Bank BGŻ
Dobrze służy ludziom

2012 Annual Report of Bank BGŻ

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Dobrze służy ludziom

Table of Contents

Bank BGŻ strategy for the years 2011–2014

Main objectives

- become one of the leading universal banks in Poland,
- develop traditional and virtual channels,
- optimize internal processes,
- develop systems for customer relationship management (CRM),
- improve operational efficiency,
- improve the human resources management system.

Mission

Bank BGŻ is a reliable local Polish community bank, focused on building long term relationships by offering quality customer service and a full range of transparent banking products. Using years of experience as the leading agricultural bank in Poland, we are a partner of choice for companies from the agri-food sector. We offer unique knowledge and tailored financial solutions.

Vision

Leader of the Polish financial service companies throughout the agri-food chain.

Bank of first choice for consumers and businesses of Micro and SME sector in cities of 150 thousand residents.

An innovative online bank for middle-class clients in large cities.

A significant bank, whose scale and market shares provide effective and self-financing activities as well as achieving lasting financial results.

Letter of the President of the Management Board

Dear Shareholders, Clients, Employees of the Bank BGŻ Capital Group,

On behalf of the Management Board of Bank BGŻ I am presenting to you with the 2012 consolidated financial statements.

In 2012 the Polish economy entered a period of slowdown. For Bank BGŻ this period was full of challenges and significant changes. During the third quarter Rabobank increased its share in our Bank's equity up to 97.93%. Then, the General Meeting of Bank BGŻ approved an increase of the share capital up to PLN 51,136,800. At the end of the year Rabobank announced the intent to merge its two subsidiaries, Bank BGŻ with Rabobank Polska. This merger will allow both Rabobank subsidiaries to leverage on and joint industry and market knowledge, and optimise services offered to its clients.

For more than a year, the marketing claim "Bank BGŻ serves people well" is underlining all business activities of Bank BGŻ. We want to be perceived by our clients as a friendly institution engaged in their affairs. Our leading position in agriculture financing requires an ongoing improvement of cooperation with our clients as well as greater and greater specialist knowledge of our advisers. For many years we have been consistently strengthening our local community bank position. At the end of 2012 we started restructuring our sales network. In order to better serve our clients and be closer to them we want to split responsibilities between retail banking and corporate banking areas. We have also taken cost optimising actions, including staff redundancies up to the maximum of 370 employees of the Bank. The redundancies will be concluded in June 2013.

The last year brought about changes in the Bank BGŻ offer with the launch of the personal banking offer. In this way we would like to meet individual client needs to the greatest extent.

In Autumn we celebrated the first birthday of our Internet bank - BGŻOptima. In just a year 70 thousand clients decided to have their savings with BGŻOptima's offer. All in all, Poles deposited PLN 3 billion in the youngest savings bank in Poland.

The 10th anniversary of Klasa BGŻ, propriety programme of BGŻ's Foundation, which warrants gifted junior high school graduates from modest income families with an opportunity to study in 5 prestigious secondary schools, was another event of great importance during 2012.

The net profit of the BGŻ Group in 2012 amounted to PLN 130.0 million, which was 1.5% higher than the year before. The profit improved mainly thanks to the net interest income, which throughout the whole year increased by 22.5%, net fee and commission income (9.7%) and result on investment activities (528%).

In 2013 we are focusing on further development of our business activities. We will strengthen our leading position in the F&A sector and as a local community partner. Service quality improvement and client satisfaction are our goals as well.

On behalf of the Management Board of the Bank I would like to thank all our employees for their efforts, engagement and results achieved during 2012. I would like to thank our clients and shareholders for their trust and cooperation.

Yours Faithfully,

Jacek Bartkiewicz

President of the Management Board of Bank BGŻ

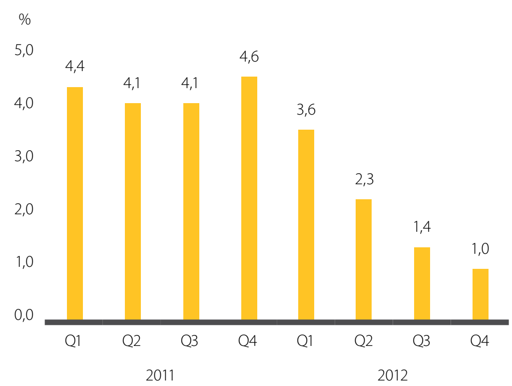
External conditions for the functioning of Bank BGŻ Capital Group

MACROECONOMIC SITUATION

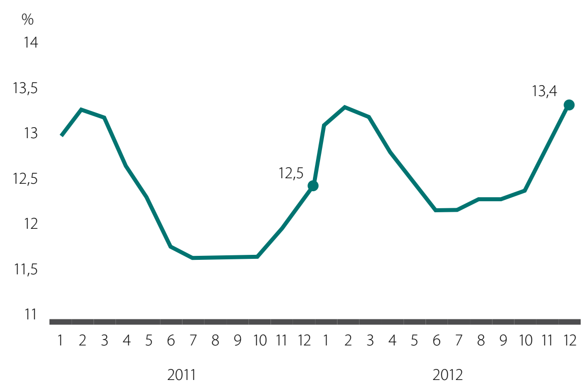
In 2012, the Polish economy slowed down, and the slowdown intensified particularly in Q2. As a result, the GDP dynamics systematically decreased. In Q1 2012, the GDP growth was 3.6% y/y, whilst in Q4 2012 – according to the Bank's estimates – approximately by 0.7 % y/y. The main factor behind the economy slowdown was shrinking internal demand. Its dynamics fell from 2.5% y/y in Q1 2012 to -0.6% y/y in Q4 2012 and was caused by the rapidly slowing pace of individual consumption and a slump in the dynamics of gross capital expenditure. The weakening pace of individual consumption was slightly offset by an increase in public spending. Despite that, the dynamics of total consumption fell from 1.2% y/y in Q1 2012 to 0.3% in Q4 2012. On the other hand, the weakening dynamics of domestic demand was conducive to the improvement of exports – imports ratio, which facilitated a higher contribution of the GDP to the foreign trade balance, from 1.1 pp. in Q1 2012 to 2.4 pp. in Q4 2012.

On an annual basis, the pace of economic growth decreased from 4.3% y/y in 2011 to 1.9% y/y in 2012.

Growth of GDP (y/y) Source: GUS, own estimation



Registered unemployment rate



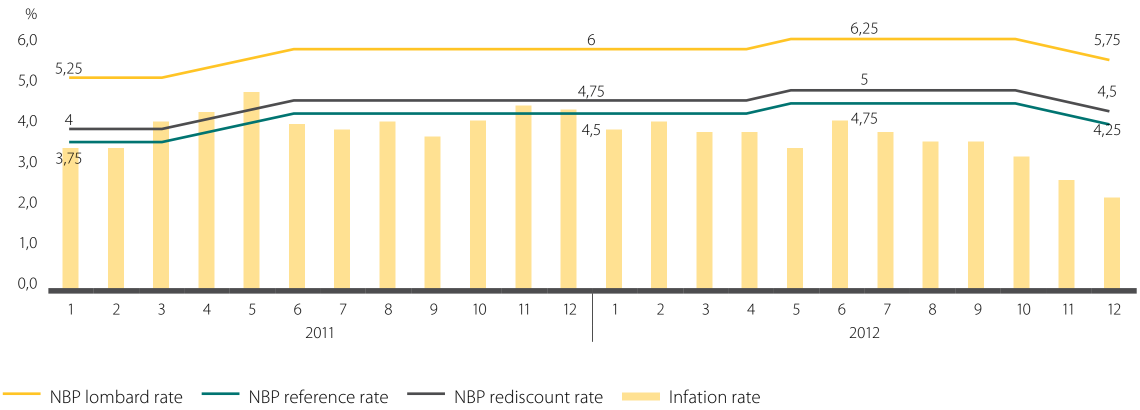
The deterioration of economic conditions in Europe coupled with weakening dynamics in internal demand translated into a slowdown in production sector activities. Industrial production grew in 2012 at a pace of 1.4% y/y, compared to 7.0% in 2011, and visibly slowed down in the second half of 2012. Falling activity in the industrial sector, together with lower activity in the construction sector, translated into a deterioration of the labour market situation. As a result, employment dynamics in the enterprise sector fell from 3.3% y/y in 2011 to 0.2% y/y in 2012 and reached a negative value of -0.5% y/y by year's end. The unemployment rate (with no seasonal adjustment) in December 2012 was 13.4% compared to 11.8% in the previous year.

Despite a significant deterioration in the labour market, the annual salary dynamics remained moderate and in 2012 was 3.5% y/y (compared to 4.8% y/y in 2011). However, the real salary dynamics in 2012 was -0.2% y/y, compared to 0.5% y/y in the previous year. This was caused by the inflation rate being high, despite weak demand. The average inflation rate in 2012 was 3.7% y/y, mainly due to fuel prices being higher than in the previous and, in consequence, also transport costs, prices of other energy carriers and food.

The high level of the actual and expected inflation rate led to the Monetary Policy Council (Rada Polityki Pieniężnej - RPP) increasing interest rates, on a one-off basis, interest rates by 25 base-points in May; following the increase, the Central Bank reference rate reached the level of 4.75%. This decision was taken by the MPC despite the evident economic slowdown indicators and despite supply-type price increases. Indicators of a strong slowdown at year's end caused that the RPP adjusted its policy and reduced interest rates twice, each time by 25 base-points, thus reducing the level of NBP reference rate to 4.25% at year's end, and the bill of exchange rediscounting rate – which is the basis for setting interest rates for agricultural preference loans – to 4.50%.

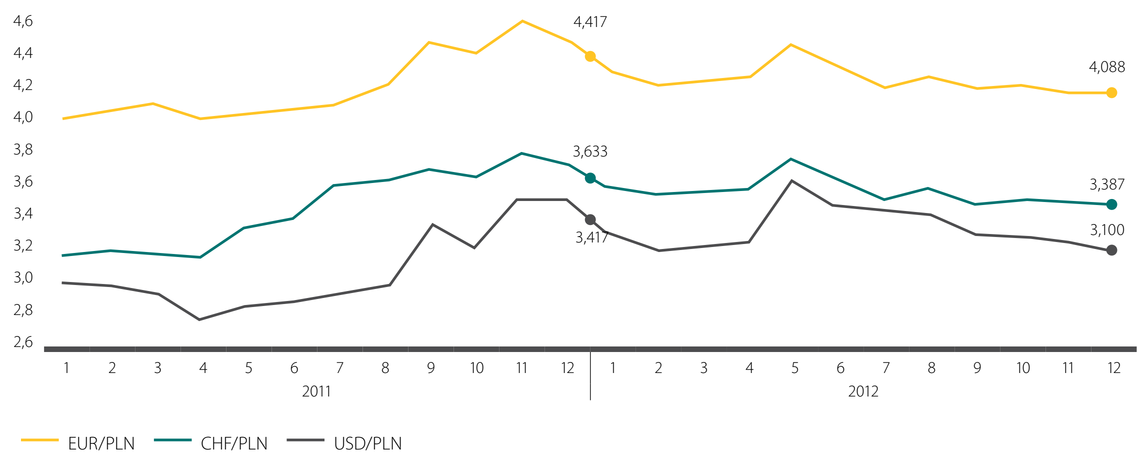
Inflation and interest rates

Source : GUS and NBP



PLN Exchange rate

Source : GUS and NBP



In the first half of the year, the liquidity operations (the so-called LTROs) conducted by the European Central Bank and other initiatives of the EU authorities to remedy the debt and banking crisis in Europe resulted in lower profitability of Polish bonds and in strengthening of the Polish zloty in Q1 2012. Despite that, a passing increase in risk caused by the exit of Greece from the Eurozone or by the outbreak of a banking crisis in Spain caused the return of Euro to the level of above PLN 4.20 in the mid year. In the second half of 2012, the Polish zloty appreciated against Euro and returned to the level of approximately PLN 4.10. It was partly due to the waning risk of a potential Eurozone break-up, following stabilisation of the political situation in Greece. At the same time, the deterioration of the economic outlook for the Eurozone countries resulted in a lower EUR/USD exchange rate in the first half of 2012. In the middle of the year, the EUR/USD exchange rate returned to the level of approximately PLN 1.32, following implementation of the third phase of the loosening of monetary policy by the Fed. Implementation by the Swiss National Bank in 2011 of a minimum acceptable EUR/CHF exchange rate significantly reduced fluctuations in the CHF/PLN exchange rate, despite investors turning to Swiss franc-denominated assets in mid 2012.

BANKING SECTOR RESULTS

According to data from the Polish Financial Supervision Authority, in 2012 the net financial result of the Polish banking sector decreased by 0.1% y/y and reached the level of PLN 15.5 billion. The main stabilizing factor in the net financial result was an increase in the so-called other items making up the result of banking activities (by 14.6% y/y), which should be associated among other things, with rise in the treasury bonds market, used by some banks to realise gains on the sale of these securities during the second half of 2012. The annual change in the net profit of the banking sector was positively affected by the following: slow, although significant in terms of volume, an increase in net interest income (by 1.4% y/y) and an increase in the results from other operating activities (by 113.6% y/y). One should note that the annual dynamics in interest result – high in the first half of 2012 – gradually decreased in the subsequent months due to, among other things, the weakening of the lending campaign and decreases in WIBOR rates preceding interest rates reductions by the MPC. The dynamics (y/y) of the commission income was merely 0.5% y/y, which - apart from the slowdown in the market of private individual loans - could have resulted from fluctuating trends in the capital market and from continuing competition in the market of personal accounts. The following had an unfavourable impact on annual change in the profits of the banking sector had the following: an increase in banks' other operating expenses operating costs (by 4.1% y/y) and a higher negative balance in impairment write-downs and other provisions (by 12.8% y/y). The increase in the balance of impairment write-downs resulted, to a large extent, from deteriorating enterprise (mainly the construction sector) and housing loans.

With the limited scale of dividend payments (based on the PFSA recommendations), equities of Polish banking sector (accounted for in calculating solvency ratios) increased in 2012 by 16.4%, compared to the end of 2011, to PLN 128.8 billion. However, the general capital requirement – with the slowing lending campaign and the strengthening Polish zloty, but on the other hand with increased from 75% to 100%, as of the end of June 2012, risk weight for retail exposures secured with mortgage – increased by 3.5% compared to the end of 2011 to PLN 70.0 billion. As a result, the solvency ratio increased by 1.6 pp., compared to the end of 2011, to 14.7%.

Selected elements of profit and loss statement for banking sector

billion PLN	2012	2011	Change y/y	
Net interest income	35 480	34 979	501	1.4%
Net commission income	14 350	14 283	67	0.5%
Dividend income	923	1 058	(135)	(12.8%)
Other elements of the net income from banking activity	8 005	6 984	1 021	14.6%
Result on banking activity (total)	**58 758**	**57 305**	**1 453**	**2.5%**
Net income from other operating activities	862	404	458	113.6%
Operating expenses of banks	(27 777)	(26 684)	(1 093)	4.1%
Amortization/Depreciation	(2 582)	(2 576)	(6)	0.2%
Balance of provisions and allowances	(9 989)	(8 855)	(1 134)	12.8%
Gross profit	**19 273**	**19 605**	**(333)**	**(1.7)%**
Corporate tax	(3 733)	(3 862)	129	(3.3%)
Net profit	**15 524**	**15 539**	**(15)**	**(0.1%)**

Source: PFSA.

In 2012, the activity of the banking sector, measured with the pace of growth in deposit and credit volumes, significantly decreased. Loans to non-banking clients increased by 1.7% y/y (in 2011 – by 14.8% y/y), whilst deposits from non-banking clients – by 5.9% y/y (in 2011 – by 11.0% y/y). The nominal pace of growth, especially loans, was visibly restricted by the appreciation of the Polish zloty, unlike in 2011.

Debt under loans to private individuals decreased in 2012 by 0.8% y/y, whilst in 2011 – increased by 11.8% y/y. The decrease was mainly caused by the strong Polish zloty appreciation mentioned above (which reduced the nominal value of currency receivables expressed in PLN, especially from the large share of foreign currency housing loans) and by a downward trend in housing loans. This slowdown was, among other things, due to the coming into effect, as of the beginning of 2012, of the revised Recommendation S, which to an even greater extent limited the availability of housing loans (assuming a reduction in the maximum level of the ratio of currency mortgage loan servicing costs to 42% of net average salary, as well as adoption upon credit capacity assessment of a loan term of not more than 25 years). In addition, lower housing loans dynamics was also caused by earlier changes in the government-subsidised program "Rodzina na swoim" (A Family's Own Home), which resulted in the loss of attractiveness of this loan to clients (following a decrease in the limit of flat prices covered by the subsidy and implementation of restrictions on the age of subsidy applicants), and by withdrawal by other banks of foreign currency loans from their product offer. Also, in the analysed period, the process of increases in housing loan margins started. The adverse effect of that process was strengthened by an interest rate increase announced by the RPP in May 2012, and only at the end of the year, the process started to be neutralised following commencement by the MPC cycle of a moderating monetary policy. This coincided with systematic deterioration of the labour market which, on the one hand, caused further restrictions on housing loan availability for potential borrowers, and on the other – led to private individuals refraining from taking out such loans. As regards the currency structure of new housing loans, according to the Polish Banks Association, during the entire year 2012, the share of zloty housing loans, already dominant, in total housing loans, continued to increase. At the end of the analysed period, the share of foreign currency housing loans in the growth of new housing loans was insignificant.

The situation of the consumer loans market remained unchanged in the year 2012 despite the increase of banks' pressure to sell more cash loans (reflected in the increased marketing activity). Debt under consumer loans decreased during that period by 4.6% y/y. Apart from zloty appreciation, the decreasing trend could be related mainly to the continued and tightened (mainly for regulatory reasons) lending policy in this market segment. According to Credit Information Bureau (Biuro Informacji Kredytowej – BIK), this policy led to, among other things, demand was being shifted to the over-the-counter market, including shifting to non-banking lending firms (mainly with respect to small-value cash loans) or firms servicing hire-purchase agreements, controlled by banking groups and applying regulatory arbitration (as regards instalment loans). Lower volumes of consumer loans, on a yearly basis, could also result from disposal by some banks of part of their „bad" loans portfolios.

Loan volume of the banking sector

billion PLN, balance at the end of the year	2012	2011	2010	Change	
				2012	2011
Loans to private individuals	**449.5**	**453.2**	**405.4**	**(0.8%)**	**11.8%**
• mortgage loans	319.8	317.2	266.1	0.8%	19.2%
- PLN	144.3	122.3	99.4	18.0%	23.1%
- foreign currency	175.5	194.9	166.8	(10.0%)	16.9%
• consumer loans	129.7	135.9	139.3	(4.6%)	(2.4%)
Loans to institutional clients	**451.2**	**432.1**	**365.7**	**4.4%**	**18.2%**
• non -banking financial institutions	32.1	24.8	24.9	29.5%	(0.5%)
• non -financial entities	339.4	330.5	282.4	2.7%	17.0%
corporates	257.0	253.5	214.5	1.4%	18,1%
individual entrepreneurs	53.5	50.7	44.4	5.6%	14,2%
farmers	24.1	22.2	20.1	8.5%	10,4%
non profit organisations	4.8	4.2	3.4	16.0%	22,4%
• public sector	79.6	76.8	58.3	3.7%	31.7%
Loans to non-banking customers	**900.6**	**885.3**	**771.1**	**1.7%**	**14.8%**

Source: NBP, data for monetary financial institutions, excluding Central Bank and SKOK, only residents.

In 2012, a considerable decrease was recorded also in the development of lending a activity targeting the enterprise sector (from 18.1% at the end of 2011 to 1.4% y/y at the end of 2012). Apart from the already mentioned zloty appreciation, it could be related to an observable slump in Polish economic conditions which resulted in lower business activity of companies and in limiting the numbers of new investment projects, as well as in higher utilisation of own funds during execution of investments. The tightening of lending policy by banks could also have had an adverse impact on the market of enterprise loans, mainly towards the SMEs segment.

The main reason behind the growth in banking sector deposits in 2012 remained the savings of private individuals (increase by 8.3% y/y). Their increase was, however, smaller than in 2011, and resulted from a strong increase in the volume of term deposits. In analysing the currency structure of deposits of private individuals, one should note the insignificant, in terms of volume, but dynamic increase in currency deposits, which materialised despite a significant strengthening of zloty.

The lower dynamics in deposits of private individuals resulted from, among other things, the deteriorated labour market, which was reflected in higher unemployment and in the negative dynamics of enterprise sector gross salary, measured in real terms. The lower deposit activity of private individuals could also be related to the rise the treasury bonds market in Poland, which resulted, among other things, in a dynamic inflow of funds to debt funds throughout 2012. Finally, the lower dynamics in deposits of private individuals could also be caused by banks withdrawing from their product offer savings accounts and term deposits with non-taxable interest. On the other hand, stock exchange uncertainty and fluctuating trends on the Warsaw Stock Exchange (WSE), the growing job loss fears of private individuals, as well as the weak results on structured products matured in 2012 could have been conducive to the turning of private individuals to bank deposits.

A significant decrease in the value of enterprise deposits took place in 2012 (by 7.5% y/y at year end). Such a considerable fall in the deposit activities of companies could be linked to, among other things, the slump in Polish economy translating into lower revenues and the deteriorating financial standing of companies. In addition, reduced deposit activities of companies contributed to better utilisation of own funds during the implementation of investment projects. A business event of particular importance was the high-value capital investment by one of the Polish mining enterprises, under which the takeover of a foreign mine was carried out.

Deposit volume of the banking sector

billion PLN, balance at the end of the year	2012	2011	2010	Change 2012	Change 2011
Deposits of private individuals	**471.0**	**435.0**	**381.8**	**8.3%**	**13.9%**
• current	205.6	204.4	197.2	0.6%	3.6%
• term	265.4	230.6	184.6	15.1%	24.9%
Deposits of institutional clients	**357.5**	**347.2**	**323.1**	**3.0%**	**7.5%**
• non-banking financial institutions	56.2	43.1	39.2	30.4%	10.1%
• non-financial entities	239.6	253.0	229.1	(5.3%)	10.5%
corporates	189.8	205.1	182.8	(7.5%)	12,2%
Individual entrepreneurs	25.4	24.8	23.9	2.3%	4,0%
farmers	7.8	7.9	7.4	(2.0%)	7,5%
non profit organisations	16.6	15.1	15.0	9.8%	0,6%
• public sector	61.7	51.0	54.9	20.8%	(7.0%)
Deposits of non-banking clients	**828.5**	**782.2**	**704.9**	**5.9%**	**11.0%**

Source: NBP, NBP, data for monetary financial institutions, excluding Central Bank and SKOK, only residents.

Composition of the Capital Group and methods used for consolidation of the financial statements

As of 31 December 2012, the Bank BGŻ Capital Group (the Group) consisted of Bank BGŻ as the parent company and:

- Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o. – subsidiary,
- BGŻ Leasing Sp. z o.o. – associated company.

Consolidation scope

Entity name	Type of business activities	Share of Bank BGŻ in the share capital	Consolidation/ valuation method
Bankowy Fundusz Nieruchomościowy ACTUS Sp. z o.o.	Acquisition and disposal of properties	100.0%	Full consolidation
BGŻ Leasing Sp. z o.o.	Leasing activities	49.0%	Equity method

Important events in Bank BGŻ in 2012

21.02.2012	Moody's Investors Service rating agency decided to initiate a review of Bank BGŻ ratings for a possible downgrade. The review of Bank BGŻ by Moody was a part of a collective review announced on 21 February 2012 of ratings of banks from Central and Eastern Europe and Commonwealth of Independent States, which are subsidiaries of banking groups from Europe and the United States.
11.04.2012	Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. and Rabobank International Holding B.V. announced a tender offer for 100% of Bank BGŻ shares. The offered price per one share was PLN 72.50. The calling company intended to purchase 17 262 669 shares of the Bank and has committed to purchase shares when at the end of the subscription period all subscriptions totalled at least 6 478 478 of the Bank's shares.
22.05.2012	On 22 May the calling company extended the subscription period until 30 July.
18.06.2012	Moody's Investors Service downgraded its long-term rating deposits for the Bank to Baa2 from Baa1, with stable outlook. The Bank's Financial Strength Rating („BFSR") has remained at the level „D" with stable outlook. The rating of the Bank's short-term deposits was confirmed at Prime-2. The change in the rating closed the Bank BGŻ ratings review started by the Moody's on 21 February 2012.
30.07.2012-1.08.2012	As a result of the tender offer, RIH acquired 16,371,351 shares of the Bank. The total shareholding of the RIH in Bank BGŻ amounted to 37,941,751 shares representing 87.95% of the share capital of the Bank and allowing the right to exercise the same number of votes at the general meeting. Both Rabobank Group entities as a result of the tender offer acquired a total of 97.93% of the share capital of the Bank.
28.08.2012	Extraordinary General Meeting adopted a resolution increasing the share capital by PLN 8 000 000 (to PLN 51 136 764) through the issuance of 8 000 000 G series shares (nominal value PLN 1) at issue price of PLN 62,50. The issue was offered in a private placement to RIH.
14.09.2012	Registration of the increase of the share capital of the Bank by the District Court for the Capital City Warsaw, XII Commercial Division of the National Court Register. After the increase, the share capital is PLN 51 136 764.00. As a result of acquiring the issue of shares of series G RIH increased its total shareholding to 89.84% of the share capital of Bank BGŻ Rabobank Group's total shareholding in Bank BGŻ after the acquisition of G series shares is at 98.26%.
19.12.2012	The Bank has been notified by strategic shareholders - Coöperatieve Centrale Raiffeisen-Boerenleenbank BA and its subsidiary – Rabobank International Holding - on the intention tp merge Bank BGŻ with Rabobank Polska S.A. Rabobank informed the Bank that Rabobank, together with RIH, will use its best efforts to register a merger between Bank BGŻ and Rabobank Polska S.A. before the end of 2013 and no later than mid 2014. The decision on the merger of both banks is in line with the obligations undertaken by Rabobank towards the Polish Financial Supervision Authority ("PFSA") back in 2008 in relation to the approval of exceeding by Rabobank 50% of votes in the Bank BGŻ.
19.12.2012	Rabobank, in accordance with the obligations to the PFSA, informed about the intention to reduce its involvement in Bank BGŻ from the current 98% to 75% no later than mid-2016. At the same time the number of shares traded on the Warsaw Stock Exchange will be at a 25% level.

Authorities of the Parent Company

CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD

The composition of the Supervisory Board in the period between 1 January and 31 December 2012 was following:

- Jan Alexander Pruijs – President of the Supervisory Board,
- Dariusz Filar – Vice-President of the Supervisory Board,
- Monika Nachyła – Member of the Supervisory Board,
- Hendrik Adams – Member of the Supervisory Board (resignation on 28.08.2012),
- Roelof Dekker – Member of the Supervisory Board (resignation on m 22.06.2012),
- Evert Derks Drok – Member of the Supervisory Board (appointed on 25.06.2012),
- Jarosław Iwanicki – Member of the Supervisory Board,
- Waldemar Maj – Member of the Supervisory Board (resignation on 22.08.2012),
- Harry de Roo – Member of the Supervisory Board,
- Andrzej Zdebski – Member of the Supervisory Board (resignation on 28.08.2012).

CHANGES IN THE COMPOSITION OF THE MANAGEMENT BOARD

The composition of the Bank's Management Board in the period between 1 January and 31 December 2012 was following:

- Jacek Bartkiewicz – President of the Management Board,
- Gerardus Cornelis Embrechts – The first Vice-President of the Management Board,
- Magdalena Legęć – Vice-President of the Management Board,
- Johannes Gerardus Beuming – Vice-President of the Management Board,
- Dariusz Odzioba – Vice-President of the Management Board,
- Witold Okarma – Vice-President of the Management Board,
- Wojciech Sass – Vice-President of the Management Board,
- Andrzej Sieradz – Vice-President of the Management Board.

The above composition of the Management Board was appointed by the Supervisory Board on 21 June 2012, for another three-year term, with effect from 25 June 2012, i.e. the date of the General Meeting approving the financial statements for 2011.

External rating of the Parent

RATINGS

The Bank is rated by the Moody's Investors Service rating agency. On 18 June 2012, Moody's downgraded the long-term deposits rating of the Bank to Baa2 from Baa1, with stable outlook. The Bank's Financial Strength Rating („BFSR") remained at the level „D" with stable outlook. The rating of the Bank's short-term deposits was confirmed at Prime-2. The change in the rating concluded the Bank BGŻ ratings review initiated by the Moody's agency on 21 February 2012.

In its comments on the downgrade of Bank BGŻ long-term rating Moody's stated that the downgrade was prompted by the downgrade of Bank's majority shareholder – Rabobank on 15 June 2012. At the same time, Moody's underlines a very high likelihood of parental support from Rabobank as long-term strategic shareholder in Bank BGŻ and was reflected in providing foreign-currency funding, and capital resources to Bank BGŻ and its long-term interest in the Polish agribusiness sector.

The agency views on parental support probability are reinforced by Rabobank's tender offer to wholly acquire its Polish subsidiary that was announced in April 2012. However, Moody's notes that Rabobank's plan to acquire 100% ownership would require a divestiture of the Polish government's 25% stake in Bank BGŻ, thus reducing the incentives of the Polish authorities to provide additional support in case required. Accordingly, the current three notches uplift in Bank BGŻ long-term rating of Baa2 - which remains one of the highest among Western European bank subsidiaries in the region - is driven solely by parental support assumptions. The stable outlook on Bank BGŻ long-term rating is driven by stable outlook on Rabobank's standalone rating.

WARDS AND DISTINCTIONS

In 2012 Bank BGŻ was granted numerous awards and distinctions, which confirmed its strong position on the market. The Bank was appreciated for:

- "Konto z Premią" (Account with Bonus) was victorious for the second time in the ranking of personal accounts prepared by the financial portal Money.pl.
- In the XIII edition of the competition "Bank Przyjazny dla Przedsiębiorców" (Friendly Bank for Entrepreneurs) Bank BGŻ received the Honourable Distinction with five Gold Stars "for the business creativity with regard to offering innovative banking products, both in the segment of agri-business and in that of the overall business activity, in particular for the important contribution into building a professional offer for small and medium-sized enterprises on the market of electronic banking." Bank BGŻ received also a special award: Platinum Statuette "for the friendly cooperation with small and medium-sized enterprises and for modernizing the offer in the five consecutive editions of the competition Friendly Bank for Entrepreneurs".

- The credit card MasterCard of Bank BGŻ took the first place in the ranking of credit cards prepared by the financial portal Bankier.pl.
- Personal account with a bonus of Bank BGŻ took the first place in the ranking of "earning personal accounts" prepared by the financial portal Bankier.pl.
- Bank BGŻ took the first place in the competition of mortgage loans in PLN with the borrower's own contribution at the level of 20% prepared by the portal Bankier.pl.
- The first place for the mortgage loan in the ranking of the financial comparative tool Comperia.pl.
- Dariusz Winek, the Chief Economist of the Bank, took the first place in the ranking of the macroeconomic analysts, prepared by the editorial team of the magazines "Rzeczpospolita" and "Parkiet", as well as by the National Bank of Poland.
- Bank BGŻ received the title of "Lider Filantropii 2012" (Leader in Philanthropy) in the category: "finance, banking and insurance" in the VI edition of the national contest "Liderzy Filantropii" (Leaders in Philanthropy).
- Bank BGŻ became the award winner in the IX edition of the poll "Laur Klienta 2012" (Laurels from Customers) in the category "loans for small and medium-sized enterprises".
- The Visa Credit Card received the greatest number of votes in the open internet poll in the contest organized by the Central European Electronic Card. The same year it was selected by the internet users as the "Most Beautiful Polish Card of 2012".

Shareholders' structure of the Parent Company

BANK BGŻ SHARE TENDER OFFER

On 11 April 2012 Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. and Rabobank International Holding B.V. announced tender offer for the sale of all outstanding shares of Bank BGŻ with intention to obtain 100% of the shares of Bank BGŻ. The tender offer price was set for 72.5 PLN per share. During the tender offer Rabobank intended to purchase 17,262,669 shares and has committed itself to purchase shares if at the end of subscription order acceptance period the subscription would cover at least 6 478 478 Bank's shares.

On 26 April 2012 the Management Board of the Bank published its statement on the tender offer supported by opinion prepared by an external advisor, concerning the financial conditions of the tender offer. According to the Management Board of the Bank the tender is consistent with Bank's interest. After the analysis of the opinion prepared by an external advisor and on the basis of its own assumptions, the Management Board stated that the offered price reflected the fair value of the Bank.

The tender offer was conditional and due to the fact that till 22 May 2012 the condition concerning the lapse time for the PFSA decision with objection to the purchase of shares or issuance of the decision confirming lack of objection has not been fulfilled, the subscription order acceptance period was extended till 30 July 2012.

As a result of the tender offer, RIH acquired 16 371 351 shares of the Bank. The total shareholding of the RIH in Bank BGŻ amounted to 37 941 751 shares representing 87.95% of the share capital of the Bank and giving the right to exercise the same number of votes at the general meeting. Both Rabobank Group entities as a result of the tender offer acquired a total of 97.93% of the share capital of the Bank.

At the same time, the Treasury reduced its involvement in Bank BGŻ to 0.02% of the Bank's share capital.

SHARE CAPITAL INCREASE AND ISSUE OF G SERIES SHARES

Due to the need for additional capital in order to facilitate current and planned activities of the Bank, while maintaining economic security, and to raise funds in order to meet the Bank's increased capital adequacy requirements under Basel II, as well as the recommendations of the Polish Financial Supervisory Authority the Bank raised its share capital through the issue of G series. shares

On 28 August 2012, the Extraordinary General Meeting adopted a resolution to increase the Bank's share capital by the amount of 8 000 000 to PLN 51 136 764 through the issue of 8,000,000 shares of G series, with nominal value of PLN 1 each and issue price of PLN 62.50. The whole issue of shares of G series was offered to RIH in a private placement. On 14 September the share capital increase of the Bank was registered by the District Court for the Capital City Warsaw, XII Commercial Division of the National Court Register.

As a result of the acquisition by RIH of all shares of G series shares, its holding increased to 45 941 751 shares Bank BGŻ representing 89.84% of the Bank's share capital and entitling to execute the same number of votes during the General Meeting. Rabobank Group's total shareholding in Bank BGŻ amounted to 98.26%.

Bank BGŻ shareholding structure

Shareholder	31.12.2012		31.12.2011	
	Number of shares	Structure (%)	Number of shares	Structure (%)
Rabobank International Holding B.V.	45 941 751	89,84	21 298 609	49.37
Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.	4 303 695	8,42	4 303 695	9.98
State Treasury	-	-	11 015 937	25.54
Other shareholders	891 318	1,74	6 518 523	15.11
TOTAL	**51 136 764**	**100,00**	**43 136 764**	**100.00**

Financial position of the Bank BGŻ Capital Group

FINANCIAL POSITION IN 2012 COMPARED WITH 2011

In 2012 the Group generated a net profit of PLN 130 049 thousand compared with PLN 128 097 thousand in 2011. The main increase factor in net profit was an increase in net interest income, net fee and commission income and investing activities.

Consolidated income statement

PLN thousand	31.12.2012 r.	31.12.2011 r.	Change	
			PLN thousand	%
Net interest income	1 021 367	834 011	187 356	22.5%
Net fee and commission income	296 177	269 897	26 280	9.7%
Dividend income	3 416	3 554	(138)	(3.883%)
Result on trading activities	98 567	101 852	(3 285)	(3.2%)
Result on investing activities	43 329	6 899	36 430	528.0%
Result on hedge accounting	1 233	-	1 233	-
Other operating income	62 473	59 948	2 525	4.2%
Net impairment losses on loans and advances	(270 433)	(163 142)	(107 291)	65.8%
General administrative expenses	(941 503)	(855 215)	(86 288)	10.1%
Other operating expenses	(140 346)	(110 708)	(29 638)	26.8%
Operating Result	**174 280**	**147 096**	**27 184**	**18.5%**
Share in profit (loss) of associates	(316)	2 470	(2 786)	(112.8%)
Gross profit (loss)	**173 964**	**149 566**	**24 398**	**16.3%**
Corporate income tax	(43 915)	(21 469)	(22 446)	104.6%
Net profit (loss)	**130 049**	**128 097**	**1 952**	**1.5%**

Net interest income

In 2012, net interest income increased by PLN 187 356 thousand, i.e. 22.5%, which was due to an increase of interest income of PLN 464 327 thousand. i.e., 27.4%, which exceeded the increase in interest expense amounting to PLN 276 971 thousand i.e. by 32.3%.

The increase in interest income was mainly due to an increase in interest income from loans and advances to customers (by PLN 297 483 thousand. i.e. by 25.1%) and overdrafts (by PLN 79 180 thousand. i.e. by 32.0%). It has been achieved through the development of lending activities, especially during the second and third quarters of 2012, In addition, an important factor in the growth of an interest income, of a Bank's significant portfolio of preferential lending, was caused by NBP rediscount rate increases made during 2011 and 2012. Interest rates on these loans are linked to the NBP rediscount rate. Although the fact that, during the fourth quarter of 2012, the RPP cut the rediscount rate twice, the annual average level of rate in 2012 was higher than in 2011.

The increase in interest income was also affected by higher income from debt securities by PLN 83 770 thousand, i.e. by 38.0%, The increase resulted from the higher investment in debt securities financed from the Bank's liquidity surplus in comparison to 2011.

The increase in interest expense was primarily due to charges on liabilities to customers, which increased by PLN 223 845 thousand i.e. by 31.2%, following the increase in customer deposits acquired to fund increased lending activities of the Group, mainly through internet banking BGŻOptima. Another factor in the growth in interest expense were costs of liabilities to other banks which increased by PLN 41 794 thousand (by 29.8%) in comparison to 2011. To a large extent they consist of the cost of debt securities issued and loans received from other banks, including the loan from the Bank's shareholder in CHF (granted in April 2011), two loans from the European Bank for Reconstruction and Development in EUR (from 2010 and August 2011) and a loan from the European Investment Bank obtained in the fourth quarter of 2012, to finance Small and Medium Enterprises loans. Loans from other banks are a complementary source of funding of a long-term nature.

Net interest income

PLN thousand	31.12.2012 r.	31.12.2011 r.	Change	
			PLN thousand	%
Amounts due from other banks	42 890	38 996	3 894	10.0%
Amounts due from customers under overdraft facilities	326 276	247 096	79 180	32.0%
Loans and advances to customers after considering reversal of interest on loans with impairment losses	1 482 845	1 185 362	297 483	25.1%
Debt securities (all portfolios)	304 467	220 697	83 770	38.0%
Interest income	**2 156 478**	**1 692 151**	**464 327**	**27.4%**
Liabilities to other banks	181 870	140 076	41 794	29.8%
• own issuance	107 548	81 404	26 144	32.1%
Liabilities to clients	953 241	718 064	223 845	31.2%
Interest expense	**1 135 111**	**858 140**	**276 971**	**32.3%**
Net interest income	**1 021 367**	**834 011**	**187 356**	**22.5%**
Supplementary information:				
Result on swap points *	30 863	76 873	(46 010)	(59.9%)
Net interest and swap points income	**1 052 230**	**910 884**	**141 346**	**15.5%**

* Source: Bank BGŻ managerial data

Net fee and commission income

Net fee and commission income in 2012 increased by PLN 26 280 thousand i.e. by 9.7%, compared to the previous year, due to increase in income from fees and commissions by PLN 39 487 thousand (by 12.7%), accompanied by the increase in the costs of fees and commission income by PLN 13 207 thousand i.e. by 32.2%.

The increase of PLN 20 866 thousand in commission income was achieved mainly due to higher revenues from fees and commissions on the sales of insurance products (introduced into the Bank's offer in February 2012, AVIVA insurances on cash loans and from Concordia insurances for farmers present in the offer since 2011). Another important component of the growth was the increase in commissions on credit cards by PLN 17 734 thousand, achieved mainly as a result in the increase of the number of debit cards issued, due to higher sales of "Konto z premią" (Account with Bonus) and changes introduced to the commission rates on cards introduced in December 2011. Income from commissions on loans due to the continued growth of the overdrafts, mainly for farmers, small and medium-sized and micro-enterprises rose by PLN 9 753 thousand.

The decrease in fee and commission income on account services by PLN 6 840 thousand (6.8%) was mainly related to the decrease in these sources of income by payments made to retail customers with "Konto z premią" (Account with Bonus), for which Bank provides 1% premium calculated on inflows on account, subject to strict conditions.

The increase in the fees and commissions expenses was primarily caused by higher costs of contributions from sales of insurance products sold and the costs to payment cards operators resulting from rise of amount of transactions executed by the Bank's customers.

Net fee and commission income

PLN thousand	31.12.2012	31.12.2011	Change	
			PLN thousand	%
Fee and commission income from banks	15 995	14 723	1 272	8.6%
Fee and commission income from customers	334 349	296 134	38 215	12.9%
•on loans and advances	109 934	100 181	9 753	9.7%
•on domestic settlements	824	1 072	(248)	(23.1%)
•on foreign settlements	4 024	5 065	(1 041)	(20.6%)
•on account service	93 931	100 771	(6 840)	(6.8%)
•on guarantee commitments	11 444	12 173	(729)	(6.0%)
•on brokerage operations	11 076	13 304	(2 228)	(16.7%)
•on peyment cards	73 796	56 062	17 734	31.6%
•on sales of insurance products	22 449	1 583	20 866	1 318.1%
• other	6 871	5 923	948	16.0%
Fee and commission income	**350 344**	**310 857**	**39 487**	**12.7%**
Fee and commission expense from banks	3 505	3 586	(81)	(2.3%)
Fee and commission expense from customers, of which:	50 662	37 374	13 288	35.6%
•loans and advances	6 160	4 283	1 877	43.8%
•guarantee commitments	-	5	(5)	(100.0%)
•payment cards	24 299	21 405	2 894	13.5%
•sales of insurance products	14 016	5 775	8 241	142.7%
• other commissions	6 187	5 906	281	4.8%
Fee and commission expense	**54 167**	**40 960**	**13 207**	**32.2%**
Net fee and commission income	**296 177**	**269 897**	**26 280**	**9.7%**

Dividend income

Dividend income in 2012 decreased by PLN 138 thousand to PLN 3 416 thousand. It was composed of the dividend on shares held by the Bank in the National Clearing House (KIR), Credit Information Bureau (BIK) and the Stock Exchange (WSE) derived from the profits of these enterprises for 2011, approved by respective General Assemblies. The decrease in revenues was mainly due to lower dividends from BIK, while the dividend has increased from KIR.

Result on trading activities

Result on trading activities in 2012 decreased by PLN 3 285 thousand i.e. by 3.2%, compared with 2011, which was the result of a change in the structure of external financing as a result of CHF loan obtained in 2011. With direct funding in CHF, the Group reduced the scale of swap transactions hedging currency risk and interest rate exposures of the old mortgage loan portfolio for retail customers, granted until April 2009. As a result there was a decreased in the income form so called swap points recognized in trading income has diminished (according to the Bank's management data it amounted to PLN 30 863 thousand in 2012, compared with PLN 76 873 thousand in 2011), in exchange for the growth in net interest income due to the replacement of the above interest-bearing financing in zloty by lower interest-bearing financing in CHF. Income on margins from foreign exchange transactions and financial instruments concluded with customers are recognized in the result from trading activities and these reflect a significant increase in comparison to the previous year,

The result from investing activities in 2012 increased by PLN 36 430 thousand i.e. by 528.0%. The main component of this result were gains realized on the portfolio of financial assets available for sale, generated under suitable market conditions, particularly in the fourth quarter of 2012, when the markets started to strongly discount the interest rate cuts in Poland, whereas expected risk premium on investment in financial assets remained relatively low.

Other operating income

Other operating income in 2012 increased by PLN 2 525 thousand, i.e. by 4.2% compared to 2011, primarily due to an increase in revenues from:

- The reversal of provisions for liabilities of PLN 9 071 thousand due to reversals on provisions for court proceedings, unused holiday leave, jubilee awards, retirement benefits and future liabilities resulting from the settlement of subsidies to preferential loans.
- Reversal of unused allowances for personal expenses in 2011 of PLN 7 588 thousand.
- Other operating income of PLN 3 209 thousand, which comprised, among others, of return of the excess advance on fee payments to PFSA for 2011 and the reversal of provisions related to the services provided by the Rabobank Group to Bank BGŻ.

The decrease in income from recoveries of receivables overdue, redeemed and bad loans as well as the repayment of debts excluded from the statement of financial position – by PLN 7 571 thousand as a result lower portfolio of such receivables, as a result of disposal of receivables packages transactions that occurred in 2012.

Income from PARP (Polish Agency for Enterprise Development) compensation expenses decreased by PLN 4 165 thousand due to significant reduction in the scope of the training conducted under this program.

Other operating income

PLN thousand	31.12.2012	31.12.2011	Change	
			PLN thousand	%
From management of third-party properties	1 142	1 430	(288)	(20.1%)
From sale or liquidation of property, plant and equipment, intangible assets and assets held-for-sale	1 169	1 956	(787)	(40.2%)
From recovered statute – barred receivables, written off or bad debts, repayments of derecognised receivables	6 778	14 349	(7 571)	(52.8%)
Sales of goods and services	9 804	10 374	(570)	(5.5%)
Reversal of provisions for other receivables (excluding loan receivables)	875	847	28	3.3%
Reversal of fixed asset impairment write-downs	173	14	159	1 135.7%
Reversal of provisions for future liabilities	17 486	8 415	9 071	107.8%
From recovery of costs incurred	2 487	1 903	584	30.7%
From compensation of PARP expenses	1 072	5 237	(4 165)	(79.5%)
Reversal of unused provisions for non-personnel costs	6 303	6 104	199	3.3%
Reversal of unused provisions for personnel costs	8 476	6136	2 340	38.1%
Surpluses incomes	1 204	888	316	35.6%
Other operating income	5 504	2 295	3 209	139.8%
Other operating income, total	**62 473**	**59 948**	**2 525**	**4.2%**

Impairment losses on loans and advances

Net impairment losses on loans and advances increased in 2012 by PLN 107 291 thousand, i.e. by 65.8%, compared to 2011. The rise was an effect mainly of higher write-downs on loans to companies in the construction industry – relating to the commitment towards a single client from large enterprises segment. Provisions for exposure to this client were setup in the second quarter of 2012 in connection with the filling of its bankruptcy with the possibility to make an arrangement with creditors. Latter provisions were increased in the third and fourth quarter in connection with the liquidation bankruptcy. In 2012, the Bank increased net impairment losses for exposures to SME and Microenterprises (excluding farmers), which corresponded to the deteriorating macroeconomic conditions.

In comparison with 2011, the Group recorded a decrease in net impairment losses on retail mortgage loans. Additionally write-offs for cash loans decreased, especially due to lower overdue repayments ratios for loans granted in between 2011 and 2012, i.e. after the tightening of criteria in the risk assessment for this product.

In December 2012 the change was introduced to the methodology for calculating impairment allowances under collective approach the change is described in more detail in the relevant notes to the consolidated financial statements. This change resulted in reversal of impairment losses of PLN 33 million, which largely related to mortgages.

Additionally, a revenue amount of PLN 7 780 thousand was recognised in the position net impairment losses on loans and advances, due to disposals of receivables written off as a loss in the year 2012 and previous years, resulting from outstanding loans (the vast majority of cash) overdrafts and credit cards.

General administrative expenses

General administrative expenses increased in 2012 by PLN 86 288 thousand, i.e. by 10.1%, compared to 2011, which was primarily due to increased personnel costs, information technology, and marketing costs as well as due to contributions and payments made to the Bank Guaranty Fund and the PFSA.

General administrative expenses

PLN thousand	31.12.2012	31.12.2011	Change	
			PLN thousand	%
Employee benefit costs, including:	508 525	456 433	52 092	11.4%
• remuneration costs	406 872	372 711	34 161	9.2%
Including: retirement benefit	192	206	(14)	(6.8%)
• social security expenses	58 016	49 140	8 876	18.1%
•Provision for restructuring	16 901	-	16 901	100,0%
• other	26 736	34 582	(7 846)	(22,7%)
Marketing costs	70 162	60 256	9 906	16.4%
IT costs	79 941	67 935	12 006	17.7%
Rents	92 664	89 379	3 285	3.7%
Other non-personnel costs	50 902	48 294	2 608	5.4%
Other external services	101 138	98 504	2 634	2.7%
Other administrative costs	8 188	9 747	(1 559)	(16.0%)
Contributions transferred to the Bank Guarantee Fund*	24 550	20 253	4 297	21.2%
Contributions transferred to the Polish Financial Supervision Authority	5 433	4 414	1 019	23.1%
General administrative expenses, total	**941 503**	**855 215**	**86 288**	**10.1%**
Amortisation and depreciation (1)	94 518	83 000	11 518	13.9%
Total Expenses (2)	**1 036 021**	**938 215**	**97 806**	**10.4%**

(1) In Financial Statements are presented In Other Operating Costs

(2) Total Expenses included In cost effectiveness Costs/Revenues ratio.

The increase in personnel costs by PLN 52 092 thousand, i.e. by 11.4%, was associated with the rapid development of the branch network during 2011, and (to a much lesser extent) in 2012, in line with the Bank's strategy, as well as with employment growth.

At the end of 2012, the number of branches was at 400 as compared to 394 at the end of 2011 – nevertheless in 2011, the number of branches was increasing steadily during the year by 46 outlets, which boosted network costs in 2012 in comparison to 2011.

The number of employees of the Bank increased from 5 531 FTEs at the end of 2011 to 5 588 FTEs at the end of 2012, however the level of employment has been affected by its first effects of the restructuring (-157.5 FTEs in the fourth quarter of 2012). During 2012, the Bank recorded an increase in employment, caused not only by the extension of the network, but also by the strengthening of the sales coordination functions in regional sales centres, implementation of Central Credit platform responsible for processing loan applications for mortgages, TeleBGŻ, so called soft collection and an increase in BGŻOptima employment.

In addition to network expansion and employment growth, the increase in labour costs was also associated with an increase in provisions for premiums in comparison to 2011, the increase in disability insurance contributions in February 2012 by 2 percentage points and the establishment of employment restructuring provision (PLN 16 901 thousand reported in other labour costs).

An increased marketing expenses of BGŻOptima, retail banking and agro and insurance products in relation to the business objectives contributed to the increase in marketing expenses of PLN 9 906 thousand.

The increase in IT costs by PLN 12 006 thousand was the result of the first full year of BGŻOptima operation (launched in November 2011).

The increase in premiums and contributions to the PFSA and the Bank Guaranty Fund (Bankowy Fundusz Gwarancyjny - BFG) was the consequence of the growth in balance sheet assets, which are the basis for calculating payments to the PFSA, and the growth of the Bank's total capital requirements, which are a basis for calculating the annual fee for the Bank Guaranty Fund. In November 2012 the BFG Council adopted a resolution to increase fees to BFG from 0.099% to 0.1% of 12.5 times the sum of the capital requirements. Nevertheless, the BFG decision will apply from 2013.

Other operating costs

Other operating costs increased in 2012 by PLN 29 638 thousand, i.e. by 26.8% compared to 2011.

The increase was particular driven by:

- an increase in depreciation by PLN 11 518 thousand, i.e. by 13.9%, related to the development of the branch network of the Bank and the continuation of investment in IT, as well as with the start of BGŻOptima.
- increased costs relating to the provisions for liabilities by PLN 10 390 thousand, i.e. by 93.4%, concerning provisions established for legal proceedings, the decision of the Office of Competition and Consumer Protection (UOKiK), as well as provisions for unused annual leave.
- increased in costs relating to the provisions for other receivables (excluding loans) by PLN 5 925 thousand caused by an setting up a provision for operational losses in one of the branches.

Other operating costs

PLN thousand	31.12.2012	31.12.2011	Change	
			PLN thousand	%
Due to the management of third-party assets	1 457	1 089	368	33.8%
Due to the sale or liquidation of property, plant and equipment, intangible assets and assets or sale	2 613	1 873	740	39.5%
Due to recognized provisions for other receivables (other than loans and advances)	7 007	1 082	5 925	547.6%
Due to provisions for liabilities	21 516	11 126	10 390	93.4%
Due to debt recovery	7 693	7 060	633	9.0%
Donations	3 185	2 997	188	6.3%
Amortisation and depreciation	94 518	83 000	11 518	13.9%
Investment property revaluation	1 100	499	601	120.4%
Other operating expenses	1 257	1 982	(725)	(36.6%)
Other operating expenses, total	**140 346**	**110 708**	**29 638**	**26.8%**

Total comprehensive income

Total comprehensive income of the Group increased in 2012 by PLN 191 910 thousand, i.e. by 134.3% compared to 2011, mainly due to an increase of PLN 212 660 thousand in valuation of available-for-sale financial recognised in other reserves. This result concerned the portfolio of long-term Treasury bonds.

Another factors influencing the growth of total comprehensive income were the effects of valuation of derivatives designated to cash flows hedging in the amount of PLN 21 857 thousand, which occurred due to commencement of hedge accounting in the second quarter of 2012. The Bank concluded IRS float-to-fix transactions (with maturity in April 2014) in order to secure the interest rate risk arising on future interest cash flows from interest-bearing preferential loans granted, based on NBP rediscount rate (with a multiplier of 1.5 or 1.6).

Assets

The total value of the Group's assets at the end of 2012 amounted to PLN 37 196 663 thousand and was higher than a year earlier by PLN 3 789 450 thousand, i.e. by 11.3%.

Loans and advances to customers increased by PLN 2 101 309 thousand, i.e. by 8.7%, which is significantly less than in 2011, when growth reached 21.9%. The main factors of growth in loans in 2012 were mortgages denominated in PLN (acceleration in comparison to 2011) and overdrafts granted to enterprises and farmers (similar dynamics as in 2011). Slower growth was recorded in investment loans for enterprises and preferential loans, while currency mortgage loans and working capital loans to businesses decreased.

The weakening of loan growth in 2012, was accompanied by an increase in total securities, whereby the financial assets available for sale increased by PLN 3 242 807 thousand, i.e. by 89.5%, and financial assets held for trading decreased by PLN 1 413 383 thousand, i.e. by 86.6%. The increase in share of securities in the assets of the Group corresponded with an increase in its financial surplus due to faster growth in value of deposits than value of loans and by the recapitalization. However, the shift between the financial assets held for trading and available-for-sale was associated with increased investing of surpluses in NBP bills classified as available for sale in late 2012.

The increase in cash and balances with the Central Bank of PLN 723 336 thousand, i.e. by 52.3%, was influenced by the settlement of NBP obligatory reserve (this item is subject to considerable daily fluctuations, which is a natural phenomenon).

Assets

PLN thousand	31.12.2012	31.12.2011	Change	
			PLN thousand	%
Cash and balances with the Central Bank	2 106 657	1 383 321	723 336	52.3%
Amounts due from other banks	104 035	221 071	(117 036)	(52.9%)
Receivables arising from reverse repo transactions	104 369	366 343	(261 974)	(71.5%)
Held-for-trading	219 051	1 632 434	(1 413 383)	(86.6%)
Derivative financial instruments including:	474 058	883 109	(409 051)	(46.3%)
Derivatives designated as hedges	69 179	-	69 179	100%
Loans and advances to customers	26 323 700	24 222 391	2 101 309	8.7%
Securities available for sale	6 867 557	3 624 750	3 242 807	89.5%
Investment property	62 301	63 401	(1 100)	(1.7%)
Investments in associates	46 139	46 245	(106)	(0.2%)
Intangible assets	152 674	146 443	6 231	4.3%
Property, plant and equipment	469 098	485 943	(16 845)	(3.5%)
Deferred tax asset	130 818	207 794	(76 976)	(37.0%)
Receivables from current income tax	10 318	-	10 318	100%
Other assets	125 888	123 968	1 920	1.5%
TOTAL ASSETS	**37 196 663**	**33 407 213**	**3 789 450**	**11.3%**

Liabilities and Equity

As at the end of 2012, the total value of the liabilities of the Group amounted to PLN 33 724 046 thousand and was higher than in a previous year by PLN 2 954 thousand, i.e. by 9.6%. The main growth factor was increase in liabilities due to customers, which raised by PLN 4 000 319 thousand, i.e. by 17.4%, mainly as a result of deposits gathered through BGŻOptima, retail network and from other financial institutions. Due to the slower pace of growth in value of credits granted, the Group has reduced funding by issuing debt securities and decreased its commitment by PLN 180 336 thousand. Liabilities due to other banks decreased by

PLN 352 280 thousand, mainly due to the repayments made according to the loan schedule (loan denominated in CHF from Rabobank) and the strengthening of the zloty against CHF.

Total equity increased in 2012 by PLN 834 755 thousand, which consisted of the following components:

- increase the share capital through the issuance of 8 million shares with a nominal value of PLN 1 and the issue price of PLN 62.50 (total amount of recapitalization: PLN 500 000 thousand);
- an increase in other reserves of PLN 204 706 thousand, due to the increase in revaluation reserve on available-for-sale financial assets (i.e. portfolio of debt securities available for sale owned by the Group) and an increase in the revaluation reserve on hedging transactions in connection with the use of hedge accounting;
- retention of net profit for 2011 and 2012.

Total Liabilities and Equity

PLN thousand	31.12.2012	31.12.2011	Change PLN thousand	%
Amounts owed to other banks	4 094 436	4 446 716	(352 280)	(7.9%)
Liabilities arising from repo transactions	104 346	-	104 346	100%
Derivative financial instruments and other liabilities held for trading, including:	350 621	795 707	(445 086)	(55.9%)
Amounts owed to customers	26 941 971	22 941 652	4 000 319	17.4%
Liabilities from issued debt securities	1 852 931	2 033 267	(180 336)	(8.9%)
Other liabilities	292 168	474 952	(182 784)	(38.5%)
Deferred tax liability	9 510	9 719	(209)	(2.2%)
Provisions	51 094	41 926	9 168	21.9%
Liabilities arising from employee benefits	26 969	25 412	1 557	6.1%
TOTAL LIABILITIES	**33 724 046**	**30 769 351**	**2 954 695**	**9.6%**
Issued share capital	51 137	43 137	8 000	18.5%
Reserve capital	2 950 716	2 332 656	618 060	26.5%
Accumulated profit/ loss from previous years	10 364	8 327	2 037	24.5%
Other reserves	330 351	125 645	204 706	162.9%
Undistributed profit for the year	130 049	128 097	1 952	1.5%
TOTAL EQUITY	**3 472 617**	**2 637 862**	**834 755**	**31.6%**
TOTAL LIABILITIES AND EQUITY	**37 196 663**	**33 407 213**	**3 789 450**	**11.3%**

Loan Portfolio Quality

The share of impaired receivables in gross amount of loans and advances to customers, worsen from 5.7% at the end of 2011 to 7.1% at the end of 2012. For retail loans, the indicator deteriorated from 5.4% to 6.6% in the period, and for institutional loans, from 5.9% to 7.3% respectively. The decline of these ratios was partly a result of the changes implemented to the impairment of loans estimation model, introduced in December 2012 (chiefly implementation of the quarantine concept for exposures exiting the "Impaired" status). In case of the retail loans, the modification in the model resulted in an increase in impairment charges by 1.4 percentage point and accordingly in case of institutional

Bank BGZ
Dobrze służy ludziom

loans by 0.5 percentage point. The change resulted in a growth of the indicator by about 0.8 percentage point in the total loans portfolio (as for the end of 2011 the data was not restated for comparability with the revised model). Analyzing changes in the indicators in 2012, excluding the changes in the model, the stability in the mortgage portfolio and improvement in cash loans portfolio should be emphasized. Nevertheless, the quality of institutional loans, both in large companies (mainly due to the bankruptcy of one client operating in the construction industry in June 2012 on the wave of general problems with liquidity in the sector), as well as the Small, Medium and Microenterprises segments, in the wake of the deterioration of the macroeconomic situation, have worsened.

Very good condition of loans for farmers' portfolio can be perceived as a stabilizing factor (at the end of 2012, they accounted for 22.4% of the Group's loan portfolio). For this portfolio, the share of impaired loans totalled at the end of 2012, at 3.6% (without change in the model: 3.2%) as compared to 3.5% at the end of 2011.

Credit portfolio quality ratios

PLN thousand	31.12.2012	31.12.2011	Change	
			PLN thousand	%
Loans and advances to customers, gross, total	**27 393 636**	**25 105 296**	**2 288 340**	**9.1%**
Impairment allowances (negative value)	(1 069 936)	(882 905)	(187 031)	21.2%
Loans and advances to customers, net, total	**26 323 700**	**24 222 391**	**2 101 309**	**8.7%**
Losses incurred but not reported (IBNR)				
Gross statement of financial position exposure	25 457 786	23 665 232	1 792 554	7.6%
Impairment allowance on exposures without impairment	(77 081)	(95 001)	17 920	(18.9%)
Net exposure	**25 380 705**	**23 570 231**	**1 810 474**	**7.7%**
Impaired exposures				
Gross statement of financial position exposure	1 935 850	1 440 064	495 786	34.4%
Impairment allowance on impaired exposures analyzed on the group and individual basis	(992 855)	(787 904)	(204 951)	26.0%
Net exposure	**942 995**	**652 160**	**290 835**	**44.6%**
Ratios:				
Share of Impaired exposures	**7.1%**	**5.7%**		**1.3%**
Impairment Coverage	**(51.3%)**	**(54.7%)**		**3.4%**

Capital and capital adequacy ratio

The capital adequacy ratio increased to 11.8% at the end of 2012, from 9.7% at the end of 2011. The increase was mainly caused by increase of equity by PLN 777 131 million, i.e. by 32.4%. The change was affected by the following factors:

- issue of 8 000 000 shares of G series with a nominal value of PLN 1 per share and the issue price of PLN 62.50, adopted on 28 August 2012, by the Extraordinary General Meeting and acquired entirely in a private placement by Rabobank International Holding BV. The increase of the share capital of the Bank was registered by the court on 14 September;

- transfer of total net profit for 2011 to reserve capital as a result of the decision of the Ordinary General Meeting dated 25 June 2012;
- inclusion of the net profit for the first half of 2012 in basic funds, following a review of the financial statements by the auditor;
- an increase in supplementary funds resulting from the revaluation of financial assets available for sale.

Simultaneously, in 2012 the total capital requirement increased by PLN 175 043 thousand, i.e. by 8.8%, which was mainly due to the growth in loans during this period, as well as the fact that on 30 June 2012 the regulations increasing the weight ratios for the mortgage loans from 75% to 100%, used in calculation of the capital requirement for credit risk according to primary method, came into force.

Capital and Capital Adequacy Ratio

PLN thousand	31.12.2012	31.12.2011	Change PLN thousand	Change %
Basic funds	**3 166 673**	**2 559 402**	**607 271**	**23.7%**
• share capital	51 137	43 137	8 000	18.5%
• reserve capital	2 950 716	2 332 656	618 060	26.5%
• other reserves	25 000	25 000	-	-
• undistributed profit from previous years	10 364	8 327	2 037	24.5%
• general banking risk reserve	90 000	90 000	-	-
• profit in the course of approving the amount verified by an auditor	39 456	60 282	(20 826)	(34.5%)
Positions decreasing basic funds	**(176 290)**	**(184 372)**	**8 082**	**(4.4%)**
• intangible assets	(152 674)	(146 443)	(6 231)	4.3%
• unrealized losses on equity instruments classified as available for sale	(26)	(952)	926	(97.3%)
• unrealized losses on debt instruments classified as available for sale	(121)	(1 281)	1 160	(90.6%)
• commitment of capital in financial institutions	(23 469)	(35 696)	12 227	(34.3%)
Basic funds after decreases	**2 990 383**	**2 375 030**	**615 353**	**25.9%**
Supplementary Funds	**195 324**	**12 299**	**183 025**	**1 488.1%**
• unrealized gains on debt instruments classified as available for sale	194 897	12 299	182 598	1 484.7%
• unrealized gains on equity instruments classified as available for sale	427	-	427	100%
Positions decreasing supplementary funds	**(23 469)**	**(12 299)**	**(11 170)**	**90.8%**
• commitment of capital in financial institutions	(23 469)	(12 299)	(11 170)	90.8%
Short term capital	**14 674**	**24 751**	**(10 077)**	**(40.7%)**
Total Equity	**3 176 912**	**2 399 781**	**777 131**	**32.4%**
Capital requirements				
credit risk, counterparty risk, dilution and delivery risk for derivative instruments settled in subsequent terms	1 987 331	1 806 592	180 739	10.0%
• operating risk	163 165	156 313	6 852	4.4%
• general interest rate risk	4 896	17 444	(12 548)	(71.9%)
Total capital requirement	**2 155 392**	**1 980 349**	**175 043**	**8.8%**
Capital adequacy ratio (%)	**11.8%**	**9.7%**		**2.1%**

Financial Ratios:

The rate of return on equity in 2012 was 4.4% and was lower than in 2011. Despite the increase in net profit, it was due to the significant increase in equity resulted from issuance of shares and profit retention.

Both rate of return on assets (0.4%) and a net interest margin (2.9%) remained stable in the period.

Cost to revenues ratio has significantly improved, decreasing from 75.2% in 2011 to 70.0% in 2012, as a result of higher dynamics of revenue growth in relation to cost.

Increase in the cost of credit risk corresponded with an increase in net impairment losses on loans and advances to customers, while the lending activities continued.

Liquidity ratios - Loans / Deposits and Loans / Total sources of funding - decreased, what is reflected by the increase in liquidity surplus in the Group, generated by slower growth in loans.

Financial ratios

	31.12.2012 r.	31.12.2011 r.	Change
Return on Equity (1)	4.4%	5.0%	(0.6%)
Return on Assets (2)	0.4%	0.4%	-
Net interest margin (3)	2.9%	2.8%	0.1%
Net interest margin together with swap points (4)	3.0%	3.0%	-
Costs / Revenues(5)	70.0%	75.2%	(5.2%)
Credit Risk Costs(6)	(1.1%)	(0.8%)	(0.3%)
Loans /Deposits(7)	101.7%	109.4%	(7.7%)
Loans / Total sources of funding(8)	84.7%	86.7%	(2.0%)

(1) Relation of the net profit to average shareholders' capital based on the balances at the end of the quarters.
(2) Relation of the net profit to average assets based on the balances at the end of the quarters.
(3) Relation of the net interest income to average assets based on the balances at the end of the quarters.
(4) Relation of the net interest income including swap points to average assets based on the balances at the end of the quarters.
(5) Relation of the total of administrative costs and depreciation/ amortization to the total of result on banking on banking activities and other operating income and costs, excluding depreciation/ amortization.
(6) Relation of net impairment losses on loans and advances to the average balance of loans and advances to customers based on the balances at the end of the quarters.
(7) Relation of the carrying amount of loans and advances to customers to deposits from customers based on the balances at the end of the period.
(8) Relation of Gross loans and advances to clients to the total of liabilities to customers, issued debt securities and loans from other banks. Balance at the end of the period

Parent operations in 2012

DISTRIBUTION CHANNELS

TRADITIONAL CHANNELS

BANK NETWORK

In 2012, the Bank continued to expand its network of branches, a policy started in 2008 in connection with the implementation of a strategy to develop local market growth. New branches were built in the towns, where Bank BGŻ outlets had already existed: Białystok, Bydgoszcz, Toruń and Lublin. The objective of this strategy was to increase the Bank's share in terms of number of branches on a given micro market.

In 2012, 8 subordinated branches were opened. Based on analysis of financial results and location potential, 3 subordinated branches were relocated, 1 operating branch was transformed into a subordinated branch and 1 subordinated branch was transformed into an operating branch. In addition, 1 external cash desk was opened. However, 2 subordinated branches, 1 Bank Shop (located in the Manufaktura Shopping Centre in Łódź) and 4 external cash desks were closed.

As of 31 December 2012, the Bank had 400 branches, of which 120 were operating branches and 280 subordinated branches (compared to 120 operating branches and 274 subordinated branches as of 31 December 2011). The network of branches was supplemented by 14 external cash desks servicing cash transactions and 7 corporate centres servicing large corporations.

ATM NETWORK

At the end of 2012, the network of ATMs available to the Bank's retail customers for commission-free cash withdrawals, comprised, apart from Bank's own network, ATMs of the Euronet and PlanetCash4You networks (automatic teller machines labelled as „Automatic teller machine available to Bank BGŻ customers for commission-free cash withdrawals").

For institutional customers, the network of ATMs comprised, apart from its own network of the ATMs, also the network of INVEST-BANK S.A. and Krakowski Bank Spółdzielczy, as well as the ATMs of the Euronet and PlanetCash4You networks(automatic teller machines labelled as „Automatic teller machine available to Bank BGŻ customers for commission-free cash withdrawals").

At the end of December 2012, retail customers of the Bank could make commission-free cash withdrawals at 4 173 ATMs, of which 423 were operated by Bank BGŻ. Customers holding a Konto Plus (Plus Account) personal account could make commission-free cash withdrawals in all ATMs in Poland. Owners of the Plan Aktywny (Active Plan) and Konto bardzo osobiste (Very Personal Account) personal accounts could use all automatic teller machines both in Poland and abroad for commission-free cash withdrawals. Institutional clients could use 4 357 ATMs for commission-free cash withdrawals, of which 423 were operated by Bank BGŻ. Customers holding Plan Agro Lider (Agri Leader Plan) and Agro Lider Prestiż (Agri Leader Prestige) could use all ATMs in Poland for commission-free cash withdrawals from.

ALTERNATIVE CHANNELS

INTERNET BANKING

In 2012, the Bank recorded a dynamic growth in the number of customers using internet service eBGŻ (retail clients) and eBGŻ Firma (institutional clients). The number of operations executed using the internet channel increased systematically.

Data relating to eBGŻ

		31.12.2012	31.12.2011	Change y/y	
Number of customers accessing	eBGŻ	350 228	288 697	61 531	21.31%
	eBGŻ Firma	70 079	52 599	17 480	33.23%
Number of active customers logging	eBGŻ	228 742	181 440	47 302	26.07%
	eBGŻ Firma	43 149	34 340	8 809	25.65%
The average monthly number of transactions	eBGŻ	963 788	733 557	230 231	31.39%
	eBGŻ Firma	934 541	622 945	311 596	50.02%

In May 2012, the Bank enabled retail customers of eBGŻ to use SMS codes to authorise transactions, instead of one-time password cards used thus far.

The newly implemented Visa cards can be handled via the eBGŻ. Additionally functionality allowing for additional authorisation orders in eBGZ was made viaTeleBGŻ system.

During Q3 2012, additional functionality was implemented which facilitated viewing details of blockades on the account, including those arising from transactions made with the use of payment cards.

Other new solutions offered to eBGŻ Firma customers, comprised of the option to initiate requests of standing payment transactions, and the use of one token, login and password to manage many multiple related party companies, as well as development of new administrative tools (including the option to delegate to the Bank the function of managing users and user rights within the customer's company).

At the same time, a change was made to the visuals eBGŻ Firma, which ensured consistency of graphic design and colouring to the business line and the Bank's Internet site www.bgz.pl. In addition, many functional and product-type enhancements were introduced into the service (among other things, end session counter which logs of the user in case of lack of user activity, the mechanism for selection of system language or more effective management of complex orders).

During Q3 2012, changes to the process of granting access to eBGŻ and eBGŻ Firma allowing customers for the access to the services on the same-day access without the necessity of file electronic applications.

PHONE BANKING

In 2012, a further increase in the number of TeleBGŻ users was recorded in comparison to 2011, an increase was also recorded in the number of monthly incoming and outgoing connections.

Data relating to tele-banking

		31.12 2012	31.12 2011	Change y/y	
Number of customers with the Access to TeleBGŻ	Retail customers	388 910	326 843	62 067	19%
	Institutional customers	109 515	82 149	27 366	33%
An average number of calls per month	Incoming from operator	134183	127 761	6 422	5%
	Incoming IVR	65 760	63 175	2 585	4%
	Outbound to the customers	37 173	36 024	1 149	3%

In 2012, development work was carried out on the Communication Centre, which was to ensure that the growing number of customers using this service receive higher service standards and information on the banking offer; among other things, the option to directly offer via courier current accounts and credit cards.

To improve customer convenience and in order to provide the information on the current Bank's offer and promotions, the Bank launched a new product infoline 801 33 66 99 providing a direct connection between customer and consultant. The existing 801 123 456 number, of the TeleBGŻ for the customers and the area of Bank's product infoline, remained unchanged. The changes were also made in the IVR service (so called "the tree structure"), aiding the use of this function by the Bank's customers.

In addition, new functionalities in the phone-banking channel of the Bank were launched to service Personal Banking clients.

BANKING CARDS

The Bank issues debit, credit and deferred payment cards in MasterCard and Visa systems. As at 31 December 2012, the number of debit card issued to clients was 631.900 and was 45.800 i.e. 7.81% higher than in the previous year. This increase was mainly due to issuance of debit cards to retail clients (an increase by 33.200 pieces, i.e. by 6.92%). At the same time, a 14.33% increase i.e. by 7.0000 pieces was recorded in sales of credit cards.

Number of banking cards issued by Bank BGŻ

	31.12.2012	31.12.2011	Change y/y	
Retail customers debit cards	512 639	479 453	33 186	6.92%
Retail customers credit cards	56 023	48 999	7 024	14.33%
Business debit card	61 692	56 130	5 562	9.91%
Business cards with deferred payments	1 587	1 560	27	1.73%
Total number of banking cards issued	**631 941**	**586 142**	**45 799**	**7.81%**

As part of its retail MasterCard credit card offer, the Bank continued a promotion offering to reimbursed part of clients' expenses, as well as with activities dedicated to cyclists, in particular promotional cancellation of fees for insurance coverage services.

These activities resulted in the MasterCard of Bank BGŻ being ranked as the best in the ranking of credit cards, prepared by the financial portal Bankier.pl. in February 2012.

In May 2012, the Bank resumed issuing Visa credit cards with considerably extended functionalities and launched promotional a promotional campaign concerning the transfer of credit cards from other banks.

The Bank's Visa credit card won a competition organised at the Central European Electronic Card Conference for the Nicest Polish Credit Card in 2012.

COOPERATION WITH INTERMEDIARIES AND AGENTS

At the end of 2012, the Bank actively collaborated with 34 network intermediaries or agents, such as Open Finance, Notus, Expander and Money Expert. The Bank also collaborated with 132 local agents.

At the beginning of 2012, the Bank introduced some changes to its policies of cooperation with external partners in the area of sales of banking products for retail and institutional clients (from SMEs and micro-enterprises' sectors). In the second half of 2012, the Bank continued cooperation with financial intermediaries in the area of sales of bank products to retail and institutional clients (from the segment of SMEs and microenterprises). The Bank focused solely on signing contracts involving the acquisition of banking products. In addition, a tool was implemented to facilitate settlement of sales and assessment of the quality of loans acquired via intermediaries. Direct supervision over all cooperation agreements (both with network-based and local) was performed by the Bank's Head Office.

RETAIL BANKING

PRODUCT OFFER DEVELOPMENT

In 2012, Bank BGŻ made continuous changes to its product offer, its retail customer segmentation and its service standards thus executing a strategy, implemented on the new communication platform launched in 2011 called Bank BGŻ Serves People Well („Bank BGŻ dobrze służy ludziom").

The New CRM application made available to banking consultants in Q4 2012 allowed the Bank to develop a modern portfolio and then offer products and services of Personal Banking to its most affluent clients.

The Bank successfully continued offering the best, product in the market of personal accounts called "Konto z Premią" (Account with Bonus) (the leader in the market rankings of Gazeta Wyborcza daily, Bankier.pl, Money.pl and Comperia.pl). The Bank regularly delivered to its customers, attractive deposit, credit- and investment-type product offers, whilst executing a strategy of product margin optimisation and product profitability improvement.

In the area of credit product offers, the main objective of the bank's strategy was execution of profitable and safe lending activities targeted both existing and prospective clients. The focus on processes improvements and standardisation of processes was a support for sales activities, carried out with a view to optimizing the credit risk management function at Bank BGŻ.

BGŻOPTIMA

The BGŻOptima product offer supplements the Bank's product offer with regards to savings and investment products, and is directed to clients who wish to use Internet-based services. The BGŻOptima offer comprises of deposits, savings accounts and investment funds. In 2012, the Bank's offer was rapidly developed in the area of deposit and investment products. In May 2012, the offer of BGŻOptima was extended to include, for the first time, a structured product, namely a structured policy. The offer of available investment funds was also continuously developed. As at 31 December 2012, the number of clients serviced by BGŻOptima was 75.700. From the beginning of 2012, 39.100 new clients were acquired.

DEPOSIT ACTIVITIES

At the end of 2012, the value of retail deposits held by the Bank was PLN 15,802,420,000 and was PLN 2,368,592,000 (17.6%) higher than in the previous year. The main growth factor of retail deposits continued to be BGŻOptima, which attracted new clients from the market, thus realising growth with a value of PLN 1,778,166,000. A change was recorded in the structure of retail deposits obtained by BGŻOptima; the share of deposits placed in savings accounts increased to 63% from 4% at the end of 2011, among other things, due to withdrawal from the product offer of one-day deposits, and due to promotional interest rates in savings accounts.

Volume and structure of retail deposits

PLN thousand	31.12.2012	31.12.2011	Change y/y	
Current and savings accounts	8 439 404	6 174 921	2 264 483	36.7%
Term deposits	7 351 820	7 249 879	101 941	1.4%
Other liabilities	11 196	9 028	2 168	24.0%
• cash collateral	6 671	5 242	1 429	27.3%
• other	4 525	3 786	739	19.5%
Amounts owed to retail customers, total	**15 802 420**	**13 433 828**	**2 368 592**	**17.6%**
including: BGŻOptima	**3 375 643**	**1 597 477**	**1 778 166**	**111.3%**

In 2012, the acquisition business of Bank BGŻ branches as regards retail deposits focused on personal accounts and term deposits, and – as a result – an increase in the balance of deposits of PLN 590,426,000 i.e. 5.0% was realised. This observable increase in the volume of term deposit accounts was possible owing to, among other things, attractive acquisition offers for „new funds" realised in 2-month time intervals and to progressive deposits rewarding long-term savings. In addition, the Bank successively developed its deposit product offer, which contributed to extending client deposit periods, as apart from the 12-month progressive deposit, customers showed an interest in investment deposits, and insurance-linked products, which, apart from the guarantee of a capital and interest payment, ensured services in case of accidental events.

Compared to the previous year, the Bank also recorded a 12.6% increase in the funds gathered in personal accounts. At the same time, a 6.8% increase was recorded in the number of personal accounts to the level of 593,300 pieces, and together with a product for youth "Maax" the level of 601,000 pieces of personal accounts was exceeded. "Konto z Premią" (Account with Bonus) remained unquestionably the most popular among all types of personal accounts available as the owners were awarded a financial bonus for activities in the account. The number of personal accounts sold in year 2012 was 117,700 pieces and which almost 18,000 more than in the previous year. "Konto z Premią" accounted for almost 70% of the newly-opened personal accounts. Positive sales results were also achieved thanks to mass a media advertising campaign and enhancement of the process of opening personal accounts at Bank's branches. "Konto z Premią" also served as a vehicle for new branches to attract clients. Highly attractive and highly rated as regards quality, "Konto z Premią" confirmed its 1st place in the ranking of best personal accounts prepared by the Money.pl. portal in January 2011 and 2012 and came out on top in the Bankier.pl ranking in March 2012.

In December 2012, the Bank's product offer was extended to include an attractive product dedicated to VIP clients. As part of its new solutions, the Bank offered to its clients in the Personal Banking segment a new account with a dedicated tariff plan "Konto Bardzo Osobiste" (Very Personal Account) and special policies for servicing of this account by individual personal bankers as a "comfortable banking" offer.

Number of retail deposits accounts

Number of items (in thousands)	31.12.2012	31.12.2011	Change y/y	
Number of deposits accounts in branches	**1 533.4**	**1 440.1**	**93.3**	**6.5%**
A 'vista accounts, including:	1 250.5	1 152.1	98.4	8.5%
Personal accounts	593.3	555.6	37.7	6.8%
Max Accounts	8.0	8.9	(0.9)	(10.1%)
Eskalacja savings accounts	251.6	211.7	39.9	18.8%
Term deposits accounts	282.9	288.0	(5.1)	(1.8%)
Number of deposits accounts in BGŻOptima	**147.7**	**188.9**	**(41.2)**	**(21.8%)**
Savings accounts	83.9	38.5	45.4	117.9%
Term deposits accounts	63.8	150.4	(86.6)	(57.6%)

LENDING ACTIVITIES

In 2012, lending activities were directed towards increasing profitability of key credit products as well as towards strengthening initiatives in the area of package offers dedicated to retail clients.

Sales of key credit products increased the credit portfolio of retail clients. At the end of 2012, the value of the retail client loan portfolio was PLN 8,974,778,000 and was PLN 511,493,000 i.e. 6.0% higher than in the previous year. The main growth factors were sales of mortgage and cash loans and credit cards.

The value of zloty mortgage and construction loans (together with consolidation loans) sold in 2012 was PLN 1,393,500,000 and was 108.5% higher compared to 2011, while the value of these loans sold was PLN 668,400,000. In March 2012, product advertising campaign was conducted which emphasised a „guaranteed lowest margin" that is granted at the moment of loan granting and special open days with mortgage loans' promotional offers. In addition, in order to improve acquisition results, consistent sales policy, based on the concept of „the bank of the local community", was conducted, and product packages (comprising mortgage loans, underlying accounts, credit card and life/ property insurance) were offered to target clients.

This sales increase translated into the value of the portfolio of zloty housing loans increasing by PLN 914,040,000 (i.e. 26.1%). Following the strengthening of the zloty exchange rate and client repayments, the value of the foreign currency housing loans (product withdrawn from the credit offer in 2009) portfolio decreased.

Volume and structure of retail loans

PLN thousand	31.12.2012	31.12.2011	Change y/y	
Current account loans	107 615	132 123	(24 508)	(18.5%)
Housing loans	7 600 490	7 118 474	482 016	6.8%
• in PLN	4 412 921	3 498 881	914 040	26.1%
• in foreign currencies	3 187 570	3 619 593	(432 023)	(11.9%)
Cash loans	803 967	719 466	84 501	11.7%
Other loans to retail clients	462 706	493 222	(30 516)	(6.2%)
Total loans to retail clients	8 974 778	8 463 285	511 493	6.0%

In the case of cash loans, sales in 2012 amounted to PLN 517,500,000 compared to PLN 338,400,000 in 2011 (a 53% increase), and as a result the volume of the credit portfolio for this product increased by PLN 84,501,000 i.e. 11.7% compared to the end of the previous year. This dynamic sales increase was brought about by making the product offer more attractive by launching seasonal promotions such as "new school-year offer" granted at the day of the loan grant supported by a TV campaign, supplementing the offer with new Aviva insurance ensuring credit repayment in the event of job loss, temporary incapacity to work, ensuring protection of the borrower's family in the event of the borrower death, as well as the implemented in November 2012 the Risk Based Pricing policy, which conditioned the credit price on the borrower's credit capacity. Credit with new insurance became very popular among clients. In Q4 2012, the share of credit with insurance in total loans granted accounted for 63%. Apart from activities aimed at attracting clients from the market, the Bank actively offered products to its existing clients, for example as part of a „pre-approval" campaign. It consisted in offering to selected clients a multifunctional credit limit which could be used for opening one, two or three credit products: credit card, revolving loan and cash loan.

Number of credit accounts

Number of items (in thousands)	31.12. 2012	31.12.2011	Change y/y	
Mortgage, housing and consolidation loans	53.3	48.3	5.0	10.4%
Cash loans	92.4	82.7	9.7	11.7%
Credit cards	64.9	59.5	5.4	9.1%

The largest percentage growth in volume in 2012 was recorded by credit cards; as at 31 December 2012 the value of the credit cards portfolio was PLN 70.7 million and was 34.0% higher compared to the previous year, with a simultaneous increase in the number of credit accounts for this product by 15.2% to the level of 64,900. The new Visa Standard card, launched in Q2 2012 contributed to this sharp increase.

BROKERAGE SERVICES AND DISTRIBUTION OF PARTICIPATION UNITS IN INVESTMENT FUND MANAGING COMPANIES (TFI)

The Brokerage Office of BGŻ („BM BGŻ" or the "Brokerage Office") focuses its operations on servicing retail clients, and the scope of the services rendered supplements the investment product offer of the Bank. BM BGŻ also provides services to selected institutional clients such as open-end pension funds (OFE), investment fund managing companies (TFI) and other entities managing entrusted assets.

Brokerage fees in 2012 amounted to PLN 5,392,400 compared to PLN 5,577,000 in 2011. The decrease in the brokerage fees was caused by the general slump in the economy, and hence reduced trading volumes in the whole market, and from a change in the structure of clients. The Brokerage Office of BGŻ renders services mainly to domestic investors, including, in particular, individual investors, whose share in the trading result has continued to decrease in recent years.

At the end of 2012, BM BGŻ maintained 32,033 securities accounts (of which 5,257 internet accounts are maintained in the bmBGŻ.net transaction system), which compared to the 30,858 accounts at the end of 2011 is a 3.8% increase.

Share of the BGŻ Brokerage Office in trading on the WSE

		2012		2011	
		Market share	Volume	Market share	Volume
Stock	PLN million	0.23%	853.55	0.23%	1141.46
Bonds	PLN million	0.49%	9.98	1.15%	18.18
Futures	Number of contracts	0.48%	98770	0.38%	109790
Options	Number of contracts	0.23%	3082	1.11%	19012

At the end of 2012, BM BGŻ distributed participation units in 62 funds managed by 6 investment fund managing companies (Union Investment TFI, Aviva Investors Poland TFI, Skarbiec TFI, Opera TFI, BPH TFI, Quercus TFI). The product offer of the Brokerage Office comprises of a variety participation units in TFIs and covers so-called safe funds (bond- and cash-based funds), balanced and stable growth funds as well as funds of aggressive investing policy (share-based funds).

In 2012, revenues from the sale of TFI participation units amounted to PLN 5,683,700 compared to PLN 6,874,000 in 2011.

Following improved economic conditions in financial markets and an increase in the value of acquired TFI participation units, an increase was recorded in the value of assets acquired by Bank BGŻ. As at 31 December 2012, the value of those assets was PLN 611.2 million compared to PLN 554.8 million at the end of 2011.

BM BGŻ offers agency services in the OTC market organised by BondSpot S.A. As of 2007, BM BGŻ has been an active participant in the alternative NewConnect trading system.

In 2012, BM BGŻ participated in 10 public offerings in the primary market. In the case of 7 offerings, the Brokerage Office acted as a offering agent and hence participated at each stage of both the preparation and execution of the offer and as the offering organiser.

INSTITUTIONAL BANKING

CLIENT SEGMENTATION

Institutional clients of the Bank are allocated to the following segments:

- Large Enterprises (LE) – with annual sales revenues of more than PLN 60 million,
- Small and Medium-Sized Enterprises (SME) – with annual sales revenues ranging from the PLN equivalent of EUR 1,200,000 to PLN 60 million,
- Microenterprises (Micro) – with annual sales revenues being the PLN equivalent of up to EUR 1,200,000.

As part of those segments, additional sub-segments were identified for agro and non-agro clients, farmers, the public sector, non-profit organisations and key clients.

PRODUCT OFFER DEVELOPMENT

PRODUCT PACKAGES AND TRANSACTION PRODUCTS

In March 2012, the Bank introduced to its product offer the following new and modified product packages: the "Biznes Lider" (Business Leader) and "Biznes Lider Plus" (Business Leader Plus) packages for microenterprises, "Biznes Lider Aktywny" (Business Active Leader) and "Biznes Lider Prestiż" (Business Leader Prestige) for SMEs, the "Społeczny Lider" (Social Leader) package for clients from the micro non-profit segment and "Agro Lider" (Agri Leader) and the "Agro Lider Prestiż" (Agri Leader Prestige) packages for farmers. These new products replaced the "Firma Plan2" (Enterprise Plan2) and "Firma Plan3" (Enterprise Plan3) packages, and withdrew from the product offer the "e-Plan Firma" (e-Plan Enteprise) package and supplemented or modified the package offer.

The product package offer was constructed in such a way as to ensure that within one agreement a client could acquiring many products at one price and, at the same time, had the possibility of acquire other products and services offered by the Bank at preferential prices and with no additional formalities. The main products included in the packages are: PLN current account, phone banking, eBGŻ, deposit account and term deposits. As part of the "Biznes Lider Plus" package, a client who has conducted business activities for at least 12 months may also receive an overdraft facility up to the amount of PLN 10,000 for a period of up to 36 months.

Included in the SMEs packages i.e. in the "Biznes Lider Aktywny" and "Biznes Lider Prestiż", apart from the basic products from packages for Micro segment clients, are – depending on the type of the package: foreign currency accounts, debit cards, individually negotiated deposit and foreign currency transactions (eBGŻ Treasury). Additionally, the possibility of using a lump sum fee for making internet transfers to other banks was opened.

In addition, the Bank launched a new package "Agro Lider Prestiż" for farmers and producer groups with more higher banking requirements. The package contains, in addition to basic banking products, the possibility of negotiating exchange rates and deposit interest rates and the option of receiving agro-market reports prepared by Bank specialists. At the same time, the Bank free of charge cash withdrawals from all ATMs in Poland was introduced to the offer for Agro-enterprises.

The offer was also enriched by the "Społeczny Lider" package designed for the non-profit micro with an attractive pricing offer and basic products included in the package.

Since the period from the introduction of new offer (15 March 2012) to 31 December 2012 the Bank acquired 22,461 new clients. Compared to the corresponding period of 2011, in 2012 the Bank attracted 4,555 more new clients.

In the first half of 2012 the offer of currency accounts was extended by the launch of currency accounts in RUB (Russian ruble) and RON (Romanian leu). The currency accounts are non-interest bearing. The accounts can be used only for non-cash settlements – cash settlements are unavailable.

In February 2012, the Bank has made modifications in the cash processing offer. The changes included standardisation of contracts for all segments and introducing daily limits for closed payments and introduction of daily limits for closed payments recorded based on the amount declared by the client.

In 2012, 71 agreements were signed on the rendering by the Bank of a service called Identyfikacja Płatnika (based on the IDEN system) aimed at serving mass incoming payments. In the corresponding period of 2011, 48 agreements for this type of service were signed. In 2012, the IDEN system processed approximately 1,650,000 transactions with a value of PLN 1,180,000,000. In 2011, the system processed 1,200,000 transactions in the amount of PLN 873,000,000.

LOANS

In March 2012, as part of the new package offer, a new credit product was launched that is to finance the current needs of the sub-segment of micro clients, i.e. "Kredyt – debet w rachunku bieżącym" (Credit – debit in a current account). This new overdraft facility is available to clients holding current accounts under the "Biznes Lider Plus" package and conducting business activities for the period of at least 12 months. It is granted up to the amount of PLN 10,000 for a period not exceeding 36 months, with no collateral required.

In August 2012, the Bank launched a new loan dedicated to finance business activities and settling client business transactions – "Limit Wieloproduktowy" (Multiproduct Limit) which replaced the "Wielofunkcyjna Linia Kredytowa" (Multifunction Credit Facility). The new product is dedicated to LEs, SMEs or the Micro Farmer sub-segment of institutional clients, who given the range and type of conducted business use various credit-type products. Under the Limit granted, sub-limits are offered for the following: overdraft facility, revolving loan, guarantees, letters of credit and factoring

The functioning principles of these individual products granted as part of "Limit Wieloproduktowy" are the same as those binding for the products operating outside the Limit. "Limit Wieloproduktowy" and the sub-limits are revolving facilities. Under "Limit Wieloproduktowy", a sub-limit is granted each time for the overdraft facility, whilst other sub-limits are made available depending on individual client needs.

"Limit Wieloproduktowy" and individual sub-limits are granted in PLN. The overdraft facility and revolving loans are also granted in PLN.

AGRO-BUSINESS FINANCING

In March 2012, a new product was launched that linked crop loans with recourse factoring in such a way that the prepayments received under a factoring agreement constitute a source of crop loan repayment.

In addition, since March 2012, clients have had the possibility of purchasing agricultural machines and equipment under the Program for Financing Development of Balanced Energy in Poland (Program Finansowania Rozwoju Energii Zrównoważonej w Polsce - PolSEFF). Acceptance of this type of transaction by PolSEFF engineers is realised based on a simplified procedure. Clients buying tractors or harvesters who decide to participate in this Program receive an investment bonus of 10% of the amount of the loan taken out. Since

September 2012, clients taking out loans for the purpose of carrying out a PolSEFF investment project have had the possibility of replacing their own contribution with a deposit of 15% of the investment value to increase the amount of the investment bonus awarded.

Also as of September 2012, following an amendment in a Decree of the Council of Ministers, commission for granting preference loan was reduced from 2% to 1%. This amendment enabled the Bank to freely change commissions over the period of the loan term. In addition, the bill of exchange rediscounting ratio, as the basis for calculating the loan interest rate, was reduced from 1.6 to 1.5

FARMERS INSURANCE

In the first half of 2012, in collaboration with Concordia Polska TUW, the Bank introduced to its product offer, as part of a pilot program conducted by branches, Concordia Auto farmer motor insurance covering civil liability (OC), Auto Casco (AC), Auto Assistance, Accidental Death and Dismemberment Insurance (AD&D Insurance (NWW), Legal Assistance, civil liability of owners of mechanical vehicles that cause damage to the natural environment. Since October 2012, this product has been sold at all branches of the Bank. Sales of the motor insurance increased by the possibility of automatic client verification in the database of the Insurance Guarantee Fund (database on motor insurance policies in Poland).

LENDING ACTIVITIES

At the end of December 2012, the gross value of the loan portfolio of institutional clients was PLN 18,418,858,000 and was 10.7% higher than in the previous year; on a year to year basis, the increase in institutional clients loan portfolio in 2011 amounted to 31.3%.

The main driver behind the growth in the loan portfolio of institutional clients in 2012 was overdraft facilities offered to companies and farmers and realised mainly on the "Ekspres Linia" (Express Line) product for SMEs and "Agro Ekspres" (Agri Espress) product for farmers (with dynamics approximating those from 2011). A slower increase was, however, recorded in the portfolio of company investment loans and preference loans, whilst working capital loans to companies decreased.

The value of farmer loans increased by PLN 432,875,000, i.e. by 10.4% and the growth was shaped by the dynamics of investment and preference loans. The main factor restricting the dynamics of preference loans was the reduced, compared to 2011, limit for lending activities for banks imposed by the Agency for Restructuring and Modernisation of Agriculture (ARiMR). As a result, preference loans were one of the loan types that showed the slowest growth in the portfolio of institutional client loans (+3.7% y/y). An additional limit that allowed the further granting of preference loans by the Bank in 2012 was provided by the ARiMR in September 2012.

Loans and advances to institutional customers, gross

PLN thousand	31.12.2012	31.12.2011	Change y/y	
Overdraft facilities, including	4 184 718	3 276 428	908 290	27.7%
• businesses	2 251 740	1 814 091	437 649	24.1%
• individual entrepreneurs	345 581	313 568	32 013	10.2%
• farmers	1 556 847	1 129 431	427 416	37.8%
Loans and advances to customers:	14 234 140	13 365 583	868 557	6.5%
• businesses, including:	8 034 999	7 641 938	393 061	5.1%
investment loans	4 850 132	4 265 207	584 925	13.7%
operating loans	2 088 980	2 366 793	(277 813)	(11.7%)
• individual entrepreneurs	1 242 443	1 173 698	68 745	5.9%
• farmers	4 579 424	4 146 549	432 875	10.4%
• public sector institutions	313 976	288 652	25 324	8.8%
• other entities	63 298	114 746	(51 448)	(44.8%)
Total	**18 418 858**	**16 642 011**	**1 776 847**	**10.7%**
of which: Preferential loans	4 208 569	4 057 019	151 550	3.7%

DEPOSIT ACTIVITIES

In 2012, the Bank pursued a conservative price policy towards the deposits of institutional clients which aimed at obtaining better results on interest margins and securing the required liquidity levels. Another priority of the Bank was to increase current account balances in all segments.

In 2012, liabilities towards clients grew by a total of PLN 1,631,727,000, i.e. 17.2% and the growth related mainly to the increase in liabilities to other financial institutions (by PLN 1,720,166,000), caused by long-term placements made by TFIs and insurance industry clients. Farmer deposits also showed positive dynamics – an increase of PLN 132,394,000, i.e. 15.1%, with "Agro Eskalacja" (Agri Escalation) savings accounts as the main driver of the increase.

On the other hand, the balance of corporate customers (except for farmers) and budget sector deposits decreased, especially as regards term deposits, which was the result of the policy to gradually limit the volumes of short-term and expensive high-value deposits.

Amounts owed to institutional customers

PLN thousand	31.12.2012	31.12.2011	Change y/y	
Other financial institutions:	**2 537 917**	**817 751**	**1 720 166**	**210.4%**
Current accounts	9 268	16 842	(7 574)	(45.0%)
Term deposits	2 528 638	800 898	1 727 740	215.7%
Other liabilities	11	11	-	-
Corporate customers:	**7 924 560**	**7 901 418**	**23 142**	**0.3%**
Current accounts	3 974 931	3 442 366	532 565	15.5%
Term deposits	3 871 567	4 382 143	(510 576)	(11.7%)
Other liabilities	78 062	76 909	1 153	1.5%
Corporate customers, of which farmers:	**1 009 139**	**876 745**	**132 394**	**15.1%**
Current accounts	856 815	722 838	133 977	18.5%
Term deposits	143 693	149 479	(5 786)	(3.9%)
Other liabilities	8 631	4 428	4 203	94.9%
Public sector customers:	**677 074**	**788 655**	**(111 581)**	**(14.1%)**
Current accounts	484 830	413 291	71 539	17.3%
Term deposits	192 118	375 241	(183 123)	(48.8%)
Other liabilities	126	123	3	2.4%
Total	**11 139 551**	**9 507 824**	**1 631 727**	**17.2%**

FINANCING TRADING BUSINESS

FACTORING

As part of providing factoring services, in 2012 the Bank acquired 121,800 invoices with a total value of PLN 3,065,000,000, compared to 108,400 invoices acquired in 2011 with a value of PLN 2,575,000,000 (a 19% increase). The Bank attracted 119 new factoring clients and the value of new limits exceeded PLN 240 million.

The factoring offer of the Bank was extended to include new solutions for the Agro segment (LEs and SMEs clients) which consisted of selling factoring and crop loans as one package. The main assumption behind this new solution was to link financing of the agro-purchase loan with recourse factoring in such a way as to ensure that the prepayments made under the factoring agreement were allocated to agro-purchase loan repayment and served as collateral for the timely repayment of that loan.

In May 2012 the Bank has renewed terms of insurance policy for insured non recourse factoring. The renewed insurance policy negotiated by the Bank will be valid until 30 September 2013.

BANK GUARANTEES AND LETTERS OF CREDIT

In the second half of 2012, the Bank implemented a new system for servicing the transactions of bank guarantees and letters of credit, and of other products used for financing trading business. Processes that related to servicing these products in the area of operations were adjusted.

In addition, amendments to the policies of servicing third party guarantees issued by other banks to the Bank's clients were made to make them more precise in the area of issuance of advisory notes (awizo), requests filing and servicing. The guarantee confirmations which, alternatively, may be replaced by re-guarantees were excluded from the Bank's offer. Tourist guarantees were also removed from the product offer.

As at the end of 2012, the total value of guarantee liabilities granted to clients amounted to PLN 615,619,000 compared to PLN 789,391,000 at the end of 2011. The Bank's portfolio included 1 768 granted guarantees which represented a 17% increase compared to the corresponding period of the previous year (1 505 guarantees).

The Bank issues letters of credit to Polish and foreign customers as well as services and confirms letters of credit issued by other banks and discounts receivables from letters of credit.

In 2012, the Bank issued 277 import letters of credit with a total value of PLN 81.9 million (compared to 392 import letters of credit with a total value of PLN 166.3 million in 2011) and processed 142 export letters of credit with a total value of PLN 71.8 million (compared to 104 export letters of credit with a total value of PLN 32.8 million in 2011).

ACTIVITIES IN DEBT SECURITIES MARKET

In 2012, the Bank serviced 5 programs of issues of debt securities (one issue expired in February 2012), of which 3 related to issuance of securities of local government units. In 2012, the Bank did not act as an organiser of new issues of debts securities.

ACTIVITIES IN MONEY AND FOREIGN EXCHANGE MARKETS

In 2012, the activities of the Bank in money and foreign exchange markets were significantly affected by the following factors:

- a considerable slowdown in economic growth in Poland, observable especially in the second half of the year, which was accompanied by a decrease in the inflation rate to the level approximating the RPP target,
- appreciation of the zloty against foreign currencies in the first half of the year, discontinued in April and May, due to the situation in international markets, followed by zloty exchange rate stabilisation,
- a 25 bps increase in interest rates by the RPP in May 2012 in response to high inflation outlook, followed by a cycle of interest rate decreases in November 2012 in response to de-inflation processes in the Polish economy,
- a reduction in interest rates by the RPP and the relatively good situation of public finance led to a higher demand for Polish debt securities, especially by foreign investors, which resulted in a decrease in the profitability of bonds to the lowest historical levels,
- stabilisation of Polish banking sector liquidity in 2012 was conducive to reducing the costs of obtaining finance from the Bank's clients.

In November 2012, the Bank decided that it would no longer participate in the fixing of WIBOR and WIBID reference rates.

Activities on own account

FX MARKET

In 2012, activities of Bank BGŻ in the inter-bank market focused on zloty and currencies of the G7 countries. The higher trading result was due to a higher volume of FX transactions realised both by the Bank's clients and by the Bank itself. Improved efficiency in the process of managing the Bank's FX position contributed to recording the highest ever financial results in this area of banking business. The highest trading result in the FX transactions was recorded for the EUR/PLN currency pair and then for the USD/PLN and GBP/PLN currency pairs. The Bank's activities in the market of foreign currency options showed a moderate increase, which is mainly the effect of a low base in previous years.

INTEREST RATE MARKET

The Bank recorded an outstanding result in the inter-bank interest rate market. Interest rate profit was generated by fixed and variable interest treasury bonds, and this trend was supported by the situation in the market of treasury debt securities. Bank activities concentrated in the PLN profitability curve. The Bank as a Dealer of Treasury Securities was an active participant of local inter-bank market. A lower activity level was recorded on the EUR and USD profitability curve. The offer in the segment of interest rate derivatives was extended to include cap and floor option transactions. In 2012, the Bank did not conduct trading activities in the market of non-treasury debt securities.

SHORT-TERM LIQUIDITY MANAGEMENT

The lasting restricted liquidity of the inter-bank market and restrictive liquidity requirements imposed by the PFSA associated with the Basel 3 Recommendation and to internal risk weights led to the situation that the deposit transactions with other banks being concluded only to manage spot or short-term liquidity of the Bank. The main instrument for placing short-term liquidity surpluses were NBP money bills and short- and mid-term (with a maturity period of up to 2 years) liquid State Treasury bonds. The Bank did not treat neither the inter-bank market nor resources of non-bank financial institutions as sources of financing for its credit activities. Market risk relating to short-term liquidity management and to instruments offered to clients was actively managed by such transaction as: OISs, FRAs, IRSs and FX Swaps. As regards derivative transactions concerning short-term interest rate, the Bank was an active participant in the inter-bank market as Money Market Dealer.

ASSETS AND LIABILITIES MANAGEMENT

As far as assets and liabilities management is concerned, the Bank conducted financial operations in order to manage structural exposure of the Bank to interest rate, foreign currency and liquidity risk by way of, among other things, setting hedging transactions against the interest rate and foreign currency risk, investing the surplus of available finance sources, gaining long-term finance and issuance of debt securities.

HEDGING TRANSACTIONS

Interest rate risk arising from clients' transactions – loans, deposits, current and savings account – was centrally managed by the Bank, taking into account expected changes of the market conditions in medium- and long-term. For this purpose, the Bank entered into IRS, OIS, CIRS and basis swap transactions to achieve the optimum profile, from the point of view of risk (limits utilisation) and profitability. Given the outlook prepared in the first months of the year, which provided for the commencement of the cycle of interest rate reductions in Poland at the end of 2012 or the beginning of 2013, and given the specific construction of preference loans with subsidies from ARiMR, where the Bank's margin is related by multiplier to the level of the bill of exchange rediscounting rate, the Bank managed to stabilise this margin by entering in April 2012 into a series of 2-year IRS transactions for the total amount of PLN 1.5 billion, to which the Bank applied for the first time the mechanism of hedge accounting which resulted in limiting financial result variability. At the end of 2012, positive valuation of the above hedging in the amount of PLN 21,857,000 was recognised in equity.

LONG-TERM FINANCING

The Bank has been proactive in increasing the share of long-term, stable financing in the balance sheet structure, and as a result, it was granted on 15 November 2012 from the European Investment Bank (EIB) ten year credit facility in the amount of PLN 205,400,000 to finance SMEs loans. The cost of this facility is Wibor 3M + 0.367%, increased by a cost of guarantee issued by Rabobank in the amount of 0.95% from a 120% outstanding exposure. It is yet another credit facility made available after those opened in 2011, obtained from Rabobank (12 years, CHF 1,000,000,000, which cost amounts to CHF Libor 3M and 6M + on average 1.38%) and EBRD (both facilities for a 5 year period, EUR 50,000,000 each, cost: Euribor 6M + 1.25%).

CERTIFICATES OF DEPOSIT

Certificates of Deposit are used by the Bank since 2008 to diversify sources of finance, to which in 2012 the Bank implemented certain changes, i.e. a strategy was implemented to significantly extend maturity dates: as at 31 December 2012, the Bank's position from own issue comprised certificates of deposit with a value of PLN 1,310,000,000 and residual maturity of not less than 1 year and certificates of deposit with a value of PLN 570,000,000 and residual maturity of 1 - 5 years. Since interest expense on long-term securities is variable and based on 6M WIBOR, at the end of 2012 the Bank started the process of hedging i.e. the process of stabilising interest rates for long-term certificates through the transactions of IRS purchases, whilst taking advantage of historically low market quotations.

INVESTMENT PORTFOLIO

The investment portfolio of the Bank is composed of liquid treasury bonds and NBP treasury bills. Among treasury bonds held, the shortest maturity date is January 2013 and the longest – September 2022. As at 31 December 2012, the Bank's investment portfolio nominal value was PLN 3,000,000,000, of which

PLN 300,000,000 were NBP treasury bills. In 2012, revenue in the investment portfolio, such as interest, settlement of premium/discount and sale result, was PLN 202,700,000, of which the result on sell of some items before the maturity date was PLN 43,100,000. Disposal of bonds before the maturity date was replaced to a large extend by purchases of other securities: in the first three quarters of the year, the Bank acquired securities with maturity dates exceeding those of the securities sold in order to adjust the net equity duration to increasing total assets balance, whilst in Q4 2012, the Bank acquired NBP treasury bills to replace the securities sold in order to maximise interest income and limit any potential fluctuations in the fair value of the bonds portfolio, which as at 31 December 2012 at PLN 244,000,000 was recognised in revaluation reserve.

SALE OF TREASURY PRODUCTS TO CLIENTS

In 2012, and especially during the first half of the year, the Bank recorded a considerable increase, compared to the previous year, in the sale of treasury products in all segments of institutional client portfolio. The main reason behind the increase was the significant variability of the financial markets, the new model of sale of treasury products which to a larger extent concentrated on particular client segments, as well as greater interest in sale of hedging solutions. In the second half of the year, despite considerably lower fluctuations in financial markets, especially as regards the EUR/PLN currency pair, spot and forward currency transactions continued to generate the largest portfolio income.

The most significant revenue growth factor remained currency spot and forward transactions which were supported by the electronic, treasury eBGŻ channel. Hedging solutions in the first half of 2012 were more diversified than in 2011. More clients hedged against interest rate risk and some clients used currency options to hedge against currency risk. A decrease in market interest rates at the end of 2012 led to new IRS transactions were being concluded with SME and LE clients.

In 2012, the Bank extended its product offer of treasury instruments hedging against interest rate risk by offering interest rate options. The Bank also offered instruments hedging against the risk of changes in prices of goods, such as commodity options and swaps. In addition, in the second half of the year, some clients from the agro-food industry opened their positions in the ground soya and rapeseed market.

COLLATERALS RECEIVED

A 10-year loan in the amount of PLN 205,440,000 granted to Bank BGŻ in November 2012 by the European Investment Bank (EIB) is secured by a guarantee issued by Rabobank. This is a three-way warranty - an agreement between the EIB and Rabobank establishes an unconditional obligation of the latter relative to the EIB amounting to 120% of the outstanding loan, in the event that the Bank BGŻ did little with the provisions of the loan agreement, and the agreement between Rabobank and Bank BGŻ requires Bank BGŻ to implement all the provisions of the credit agreement and specifies the guarantee commission of 0.95% from 120% of the loan outstanding. Amortization schedule and the amount of the guarantee commission payments under the guarantee covers the payment schedule of principal and interest from EIB loan.

COLLABORATION WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

CORRESPONDENT BANKING AND MONEY ORDERS

In 2012, the Bank maintained correspondence contacts with approximately 870 financial business entities, and at year's end, the Bank maintained 24 Nostro accounts in 15 main currencies in foreign banks.

As at 31 December 2012, the Bank maintained 33 Loro accounts in 6 currencies for 21 foreign banks, 1 domestic bank and 1 foreign non-banking financial institution. The Loro accounts are maintained in the Bank BGŻ books of account and represent an external source of securing working capital funds at no cost, which serve to satisfy the operating needs of the Bank. Using these accounts, the Bank executes primarily client transfers and bank-to-bank transfers. Loro accounts are subject to periodic analyses in terms of their cost-effectiveness and usefulness for Bank BGŻ and therefore number of is adjusted.

In 2012, Bank BGŻ collaborated with four foreign non-banking financial institutions offering cheap and swift electronic money transfer services: MoneyGram (USA), Doma International Transfers (USA), Vigo Remittance Corporation (USA) and OneMoneyMail (Great Britain). The subject of collaboration are both money orders as well as transfers to bank accounts. In the case of MoneyGram, transactions were executed in both directions i.e. to and from Poland. As of the end of the year, the Bank discontinued collaboration with Doma International Transfers, Vigo Remittance Corporation and OneMoneyMail.

In 2012, the Bank continued collaboration with other domestic and foreign financial institutions, mainly with investment funds, insurers, pension funds, brokers and with banks. This collaboration enabled the Bank to offer a wide range of treasury and deposit transactions. The Bank has entered into many agreements (with new and already collaborating partners from those segments), which enable the Bank to settle transactions for the new products.

FINANCING FOREIGN TRADE OPERATIONS

The product offer dedicated to financing foreign trade operations of the Bank comprises: export and import letters of credit, export and import documentary collection, letter of credit discount, nostro and loro guarantees, avals and guarantees, factoring and payment orders. In the second half of the year, a new functionality was implemented in the Head Office system, Flexcube, dedicated to service Trade Finance products; as a result, the process of registration and servicing foreign trade operations was transferred from the Eurobank system to the Flexcube system. Following Trade Finance module implementation to Flexcube, the function of servicing client-awarded limits concerning issuance of guarantees and letters of credit as part of facility contracts was also transferred from the Eurobank system, which gave the possibility of servicing, under one limit, guarantees and letters of credit in currencies other than the currency of the limit granted.

In 2012, the Bank maintained high dynamics in foreign trade transfers. The share of SEPA Credit Transfer in the total number of import and export transfers increased in 2012 and was 52% and 59%, respectively.

Statistics of operations handled by Bank BGŻ

Type of transaction	Quantity/value	2012	2011	Change y/y
Transactions using the nostro accounts (commercial banks and NBP)	Number of transactions	700 253	513 959	36.2%
	Value in PLN billion	2 947	3 076	(4.2%)
Transactions using the loro accounts	Number of transactions	119 303	113 792	4.8%
	Value in PLN billion	783	892	(12.2%)
Export transfers	Number of transfers	433 383	346 329	25.1%
	Value in PLN million	22 887	17 177	33.2%
including: transfers of SEPA Credit Transfer	Number of transfers	257 397	152 354	68.9%
	Value in PLN million	6 800	3 372	101.7%
Import transfers	Number of transfers	175 227	137 728	27.2%
	Value in PLN million	13 426	11 973	12.1%
including: transfers of SEPA Credit Transfer	Number of transfers	90 789	60 772	49.4%
	Value in PLN million	4 616	3 254	41.9%
Own letters of credit and own documentary collection (newly opened)	Number	328	474	(30.8%)
	Value in PLN million	81	173	(53.2%)
Guarantees and own promissory notes granted	Number	1 533	1 262	21.5%
	Value in PLN million	390	932	(58.2%)
Third party letters of credit and third party guarantees	Number	514	518	(0.8%)
	Value in PLN million	154	141	9.2%

AVERAGE BASIC INTEREST RATES USED DURING THE FINANCIAL YEAR

Average Basic interest rates of Bank BGŻ in 2012

	Households	Corporate customers
Current accounts and term deposits		
PLN	2.41%	2.87%
of which only deposits	4.85%	4.27%
EUR	0.09%	0.12%
Loans		
PLN	9.95%	8.78%
EUR	2.77%	1.71%
CHF	3.40%	-

BANK ORGANISATION AND HUMAN RESOURCES

ORGANISATIONAL STRUCTURE

The most significant changes in the organisational structure made in the Head Office in 2012 related to the regulatory requirement to fully separate sale tasks and the risk management business in the broad sense. These changes were implemented in two stages, from 10 August 2012 and from 1 January 2013.

Risk Management Division, which grouped departments responsible for financial and operating risk management, design and implementation of the Bank's policy and procedures concerning system-based credit risk management, for determining provision balance and performing measurements and comprehensive analyses of economic capital for various types of risk, has been separated from the Risk Area.

HUMAN RESOURCES

EMPLOYMENT LEVELS

At the end of 2012, Bank BGŻ had 5,637 employees, i.e. 0.8% more than in the previous year. At the Head Office, the number of employees decreased by 1.0% y/y, which was mainly due to the group redundancy program started in October 2012. The employment level in the entire Bank network grew by 1.4% y/y despite group redundancy in the risk division. This overall increase resulted from filing in vacancies in the sales area and creating the new posts of sales coordinator and trainer. The increase in the employment was also attributed the launch of the Internet branch BGŻOptima.

At the end of 2012, the largest group of employees were persons with higher education (80%).

In October 2012, the Bank started the group redundancy program as part of a project of employment restructuring, especially at the Head Office, with a view to enhancing operating and cost efficiency. The group redundancy program will operate until 30 June 2013 and will cover a total of not more than 370 persons.

Bank's employment in employees and FTEs

	31.12.2012	31.12.2011	Change y/y	
Network	4 085	4 027	58	1.4%
Headquarters	1 438	1 453	(15)	(1.0%)
Brokerage Office	32	36	(4)	(11.1%)
BGŻOptima	49	43	6	14.0%
Holiday resorts	30	30	-	-
Trade unions	3	3	-	-
Total (employees)	**5 637**	**5 592**	**45**	**0.8%**
Network	4 056.45	3 992.82	64	1.6%
Headquarters	1 426.87	1 447.98	(21)	(1.5%)
Brokerage Office	32.00	36.00	(4)	(11.1%)
BGŻOptima	39.88	21.45	18	85.9%
Holiday resorts	29.50	29.50	-	-
Trade unions	3.00	3.00	-	-
Total (FTEs)	**5 587.70**	**5 530.75**	**57**	**1.0%**

SALARIES

The key objective of the Bank's Remuneration policy, which serves execution of the Bank's business strategy and creation of its competitive advantage, is to attract, keep and motivate top-notch employees. The Bank's Remuneration policy is based on the concept of a comprehensive approach to employee rewarding and accounts for, apart from such major main elements as fixed and variable remuneration, the issues of recognition, career development, work environment and business culture.

The Bank has pursued a reasonable and balanced remuneration policy which has reflected its client-oriented approach, accounted for the long-term Bank's interests and supported reasonable and effective risk management.

The Bank has participated in salary-oriented market research and thus has regularly monitored competitiveness of its remuneration package (of fixed and variable part) against the market.

The Bank's Remuneration policy also includes detailed principles of rewarding of these employees at managerial posts who have a considerable impact on the Bank's risk profile (as per the PFSA Resolution No. 258/2011).

Payroll

PLN thousand	31.12.2012	31.12.2011	Change	
			PLN thousand	PLN thousand
Payroll costs including:	406 703	372 543	34 161	9.2%
• base remuneration	336 242	307 449	28 793	9.4%
• other components of salaries and wages *	6 111	3 570	2 541	71.2%
• awards and bonuses	60 695	58 520	2 175	3.7%
• non-employment contracts	3 655	3 003	652	21.7%
Salary overheads	57 997	49 124	8 873	18.1%
Fringe benefits	8 659	16 803	(8 144)	(48.5%)
Provisions for restructuring costs	16 901	-	16 901	-
Costs related to Company Social Benefits Fund	6 232	5 923	309	5.2%
Other	11 845	11 856	(11)	(0.1%)
Total payroll	**508 337**	**456 249**	**52 088**	**11.4%**
Awards and bonuses as % of base remuneration	**18.1%**	**19.0%**		**(1.0%)**

Compared to 2011, the costs of basis salary increased by 9.4% in 2012, and the increase was due to strengthening of business areas of the Bank, i.e. development of the BGŻOptima internet channel and the Bank's network of branches. Higher basic salaries resulted also from an increase of remuneration implemented in June 2012 to reward the best employees.

Information about the remuneration of the members of the Management Board and Supervisory Board can be found in the Group financial statements in note 47 BGŻ Transactions with related parties.

Information about a direct ownership of shares by members of the Management Board and Supervisory Board can be found in the Group financial statements in note 40 BGŻ capital.

INCENTIVE SCHEMES

The Bank operates incentive schemes which combine three elements: goals and objectives relating to the priorities under the Bank's strategy and financial plans, the results which are the work output of the Bank's employees and the amount of bonus.

The incentive schemes, which are adjusted to the specific character of tasks realised in the area of sales, sales support and risk and risk support, are based primarily on the Management by Objectives (MbO) formula, which means that an individual bonus is related to the level and quality of the task performed. The system concentrates of defining tasks or objectives which set the development direction of the entire organisation and then are divided into the objectives of individual organisational units and individual employees.

The Bank also operates a separate bonus system for variable remuneration, including bonuses for employees fulfilling managerial functions who have a significant impact on the Bank's risk profile. The adopted solution is also a result of implementation of the PFSA Resolution No. 258/2011 dated 4 October 2011.

TRAINING AND CAREER DEVELOPMENT

In 2012, a training program supported implementation of the Banks' strategic goals through the development of employee skills and competences. The program covered training organised both in traditional and e-learning form. In 2012, the number of employees who participated in the Bank's training program was 24 245.

The most significant training initiatives taken in 2012 were as follows:

- Training for employees in the Regions – in 2012, a team of internal trainers was appointed who are responsible for conduction of trainings for retail network employees.
- E-learning – in 2012, the catalogue of e-learning sessions included product-related sessions dedicated to sales employees. In 2012, training sessions on operating risk, combating of fraud, compliance issues and information security were conducted. These sessions were addressed to all employees of the Bank.
- New hires training – each newly employed person of the sales network participates in a training program addressed to this group of employees; the new hire training program covers sales techniques and product-type training.
- Training co-financed by the European Social Fund – in March 2012, the project Let's Grow Together („Rośnijmy Razem") was completed, under which training on development of employee interpersonal skills was conducted. Also, the project Client first, on the way to deliver highquality service („Po pierwsze klient – w drodze do realizacji wysokiej jakości obsługi w Banku BGŻ") was continued which concentrated on enhancement of client service quality at the Bank. This project was dedicated to client servicing personnel.
- Training for network sales management – in 2012, a number of training sessions were delivered on management skills development.
- Credit process related training under the Risk Culture Program – in 2012, a 2-year training program started relating to credit risk management. This training program is dedicated to network sales and risk employees.

In 2012, the Bank continued to operate the „Prestige" program dedicated to supporting development of the most talented employees.

INTERNSHIP PROGRAMS

The Bank offers internship programs to students and graduates. In 2012, the Bank had 600 interns. A special program of summer internship was developed, under which the Bank organised internship workshops where the participants could familiarise themselves with the Bank's structure and history, its corporate values and prospects for career development. In addition, during the summer internship program, the interns participated in business training sessions Personal Account Fulfilling Your Expectations („Konto osobiste spełniające Twoje oczekiwania").

EMPLOYER BRANDING

In 2012, the Bank continued its employer branding activities. In 2012, the Bank was placed on the list of Best Employees in the Universum ranking of TOP 100 Ideal Employers.

IT DEPARTMENT

In 2012, the IT Department spent PLN 61,160,000 on its investment projects. During this period, 26 projects were completed. At the end of 2012, 20 projects remained uncompleted.

The most significant IT initiatives undertaken are as follows:

- Launch of the CRM system for client relations management, which facilitated implementation of a consistent sales-services model at the Bank
- Completion of migration of the main transaction system to a 3-layer architecture
- Implementation of new products by BGŻOptima (project realised in collaboration with Rabobank International Direct Banking)
- Contact Centre development as regards service channels for BGŻOptima
- Providing clients with the first contactless Visa/BGŻ card
- Implementation of the Client transaction authorization in the electronic banking system by means of unique SMS codes
- Implementation of new visualisation for the Internet channel
- Launch of a service function for document and some derivatives operations, and extension of the scope of securities servicing
- Implementation of solutions to reduce the risk of unauthorised breach of integrity of payment-related data
- Enhancement of lending process support systems for the segments of SMEs and Farmers
- Launch of solutions to support soft debt collection procedures
- Implementation of workflow solutions to support lending process service
- Implementation of workflow solutions to support Clients inquiries service

- Implementation of provisions of the Act and the Payment Services Directive
- Optimisation of Management Board's reports preparation in the MIS system
- Launch of an advanced data protection system on mobile computers
- Migration of server platforms to new technical solutions
- Migration to a new system version of catalogue services.

ACTIVITIES OF SUBSIDIARIES AND ASSOCIATES OF THE BANK BGŻ CAPITAL GROUP

BANKOWY FUNDUSZ NIERUCHOMOŚCIOWY - ACTUS SP. Z O.O.

In 2012 all the supervisory actions taken towards the company were concentrated on creating conditions for the sale the property located in Wroclaw – Marszowice

The company was created in 1999, with main business activities focusing on:

- acquisition and disposal of properties and limited property rights;
- conducting construction investment projects on its own and third party properties;
- providing trust services in area of trading in properties and rental of premises;
- leasing of properties and premises;
- rendering services: valuation of properties, property management, property advisory (activities of property servicing agency).

As at 31 December 2012, the investment portfolio of Actus Sp. z o.o. was composed of one property in the form of undeveloped land with an area of 48.4412 ha. In accordance with the Local Development Plan, the property is intended for housing construction.

Key financial data of Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o

PLN thousand	31.12.2012	31.12.2011
Total assets	62 502.0	63 598.3
Long-term investment	62 301.0	63 401.0
Equity	18.975.4	21 930.8
including: net profit	(3 207.0)	(2 712.6)

BGŻ LEASING SP. Z O.O.

The company was incorporated in April 2007 as a subsidiary of De Lage Landen International B.V. (Rabobank Group). The company provides leasing services focusing on equipment, cars, and other fixed assets it also provides loans. In 2012, 1,837 lease contracts were signed with a total value of PLN 560,330,000 (of which, in the second half of the year - 886 contracts for a value of PLN 251,170,000), compared to 1,662 contracts with a value of PLN 556,950,000 signed in 2011.

In 2012, the Company recorded a negative financial result due to, among other things, recognition of impairment write-downs against receivables from the sector of large segment clients, including construction sector clients.

Key financial data of BGŻ Leasing Sp. z o.o. (in PLN thousand)

PLN thousand	31.12.2012	31.12.2011
Total assets	1 072 701	1 006 947
Long-term investment	954 932	870 953
Equity	94 161	94 379
including: net profit	(645)	5 041

Corporate social responsibility

Priorities of the Corporate Social Responsibility policy (CSR) in 2012, are a continuation of the activities launched in 2011 by the Bank in sustainable development in the following areas: environment, employees, community, customers / products.

In 2011, the Bank focused on the activities in two areas: within the organization - employees, the impact of the Bank on the environment, and outside - social engagement. In 2012, the next step was to create a platform for dialogue with key stakeholders. Through these activities, the mission of the Bank for local communities is carried out.

- The Bank published its first corporate responsibility report "Bank communities for 2011 (available on www.bgz.pl), through which the Bank reliably inform about the Bank's social commitment and efforts against key stakeholders.
- The Customer Council have been developed which is designed to create a coalition with the customers of the Bank to engage in solving local problems and to adapting the Bank's services to local needs.

Activities in other areas

Employees: implementation of teleworking in the Bank.

Environment: under the "Green Office" program, activities and actions was carried out to reduce the negative impact of the Bank on the environment, such as grouping of waste in the Bank Head Office, an action "a day without a car", competitions for employees i.e. ideas for reducing consumption of paper.

Society: more than 350 different activities were organized for the local communities, the Bank has supported about 200 different organizations, launched the first edition of the voluntary work. The BGŻ Foundation, that implements social projects of the Bank, conducted a nationwide educational program "Driving with the head", in which more than 4 500 junior high school students gained practical knowledge of basic road safety rules.

The program "Class BGŻ" that was run by the BGŻ Foundation was chosen as the best scholarship software in the contest Good Scholarships 2012.

Development prospects of the Capital Group Bank BGŻ

In the first half of 2012 the Bank has reviewed and updated its strategy for years 2010–2014 and extending it to 2016. The strategy was approved by the Supervisory Board on 21 June 2012.

According to the strategy, Bank BGŻ is continuing to develop its activities as a universal bank, specializing in rendering services for the agricultural and food producing segment. From the perspective of the client the Bank wants to be a Bank developing long-term relations, seen as a responsible partner and engaged in local communities defined as centres with 20 – 150 thousand residents.

According to universal banking, the strategy assumes further strengthening of the Bank's position in retail banking by expanding the product offer and attracting customers from medium class segment (including alternative distribution channels) in order to provide funds for key segments of its activities. The Bank will continue to develop its branch network, but this will be limited compared to previous years and will be carried out in medium-sized cities, where Bank BGŻ is already present and has a strong reputation.

The Bank is also going to concentrate on further growth of the business in providing services for small, medium and micro – businesses in local markets.

In the area of banking services for agricultural and food producing segment, the Bank intends to strengthen its leadership based on the product range and a service model tailored to the needs of this market.

A number of internal project and initiatives including inter alia the development of traditional and virtual distribution channels, optimization of internal processes and support functions for business activity will help to achieve its strategic goals. A lot of attention is paid to the development of Client Relationship Management systems, improvement of operating effectiveness and human management potential.

The strategy assumes also necessary recapitalization of the Bank, as a result of which the 12% targeted capital adequacy ratio could be achieved.

Both the Management Board of Bank and its shareholders are convinced of the long-term potential of the banking sector in Poland and wish to continue their commitment in future development of Bank BGŻ.

Independent statutory auditor's opinion

ERNST & YOUNG

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THE INDEPENDENT AUDITORS' REPORT ON ANNUAL REPORT OF BANK BGZ 2012

To the Supervisory Board of Bank Gospodarki Żywnościowej S.A.

We have audited the financial statements for the year ended 31 December 2012 of Bank Gospodarki Żywnościowej S.A. ('the Bank') located in Warsaw at Kasprzaka street 10/16 ('the unabridged financial statements'), from which the attached summarized financial statements for the year ended 31 December 2012 were derived by the Company's Management Board ('the summarized financial statements'). The unabridged financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records.

We conducted our audit of the unabridged financial statements, from which the summarized financial statements were derived, in accordance with the chapter 7 of the the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act') and the national auditing standards issued by the National Council of Statutory Auditors. We issued an unqualified auditors' report on these financial statements dated 4 March 2012.

In our opinion the attached summarized financial statements, in all material respects, are consistent with the unabridged financial statements, from which they were derived.

For a better understanding of the Company's financial position as at 31 December 2012 and the results of its operations for the period from 1 January 2012 to 31 December 2012 and of the scope of our audit, the attached summarized financial statements should be read in conjunction with the unabridged financial statements from which the summarized financial statements were derived and our auditors' report relating to these financial statements.

on behalf of
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key Certified Auditor

(-)

Dominik Januszewski
certified auditor
No. 9707

ERNST & YOUNG
AUDIT sp. z o.o.
Rondo ONZ 1, 00-124 Warszawa

Warsaw, 29 July 2013

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Consolidated financial statements

Consolidated income statement

	Note	12 months ended 31.12.2012	12 months ended 31.12.2011
Interest income	4	2 156 478	1 692 151
Interest expense	4	(1 135 111)	(858 140)
Net interest income		**1 021 367**	**834 011**
Fee and commission income	5	350 344	310 857
Fee and commission expense	5	(54 167)	(40 960)
Net fee and commission income		**296 177**	**269 897**
Dividend income	6	3 416	3 554
Result on trading activities	7	98 567	101 852
Result on investing activities	8	43 329	6 899
Result on hedge accounting	21	1 233	-
Other operating income	9	62 473	59 948
Net impairment losses on loans and advances	10	(270 433)	(163 142)
General administrative expenses	11,13	(941 503)	(855 215)
Other operating expenses	12	(140 346)	(110 708)
Operating result		**174 280**	**147 096**
Share in profit (loss) of associates	25	(316)	2 470
Profit (loss) before taxation		**173 964**	**149 566**
Income tax expense	14	(43 915)	(21 469)
Net profit (loss) for the year		**130 049**	**128 097**
• attributable to the shareholders of the Bank		130 049	128 097
Earnings per share (in PLN per share):	**15**	**2,86**	**2,97**
From continuing and discontinued operations:		2,86	2,97
Basic		2,86	2,97
Diluted		2,86	2,97
From continuing operations:		2,86	2,97
Basic		2,86	2,97
Diluted		2,86	2,97

Bank BGŻ
Dobrze służy ludziom

Consolidated statement of comprehensive income

	Note	12 months ended 31.12.2012	12 months ended 31.12.2011
Profit (loss) for the year		**130 049**	**128 097**
Other comprehensive income			
Net (loss)/gain on valuation of available-for-sale financial assets	23	230 867	18 207
Net (loss)/gain on valuation of derivatives designated as cash-flow hedge	21	21 857	-
Income tax relating to other income	14	(48 018)	(3 459)
Other comprehensive income for the year, net of tax		**204 706**	**14 748**
Total comprehensive income for the year		**334 755**	**142 845**

Consolidated statement of financial position

	Note	31.12.2012	31.12.2011
ASSETS			
Cash and balances with the Central Bank	16	2 106 657	1 383 321
Amounts due from other banks	17	104 035	221 071
Receivables arising from reverse repo transactions	18	104 369	366 343
Held-for-trading financial assets (excluding derivatives)	19	219 051	1 632 434
Derivative financial instruments, including:	20	474 058	883 109
Derivatives designated for hedging		69 179	-
Loans and advances to customers	22	26 323 700	24 222 391
Financial assets available for sale	23	6 867 557	3 624 750
Investment property	24	62 301	63 401
Investments in associates	25	46 139	46 245
Intangible assets	26	152 674	146 443
Property, plant and equipment	27	469 098	485 943
Deferred tax asset	35	130 818	207 794
Receivables from current income tax		10 318	-
Other assets	28	125 888	123 968
TOTAL ASSETS		**37 196 663**	**33 407 213**

Consolidated statement of financial position (continued)

	Note	31.12.2012	31.12.2011
LIABILITIES			
Amounts owed to other banks	29	4 094 436	4 446 716
Liabilities arising from repo transactions	30	104 346	-
Derivative financial instruments and other liabilities held for trading, including:	20	350 621	795 707
Derivatives designated for hedging		-	-
Amounts owed to customers	31	26 941 971	22 941 652
Liabilities from issued debt securities	32	1 852 931	2 033 267
Other liabilities	33	292 168	474 952
Deferred tax liability	35	9 510	9 719
Provisions	34	51 094	41 926
Liabilities arising from employee benefits	37	26 969	25 412
TOTAL LIABILITIES		**33 724 046**	**30 769 351**
EQUITY			
Issued share capital	40	51 137	43 137
Reserve capital	41	2 950 716	2 332 656
Accumulated profit/ (loss) from previous years	41	10 364	8 327
Other reserves	41	330 351	125 645
Undistributed profit for the year		130 049	128 097
TOTAL EQUITY		**3 472 617**	**2 637 862**
TOTAL LIABILITIES AND EQUITY		**37 196 663**	**33 407 213**

Bank BGŻ
Dobrze służy ludziom

Consolidated statement of changes in equity

	Note	Issued share capital	Reserve capital	Other reserves	Accumulated profit (loss) from previous years	Undistributed profit for the year	Total
As at 1 January 2012		**43 137**	**2 332 656**	**125 645**	**8 327**	**128 097**	**2 637 862**
Issue of shares		8 000	492 000	-	-	-	500 000
Net profit for the year		-	-	-	-	130 049	130 049
Other comprehensive income for the year		-	-	204 706	-	-	204 706
Transfer from prior year profits		-	126 060	-	2 037	(128 097)	-
Total comprehensive income for the period		**-**	**-**	**204 706**	**-**	**130 049**	**334 755**
As at 31 December 2012	**40,41**	**51 137**	**2 950 716**	**330 351**	**10 364**	**130 049**	**3 472 617**
As at 1 January 2011		43 137	2 220 155	110 897	8 487	112 341	2 495 017
Net profit for the year		-	-	-	-	128 097	128 097
Other comprehensive income for the year		-	-	14 748	-	-	14 748
Transfer from prior year profits		-	112 501	-	(160)	(112 341)	-
Total comprehensive income for the period		**-**	**-**	**14 748**	**-**	**128 097**	**142 845**
As at 31 December 2011	**40,41**	**43 137**	**2 332 656**	**125 645**	**8 327**	**128 097**	**2 637 862**

Consolidated statement of cash flows

	Note	12 months ended 31.12.2012	12 months ended 31.12.2011
CASH FLOW FROM OPERATING ACTIVITIES:			
Net profit/loss		**130 049**	**128 097**
Total adjustments:		**3 169 651**	**(3 483 193)**
Current and deferred tax recognized in the financial result	14	43 915	21 469
Depreciation/Amortization	12	94 518	83 000
Interest and share in profits (dividends)	45	(131 239)	(35 458)
Profit/loss on investing activities		(43 131)	(6 495)
Change in provisions and liabilities arising from employee benefits		10 725	2 819
Change in amounts due from other banks	45	5 349	38 075
Change in receivables arising from reverse repo transactions		261 974	285 363
Change in held-for-trading debt securities		1 413 383	182 465
Change in positive valuation of derivative financial instruments (excluding hedge accounting)		478 230	(662 122)
Change in positive valuation of derivative financial instruments designated for hedging		(47 322)	-
Change in loans and advances to customers		(2 101 309)	(4 353 214)
Income tax paid		(38 486)	-
Income tax received	14	23 969	44 801
Change in amounts owed to other banks	45	(266 362)	45 598
Change in liabilities arising from repo transactions		104 346	(1 268 921)
Change in negative valuation of derivative financial instruments		(445 086)	63 609
Change in amounts owed to customers		4 000 319	1 889 937
Change in other assets and receivables arising from income tax		(12 238)	(45 690)
Change in other liabilities and change in income tax liability	45	(182 784)	233 054
Other adjustments	45	880	(1 483)
NET CASH FLOW FROM OPERATING ACTIVITIES		**3 299 700**	**(3 355 096)**

Bank BGŻ
Dobrze służy ludziom

Consolidated statement of cash flows (continued)

	Note	12 months ended 31.12.2012	12 months ended 31.12.2011
CASH FLOW FROM INVESTING ACTIVITIES:			
Inflows		**92 319 595**	**55 578 543**
Sale and redemption of other debt securities		-	107 564
Sale of securities available for sale		92 314 209	55 467 342
Sale of intangible assets and property, plant and equipment		-	83
Dividends received and other inflows from investing activities		5 386	3 554
Outflows		**(95 254 229)**	**(55 910 335)**
Purchase of shares in associates	25	-	(12 271)
Purchase of securities available for sale	23	(95 168 031)	(55 742 670)
Purchase of intangible assets, property, plant and equipment	26,27	(86 198)	(155 394)
NET CASH FLOW FROM INVESTING ACTIVITIES		**(2 934 634)**	**(331 792)**
CASH FLOW FROM FINANCING ACTIVITIES:			
Inflows		**5 005 440**	**8 466 397**
Long-term loans received from other banks		205 440	3 503 897
Issue of debt securities to other financial institutions	32	4 300 000	4 962 500
Net inflows from issue of shares and additional equity contributions	40	500 000	-
Outflows		**(4 758 858)**	**(4 797 698)**
Repayment of long – term loans to other banks		(291 358)	(123 198)
Redemption of debt securities issued to other financial institutions	32	(4 467 500)	(4 674 500)
TOTAL NET CASH FLOW FROM FINANCING ACTIVITIES		**246 582**	**3 668 699**
TOTAL NET CASH FLOW		**611 648**	**(18 189)**
Cash and cash equivalents at the beginning of the year	**44**	**1 592 649**	**1 610 838**
Cash and cash equivalents at the end of the year, of which:	**44**	**2 204 297**	**1 592 649**
of restricted use	38	1 744	830

Bank BGŻ
Dobrze służy ludziom

Additional information

RETAIL AND BUSINESS BANKING (R&BB) REGIONAL BRANCHES

Post code	City	Address	Area coverage	Phone
70-435	Szczecin	Jagiellońska 97	R&BB North-West	(91) 480-02-00
87-100	Toruń	Wały Gen. Sikorskiego 15	R&BB North	(56) 659-34-00
10-959	Olsztyn	Al. J. Piłsudskiego 11/17	R&BB North-East	(89) 521-29-30
61-823	Poznań	Piekary 17	R&BB Central-West	(61) 858-26-00
00-131	Warszawa	Grzybowska 4 lok. 8b	R&BB Central	(22) 581-54-75
20-410	Lublin	1 Maja 16A	R&BB East	(81) 531-91-00
50-051	Wrocław	Plac Teatralny 3	R&BB South-West	(71) 376-64-00
40-950	Katowice	Teatralna 17a	R&BB South	(32) 787-98-00
35-959	Rzeszów	Siemieńskiego 18A	R&BB South-East	(17) 850-32-00, 852-49-56

CORPORATE BANKING (CB) REGIONAL BRANCHES

Name	Post code	City	Address	Area coverage	Phone
Corporate Banking Regional Branch in Gdańsk	80-958	Gdańsk	W.Bogusławskiego 2	CB RB North	58 300 22 29
Corporate Banking Regional Branch in Kraków	31-154	Kraków	Pawia 5	CB RB South	12 297 89 13
Corporate Banking Regional Branch in Lublin	20-410	Lublin	1 Maja 16A	CB RB East	81 531 91 05
Corporate Banking Regional Branch in Poznań	61-823	Poznań	Piekary 17	CB RB West	61 85 82 670
Corporate Banking Regional Branch in Warsaw	01-211	Warszawa	Kasprzaka 10/16	CB RB Central	22 860 46 67
Corporate Banking Regional Branch in Wrocław	50-051	Wrocław	Pl. Teatralny 3	CB RB South-West	71 376 64 00
Corporate Banking Regional Branch, International Desk Warsaw	01-211	Warszawa	Kasprzaka 10/16	CB RB International Desk Warsaw	22 860 43 27