers

Clients' segmentation used in the notes below is based on risk classes attributed to the particular clients according to the Group's internal principles and is distinct to the classification of clients presented in Note 5 "Information on activity segments", which is based on business model of the Group.

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	18 758 999	625 807	18 133 192	19 910 907	1 310 268	18 600 639
Micro customers	5 428 491	467 624	4 960 867	5 544 966	705 827	4 839 139
Large enterprises	15 919 169	910 645	15 008 524	13 659 606	825 224	12 834 382
SME	1 778 881	91 810	1 687 071	1 431 330	91 022	1 340 308
Public sector	29 779	135	29 644	39 655	133	39 522
Total	**41 915 319**	**2 096 021**	**39 819 298**	**40 586 464**	**2 932 474**	**37 653 990**

The total balance of loans and advances to customers includes also receivables from finance leases.

Non-current receivables from loans and advances to customers as at the end of 2014 amounted to PLN 28 672 534 thousand (PLN 27 391 760 thousand as at the end of 2013).
Information on the impairment allowance for loans and advances to customers is presented in Note 7.

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 occur as at 31 December 2013).

Notes to the consolidated 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	17 866 825	84 570	0	0	36 398	17 806	855 776	523 431	**18 133 192**
Micro customers	4 602 437	52 847	0	0	197 413	128 825	628 641	285 952	**4 960 867**
Large enterprises	13 880 739	45 730	496 215	20 679	1 542 215	844 236	0	0	**15 008 524**
SME	1 647 328	7 887	19 890	1 297	111 663	82 626	0	0	**1 687 071**
Public sector	29 779	135	0	0	0	0	0	0	**29 644**
Total	**38 027 108**	**191 169**	**516 105**	**21 976**	**1 887 689**	**1 073 493**	**1 484 417**	**809 383**	**39 819 298**

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	18 368 061	87 072	0	0	17 532	10 486	1 525 314	1 212 710	**18 600 639**
Micro customers	4 553 753	59 199	0	0	147 553	102 341	843 660	544 287	**4 839 139**
Large enterprises	11 799 743	46 120	473 150	8 893	1 386 713	770 211	0	0	**12 834 382**
SME	1 293 139	4 744	33 535	630	100 193	83 510	4 463	2 138	**1 340 308**
Public sector	39 655	133	0	0	0	0	0	0	**39 522**
Total	**36 054 351**	**197 268**	**506 685**	**9 523**	**1 651 991**	**966 548**	**2 373 437**	**1 759 135**	**37 653 990**

Notes to the consolidated statement of financial position (cont.)

Finance lease receivables

	31 December 2014	31 December 2013
Gross finance lease receivables maturing within:	**5 049 692**	**4 294 279**
Up to one 1 year	1 928 916	1 655 829
1 to 5 years	2 800 879	2 415 055
More than 5 years	319 897	223 395
Unrealized future finance income from finance leases:	**443 306**	**181 538**
Up to one 1 year	184 810	68 454
1 to 5 years	221 474	104 330
More than 5 years	37 022	8 754
Present value of future finance lease instalments	**4 606 386**	**4 112 741**
Present value of future finance lease instalments maturing within:	**4 606 386**	**4 112 741**
Up to one 1 year	1 744 106	1 587 375
1 to 5 years	2 579 405	2 310 725
More than 5 years	282 875	214 641

Portfolio characteristics

The structure of the leasing portfolio (net value), broken down by types of leased assets:

	31 December 2014	%	31 December 2013	%
Lease of vehicles	3 482 559	80%	2 868 984	74%
Lease of property	410 002	9%	521 634	13%
Lease of machinery and equipment	474 668	11%	499 103	13%
Total	**4 367 229**	**100%**	**3 889 721**	**100%**

There is no non-guaranteed residual value of leased assets in the finance lease transactions. Leaseholders acquire the leased assets at the end of the contract at a price lower than current market value. Occasionally there is a third party guarantee to purchase the leased asset at the end of the lease.

Notes to the consolidated statement of financial position (cont.)

Lease portfolio characteristics for the contracts concluded during the year:

Summary of the lease portfolio for agreements concluded during the year	31 December 2014	31 December 2013
Machinery and equipment		
Purchase price	456 693	295 251
Financed value	395 750	256 650
Average duration of agreement (in months)	50	47
Number of agreements	4 339	2 435
Vehicles		
Purchase price	2 163 056	1 825 663
Financed value	1 782 530	1 514 531
Average duration of agreement (in months)	44	43
Number of agreements	16 857	14 757
Property		
Purchase price	141 790	133 220
Financed value	105 829	103 813
Average duration of agreement (in months)	240	118
Number of agreements	11	39
Total		
Purchase price	2 761 539	2 254 134
Financed value	2 284 109	1 874 994
Average duration of agreement (in months)	168	48
Number of agreements	21 207	17 231

Unrealized interest income	Agreements concluded in 2014 – as at 31 December 2014	Agreements concluded in 2013 – as at 31 December 2013
1-3 months	25 063	21 173
3months - 1 year	64 785	54 498
1-5 years	120 101	96 153
More than 5 years	10 283	11 949
Total	**220 232**	**183 773**

Sum of minimal lease payments	Agreements concluded in 2014 – as at 31 December 2014	Agreements concluded in 2013 – as at 31 December 2013
1-3 months	132 400	128 851
3months - 1 year	402 782	380 661
1-5 years	1 396 026	1 206 520
More than 5 years	72 242	93 795
Total	**2 003 450**	**1 809 827**

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Notes to the consolidated 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 2014	**32 966**	**200 000**	**70 400**	**624 852**	**81 769**	**14 853**	**1 024 840**
Additions during the year, including:	0	0	0	120 064	-43 638	0	76 425
Direct additions during the year	0	0	0	9 898	66 528	0	76 426
Internal development	0	0	0	110 166	-110 166	0	0
Disposals during the year	0	0	0	-67 579	-2 246	-3 876	-73 701
Aa at 31 December 2014	**32 966**	**200 000**	**70 400**	**677 336**	**35 885**	**10 977**	**1 027 564**
ACCUMULATED AMORTIZATION							
As at 1 January 2014	**0**	**0**	**11 745**	**380 753**	**0**	**0**	**392 498**
Amortization charge for the year	0	0	18 139	82 469	0	0	100 607
Disposals during the year	0	0	0	-55 598	0	0	-55 598
As at 31 December 2014	**0**	**0**	**29 884**	**407 623**	**0**	**0**	**437 507**
IMPAIRMENT							
As at the beginning of the year	**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 the end of the year	**0**	**0**	**0**	**9**	**649**	**0**	**658**
NET AMOUNT							
As at 1 January 2014	**32 966**	**200 000**	**58 655**	**242 048**	**80 219**	**14 853**	**628 741**
As at 31 December 2014	**32 966**	**200 000**	**40 516**	**269 704**	**35 236**	**10 977**	**589 399**

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

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 Parent Entity 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 above intangible assets have been described in Note 4.5 to the consolidated financial statements.

Notes to the consolidated statement of financial position (cont.)

As of 31 December 2014 the Group 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 2013	**33 279**	**200 000**	**70 400**	**555 592**	**46 654**	**29 220**	**935 145**
Additions during the year, including:	0	0	0	86 712	42 902	0	129 614
Direct additions during the year	0	0	0	16 332	114 837	0	131 169
Internal development or reclassification	0	0	0	70 380	-71 935	0	-1 555
Disposals during the year	-313	0	0	-17 452	-7 787	-14 367	-39 919
As at 31 December 2013	**32 966**	**200 000**	**70 400**	**624 852**	**81 769**	**14 853**	**1 024 840**
ACCUMULATED AMORTIZATION							
As at 1 January 2013	0	0	4 723	319 501	0	0	324 224
Amortization charge for the year	0	0	7 022	72 276	0	0	79 298
Disposals during the year	0	0	0	-11 024	0	0	-11 024
As at 31 December 2013	**0**	**0**	**11 745**	**380 753**	**0**	**0**	**392 498**
IMPAIRMENT							
As at the beginning of the year	**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 the end of the year	**0**	**0**	**0**	**2 051**	**1 550**	**0**	**3 601**
NET AMOUNT							
As at 1 January 2013	**33 279**	**200 000**	**65 677**	**229 781**	**46 654**	**29 220**	**604 611**
As at 31 December 2013	**32 966**	**200 000**	**58 655**	**242 048**	**80 219**	**14 853**	**628 741**

Notes to the consolidated statement of financial position (cont.)

22. Property, plant and equipment

2014	Buildings, apartments and leasehold improvem	Technical equipment and machinery	Vehicles	Other tangible assets	Assets under construction	Advances for property, plant and equipment	Total
GROSS AMOUNT							
As st 1 January 2014	**235 943**	**337 800**	**157 622**	**45 393**	**6 732**	**3 624**	**787 114**
Additions during the year, including:	13 312	10 699	84 639	896	3 309	0	112 856
Direct additions during the year	11 341	5 073	84 639	450	11 352	0	112 856
Internal development	1 971	5 626	0	446	-8 043	0	0
Disposals during the year	-8 665	-12 071	-54 332	-3 363	-601	-1 255	-80 287
As at 31 December 2014	**240 590**	**336 428**	**187 929**	**42 926**	**9 441**	**2 369**	**819 683**
ACCUMULATED AMORTIZATION							
As st 1 January 2014	**154 889**	**225 138**	**55 069**	**34 248**	**0**	**0**	**469 345**
Depreciation charge for the year	15 181	33 793	24 778	3 024	0	0	**76 776**
Disposals during the year	0	-9 964	-28 721	-2 697	0	0	**-41 383**
Reclassification	1 779	-8	0	4	0	0	**1 775**
As at 31 December 2014	**171 849**	**248 958**	**51 126**	**34 579**	**0**	**0**	**506 513**
IMPAIRMENT							
As st 1 January 2014	**8 123**	**1 483**	**3 299**	**471**	**2 284**	**0**	**15 660**
Additions	736	4 205	710	30	0	0	5 681
Decreases	-8 464	-1 426	-227	-470	-581	0	-11 168
As at 31 December 2014	**396**	**4 262**	**3 782**	**31**	**1 703**	**0**	**10 174**
NET AMOUNT							
As st 1 January 2014	**72 931**	**111 179**	**99 254**	**10 674**	**4 448**	**3 624**	**302 109**
As at 31 December 2014	**68 346**	**83 208**	**133 021**	**8 316**	**7 738**	**2 369**	**302 996**

Notes to the consolidated 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 2013	**275 448**	**280 518**	**145 716**	**46 406**	**24 923**	**5 969**	**778 980**
Additions during the year, including:	-12 326	74 847	30 616	2 754	-18 176	0	**77 715**
Direct additions during the year	3 400	29 943	30 586	2 143	11 472	0	**77 544**
Internal development or reclassification	-15 726	44 904	30	611	-29 648	0	**171**
Disposals during the year	-27 179	-17 565	-18 710	-3 767	-15	-2 345	**-69 581**
As at 31 December 2013	**235 943**	**337 800**	**157 622**	**45 393**	**6 732**	**3 624**	**787 114**
ACCUMULATED AMORTIZATION							
As at 1 January 2013	**161 803**	**211 423**	**37 697**	**33 417**	**0**	**0**	**444 341**
Depreciation charge for the year	15 322	30 739	25 350	4 142	0	0	**75 553**
Disposals during the year	-22 236	-17 024	-7 978	-3 311	0	0	**-50 549**
Reclassification	-6 793	5 424	19	1 349	0	0	**-1**
As at 31 December 2013	**154 889**	**225 138**	**55 069**	**34 248**	**-**	**-**	**469 345**
IMPAIRMENT							
As at 1 January 2013	**15 797**	**3 817**	**3 298**	**1 273**	**0**	**0**	**24 185**
Additions	24	28	674	44	2 284	0	**3 054**
Decreases	-7 698	-2 362	-673	-846	0	0	**-11 579**
As at 31 December 2013	**8 123**	**1 483**	**3 299**	**471**	**2 284**	**0**	**15 660**
NET AMOUNT							
As at 1 January 2013	**97 848**	**65 278**	**104 721**	**11 716**	**24 923**	**5 969**	**310 454**
As at 31 December 2013	**72 931**	**111 179**	**99 254**	**10 674**	**4 448**	**3 624**	**302 109**

In 2014 and 2013, there were no restrictions as to the legal title to property, plant and equipment 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 Group did not use third party property, plant and equipment in financial leases.

Impairment recognized on tangible fixed assets resulted from decisions not to continue development of selected assets or decisions not to further use selected assets.

Notes to the consolidated statement of financial position (cont.)

23. Other assets

Other assets	31 December 2014	31 December 2013
Financial assets gross, including:		
Collection of bills and cheques	526	176
Sundry debtors	56 437	93 113
Settlements with brokerage offices – receivables	4 414	2 071
Settlements of payment cards transactions - receivables	76 725	89 886
Total financial assets, gross	**138 101**	**185 246**
Impairment allowance	-3 637	-7 916
Total financial assets, net	**134 464**	**177 330**
Non-financial assets gross, including:		
Accruals and prepayments	45 200	59 119
Income receivable	1 032	2 126
Assets acquired for debt	21 706	9 001
Other	13 517	10 865
Social and legal settlements	78 335	88 812
Total non-financial assets, gross	**159 790**	**169 923**
Impairment allowance	-3 529	-9 789
Total non-financial assets, net	**156 261**	**160 134**
Total	**290 725**	**337 464**

Non-current receivables as at the end of 2014 amounted to PLN 22 119 thousand (PLN 45 959 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.

Legal dispute of the Parent Entity with the Tax Authority regarding income tax liabilites.

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

Notes to the consolidated statement of financial position (cont.)

Supreme Administrative Court. As at the date of preparation of the financial statements dates of Supreme Administrative Court hearings have not been set.

Legal dispute of a subsidiary with the Tax Authority regarding income tax liabilites.

In 2008 a subsidiary – Raiffeisen Leasing Polska S.A. was subject to a tax inspection concerning the correctness of corporate income tax settlements in 2006. As a result the tax authorities expressed an opinion different than the Management of the Subsidiary as to the tax treatment of the result on investments made in 2006. Having maintained its stance on the correctness of tax settlement the Subsidiary has paid the tax liabilities and recognized at the same time receivables from the Tax Authority. The total balance of tax receivables including accrued interest as at 31 December 2014 amounted to PLN 14 176 thousand and was presented in the consolidated financial statements in “Other assets” (PLN 14 176 thousand as at 31 December 2013).

In March 2013 Voivodeship Administrative Court overruled the decissions issued by the Tax Chamber for year 2006. In June 2013 the Director of the Tax Chamber appealed for cassation to the Supreme Administrative Court. As at the date of signing the financial statements by the Managament of the Parent Entity the Supreme Administrative Court has not issued a ruling regarding the dispute yet.

Risk assessment of the above mentioned disputes made by the Management of the Parent Entity

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 Group, 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 allowance on other receivables	2014	2013
As at 1 January	17 705	62 719
Changes in the consolidation group	1 708	0
Reclassification	-3 502	0
Impairment allowance recorded	4 434	3 656
Utilization of impairment allowance	-5 815	-1 890
Reversal of impairment allowance	-7 363	-46 780
As at 31 December	**7 166**	**17 705**

Notes to the consolidated statement of financial position (cont.)

24. Amounts due to banks and other monetary institutions

	31 December 2014	31 December 2013
Current accounts	958 183	479 700
Term deposits	858 558	404 122
Loans received	13 158 967	15 053 387
Repo transactions	1 413 968	0
Total	**16 389 675**	**15 937 209**

Non-current amounts due to banks and other monetary institutions equalled PLN 8 617 744 thousand at the end of 2014 (PLN 10 259 910 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 (as at the end of the year 2013 zero).

25. Amounts due to customers

	31 December 2014	31 December 2013
Amounts due to individuals	14 011 513	12 666 855
Amounts due to micro customers	1 751 903	2 448 807
Amounts due to large enterprises	14 284 659	12 430 712
Amounts due to SME	2 830 216	2 577 115
Amounts due to the public sector	0	6 286
Total	**32 878 290**	**30 129 775**

Non-current amounts due to customers amounted to PLN 318 385 thousand at the end of 2014 (PLN 130 919 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 (zero at the end of the year 2013).

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 Parent Entity on the date of their maturity. In both 2014 and 2013 neither did the Parent Entity 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.

Notes to the consolidated statement of financial position (cont.)

In accordance with the decisions of the Banking Supervision Authority (BSA), the Parent Entity can classify subordinated liabilities as its own funds. For the purpose of calculating the Group'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 total balance of the subordinated loans as at 31 December 2014 consisted of long-term part, analogously to 31 December 2013.

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 by Parent Entity	0	500 000	1 960	501 960
Liabilities from debt securities issued by securitization entity	0	633 719	715	634 434
Total	**0**	**1 133 719**	**2 675**	**1 136 394**

At 19 November 2014 the Parent Entity isssued "Series A bearer bonds of Raiffeisen Bank Polska S.A." amounting to PLN 500 million. These bonds are not secured, non – subordinated, denominated in PLN maturing at 19 November 2017. The bonds' interest rate is based on Wibor 6M increased by 1.3% interest margin. The interests will 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 of total amount of PLN 2 billion.

At 17 December 2014 the special purpose entity ROOF Poland 2014 Ltd. issued collateralized bonds of PLN 636 million with maximum repayment period up to 3 January 2028. The collateral of the bonds are lease receivables under securitization. The interest rate of the bonds is variable, the interests will be paid on quarterly basis.

Notes to the consolidated statement of financial position (cont.)

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	150 456	194 112
Settlements related to payment cards	20 764	36 759
Total financial liabilities gross	**260 656**	**338 350**
Non-financial liabilities, including:		
Deferred income	66 716	41 010
Social and legal settlements	19 192	24 694
Other	34 409	32 980
Total non-financial liabilities gross	**120 317**	**98 684**
Total	**380 974**	**437 034**

*Please refer to Note 3. to Consolidated Financial Statements

Non-current liabilities as at 31 December 2014 amounted to PLN 26 874 thousand (PLN 22 693 thousand as at 31 December 2013).

29. The Group as a lessee

In the case of operating leases where the Group 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	183 932	150 241
1 to 5 years	300 902	233 881
More than 5 years	131 010	6 322
Total	**615 844**	**390 444**

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

Notes to the consolidated statement of financial position (cont.)

30. The Group as a lessor

The value of property, plant and equipment in operating leases, where the Group acts as a lessor is presented in the table below:

2014	Buildings, apartments and leasehold improvements	Vehicles	Total
Gross amount			
As at 1 January 2014	**474**	**148 713**	**149 187**
Additions during the year, including:	10 703	72 093	82 796
Direct additions during the year	10 703	72 093	82 796
Disposals during the year	0	-46 900	-46 900
As at 31 December 2014	**11 177**	**173 906**	**185 083**
Accumulated depreciation			
As at 1 January	**111**	**51 805**	**51 916**
Depreciation for the year	98	22 535	22 633
Disposals during the year	0	-25 629	-25 629
As at 31 December	**209**	**48 711**	**48 920**
Impairment			
As at 1 January 2014	**0**	**2 887**	**2 887**
Additions	0	710	710
As at 31 December 2014	**0**	**3 597**	**3 597**
Net amount			
As at 1 January 2014	**363**	**94 021**	**94 384**
As at 31 December 2014	**10 968**	**121 598**	**132 566**

31 December 2014			
Sum of minimum future payments from operating leases after the balance sheet	**Income from entities related with Parent Company**	**Income from other entities**	**Total**
Up to 1 year	4 639	22 570	27 209
1 to 5 years	6 658	26 659	33 317
Total	**11 297**	**49 229**	**60 526**

Notes to the consolidated statement of financial position (cont.)

2013	Buildings, apartments and leasehold improvements	Vehicles	Total
Gross amount			
As at 1 January 2013	**474**	**136 542**	**137 016**
Additions during the year, including:	0	26 812	26 812
Direct additions during the year	0	26 812	26 812
Disposals during the year	0	-14 641	-14 641
As at 31 December 2013	**474**	**148 713**	**149 187**
Accumulated depreciation			
As at 1 January 2013	**99**	**34 046**	**34 145**
Depreciation for the year	12	23 746	23 758
Disposals during the year	0	-5 987	-5 987
As at 31 December 2013	**111**	**51 805**	**51 916**
Impairment			
As at 1 January 2013	**0**	**2 340**	**2 340**
Additions	0	547	547
As at 31 December 2013	**0**	**2 887**	**2 887**
Net amount			
As at 1 January 2013	**375**	**100 156**	**100 531**
As at 31 December 2013	**363**	**94 021**	**94 384**

31 grudnia 2013			
Sum of minimal future lease payments from operating leases after the balance sheet	**Income from entities related to Parent Company**	**Income from other entities**	**Total**
Up to 1 year	2 719	15 183	17 902
1 to 5 years	1 263	13 625	14 888
Total	**3 982**	**28 808**	**32 790**

Operating lease receivables of the Group amounted to PLN 8 209 thousand as at the end of 2014 (PLN 6 634 thousand as at the end of 2013) and were presented in Loans and advances to customers.

Operating lease agreements are concluded for periods shorter than 75% of the useful life of an asset. In operating lease agreements, the present value of the sum of minimal lease payments as at the day of a lease agreement is generally lower than the fair value of the leased asset. Additionally, they do not guarantee the lessee any possibility of shortening or prolonging the contract period as well as do not oblige to any conditional payments.

Notes to the consolidated statement of financial position (cont.)

31. Provisions

Changes during the financial year ended at 31 December 2014	As at 1 January 2014	Provisions or impairment allowance recorded	Provisions or impairment allowance reversed	Provisions or impairment alllowance utilized	Foreig exchange differences	As at 31 December 2014
Impairment provisions for off-balance sheet liabilities assessed individually	14 305	31 067	-19 396	0	654	**26 630**
Impairment provisions for off-balance sheet liabilities assessed collectively IBNR	9 448	5 100	-6 339	0	111	**8 320**
Total impairment provisions	**23 753**	**36 167**	**-25 734**	**0**	**765**	**34 951**
Provisions for disputes and claims	15 162	11 739	-4 630	-756	0	**21 514**
Provision for jubilee bonuses	31 665	7 285	-6	-202	0	**38 742**
Provision for employee benefits	93 578	92 985	-50 611	-79 102	0	**56 851**
Provision for unused holidays	19 120	13 505	0	-6 011	0	**26 613**
Provision for pension benefits	2 004	1 609	-57	9	0	**3 565**
Restructuring provision	34 004	29 206	0	-25 389	0	**37 821**
Other provisions	525	64	-550	0	0	**39**
Total provisions	**196 058**	**156 393**	**-55 854**	**-111 451**	**0**	**185 146**
Total	**219 707**	**192 559**	**-81 588**	**-111 451**	**765**	**220 096**

Changes during the financial year ended at 31 December 2013	As at 1 January 2013	Provisions or impairment allowance recorded	Provisions or impairment allowance reversed	Provisions or impairment alllowance utilized	Foreig exchange differences	As at 31 December 2013
Impairment provisions for off-balance sheet liabilities assessed individually	22 698	26 543	-34 902	0	-34	14 305
Impairment provisions for off-balance sheet liabilities assessed collectively IBNR	13 046	10 269	-13 883	0	16	9 448
Total impairment provisions	**35 744**	**36 812**	**-48 785**	**0**	**-18**	**23 753**
Provisions for disputes and claims	13 894	2 248	-541	-439	0	15 162
Provision for jubilee bonuses	25 181	6 483	0	0	0	31 664
Provision for employee benefits	61 530	141 749	-48 168	-61 603	0	93 507
Provision for unused holidays	19 543	2 589	-789	-2 255	0	19 088
Provision for pension benefits	2 119	196	0	-311	0	2 004
Restructuring provision	56 953	10 564	-9 347	-24 166	0	34 004
Other provisions	1 831	0	-279	-1 027	0	525
Total provisions	181 051	163 829	-59 124	-89 801	0	195 954
Total	**216 795**	**200 641**	**-107 909**	**-89 801**	**-18**	**219 707**

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 33.

Provisions for legal disputes comprised, among others:

- provision resulting from a penalty imposed on the Parent Entity 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

Notes to the consolidated statement of financial position (cont.)

Pomnażania Oszczędności Kumulatus”. Penalty amounted to PLN 21 122 thousand. Decision is not final. Group filed and appeal. Group created provision for this penalty in amount of PLN 10 561 thousand, because in Group’s opinion, confirmed by external legal opinion, possible outflow would not exceed this amount,

- 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 equals PLN 6 443 thousand and mainly relates to pension benefits and jubilee bonuses.

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 current restructuring program as well as costs associated with the liquidation of the Bank branches.

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

32. 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 (RBI) is the only shareholder, currently in possession of 100% of the Parent Entity’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 share capital is in free float on the Vienna Stock Exchange, where Raiffeisen has been listed since 2005.

Notes to the consolidated statement of financial position (cont.)

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**

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	302 855	113 188
Transfer of net result to retained earnings	337 680	147 412
Transfer of net profit to general banking risk reserve	-40 000	0
Transfer of net result to supplementary capital	-15 581	44 477
Other associated with consolidation	8 109	-2 222
Transactions with non-controlling interests	-2 924	0
As at 31 December	**590 139**	**302 855**

Dividends

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

Other explanatory notes to the consolidated financial statements (cont.)

33. Contingent liabilities

The table below presents contingent liabilities arising from the concluded contracts:

	31 December 2014	31 December 2013
Guarantees issued		
Bank guarantees	1 768 148	1 491 293
Letters of credit and bank acceptances	253 759	285 205
Total guarantees issued	**2 021 907**	**1 776 498**
Financial liabilities granted		
Granted loan commitments:	4 478 751	4 271 068
With initial maturity up to 1 year	1 994 061	2 094 070
With initial maturity above 1 year	2 484 690	2 176 998
Total financial liabilities granted	**4 478 751**	**4 271 068**
Total	**6 500 658**	**6 047 566**

	31 December 2014	31 December 2013
Guarantees received	6 953 110	6 507 892
Total	**6 953 110**	**6 507 892**

All loan commitments of the Group 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 Group account for PLN 68 053 thousand as at 31 December 2014 (as at 31 December 2013 amounted to PLN 59 359 thousand). The Group created provisions for cases, in which the estimated probability of an outflow of economic benefits was higher than 50%.

As at 31 December 2014 the total value of provisions for litigations against the Group and other disputes and claims amounted to PLN 21 514 thousand (PLN 15 162 thousand as at 31 December 2013), refer to note 31 to the consolidated financial statements.

Legal disputes with Tax Authorities were described in Note 23 Other assets.

Other explanatory notes to the consolidated financial statements (cont.)

34. 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	14	926 508	1 040 763
Amounts due from banks			
Collateral deposits and other	15	520 623	171 768
Investment securities			
Financial instruments blocked for BFG	19	180 766	189 975
Loans and advances to customers			
Receivables serving as collateral for Loans received	20	106 558	103 680
Receivables under securitization of finance leasing receivables		690 842	284 862
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

To secure repayment of lease receivables under the securitization program the Group has registered a pledge on a part of its assets. The securitized assets fall into the category of finance lease receivables and as at 31 December 2014 amounted to gross PLN 153 212 thousand (PLN 366 420 thousand as at 31 December 2013).

The registered pledge comprises movables, i.e. cars in finance leases, where the Group is a lessor, under the securitization cover.

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).

35. Securitization and sale of Group's receivables

35.1. Synthetic securitization of Parent Entity's corporate loan portfolio.

In 2006, the Parent Entity 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 Parent Entity 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

Other explanatory notes to the consolidated financial statements (cont.)

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 2014 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 Parent Entity 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**

35.2. Securitization of lease receivables

The second securitization program of the Group's finance lease receivables began in March 2012. Over the revolving period spanning to December 2012 the Group could sell non-current lease receivables up to the limit of PLN 575 million. Compass Variety Funding Ltd. (an Irish based special purpose vehicle) was the sole purchaser of securitized lease receivables. The main benefits arising from the transaction were both the acquisition of long term financing and its diversification. As at 31 December 2014 the value of assets under the securitization cover amounted to PLN 153 212 thousand (as at 31 December 2013 PLN 270 850 thousand).

The third program of securitization of the Group's finance lease receivables has begun in December 2014. Within three years from concluding transaction the Group can sell debts inexigible on the date of sale, resulting from lease agreements of the amount PLN 950 milion. The acquirer of the securitized lease debts is ROOF Poland Leasing 2014 Ltd., special purpose entity located in Ireland. The main advantages of the subject transaction was acquisition of long-term financing sources and their diversification. On the reporting date the value of securitized assets within the scope of this program equaled to PLN 948 545 thousand.

The securitized lease receivables continue to be recognized as Group's assets based on the fact, that the requirements for transfer of assets stemming from IAS 39 paragraph 19 were not met. In particular, the Group does not have an obligation to make payment to the final recipients, until the Group does not receive relating amounts from lessees. Additionally, the obligation to immediately remit any cash flows it collects from assets under securitization.

Other explanatory notes to the consolidated financial statements (cont.)

The balance and fair values of assets under the securitization cover were presented in the table below:

	Value of transaction		Risk remaining within the group	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Carrying amount of assets	1 101 757	366 420	1 101 757	366 420
Carrying amount of liabilities	688 766	284 862	688 766	284 862
Net position	**412 991**	**81 558**	**412 991**	**81 558**

35.3. Sale of receivables

In 2014, the Parent Entity 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 Parent Entity balance sheet. Total result from transactions of sale of this receivables amounted to PLN 261 712 thousand (in 2013 of PLN 37 074 thousand) and was presented in line 'Net provisioning 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 Parent Entity. All risks and rewards from sold portfolios were transferred to the buyers.

Above presented transactions have one off character.

36. Custody activities

The Parent Entity 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 consolidated financial statements, because they do not belong to the Parent Entity.

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

In the reporting period, the Parent Entity kept publicly traded securities, securities in a material form and securities traded abroad. As a part of providing custody services to customers, the Group cooperated with several brokerage offices. The Parent Entity 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.

Other explanatory notes to the consolidated financial statements (cont.)

37. 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	1 249 206
Cash on the current account with the Central Bank	926 508	1 172 845
Cash on Nostro accounts with other banks	40 889	28 867
Deposits with other banks (due within 3 months)	88 794	120 206
Cash and cash equivalents presented in the cash flow statement	**2 813 558**	**2 571 124**

38. 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:	1 698 453	1 883 697
from loans and advances granted to banks	29 650	42 399
from loans and advances granted to customers	1 668 803	1 841 298
Commission income – fees and commissions on lending activity	25 293	50 910
Costs related to intermediation in the sale of credit products	0	-1 951
Costs related to securitization of loan receivables	-535	-19 941
Total	**1 723 211**	**1 912 715**

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.

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	-917 446	-1 116 361
Commission expenses – fees and commissions on loans received	-6 929	-6 468
Total	**-924 375**	**-1 122 829**

Other explanatory notes to the consolidated financial statements (cont.)

39. Fair value of assets and liabilities

The main assumptions and methods used by the Group 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 Group'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 Parent Entity.
- fair value of amounts due to banks and other monetary institutions, taken on the interbank market to manage Group'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.
- *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.

Other explanatory notes to the consolidated financial statements (cont.)

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 Group 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 consolidated 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 negligible. 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.

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

Other explanatory notes to the consolidated financial statements (cont.)

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 begining of the period	**67 995**	**14 979**	**48 300**	**37**
Increases, including:	101 449	844	341 979	86
Purchase	101 449	0	107 927	0
Derivatives opened during period	0	631	0	86
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	-15 009	-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	-5 471	0	-15
Balance at period end	**165 257**	**814**	**351 436**	**113**
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 begining of the period	0	0	0	0
Reclassification	67 995	13 713	48 300	37
Balance at period end	**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.

Other explanatory notes to the consolidated financial statements (cont.)

Postition 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
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	654 891	654 659	0	0	654 659	367 637	367 746	0	0	367 746
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:	900 712	900 815	0	900 001	814	534 229	534 229	0	520 516	13 713
Derivative financial instruments held for trading	899 392	899 494	0	898 680	814	417 209	417 209	0	403 496	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:	12 529 109	12 528 627	2 435 627	9 699 462	393 539	1 802 410	1 799 859	1 491 816	189 975	118 068
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:	1 078 095	1 078 095	684 556	0	393 539	553 912	553 912	245 869	189 975	118 068
Equity interests	42 104	42 104	0	0	42 104	69 768	69 768	0	0	69 768
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:	39 819 298	39 177 167	0	0	39 177 167	37 653 990	36 860 806	0	0	36 860 806
Loans and advances granted to individuals	18 133 192	16 296 259	0	0	16 296 259	18 600 639	17 653 467	0	0	17 653 467
Loans and advances granted to micro customers	4 960 867	5 125 948	0	0	5 125 948	4 839 139	4 869 335	0	0	4 869 335
Loans and advances granted to large enterprises	15 008 524	15 978 605	0	0	15 978 605	12 834 382	12 948 620	0	0	12 948 620
Loans and advances granted to small and medium enterprises	1 687 071	1 746 682	0	0	1 746 682	1 340 308	1 349 481	0	0	1 349 481
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	134 464	134 464	0	0	134 464	177 330	177 330	0	0	177 330
Total financial assets	**57 083 972**	**56 441 230**	**2 631 993**	**10 599 462**	**43 209 776**	**51 728 452**	**50 932 826**	**1 735 752**	**9 169 365**	**40 027 709**

Other explanatory notes to the consolidated financial statements (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
Liabilities										
Amounts due to banks and other monetary institutions	16 389 675	16 164 323	0	0	16 164 323	15 937 209	15 989 690	0	0	15 989 690
Derivative financial instruments including:	1 124 302	1 124 405	0	1 124 292	113	453 945	453 945	0	453 908	37
Derivative financial instruments held for trading	823 721	823 824	0	823 711	113	379 093	379 093	0	379 056	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:	32 878 290	33 608 303	0	0	33 608 303	30 129 775	30 319 357	0	0	30 319 357
Amounts due to individuals	14 011 513	13 942 773	0	0	13 942 773	12 666 855	13 810 883	0	0	13 810 883
Amounts due to micro customers	1 751 903	1 748 248	0	0	1 748 248	2 448 807	1 180 628	0	0	1 180 628
Amounts due to large enterprises	14 284 659	15 096 530	0	0	15 096 530	12 430 712	12 320 482	0	0	12 320 482
Amounts due to small and medium enterprises	2 830 216	2 820 752	0	0	2 820 752	2 577 115	2 999 122	0	0	2 999 122
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	1 136 394	1 136 394	0	0	1 136 394	0	0	0	0	0
Other financial liabilities	260 656	260 656	0	0	260 656	338 350	338 350	0	0	338 350
Total financial liabilities	**52 109 324**	**52 602 732**	**0**	**1 124 292**	**51 478 440**	**46 963 282**	**47 205 822**	**0**	**453 908**	**46 751 914**

Other explanatory notes to the consolidated financial statements (cont.)

40. Offsetting of financial assets and liabilities

In 2014 and 2013 offsetting criteria were fulfilled only for subsidiary Raiffeisen Leasing Polska S.A. , therefore financial assets and liabilities offsetting took place on the balance sheet dates.

Additionally, 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	Amount offset	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	900 712	0	900 712	530 091	44 590	334 005
Reverse repurchase, securities agreements	1 651 297	0	1 651 297	1 631 976	0	19 321
Bonds - Financial assets held to maturity	900 963	900 963	0	0	0	0
Lease receivables - Loans and advances to customers	312 363	57 411	254 952	0	0	254 952
Loans granted to acquirers of securitized leaase debts - Loans and advances to customers	410 915	410 915	0	0	0	0
Total	**4 176 250**	**1 369 289**	**2 806 961**	**2 162 067**	**44 590**	**608 278**

Other explanatory notes to the consolidated financial statements (cont.)

31 December 2014	Gross amount of financial recognised liabilities	Amount offset	Net amount of financial liabilities presented in the statement of financial position	Related amount not offset in the statement of financial		Net amount*
				Financial instruments	Cash collaterals pledged	
FINANCIAL LIABILITIES						
Derivative financial instruments	1 124 302	0	1 124 302	530 091	496 249	97 962
Repurchase, securities agreements	1 622 646	0	1 622 646	1 603 473	0	19 173
Bonds - Amounts due to banks and other monetary institutions	900 963	900 963	0	0	0	0
Loans granted to acquirers of securitized leaase debts - Amounts due to customers	1 099 681	410 915	688 766	0	0	688 766
Guarantee deposit - Other liabilities	57 411	57 411	0	0	0	0
Total	**4 805 003**	**1 369 289**	**3 435 714**	**2 133 564**	**496 249**	**805 901**

31 December 2013	Gross amount of recognised financial assets	Amount offset	Net amount of financial assets presented in the statement of financial position	Related amount not offset in the statement of financial		Net amount*
				Financial instruments	Cash collateral received	
FINANCIAL ASSETS						
Derivative financial instruments	534 229	0	534 229	212 372	50 958	278 163
Bonds - Financial assets held to maturity	847 533	847 533	0	0	0	0
Lease receivables - Loans and advances to customers	339 418	65 906	273 512	0	0	273 512
Loans granted to acquirers of securitized leaase debts - Loans and advances to customers	81 558	81 558	0	0	0	0
Total	**1 802 738**	**994 997**	**807 741**	**212 372**	**50 958**	**551 675**

31 December 2013	Gross amount of financial recognised liabilities	Amount offset	Net amount of financial liabilities presented in the statement of financial position	Related amount not offset in the statement of financial		Net amount*
				Financial instruments	Cash collaterals pledged	
FINANCIAL LIABILITIES						
Derivative financial instruments	453 945	0	453 945	212 372	171 768	69 805
Bonds - Amounts due to banks and other monetary institutions	847 533	847 533	0	0	0	0
Loans granted to acquirers of securitized leaase debts - Amounts due to customers	366 420	81 558	284 862	0	0	284 862
Guarantee deposit - Other liabilities	57 411	57 411	0	0	0	0
Total	**1 725 309**	**986 502**	**738 807**	**212 372**	**171 768**	**354 667**

**based on calculaction 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:

Other explanatory notes to the consolidated financial statements (cont.)

31 December 2014	Net carrying amount	Item from the statement of financial position	Carrying amount of financial statement position	Carrying amount of non disclosure items in offsetting note
FINANCIAL ASSETS				
Derivative financial instruments	900 712	Assets from derivative financial instruments	900 712	**0**
Bonds - Financial assets held to maturity	0	Investment securities	12 529 109	**12 529 109**
Reverse repurchase, securities agreements	1 651 297	Loans and advances to customers	39 819 298	**37 913 049**
Lease receivables - Loans and advances to customers	254 952			
Loans granted to acquirers of securitized leaase debts - Loans and advances to customers	0			
FINANCIAL LIABILITIES				
Derivative financial instruments	1 124 302	Liabilities from derivative financial instruments	1 124 302	**0**
Repurchase, securities agreements	1 413 968	Amounts due to banks and other monetary institutions	16 389 675	**14 975 707**
Bonds	0			
Repurchase, securities agreements	208 678	Amounts due to customers	32 878 290	**31 980 846**
Loans granted to acquirers of securitized leaase debts	688 766			
Guarantee deposit	0	Other liabilities	380 974	**380 974**

31 December 2013	Net carrying amount	Item from the statement of financial position	Carrying amount of financial statement position	Carrying amount of non disclosure items in offsetting note
FINANCIAL ASSETS				
Derivative financial instruments	534 229	Assets from derivative financial instruments	534 229	**0**
Bonds - Financial assets held to maturity	0	Investment securities	1 802 410	**1 802 410**
Reverse repurchase, securities agreements	0	Loans and advances to customers	37 653 990	**37 380 478**
Lease receivables - Loans and advances to customers	273 512			
Loans granted to acquirers of securitized leaase debts - Loans and advances to customers	0			
FINANCIAL LIABILITIES				
Derivative financial instruments	453 945	Liabilities from derivative financial instruments	453 945	**0**
Repurchase, securities agreements	0	Amounts due to banks and other monetary institutions	15 937 209	**15 937 209**
Bonds	0			
Repurchase, securities agreements	0	Amounts due to customers	30 129 775	**29 844 913**
Loans granted to acquirers of securitized leaase debts	284 862			
Guarantee deposit	0	Other liabilities	437 034	**437 034**

Other explanatory notes to the consolidated financial statements (cont.)

41. Transactions with related parties

The Parent Entity identifies the following related entities:

- Parent entities:
  - ultimate parent entity – Raiffeisen Zentralbank Österreich AG (RZB).
  - parent entity – Raiffeisen Bank International AG (RBI).
- The Parent Entity'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.; the Parent Entity's subsidiaries not consolidated - RI Inwestycje Sp. z o.o., Leasing Poland Sp. z o.o., Telpol3 S.A. (under liquidation)
- Members of the Parent Entity's key personnel and the key personnel of the parent entities,
- Other entities - other related entities – entities controlled by the parent companies and subsidiaries, as well as entities having significant influence on Raiffeisen Zentralbank Österreich AG,
- Special purpose entities Compass Variety Funding Ltd. And ROOF Poland 2014 Ltd.

As a part of ordinary operations, a number of transactions was concluded with members of the Parent Entity's key personnel. The Parent Entity's key personnel includes members of Bank's Management Board and members of the Parent Entity's Supervisory Board, listed in Note 1 to the financial statements. Transactions with members of the Parent Entity'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 Parent Entity's parent entities or with persons related to the members of the Parent Entity's key personnel or the parent entities' key personnel.

Other explanatory notes to the consolidated financial statements (cont.)

Statement of financial position items	Parent Company		Members of the Group's key personnel		Other related entities	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Amounts due from banks	476 997	172 767	0	0	59 203	5 845
Derivative financial instruments (assets)	587 477	303 639	0	0	166	93
Loans and advances	0	0	3 253	2 589	0	101
Other receivables	101	4 362	0	0	-6	5 358
Amounts due to clients	0	0	7 312	5 417	6 019	0
Loro accounts and other current accounts	4 153	157 899	0	0	6 966	9 075
Interbank deposits	9 901	0	0	0	116 878	128 275
Loans and advances received	9 806 368	12 840 636	0	0	681 968	7 550
Derivative financial instruments (liabilities)	976 124	366 129	0	0	471	0
Subordinated liabilities	320 006	104 003	0	0	0	87
Other liabilities	16 643	12 472	0	0	18	14 993

Statement of comprehensive income items	Parent Company		Members of the Group's key personnel		Other related entities	
	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	For the financial year ended 31 December 2014	For the financial year ended 31 December 2013
Interest income	112 970	56 331	227	0	1 107	5 252
Interest expenses	-221 715	-232 115	-15	0	-5 106	-2 927
Commission income	2 294	4 893	0	0	2 011	1 923
Commission expenses	-1 223	-3 425	0	0	-723	-63
Net income from financial assets measured at fair value through profit or loss	-36 245	98 424	0	0	-181	-40
Other operating income and expenses	9 460	-3 902	0	0	180	244
General administrative expenses	-42 290	-36 351	0	0	-8 052	-4 600

Off-balance sheet commitments	Parent Company		Members of the Group's key personnel		Other related entities	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Guarantees and letters of credit	1 243 776	995 547	0	0	20 373	24 919
Guarantees received	196 808	0	0	0	54 461	0

Other explanatory notes to the consolidated financial statements (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 consolidated statement of profit or loss.

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

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

Remuneration of members of the Group's key personnel	31 December 2014	31 December 2013
Short-term remuneration of the Management Board	10 787	10 073
Short-term remuneration of the Supervisory Board	2 353	501
Remuneration connected with employment termination **	1 700	341
Variable remuneration of the Management Board paid in the current reporting period ***	6 832	3 635
Costs for other long-term benefits for members of the key Management of the Group	538	697
Total	**22 210**	**15 248**

* 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 September 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 tranches from the beginning of 2014. Nevertheles conditions of actually conducting part from 2011 to 2013 remain without 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 Parent Entity may waive the non-compete clause within 30 days of the termination of the contract.

Other explanatory notes to the consolidated financial statements (cont.)

42. Events after the balance sheet date

Following 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%). The Parent's Entity Management Board believes that strong appreciation of CHF to PLN would have a slight negative impact on both the Parent's Entity liquidity and capital position, but all the regulatory ratios (CAD, LCR, Polish liquidity regulatory ratios) will remain 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 Parent Entity has set the action plan to strenghten monitoring of receivables quality, early warning and customer information processes.

In the table below loans and advances to customers of Parent Entity 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 in Parent Entity 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 of Parent Entity 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 to the consolidated financial statements (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 Parent Entity 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 Group to incur losses in future periods.

On 12 March 2015 special purpose entity Compass Variety Funding Ltd. issued claim to place additional collateral for second securitization programm due to decrease of Raiffeisen Bank International AG rating. Due to the above Raiffeisen-Leasing Polska S.A. ("RLPL") decided – choosing alternative solution – to end the securitization program earlier and repay all liabilities from lease receivables securitization in the following settlement dat, i.e. 2 April 2015. The securitization program was planned to be closed in July 2015 and it was included in the financial plan for the year 2015. As a result of the above RLPL would pay around PLN 38 million three months eartlier than planned. Earlier closure of the second securitization program would not have negative impact on RLPL liquidity.

No other significant events having influence on the Group Raiffeisen Bank Polska S.A. consolidated financial statements have occured after the balance sheet date.

Risk management

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

In its activity, the Group follows an active approach to the risk management, involving its identification, measurement, monitoring and mitigating. The Group 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 Group 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 Parent Entity's organizational structure. Risk management and risk control constitute a process, which is carried out at three basic levels:

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

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

    - managing the Group'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 Group, 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 Group'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 Group 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 Parent Entity was stated in the Capital Plan for year 2014 and determined on the level of 10%, which was maintained throughout the entire year.

The Group calculated the capital adequacy ratio based on the resolution mentioned above.

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

	Method of calculating the requirement	31 December 2014	31 December 2013
Credit and counterparty risk	Standard	3 021 533	3 081 749
Market risk	Standard	65 128	40 003
Operational risk	Standard	329 532	328 310
Regulatory capital		**3 416 193**	**3 450 062**
Own funds		**5 494 652**	**5 344 654**
Total capital ratio		**12.87**	**12.39**

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 5 224 465 thousand at the end of 2014 (PLN 5 283 034 thousand as at the end of 2013), and Tier II capital amounted to PLN 270 187 thousand (PLN 61 620 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 financial result from the year 2013 and acquisition of 50% shares of Raiffeisen-Leasing Polska S.A.. Capital Tier II increased due to contracting subordinated liability of EUR 50 million in March 2014 and share capital increase by EUR 30 million in November 2014.

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

Risk management (cont.)

Economic capital calculation

Economic capital is defined as capital with a purpose of covering unexpected losses the Group incurs or may incur as a result of realization of risks that occur in Group's operations or in its economic environment. The Group 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.

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 Parent Entity are informed about the results of the review.

Economic capital is calculated based on the main types of risk the Group 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 Group 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.

44. Credit risk

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

The aim of credit risk management is to increase the safety of the Group'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 Group's loan portfolio.

With respect to individual customers, the Group 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 Group'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.

Risk management (cont.)

Credit risk monitoring procedures applied by the Group 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 Group'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 Group's own account and its customers' accounts.

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

The Group 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 Group'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 Group'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 Group;
- monitoring of credit risk provisions levels,
- managing the portfolio of non-performing loans.

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

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 Group's portfolio management.

Risk management (cont.)

The Group 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 Group grants loans to customers characterized by high creditworthiness.

Retail customers' creditworthiness is assessed with the use of scoring cards. The Group grants loans to customers characterized by high creditworthiness. However, in order to reduce potential losses resulting from debt not being serviced, the Group 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 Group'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 Group.

The Group accepts the following collaterals in credit risk process:

- 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 957 688 thousand as at 31 December 2014 (PLN 1 038 824 thousand as at 31 December 2013).

The Group 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.

Risk management (cont.)

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 Group 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 Group usually utilizes its own estimations of parameters necessary for pricing purposes based on Group'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.

With respect to the credit risk on granted loan commitments, the Group 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 Group 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 Group's irrevokable 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	**654 891**	**0**	**69 411**	**708 833**	**0**	**0**	**0**	**1 433 135**
Cash on current and term accounts with other banks	626 361	0	0	0	0	0	0	**626 361**
Loans and advances granted to other banks	28 530	0	0	0	0	0	0	**28 530**
Derivative financial instruments	0	0	0	708 833	0	0	0	**708 833**
Corporate bonds	0	0	47 069	0	0	0	0	**47 069**
Mortgage bonds	0	0	22 343	0	0	0	0	**22 343**
Exposures to customers	**0**	**0**	**95 700**	**191 879**	**393 457**	**39 819 298**	**0**	**40 500 334**
Loans and advances granted to individuals	0	0	0	0	0	18 133 192	0	**18 133 192**
Loans and advances granted to micro customers	0	0	0	0	0	4 960 867	0	**4 960 867**
Loans and advances granted to large enterprises	0	0	0	0	0	15 008 524	0	**15 008 524**
Loans and advances granted to small and medium enterprises	0	0	0	0	0	1 687 071	0	**1 687 071**
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	42 104	0	0	**42 104**
Derivative financial instruments	0	0	0	191 879	0	0	0	**191 879**
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**	**134 464**	**134 464**
Total	**654 891**	**2 683 875**	**361 623**	**900 712**	**12 529 109**	**39 819 298**	**134 464**	**57 083 972**

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	**367 637**	**0**	**0**	**418 723**	**0**	**0**	**0**	**786 360**
Cash on current and term accounts with other banks	325 657	0	0	0	0	0	0	**325 657**
Loans and advances granted to other banks	41 980	0	0	0	0	0	0	**41 980**
Derivative financial instruments	0	0	0	418 723	0	0	0	**418 723**
Exposures to customers	**0**	**0**	**67 995**	**115 506**	**363 937**	**37 576 928**	**0**	**38 124 366**
Loans and advances granted to individuals	0	0	0	0	0	18 600 639	0	**18 600 639**
Loans and advances granted to micro customers	0	0	0	0	0	4 839 139	0	**4 839 139**
Loans and advances granted to large enterprises	0	0	0	0	0	12 834 382	0	**12 834 382**
Loans and advances granted to small and medium enterprises	0	0	0	0	0	1 340 308	0	**1 340 308**
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	69 768	0	0	**69 768**
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**	**177 330**	**177 330**
Total	**367 637**	**2 422 051**	**8 770 806**	**534 229**	**1 802 410**	**37 576 928**	**177 330**	**51 651 391**

Maximum exposure to credit risk for off-balance sheet amounted to:	31 December 2014	31 December 2013
Guarantees	2 021 907	1 776 498
Off balance liabilities of a financial nature	4 478 751	4 271 068
Total	**6 500 658**	**6 047 566**

Risk management (cont.)

All categories of financial assets presented in the consolidated 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 security reducing the maximum exposure to credit risk
Not overdue receivables without identified impairment	**132 731**	**37 453 790**	**37 586 521**	**18 198 014**
Amounts due from Central Bank and other banks	0	1 581 701	1 581 701	16 123
Individual customers	0	16 202 556	16 202 556	9 033 075
Micro customers	0	3 901 741	3 901 741	3 110 128
Large enterprises	0	14 146 189	14 146 189	5 216 058
Small and medium enterprises	0	1 597 564	1 597 564	822 630
Public sector	0	24 039	24 039	0
Other financial assets	132 731	0	132 731	0
Overdue receivables without identified impairment	**1 683**	**2 671 124**	**2 672 807**	**1 546 999**
Individual customers	0	1 664 269	1 664 269	786 940
Micro customers	0	700 696	700 696	514 947
Large enterprises	0	230 765	230 765	199 888
Small and medium enterprises	0	69 654	69 654	45 224
Public sector	0	5 740	5 740	0
Other financial assets	1683	0	1683	0
Receivables with identified impairment	**1 891 376**	**1 484 417**	**3 375 793**	**1 445 774**
Individual customers	36 398	855 776	892 174	326 894
Micro customers	197 413	628 641	826 054	405 214
Large enterprises	1 542 215	0	1 542 215	683 796
Small and medium enterprises	111 663	0	111 663	29 870
Other financial assets	3 687	0	3 687	0
Total other financial assets, gross	**2 025 790**	**41 609 331**	**43 635 121**	**21 190 787**
Impairment allowances on amounts due from Central Bank and other banks	**0**	**302**	**302**	**0**
Impairment allowances on loans and advances	**1 073 494**	**1 022 527**	**2 096 021**	**0**
Impairment allowances on other financial assets	**3 637**	**0**	**3 637**	**0**
Total other financial assets, net	**948 659**	**40 586 502**	**41 535 161**	**21 190 787**

Risk management (cont.)

31 December 2013	Exposure amount analysed on an individual basis	Exposure amount analysed on a group basis	Exposure amount Total	Value of security reducing the maximum exposure to credit risk
Not overdue receivables without identified impairment	**177 330**	**35 368 766**	**35 546 096**	**25 104 485**
Amounts due from Central Bank and other banks	0	1 540 687	1 540 687	15 812
Individual customers	0	16 867 231	16 867 231	15 699 017
Micro customers	0	3 731 492	3 731 492	3 671 211
Large enterprises	0	11 957 154	11 957 154	5 026 365
Small and medium enterprises	0	1 232 547	1 232 547	692 080
Public sector	0	39 655	39 655	0
Other financial assets	177 330	0	177 330	0
Overdue receivables without identified impairment	**0**	**2 732 957**	**2 732 957**	**2 228 004**
Individual customers	0	1 500 830	1 500 830	1 199 677
Micro customers	0	822 261	822 261	765 423
Large enterprises	0	315 739	315 739	186 772
Small and medium enterprises	0	94 127	94 127	76 132
Receivables with identified impairment	**1 659 907**	**2 373 437**	**4 033 344**	**1 739 349**
Individual customers	17 532	1 525 314	1 542 846	536 319
Micro customers	147 553	843 660	991 213	596 574
Large enterprises	1 386 713	0	1 386 713	583 635
Small and medium enterprises	100 193	4 463	104 656	22 821
Other financial assets	7 916	0	7 916	0
Total other financial assets, gross	**1 837 237**	**40 475 160**	**42 312 397**	**29 071 838**
Impairment allowances on amounts due from Central Bank and other banks	**0**	**205**	**205**	**0**
Impairment allowances on loans and advances	**966 548**	**1 965 926**	**2 932 474**	**0**
Impairment allowances on other financial assets	**7 916**	**0**	**7 916**	**0**
Total other financial assets, net	**862 773**	**38 509 029**	**39 371 802**	**29 071 838**

Risk management (cont.)

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	**2 059 216**	**493 577**	**18 957**	**21 687**	**77 687**	**2 671 124**
Individual customers	1 364 497	294 940	2 963	1 800	69	1 664 269
Micro customers	516 433	184 186	7	35	35	700 696
Large enterprises	121 944	2 488	14 507	19 091	72 735	230 765
Small and medium enterprises	56 342	6 223	1480	761	4 848	69 654
Public sector	0	5 740	0	0	0	5 740
Other gross financial assets – past due but not impaired	**1 660**	**23**	**0**	**0**	**0**	**1 683**
Total	**2 060 876**	**493 600**	**18 957**	**21 687**	**77 687**	**2 672 807**

As at 31 December 2013	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	**2 006 158**	**583 355**	**8 485**	**95 099**	**39 860**	**2 732 957**
Individual customers	1 182 357	308 403	741	72	9 257	1 500 830
Micro customers	580 063	237 332	2 657	1 605	604	822 261
Large enterprises	175 752	22 285	3 343	90 323	24 036	315 739
Small and medium enterprises	67 986	15 335	1 744	3 099	5 963	94 127
Total	**2 006 158**	**583 355**	**8 485**	**95 099**	**39 860**	**2 732 957**

The following table presents credit quality of receivables neither past due nor impaired from Central Bank, other banks and the Group's clients, set up based on internal rating models.

Risk management (cont.)

As at 31 December 2014

Credit quality of financial assets neither past due nor impaired	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	other assets	Total amount of exposures
Exposures classified in accordance with internal ratings applied by the Group									
Very good	926 508	573 313	15 368 609	3 043 971	6 662 418	546 186	15 789	635	**27 137 429**
Good	0	21 220	280 698	564 707	4 254 994	479 884	8 250	0	**5 609 753**
Average	0	3 090	0	2 517	2 741 096	510 561	0	0	**3 257 264**
Bad	0	0	29 337	169 576	342 331	51 085	0	0	**592 329**
Very bad	0	0	0	0	5 923	1 930	0	0	**7 854**
Total exposures classified in accordance with internal ratings applied by the Group	**926 508**	**597 623**	**15 678 644**	**3 780 772**	**14 006 762**	**1 589 647**	**24 039**	**635**	**36 604 629**
Non-rated exposures	**0**	**57 570**	**523 912**	**120 970**	**139 427**	**7 917**	**0**	**132 096**	**981 892**
Total	**926 508**	**655 193**	**16 202 556**	**3 901 741**	**14 146 189**	**1 597 564**	**24 039**	**132 731**	**37 586 521**

As at 31 December 2013

Credit quality of financial assets neither past due nor impaired	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	other assets	Total amount of exposures
Exposures classified in accordance with internal ratings applied by the Group									
Very good	1 172 845	349 921	13 649 937	0	5 345 458	363 953	19 509	7 016	**20 908 639**
Good	0	569	166 031	5	3 396 733	453 783	20 146	694	**4 037 961**
Average	0	16 186	0	61	2 586 653	358 834	0	0	**2 961 734**
Bad	0	0	25 917	8	404 255	36 435	0	0	**466 615**
Very bad	0	0	0	0	95 586	3 225	0	0	**98 811**
Total exposures classified in accordance with internal ratings applied by the Group	**1 172 845**	**366 676**	**13 841 885**	**74**	**11 828 685**	**1 216 230**	**39 655**	**7 710**	**28 473 760**
Non-rated exposures	**0**	**1 166**	**3 025 346**	**3 731 418**	**128 469**	**16 317**	**0**	**169 620**	**7 072 336**
Total	**1 172 845**	**367 842**	**16 867 231**	**3 731 492**	**11 957 154**	**1 232 547**	**39 655**	**177 330**	**35 546 096**

Risk management (cont.)

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

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	171 985	3 275	0	**13 242 815**
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 Group	**12 332 163**	**761 355**	**0**	**0**	**674 851**	**5 250**	**0**	**13 773 620**
Non-rated exposures	**0**	**16 287**	**289**	**117**	**503**	**628**	**0**	**17 824**
Total	**12 332 163**	**777 642**	**289**	**117**	**675 354**	**5 878**	**0**	**13 791 443**

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 Group	**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	17 127	94 062	6 709	2 548	229 121	**349 566**	0	27 156	21 857
Mining	0	0	0	7 218	11 621	865	4	15 320	**35 029**	0	3 289	2 288
Manufacturing	0	0	9 597	481 561	3 706 858	4 015	614	365 439	**4 568 084**	0	304 136	209 616
Production and supply of electricity, gas, steam and air conditioning supply	0	0	558 643	3 431	192 094	284 271	68 215	55 268	**1 161 922**	0	270 836	107 690
Water supply, sewerage, waste management and remediation activities	0	0	0	26 442	24 669	378	96	19 230	**70 814**	0	3 089	2 886
Construction	0	0	201 448	91 636	700 871	125 996	34 550	268 478	**1 422 979**	26 017	354 798	276 101
Wholesale and retail trade; repair of motor vehicles, motorcycles,	0	780	25	669 136	3 197 165	697 172	167 031	679 574	**5 410 884**	0	654 395	380 232
Transport and storage	0	0	0	296 349	534 325	171 798	12 233	474 104	**1 488 809**	0	149 656	69 742
Hotels and restaurants	0	0	20 263	8 644	57 341	99 688	41 916	79 806	**307 659**	0	72 641	39 512
Information and communication	0	620 897	0	14 823	2 127 666	14 803	2 954	87 430	**2 868 573**	2	14 546	10 471
Financial and assurance activities	926 508	29 295	75 881	1 938	47 226	213 148	45 294	81 088	**1 420 380**	16 085	150 114	72 106
Activities related to real estate	0	0	3 147 840	35 651	650 594	6 742	389	62 462	**3 903 678**	0	365 295	202 725
Professional, scientific and technical activities	0	0	0	29 749	235 640	28 621	3 433	267 449	**564 893**	0	38 898	28 100
Administration activities and supporting activities	0	0	4 719	34 317	218 656	106 425	7 337	102 844	**474 300**	0	15 542	12 266

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 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
Public administration and defence; compulsory social security and health insurance	0	0	0	669	320	56 829	8 603	8 667	**75 087**	0	13 964	6 836
Education	0	0	0	3 145	18 840	461	14	26 472	**48 932**	0	1 564	1 380
Health care and social assistance	0	0	28 038	32 445	41 517	501	5	240 161	**342 666**	0	16 564	14 768
Culture, entertainment and recreation	0	0	0	9 831	22 632	0	0	19 512	**51 976**	0	4 334	3 263
Other service activities	0	0	13 517	14 454	17 350	0	0	109 361	**154 682**	0	3 131	4 008
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**	**650 972**	**4 059 971**	**1 778 567**	**11 899 446**	**18 369 413**	**860 569**	**4 951 572**	**43 497 020**	**42 104**	**3 372 106**	**2 096 323**

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	14 745	67 191	2 669	2 675	185 807	**273 087**	0	19 721	18 387
Mining	0	0	0	7 923	7 181	0	56	13 079	**28 239**	0	5 522	3 316
Manufacturing	0	0	107 846	709 597	3 333 218	635	526	318 195	**4 470 017**	0	404 310	218 004
Production and supply of electricity, gas, steam and air conditioning supply	0	0	574 927	11 886	188 016	44 689	65 055	30 830	**915 403**	0	91 128	72 225
Water supply, sewerage, waste management and remediation activities	0	0	0	22 742	30 784	100	51	19 215	**72 892**	0	2 976	2 302
Construction	0	0	366 407	286 670	588 360	17 242	36 346	231 213	**1 526 238**	26 017	450 102	322 955
Wholesale and retail trade; repair of motor vehicles, motorcycles,	0	0	51 920	1 450 654	2 954 225	91 487	171 223	534 811	**5 254 320**	0	658 815	480 887
Transport and storage	0	0	0	352 095	475 360	11 404	8 515	433 762	**1 281 136**	0	131 082	80 953
Hotels and restaurants	0	0	71 049	199 973	43 788	11 428	38 334	55 624	**420 196**	0	80 509	49 399
Information and communication	0	0	0	42 519	1 074 918	1 511	2 312	66 578	**1 187 838**	2	15 520	13 650
Financial and assurance activities	1 172 845	367 842	39 892	30 381	284 431	34 841	41 612	53 132	**2 024 976**	43 749	94 058	48 891
Activities related to real estate	0	0	2 828 088	66 216	572 112	0	146	46 949	**3 513 511**	0	389 219	209 867
Professional, scientific and technical activities	0	0	0	128 676	201 905	853	2 478	221 819	**555 731**	0	39 059	26 668
Administration activities and supporting activities	0	0	13 118	57 217	160 904	16 690	6 249	68 318	**322 496**	0	19 956	14 766

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
Public administration and defence; compulsory social security and health insurance	0	0	0	18 324	722	5 042	7 158	3 514	**34 760**	0	6 680	4 571
Education	0	0	0	47 755	18 038	455	7	23 432	**89 687**	0	12 536	8 549
Health care and social assistance	0	0	0	129 758	45 223	0	0	212 894	**387 875**	0	22 892	16 579
Culture, entertainment and recreation	0	0	0	31 477	19 175	0	0	15 738	**66 390**	0	9 316	6 712
Other service activities	0	0	0	120 182	14 405	0	0	68 075	**202 662**	0	26 968	22 714
Households	0	0	0	0	0	16 176 639	1 109 832	2 213 226	**19 499 697**	0	1 545 058	1 311 284
Total	**1 172 845**	**367 842**	**4 053 247**	**3 728 790**	**10 079 956**	**16 415 685**	**1 492 575**	**4 816 211**	**42 127 151**	**69 768**	**4 025 427**	**2 932 679**

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 Group 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 not 2.9 of 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	**1 398 400**	**40 569**	**1 357 831**	**849 590**
Non past due	**1 093 096**	**18 590**	**1 074 505**	**673 203**
Individual customers	144 189	2 653	141 536	57 477
Micro customers	142 462	2 335	140 126	79 047
Large enterprises	793 019	13 074	779 945	528 287
Small and medium enterprises	13 426	528	12 898	8 391
Past due	**305 304**	**21 978**	**283 326**	**176 387**
Individual customers	147 883	9 813	138 070	62 319
Micro customers	86 811	7 615	79 195	45 396
Large enterprises	66 041	4 304	61 737	65 366
Small and medium enterprises	4 569	246	4 323	3 307
Impaired exposuers	**1 110 493**	**518 452**	**592 042**	**428 438**
Group method	**257 814**	**119 382**	**138 432**	**132 176**
Individual customers	120 934	65 795	55 139	51 515
Micro customers	134 532	53 137	81 395	78 842
Large enterprises	2 348	451	1 897	1 820
Individual method	**852 679**	**399 069**	**453 610**	**296 261**
Individual customers	14 040	4 468	9 573	0
Micro customers	19 180	13 505	5 675	944
Large enterprises	794 074	363 533	430 541	290 666
Small and medium enterprises	25 385	17 563	7 821	4 652

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

Risk management (cont.)

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

Net amount exposures				
31 December 2014	**Forborne**	**Loans and advances to customers by borrower segment**	**% share**	**Under probation***
Individual customers	344 318	18 133 192	**2%**	146 504
Micro customers	306 391	4 960 867	**6%**	90 390
Large enterprises	1 274 120	15 008 524	**8%**	643 634
Small and medium enterprises	25 043	1 687 071	**1%**	8 705
Public sector	0	29 644	**0%**	0
Total	**1 949 873**	**39 819 298**	**5%**	**889 232**

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

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	**1 093 095**	**143 878**	**90 615**	**5 500**	**4 549**	**60 763**	**1 398 400**
Individual customers	144 189	95 782	50 290	1 664	147	0	292 072
Micro customers	142 461	46 771	40 040	0	0	0	229 272
Large enterprises	793 019	74	1	3 107	4 212	58 647	859 060
Small and medium enterprises	13 426	1 250	284	729	189	2 116	17 996
Impaired exposuers	**390 879**	**25 041**	**60 824**	**56 943**	**52 345**	**524 461**	**1 110 493**
Individual customers	7 314	9 502	17 625	23 825	3 763	72 945	134 974
Micro customers	10 103	13 016	11 461	11 283	11 014	96 835	153 712
Large enterprises	362 345	2 096	31 575	19 694	35 563	345 149	796 422
Small and medium enterprises	11 117	427	164	2 141	2 004	9 532	25 385

Concentration limits

In order to control credit portfolio risk in terms of expected and unexpected loss (capital and impairment allowance), the Group 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 Parent Entity.

The Parent Entity 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.

Risk management (cont.)

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%)	1 373 663	1 336 163

The Group 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 exposures exceeding 10% of Group's equity are presented below (PLN 549 465 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.

31 December 2014				
Customer No.	Borrower name	Exposure limit	Entity / Group	% share
1	Borrower 1	9 699 462	Entity	177%
2	Borrower 2	6 222 699	Group	113%
3	Borrower 3	6 037 693	Entity	110%
4	Borrower 4	705 512	Group	13%

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%.

31 December 2013				
Customer No.	Borrower name	Exposure limit	Entity / Group	% share
1	Borrower 1	9 986 120	Group	187%
2	Borrower 2	8 648 850	Entity	162%
3	Borrower 3	2 027 335	Group	38%
4	Borrower 4	1 161 420	Entity	22%
5	Borrower 5	870 508	Group	16%
6	Borrower 6	801 913	Group	15%
7	Borrower 7	661 159	Group	12%
8	Borrower 8	607 843	Group	11%

As at 31 December 2013 exposures to borrowers: 2 and 3 relate to the National Bank of Poland, the State Treasury and are not subject to total exposure limit of 25% of equity resulting from § 6 of the Polish FSA

Risk management (cont.)

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 borrower 1 is below the permissible credit concentration limit which is below 25%.

45. Liquidity risk

The main purpose of the liquidity risk management process is to develop a structure of financial statement positions in Group that allows the Group to achieve profit targets defined in the financial plan and, at the same time, maintain Group'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 modelling behavior of the financial market and that of Group's customers (e.g. renewal 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).

Within the Group, 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 Group's pricing and product policy, as an instrument that affects the structure of the Group's consolidated 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			Contractual cash flows				
Type of liability	Nominal amount	Carrying amount	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	**953 441**	**1 124 302**	**509 515**	**340 428**	**202 052**	**114 435**	**1 166 430**
inflows	27 313 337	-	17 541 511	4 093 644	3 699 251	2 039 408	**27 373 813**
outflows	28 266 881	-	18 051 129	4 434 072	3 901 303	2 153 842	**28 540 346**
Financial liabilities	**50 900 092**	**50 985 022**	**33 153 009**	**11 298 699**	**6 164 582**	**1 219 869**	**51 836 159**
Amounts due to banks and other monetary institutions	16 701 434	16 709 681	3 587 485	7 011 672	5 369 186	1 200 486	**17 168 828**
Amounts due to customers	32 803 567	32 878 290	29 221 770	3 905 883	81 261	1 186	**33 210 100**
Liabilities from issuance of debt securities	1 134 434	1 136 394	128 197	365 508	702 868	0	**1 196 574**
Other financial liabilities	260 657	260 657	215 558	15 636	11 266	18 197	**260 657**
Guarantee liabilities granted	**2 021 907**	**-**	**1 984**	**2 019 923**	**0**	**0**	**2 021 907**
Financial liabilities granted	**4 478 751**	**-**	**24 004**	**1 970 057**	**2 484 690**	**0**	**4 478 751**

31 December 2013			Contractual cash flows				
Type of liability	Nominal amount	Carrying amount	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	**363 646**	**453 945**	**212 715**	**212 142**	**71 797**	**23 031**	**519 685**
inflows	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	**46 428 430**	**46 509 337**	**28 200 464**	**11 463 771**	**7 222 827**	**357 836**	**47 244 898**
Amounts due to banks and other monetary institutions	16 028 268	16 041 212	1 236 578	7 964 499	7 044 351	357 228	**16 602 656**
Amounts due to customers	30 061 812	30 129 775	26 648 229	3 499 272	155 783	608	**30 303 892**
Other financial liabilities	338 350	338 350	315 657	0	22 693	0	**338 350**
Guarantee liabilities granted	**1 776 499**	**-**	**0**	**1 776 499**	**0**	**0**	**1 776 499**
Financial liabilities granted	**4 271 067**	**-**	**19 775**	**2 074 295**	**2 176 998**	**0**	**4 271 068**

The following table presents the cumulative liquidity gap of the Parent Entity 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	-2 705 121	-12 377 383	-14 218 396	-15 508 933	-14 778 638	-12 295 993
31 December 2013	-7 825 917	-11 167 842	-14 785 290	-14 778 625	-15 838 530	-14 276 202

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

The Group’s activities are aimed at transforming the maturities of assets and liabilities to reflect the preferences of customers who place their deposits with the Group and receive loans from it, while

Risk management (cont.)

maintaining the acceptable level of risk mitigated by mid-term and long-term financing obtained on the interbank market.

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 Group's liquidity assessment and its exposure to changes in interest rates and foreign exchange rates.

46. Other market risks

46.1. 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 Group 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.

46.2. 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 Group 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 Group has developed a system of market risk levels. As part of the division of responsibilities in the risk management process the Grop'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 Group's equity.

Risk management (cont.)

The Group's currency risk management policy assumes having a foreign exchange position, which enables the Group 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 Group 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 Group's own funds.

Daily reports on Group'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 Member of the Management Board of the Parent Entity.

As at 31 December 2014 and 31 December 2013 the Group 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	7 421	7 413	7 429	-8	8
USD	-13 325	-13 307	-13 344	18	-19
CHF	5 375	5 369	5 383	-7	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	-8 656	-8 647	-8 664	9	-8
USD	-1 706	-1 703	-1 708	3	-2
CHF	46 072	46 004	46 140	-68	68
Total				**-56**	**58**

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

Risk management (cont.)

As at 31 December 2014 the Group's net long currency position amounted to PLN 14 706 thousand, which constituted 0.27% of the Group's own funds (as at 31 December 2013 net long currency position of the Group amounted to PLN 47 189 thousand, which was equal to 0.88% of the Group's own funds). The following table presents the Group's balance sheet and off-balance items by currency.

Concentrations of assets, liabilities and off-balance items in foreign currencies and the Group's foreign exchange position					
31 December 2014	**EUR**	**USD**	**CHF**	**Other**	**Total**
Balance sheet components of foreign exchange position – assets	11 670 543	841 111	11 782 222	364 344	24 658 221
Balance sheet components of foreign exchange position – liabilities	10 835 238	1 899 302	3 885 127	337 390	16 957 057
Off-balance components of foreign exchange position – amounts receivable	11 662 245	14 274 956	2 029 349	423 686	28 390 237
Off-balance components of foreign exchange position – amounts payable	12 490 130	13 230 091	9 921 069	448 731	36 090 020
Net long foreign exchange position (+)	**7 421**	**0**	**5 375**	**1 909**	**14 706**
Net short foreign exchange position (-)	**0**	**13 325**	**0**	**0**	**13 325**

Concentrations of assets, liabilities and off-balance items in foreign currencies and the Group's foreign exchange position					
31 December 2013	**EUR**	**USD**	**CHF**	**Other**	**Total**
Balance sheet components of foreign exchange position – assets	10 587 692	271 986	12 006 429	239 873	23 105 980
Balance sheet components of foreign exchange position – liabilities	11 837 879	1 594 834	4 480 427	313 374	18 226 514
Off-balance components of foreign exchange position – amounts receivable	9 155 016	10 616 170	1 835 375	419 454	22 026 015
Off-balance components of foreign exchange position – amounts payable	7 913 485	9 295 027	9 315 305	344 836	26 868 653
Net long foreign exchange position (+)	**0**	**0**	**46 072**	**1 117**	**47 189**
Net short foreign exchange position (-)	**8 656**	**1 705**	**0**	**0**	**10 361**

46.3. 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 Group.

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

The Group's policy on interest rate risk management assumes the existence of a system of internal transfer prices within the Group, 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.

For the purpose of interest rate risk management within the Group, a system of market risk levels. 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.

Risk management (cont.)

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 Group,
- 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 Group 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 business units of the Parent Entity and supervising Management Board Memebers.

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 Group is exposed to and, if necessary, instructs the relevant units to take appropriate steps to mitigate it.

The Group maintains separate bank and trading book. According to the Regulation of the Parent Entity's Management Board on detailed principles for separating the trading book, 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 composite, sub-portfolios within the trading book 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 book are included in the bank book.

The following table presents the level of Group'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).

Risk management (cont.)

	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 Group'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 Parent Entity 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 Group'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 Group's exposure to changes in interest rates are presented under Derivative financial instruments in liabilities in Assets and Liabilities.

Risk management (cont.)

Group'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	3	589 888	65 000	0	0	0	0	0	**654 891**
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	499	0	0	0	0	0	0	**900 712**
Investment securities	42 104	10 384 100	2 102 906	0	0	0	0	0	**12 529 109**
Loans and receivables granted to customers	0	24 245 822	15 195 060	65 115	153 739	21 724	40 433	97 405	**39 819 298**
Other financial assets	134 464	0	0	0	0	0	0	0	**134 464**
Liabilities									
Amounts due to other banks	0	8 115 996	8 206 216	30 863	8 600	28 000	0	0	**16 389 675**
Derivative financial instruments	1 124 285	17	0	0	0	0	0	0	**1 124 302**
Amounts due to customers	0	21 136 909	8 821 332	1 040 352	1 817 984	59 675	1 401	638	**32 878 290**
Subordinated liabilities	0	0	320 006	0	0	0	0	0	**320 006**
Liabilities from debt securities issued	0	0	634 434	501 960	0	0	0	0	**1 136 394**
Other financial liabilities	257 475	3 181	0	0	0	0	0	0	**260 656**
Off-balance sheet items									
Guarantee liabilities granted	2 021 907	0	0	0	0	0	0	0	**2 021 907**
Financial liabilities granted	4 454 747	24 004	0	0	0	0	0	0	**4 478 751**

Risk management (cont.)

Group'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	242 637	120 000	0	5 000	0	0	0	367 637
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	1 266	0	0	0	0	0	0	534 229
Investment securities	69 768	1 438 473	41 180	252 989	0	0	0	0	1 802 410
Loans and receivables granted to customers	0	24 891 781	12 226 547	159 493	90 042	44 670	41 212	123 184	37 576 928
Other financial assets	177 330	0	0	0	0	0	0	0	177 330
Liabilities									
Amounts due to other banks	0	5 768 882	10 046 237	0	27 506	75 864	18 721	0	15 937 209
Derivative financial instruments	453 945	0	0	0	0	0	0	0	453 945
Amounts due to customers	0	21 139 106	3 698 994	1 836 884	3 433 398	20 063	1 230	100	30 129 775
Subordinated liabilities	0	0	104 003	0	0	0	0	0	104 003
Other financial liabilities	338 350	0	0	0	0	0	0	0	338 350
Off-balance sheet items									
Guarantee liabilities granted	1 776 498	0	0	0	0	0	0	0	1 776 498
Financial liabilities granted	4 271 068	0	0	0	0	0	0	0	4 271 068

Risk management (cont.)

46.4. 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 Group 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 Group's operations by implementing effective mechanisms for the identification, assessment and quantification, mitigation, monitoring and reporting operational risk.

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

- control the risk at an acceptable level adequate to the Group'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.

Group's operational risk appetite is defined as:

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

The main principles of operational risk management in the Group 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 credit risk management:

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