TRANSLATION

CAPITAL GROUP OF
BANK HANDLOWY W WARSZAWIE S.A.

ANNUAL REPORT 2012

MARCH 2013

SELECTED FINANCIAL DATA	PLN'000		EUR'000**	
	2012	2011	2012	2011
Interest income	2,076,259	1,927,390	497,474	465,542
Fee and commission income	707,240	752,733	169,456	181,815
Profit (Loss) before tax	1,239,535	921,478	296,994	222,574
Net profit (loss)	970,132	736,413	232,445	177,873
Total comprehensive income	1,307,831	702,061	313,358	169,576
Increase/decrease of net cash	500,140	(2,257,607)	119,834	(545,303)
Total assets	43,508,763	42,278,198	10,642,523	9,572,133
Amounts due to banks	2,356,429	6,011,378	576,398	1,361,026
Amounts due to customers	26,852,165	24,095,847	6,568,212	5,455,499
Shareholders' equity	7,391,415	6,444,481	1,807,988	1,459,084
Share capital	522,638	522,638	127,841	118,330
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	56.57	49.32	13.84	11.17
Earnings per share (PLN/EUR)	7.42	5.64	1.78	1.36
Diluted net earnings per share (PLN/EUR)	7.42	5.64	1.78	1.36
Declared or paid dividends per share (PLN/EUR)*	5.79	2.76	1.42	0.62

**The presented ratios are related to declared dividend from the appropriation of the 2012 profit and dividend paid in 2012 from the appropriation of the 2011 profit.*

***The following foreign exchange rates were applied to convert PLN into EUR: for the consolidated statement of financial position - NBP mid exchange rate as at 31 December 2012 - PLN 4.0882 (as at 31 December 2011: PLN 4.4168); for the consolidated income statement and consolidated cash flow statement - the arithmetic mean of NBP end-of-month exchange rates in 2012 – PLN 4.1736 (in 2011: PLN 4.1401).*

TRANSLATION

THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS OF THE CAPITAL GROUP OF BANK HANDLOWY W WARSZAWIE S.A. FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

MARCH 2013

CONTENTS

Consolidated income statement

PLN'000 For the period	Note	2012	2011
Interest and similar income	4	2,076,259	1,927,390
Interest expense and similar charges	4	(587,978)	(493,036)
Net interest income	4	1,488,281	1,434,354
Fee and commission income	5	707,240	752,733
Fee and commission expense	5	(108,382)	(109,563)
Net fee and commission income	5	598,858	643,170
Dividend income	6	6,493	5,688
Net income on trading financial instruments and revaluation	7	371,993	302,917
Net gain on debt investment securities	8	279,451	30,142
Other operating income	9	34,834	53,254
Other operating expenses	9	(53,264)	(42,966)
Net other operating income	9	(18,430)	10,288
General administrative expenses	10	(1,364,951)	(1,372,006)
Depreciation expense	11	(64,683)	(60,016)
Profit/loss on sale of tangible fixed assets	12	84	2,073
Net impairment due to financial assets and provisions value losses for granted financial and guarantees liabilities	13	(58,101)	(76,809)
Operating profit		1,238,995	919,801
Share in net profits/losses of entities valued at equity method		540	1,677
Profit before tax		1,239,535	921,478
Income tax expense	14	(269,403)	(185,065)
Net profit		970,132	736,413
Weighted average number of ordinary shares (in pcs)	15	130,659,600	130,659,600
Net earnings per share (PLN)	15	7.42	5.64
Diluted net earnings per share (PLN)	15	7.42	5.64
Including:			
Net profit for the Bank's shareholders		970,132	736,413
Net profit due to non-controlling shareholders		-	-

Explanatory notes on pages 11-90 are an integral part of the annual consolidated financial statements.

Consolidated statement of comprehensive income

PLN'000 For the period	Note	2012	2011
Net profit		970,132	736,413
Other comprehensive income:			
Net valuation of financial assets available-for-sale	16	340,085	(37,446)
Foreign exchange differences		(2,386)	3,094
Other comprehensive income after tax		337,699	(34,352)
Total comprehensive income for the period		1,307,831	702,061
Including:			
Comprehensive income due to the Bank's shareholders		1,307,831	702,061
Comprehensive income due to non-controlling shareholders		-	-

Explanatory notes on pages 11-90 are an integral part of the annual consolidated financial statements.

Comprehensive statement of financial position

PLN'000	As at Note	31.12.2012	31.12.2011
ASSETS			
Cash and balances with Central Bank	17	1,357,308	979,616
Amounts due from banks	18	1,461,901	548,256
Financial assets held-for-trading	19	6,838,483	5,805,044
Debt securities available-for-sale	20	15,003,003	17,625,355
Equity investments valued at equity method	21	15,110	57,945
Other equity investments	22	19,921	24,912
Amounts due from customers	23	16,221,412	14,719,473
Tangible fixed assets	24	409,916	457,929
Intangible assets	25	1,379,931	1,292,067
Income tax assets	27	221,488	338,757
Current		2,702	3,436
Deferred		218,786	335,321
Other assets	28	567,736	403,182
Non-current assets held-for-sale	29	12,554	25,662
Total assets		43,508,763	42,278,198
LIABILITIES			
Amounts due to banks	30	2,356,429	6,011,378
Financial liabilities held-for-trading	19	5,846,404	4,840,447
Amounts due to customers	31	26,852,165	24,095,847
Liabilities due to debt securities issuance	32	-	25,336
Provisions	33	28,656	34,914
Liabilities due to income tax	27	55,343	72,921
Current		55,343	72,921
Other liabilities	34	978,351	752,874
Total liabilities		36,117,348	35,833,717
EQUITY			
Share capital	36	522,638	522,638
Supplementary capital	36	3,011,380	3,009,396
Revaluation reserve	36	257,791	(82,294)
Other reserves	36	2,637,066	2,264,082
Retained earnings		962,540	730,659
Total equity		7,391,415	6,444,481
Total liabilities and equity		43,508,763	42,278,198

Explanatory notes on pages 11-90 are an integral part of the annual consolidated financial statements.

Consolidated statement of changes in equity

PLN'000	Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings	Non-controlling shares	Total equity
As at 1 January 2012	522,638	3,009,396	(82,294)	2,264,082	730,659	-	6,444,481
Total comprehensive income	-	-	340,085	(2,386)	970,132	-	1,307,831
Dividends paid	-	-	-	-	(360,897)	-	(360,897)
Transfer to capital	-	1,984	-	375,370	(377,354)	-	-
As at 31 December 2012	522,638	3,011,380	257,791	2,637,066	962,540	-	7,391,415

Note: 16, 36

PLN'000	Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings	Non-controlling shares	Total equity
As at 1 January 2011	522,638	3,031,149	(44,848)	2,248,707	735,289	-	6,492,935
Total comprehensive income	-	-	(37,446)	3,094	736,413	-	702,061
Valuation of capital rewards program, including:	-	-	-	(3,142)	-	-	(3,142)
valuation change	-	-	-	(6,336)	-	-	(6,336)
deferred income tax	-	-	-	3,194	-	-	3,194
Dividends paid	-	-	-	-	(747,373)	-	(747,373)
Transfer to capital	-	(21,753)	-	15,423	6,330	-	-
As at 31 December 2011	522,638	3,009,396	(82,294)	2,264,082	730,659	-	6,444,481

Note: 16, 36, 46

Explanatory notes on pages 11-90 are an integral part of the annual consolidated financial statements.

Consolidated cash flow statement

For the period *PLN'000*	2012	2011
A. Cash flows from operating activities		
I. Net profit	970,132	736,413
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:	405,649	(2,081,316)
Current and deferred income tax recognized in income statement	269,403	185,065
Share in net profits/losses of entities valued at equity method	(540)	(1,677)
Depreciation expense	64,683	60,016
Net impairment due to financial assets value loss	58,100	75,873
Net provisions (recoveries)	45,020	936
Net interest income	(1,488,281)	(1,434,354)
Profit/loss on sale of investments	(75)	(917)
Interest received	1,924,893	1,493,002
Interest paid	(586,285)	(491,698)
Other adjustments	(20,013)	(175,336)
Cash flows from operating income before changes in operating assets and liabilities	266,905	(289,090)
Increase/decrease in operating assets (excl. cash and cash equivalents)	(356,735)	(6,454,074)
Increase/decrease in amounts due from banks	(790,557)	1,697,415
Increase/decrease in amounts due from customers	(1,653,177)	(2,398,160)
Increase/decrease in debt securities available-for-sale	3,200,122	(4,220,810)
Increase/decrease in equity investments	1,792	(531)
Increase/decrease in financial assets held-for-trading	(1,035,938)	(1,760,023)
Increase/decrease in assets available-for-sale	(3,667)	(18,308)
Increase/decrease in other assets	(75,310)	246,343
Increase/decrease in operating liabilities (excl. cash and cash equivalents)	495,479	4,661,848
Increase/decrease in amounts due to banks	(3,417,567)	2,596,960
Increase/decrease in amounts due to customers	2,755,018	231,967
Increase/decrease in amounts due to debt securities issuance	(25,325)	13,802
Increase/decrease in liabilities held-for-trading	1,005,957	2,036,010
Increase/decrease in other liabilities	177,396	(216,891)
Cash flows from operating activities	1,375,781	(1,344,903)
Income tax paid	(250,243)	(97,364)
III. Net cash flows from operating activities	1,125,538	(1,442,267)
B. Cash flows from investing activities		
Purchase of tangible fixed assets	(32,144)	(55,917)
Disposal of tangible fixed assets	3,593	8,674
Purchase of intangible assets	(86,851)	(22,406)
Disposal of fixed assets available-for-sale	15,760	-
Other investing inflows	43,372	70
Net cash flows from investing activities	(56,270)	(69,579)
C. Cash flows from financing activities		
Dividends paid	(360,897)	(747,373)
Inflows due to long-term loans from financial sector entities	593	141,647
Repayment of long-term loans from financial sector entities	(192,778)	(163,577)
Net cash flows from financing activities	(553,082)	(769,303)
D. Exchange rates differences resulting from cash and cash equivalents conversion	(16,046)	23,542
E. Net increase/decrease in cash and cash equivalents	500,140	(2,257,607)
F. Cash at the beginning of the period	1,044,182	3,301,789
G. Cash at the end of the period (see Note 43)	1,544,322	1,044,182

Explanatory notes on pages 11-90 are an integral part of the annual consolidated financial statements.

Explanatory notes to the consolidated financial statements

1. General information about the Bank and the Group

These annual consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A. show the data for the Bank as the parent and its subsidiaries (jointly "Group").

Bank Handlowy w Warszawie S.A. ("Bank" or "parent entity") has its registered office in Warsaw at Senatorska 16, 00-923 Warszawa. The Bank was founded on the strength of Notarial Deed of 13 April 1870 and is registered in the Register of Entrepreneurs in the National Court Register kept by the District Court for the Capital City of Warsaw, XII Commercial Department in Warsaw, under KRS number 0000001538.

The parent entity was given REGON number: 000013037 and tax identification number NIP: 526-030-02-91.

The parent entity and the entities of the Group were set up for an unspecified period of time.

The share capital of the Bank equals PLN 522,638,400 and is divided into 130,659,600 common bearer shares with a nominal value of PLN 4.00 per share. The shares are quoted on the Warsaw Stock Exchange.

The Group is a member of Citigroup Inc. Citibank Overseas Investments Corporation, a subsidiary of Citibank N.A., is the parent of the Bank.

The Bank is a universal commercial bank that offers a wide range of banking services for individuals and corporate clients on domestic and foreign markets. Additionally, the Group operates in the following segments of business through its subsidiaries:

- brokerage operations;
- leasing services;
- investment operations.

The Group consists of the Bank and the following subsidiaries:

Subsidiaries	Registered office	% of share capital/votes at the General Meeting	
		31.12.2012	31.12.2011
Entities fully consolidated			
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	100.00
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	100.00
Handlowy Investments S.A.	Luxembourg	100.00	100.00
PPH Spomasz Sp. z o.o. w likwidacji	Warsaw	100.00	100.00
Entities accounted for under the equity method			
Handlowy Inwestycje Sp. z o.o.	Warsaw	100.00	100.00
Handlowy Investments II S.a.r.l.	Luxembourg	100.00	100.00
Bank Rozwoju Cukrownictwa S.A. w likwidacji	Poznań	-	100.00

Financial data of subsidiaries that are not fully consolidated are immaterial to the consolidated financial statements. As at 31 December 2012, the financial data amounted to 0.04% of the Group's assets (as at 31 December 2011: 0.2%) and 0.1% of the Group's net profit (as at 31 December 2011: 0.1%), excluding elimination of transactions within the Group.

2. Significant accounting policies

Declaration of conformity

The annual consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by European Union and with other applicable regulations.

The annual consolidated financial statements have been approved by the Management Board of the Bank for publication on 14 March 2013. The financial statements will be finally approved by the General Meeting of the Bank.

In addition, the annual unconsolidated financial statements of the parent entity have been prepared in accordance with the accounting policies described in this note except for the principles of recognition and measurement of equity investments in subsidiaries and associated entities, which are described in Note 2 of the annual unconsolidated financial statements of the Bank.

The annual unconsolidated financial statements were approved by the Management Board of the Bank for publication on 14 March 2013. The financial statements will be finally approved by the General Meeting of the Bank.

Basis of preparation

These annual consolidated financial statements of the Group have been prepared for the period from 1 January 2012 to 31 December 2012. The comparable financial data are presented for the period from 1 January 2011 to 31 December 2011. The financial statements are presented in PLN, rounded to the nearest thousand.

The financial statements have been prepared on the fair-value-basis for financial assets and financial liabilities measured at fair value in the income statement, including derivatives and available-for-sale financial assets with the exception of assets and liabilities whose fair value cannot be estimated in a reliable way. Other assets and liabilities are presented at amortized cost (loans and receivables, financial liabilities other than measured at fair value in the income statement) or at cost decreased by impairment losses.

Standards or Interpretations awaiting European Union's approval that can have influence on financial statements of the Group:

- IFRS 9 "Financial Instruments" and implementation connected changes in IFRS 7 "Financial Instruments: Disclosures" - In November 2009 the International Accounting Standards Board issued IFRS 9 "Financial Instruments", which changes IAS 39 provisions in respect of classification and measurement of financial assets. The main change is the classification of financial assets into one of two categories: measured at fair value in the income statement and measured at amortized cost. The new standard will be applicable for periods beginning on or after 1 January 2015 with earlier application permitted.

The Group is estimating the impact of using the standards awaiting European Union's endorsement.

Additionally, standards which were endorsed by the EU but have not become effective:

- IFRS 13 "Fair Value Measurements" – the Standard was published in May 2011 and will be applicable for periods beginning on or after 1 January 2013 with earlier application permitted. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements;
- IAS 19 (2011) "Employee Benefits" - the standard will be applicable for periods beginning on or after 1 January 2013. The amendment requires actuarial gains and losses to be recognized immediately in other comprehensive income. It prohibits recognition of all changes in the defined benefit obligation in profit or loss, which currently is allowed under the requirements of IAS 19.

The Group does not expect that the above mentioned changes and the new standard will significantly impact the financial statements.

Other standards, amendments to the standards and IFRIC interpretations recently endorsed or awaiting endorsement are either not relevant to the Group's activity or would not have a material impact on the financial statements.

In order to prepare financial statements in accordance with IFRS, the management of the Bank has to make judgments, estimates and assumptions that have an impact on the amounts presented in the financial statements.

Estimates and associated assumptions are made on the basis of available historical data and many other factors that have been recognized as material in the presented period. These factors form the basis to make estimates of the balance-sheet value of assets and liabilities whose value cannot be estimated on the basis of other sources. Actual results could differ from those estimates.

Estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Basis of consolidation

Subordinated entities comprise subsidiaries and associates.

Subsidiaries – definition

Subsidiaries are all entities controlled by the Bank. Control exists when the Bank has power, directly or indirectly, to govern the financial and operating policies of an entity to obtain financial benefits from its activities. Control is usually connected with the possession of a majority of votes on governing bodies.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Any identifiable purchased assets and assumed liabilities, including contingent liabilities, acquired in a business combination, are measured initially at fair value at the acquisition date, irrespective of the extent of any minority interest. Any excess of the cost of acquisition over the fair value of the Group's interest in the acquired identifiable net assets is recognized as goodwill. If the cost of acquisition is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognized directly in the income statement.

Intra-group transactions and balances are eliminated on consolidation. Material unrealized gains and losses on transactions between Group companies are also eliminated.

Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency in all material aspects with the accounting policies adopted by the Group.

Subsidiaries which are not fully consolidated due to the immateriality of their financial statements in the consolidated financial statements of the Group, are presented in accordance with the equity method.

Associates – definition

Associates are those entities in which the Bank has indirectly or directly a significant influence but not control, usually accompanying a shareholding of between 20% and 50% of the voting rights on governing bodies. Investments in associates are initially recognized at cost. Investments in associates are accounted for by the equity method. Initially, investments in associates are recorded at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment write-down) determined at the acquisition date.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in other reserves is recognized in other reserves. When the Group's share of losses of an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Foreign currency

The statement of financial position and contingent liabilities received and granted items denominated in foreign currencies are converted to PLN equivalents using the average exchange rate of the currency determined by the Governor of the National Bank of Poland ("NBP") prevailing at the date of preparation of the statement of financial position.

Foreign currency transactions are converted at initial recognition to the functional currency (PLN) using the exchange rates prevailing at the date of transactions.

Foreign exchange profits and losses resulting from revaluation of the statement of financial position items denominated in foreign currencies and settlement of transactions in foreign currencies are included in net profit on foreign exchange.

The average exchange rate of the currency determined by the Governor of the National Bank of Poland ("NBP") prevailing at the date of preparation of the statement of financial position is applied for foreign exchanges.

The exchange rates of the major currencies applied in the preparation of these financial statements are:

PLN		31 December 2012	31 December 2011
1	USD	3.0996	3.4174
1	CHF	3.3868	3.6333
1	EUR	4.0882	4.4168

Financial assets and liabilities

Classification

The Group classifies its financial instruments into the following categories:

- financial assets or financial liabilities at fair value through profit or loss;
- loans and receivables;
- financial assets available-for-sale;
- other financial liabilities.

In the reporting period, the Group did not classify assets to investments held-to-maturity.

The Group classifies financial assets to particular categories on the date of their first recognition.

(a) Financial assets or financial liabilities at fair value through profit or loss

This category has two sub-categories: (i) financial assets and liabilities held-for-trading and (ii) financial assets designated at fair value through profit or loss at initial recognition.
Assets or liabilities are included in this category once they were purchased with the primary objective of selling or repurchasing to generate short-term profits, they are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of generating short-term profits, or when they are classified to this category at the management's discretion. All derivative instruments and selected debt securities are also categorized as held-for-trading.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on the active market. They arise when the Group provides funds to the debtor for any purpose except for the generation of short-term profits from trading in such loans or receivables. This category comprises, in the first instance, amounts due in respect of loans, purchased receivables and debt securities that are not quoted on the active market.

(c) Financial assets available-for-sale

Financial assets available-for-sale are those non-derivative financial assets that (i) are classified by the Group in this category at initial recognition or (ii) are not classified in any other asset category. Selected debt and equity securities are classified in this category.

(d) Other financial liabilities

Other financial liabilities are financial liabilities which are not classified as financial liabilities at fair value through profit or loss. Customers' deposits are primarily classified in this category.

Recognition and exclusions

Transactions of purchase or sale of financial assets at fair value through profit or loss and available-for-sale are recognized in the Group's statement of financial position and excluded from the records at transaction settlement date, i.e., the date on which the Group will receive or transfer the ownership right to assets. The rights and liabilities from a concluded transaction are measured at fair value from the transaction conclusion day to the transaction settlement day.
Loans and receivables are recognized at the time of payment of cash to the borrower.

Financial assets are excluded from the statement of financial position when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities are excluded from the statement of financial position when and only when the obligation expires, i.e., the obligation described in the agreement had been fulfilled, written off or expired.

Valuation

When financial assets or financial liabilities are recognized initially, they are measured at fair value plus, in the case of assets and liabilities not measured at fair value through profit or loss, significant transactional costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities.

After initial recognition the Group measures financial assets including derivatives that are assets at fair value without deducting transactional costs which it may incur in connection with the sale or disposal of assets except for loans and receivables which are measured at amortized cost using the effective interest rate method, and investments in equity instruments for which no quotations on the active market are available and whose fair value cannot be reasonably determined.

After initial recognition financial liabilities are measured at amortized cost using the effective interest rate method except for financial liabilities that are measured at fair value through profit or loss. Financial liabilities that are measured at fair value through profit or loss, including derivatives that are liabilities, are measured at fair value.

Profits or losses resulting from financial assets or financial liabilities measured at fair value through profit or loss are shown in revenues or expenses. Profits or losses resulting from financial assets classified as available-for-sale are recognized directly in equity through the statement of changes in equity except for impairment losses and foreign exchange profits and losses. When financial assets are excluded from the statement of financial position, accumulated profits or losses which were previously included in equity are recognized through profit or loss. However, interest accrued using the effective interest rate method is recognized through profit or loss. Dividends on available-for-sale equity investments are recognized in profit and loss when the entity's right to receive payment is established.

The fair value of shares in companies other than subsidiaries and associates listed on the active market is based on their current purchase price. If the market for specific financial assets is inactive (this also applies to unlisted securities), the Group determines fair value using appropriate valuation techniques.

Finance lease receivables

The Group enters into lease agreements under which the Group transfers to the lessee, in return for a fee or benefits, the right to use an asset for an agreed period.

Assets under leases where the Group transfers substantially all the risk and rewards incidental to ownership of the leased assets are not included in the consolidated statement of financial position. A receivable representing an amount equal to the net investment in the finance lease is recognized.

The recognition of interest income under finance lease is based on an effective interest rate method reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

Equity investments – shares in other entities

Shares in entities other than subordinated entities are classified as financial assets available-for-sale.

Derivatives

Derivative financial instruments are stated at fair value from the trade date. Fair value is determined by reference to their prices on the active market, including prices in recent market transactions, or using valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivative instruments with positive fair value are shown in the statement of financial position as assets held-for-trading and all derivative instruments with negative fair values, as liabilities held-for-trading.

Embedded derivatives are accounted for as separate derivatives if the risks and economic characteristics of the embedded derivative are not closely related to the risks and characteristics of the host contract and the host contract is not measured at fair value through profit or loss.

Hedge accounting

The Group does not apply hedge accounting.

Offsetting financial instruments

Financial assets and financial liabilities are offset and presented in the statement of financial position on a net basis when there is a legally enforceable right to offset and their settlement is intended to take place on a net basis or to realize the asset and settle the liability simultaneously. Currently, the Group does not offset and present its financial assets and liabilities on a net basis.

Cash pooling

The Group offers its clients cash management services which consolidate balances within the structure of related accounts ("cash pooling"). Such transactions net the positive and negative balances of participants' current accounts on a designated account of the entity which manages the settlements. The consolidation of balances is executed at the end of the working day and at the beginning of the next working day the transaction is reversed. Cash pooling transactions are presented on a net basis only if they meet the requirements of IAS 39 regarding derecognition of financial assets and liabilities from the statement of financial position. Accounts receivable presented on a gross basis are presented as Amounts due from customers and accounts payable as customers' deposits.

Repurchase and resale agreements, repo / reverse repo transactions

The Group enters into purchase and sale transactions under agreements to resell and repurchase the same financial assets, so called sell-buy-back and buy-sell-back respectively, as well as repo and reverse repo transactions in securities. Securities sold under repurchase agreements continue to be shown as the Group's assets and the Group discloses liabilities resulting from the repurchase clause. In the case of securities purchased under agreements to resell, securities are presented in the balance as loans and advances. Any differences between sale/purchase prices and repurchase/resale prices are recognized respectively as interest income and expense using the effective interest rate method.

Impairment of assets measured at amortized cost

On a commitment basis, the Group classifies assets measured at amortized cost into the portfolio of assets that are individually significant and the portfolio of assets that are not individually significant (portfolio basis). On the balance sheet date, the Group assesses if there is an objective evidence of impairment of one financial asset or a group of financial assets.

Objective evidence of impairment of a financial asset or group of financial assets includes the following events known to the Group:

- significant financial difficulty of the issuer or obligor;
- breach of contract, such as default or delinquency in interest or principal payments;
- granting the borrower a concession that the lender would not otherwise consider due to economic or legal reasons relating to the borrower's financial difficulty;
- high probability of the borrower's bankruptcy or other financial reorganization;
- the disappearance of an active market for this financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
    - adverse changes in the payments status of borrowers in the group; or
    - national or local economic conditions that are correlated with defaults on the assets in the group.

The losses expected as a result of future events regardless of their probability are not recognized.

Write-offs to a impairment incurred but not recognized credit losses

The Group creates impairment write-offs for incurred but not recognized credit losses ("IBNR"). The IBNR impairment write-offs reflects the level of a credit loss in the period from the last individual assessment of receivables assessed on the basis of historic losses on assets with similar risk characteristics as the risk characteristics of the asset group covered by the IBNR write-offs calculation process on the balance sheet date, but for which the Group is not able to identify the impairment risk exposure. The IBNR impairment write-offs covers all receivables for which no evidence of impairment was found or for which such evidence was found but the individual assessment of possible impairment did not confirm the need to write them down. The IBNR impairment write-offs is calculated using statistical models for asset groups that are combined in portfolios having similar credit risk characteristics. In the presentation of the financial statements of the Group, impairment write-offs for incurred but not recognized credit risk is deducted from credit exposures.

Write-offs for impairment of individually significant assets

The level of impairment write-offs for receivables that are deemed as individually significant and for which evidence of impairment was detected is calculated as the difference between the carrying value of an asset and the present value of the future cash flows from expected repayments by the borrower, from cash settlement of collateral or from sale of receivables. The future cash flows are discounted to the present value with the effective interest rate for a given instrument.

If the present value of the estimated cash flows increases following an event occurring after impairment was identified, the write-off that was previously made will be reversed as appropriate through profit or loss.

Write-offs for impairment of individually not significant assets

The level of impairment write-offs for receivables that are deemed as individually not significant, for which evidence of impairment was detected, is calculated on the basis of a portfolio assessment which is based on the history of losses incurred on assets with similar risk characteristics.

Impairment write-offs for amounts due from banks and customers, write-offs for permanent impairment of securities and other assets adjust the value of particular asset categories. Provisions for off conditional commitments are shown in the liabilities section "Provisions."

Non-recoverable loans (i.e., loans for which the Group does not expect any future cash flows and that may be treated as tax deductible costs under separate tax regulations or that were unconditionally written off under an agreement with the customer) are, on the basis of Group's decision, written down against impairment write-offs. If a written-down amount is subsequently recovered, the amount of income is presented in "Net impairment due to financial assets and provisions value losses for granted financial and guarantees liabilities"

Impairment of financial assets available-for-sale

For financial assets classified as available-for-sale, for which there is objective evidence of impairment, the cumulative loss recognized in equity which is the amount of the difference between the purchase price adjusted for subsequent payment and amortization and fair value, taking into account the previous impairment losses, should be transferred to the income statement. Impairment losses on equity investments classified as available-for-sale are not reversed through profit or loss. Loss on impairment of debt instruments classified as available-for-sale are reversed through profit or loss, if in subsequent periods the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the loss.

Impairment of financial assets measured at cost

The group of financial assets measured at cost in the financial statements of the Group consists of shares in entities other than subordinated entities classified as available-for-sale for which the fair value cannot be reasonably measured (for example the assets are not quoted) and equity investments in subordinated entities measured at purchase price in accordance with IAS 27 (Consolidated and Separate Financial Statements). In the case of objective evidence of impairment of equity investments, the amount of impairment is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the current market rate for similar financial assets. Losses related to impairment of shares in entities other than subordinated entities classified as available-for-sale where the fair value cannot be reliably measured are not reversed through profit or loss. When there are impairment losses of equity investments in subordinated entities measured at cost in accordance with IAS 27, IAS 36 "Impairment of Assets" is applied.

Impairment of assets other than financial assets

The carrying amounts of the Group's assets, excluding deferred tax assets, are reviewed at each balance sheet date to determine whether there is any evidence of impairment. If so, the asset's recoverable amount is estimated.

Revaluation write-offs for impairment are recognized if the book value of an asset or of its cash-generating unit exceeds the recoverable amount. Revaluation write-offs for impairment are measured through profit or loss.

In the case of a cash-generating unit, revaluation write-offs for impairment first reduce the goodwill allocated to such cash-generating units (group of units) and then proportionally reduce the carrying value of other assets in the unit (group of units).

Calculation of recoverable amount

The recoverable amount in case of assets other than financial assets is greater value from fair value less selling costs and use value. For use value calculation, the estimation of future cash flows are discounted to its present value using discount rate before taxation, which represent present market expectations regarding money value and specific risk regarding asset. For assets that are not generating independent cash flows, the recoverable amount is estimated for money generating center, the asset owner.

Reversal of revaluation write-offs

Revaluation write-offs for impairment, excluding goodwill, are reversed if the estimations for recoverable amount have changed.

The revaluation write-off for impairment for other assets can be reversed only to the level by which the book value of the asset do not exceed the depreciation decreased book value and would be estimated if the impairment write-off was not included.

Goodwill

In the financial statements of the Group, goodwill represents the difference between the cost of the acquisition and the fair value of the Group's interest in identifiable assets, liabilities and contingent liabilities acquired at the combination date. Goodwill is included in intangible assets. Goodwill is stated at cost minus any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortized, but is tested annually for impairment. In respect of associates, goodwill is included in the carrying amount of the investment in the associate.
Profits or losses on the disposal of a subsidiary or an associate include the carrying value of goodwill allocated to the entity sold.

Goodwill resulting from takeovers that occurred before 31 March 2004, i.e., the effective date of IFRS 3 ("Business Combinations"), was calculated in accordance with the previous accounting policies, as the difference between the cost of acquisition of an entity and the net asset value of the acquired entity at the acquisition date.

Property and equipment and intangible assets (excluding goodwill)

Property and equipment plant and intangible assets are stated at historical cost minus accumulated depreciation or amortization and impairment losses. The historical cost of an item of property and equipment includes any directly attributable costs of purchasing and bringing the asset into use.

Subsequent expenditure relating to an item of property and equipment is added to the carrying amount of the asset or recognized as a separate asset (where appropriate) only when it is probable that future economic benefits will flow to the Group and the cost of the asset can be measured reliably. Any other expenditure, e.g., repairs and maintenance is recognized as an expense when incurred.

Depreciation and amortization are calculated using the straight-line method over the expected useful life of an asset on the basis of rates that are approved in the depreciation and amortization plan for 2012.

Illustrative annual depreciation and amortization rates applied by the Group are presented in the table below:	
Buildings and structures	1.5%-4.5%
Motor vehicles	14.0%-20.0%
Computers	34.0%
Office equipment	20.0%
Other tangible fixed assets	7.0%-20.0%
Computer software and licenses (except the main operating system, which is depreciated at the rate of 20%)	34.0%
Other intangible fixed assets	20.0%
Leasehold improvements - compliant with lease agreement period	

At each balance sheet date, the residual values of non-current assets and their useful lives are reviewed and the depreciation and amortization schedule is adjusted where appropriate.

Assets with original cost less than PLN 3,500 are fully depreciated on a one-off basis when brought into use. The total cost of other tangible fixed assets depreciated on a one-off basis is not material to the financial statements.

Assets in the course of construction are stated at the total of costs directly attributable to construction, assembly or improvement in progress less impairment write-offs.

Property and equipment includes rights to perpetual usufruct of land.

Items of property and equipment are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of an item of property and equipment or intangible asset is written down to its recoverable amount if the carrying amount exceeds the recoverable amount. The recoverable amount of an item of property and equipment is the higher of its fair value minus costs of sale and value in use.

Investment properties

Properties classified by the Group as investment properties are presented in the financial statements as part of property and equipment. The Group applies the fair value model to their valuation. The fair value of investment properties is based on the valuation made by independent experts. The changes in value of investment properties are recognized in the income statement.

Employee benefits

Short-term employee benefits

The Group's short-term employee benefits include wages, bonuses, holiday pay and social security contributions.

Depending on their individual compensation category, employees may receive an award from the incentive fund, a bonus under the bonus scheme applicable in a given area or a discretionary annual bonus under the internal employee compensation regulations. Bonuses and awards are granted after completion of the period for which the employee's performance is evaluated.

Short-term employee benefits are recognized as an expense in the period when they were incurred.

Share-based payments

The employees are entitled to participate in equity compensation plans. In accordance with these plans, employees may receive awards under stock option programs based on stock options granted on Citigroup common stock (SOP) and also under stock award programs based on shares of Citigroup common stock in the form of deferred stock (CAP). These programs are deemed to be cash-settled programs. A provision is created for future payments and is shown in "Other liabilities" and in "General administrative expenses" in the income statement. The costs of the program are determined on the basis of a valuation model. According to IFRS, the fair value is measured at grant date and, subsequently, at each reporting date until the final settlement. Total expenses recorded in a given period are based on the fair value of the options or deferred shares at the reporting date times the part of the rights that were deemed acquired in that period.

Long-term employee benefits

Under its compensation scheme, the Group guarantees its employees retirement allowances which depend on the length of service with the Group directly prior to the acquisition of the right to such benefits. Employees who are hired under a contract of employment in accordance with the Company Collective Labor Agreement have the right to an additional award for a fixed length of service. A provision is created for future payments. The provision is shown in "Other liabilities" and in "General administrative expenses" in the income statement. Provisions for the future costs of retirement allowances and long-service awards are calculated on the basis of actuarial assumptions. The actuarial measurement is subject to periodic revaluations.

Defined contribution plans

The Group enables its employees to join a pension plan, which is described in detail in Note 45. The Group pays contributions for employees who participate in the plan into a separate fund and has no subsequent obligation to pay further contributions; hence, this is a defined contribution plan in accordance with IAS 19 ("Employee Benefits"). Contributions are recognized as an expense in the related period.

Provisions

A provision is recognized in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and if it is probable that the discharge of this obligation will result in an outflow of economic benefits, and the provision amount can be reliably estimated.

Restructuring provision

A restructuring provision is recorded when the following conditions have been met: (i) the Group has a detailed and formalized restructuring plan; (ii) the restructuring has already begun or has been publicly announced; (iii) the provision amount can be reliably estimated. The restructuring provision does not include future operating expenses.

Equity

Equity is stated at nominal value, with the exception of the revaluation reserve of available-for-sale financial assets that is stated after the effect of deferred income tax.

Dividends are recognized as liabilities on the date at which the General Meeting of the Group has approved the appropriation of earnings.

Calculating net income

Net income is calculated in compliance with the concept of prudence, accrual accounting and the matching concept. Net income reflects all income and relevant expenses set off against income within a particular reporting period, irrespective of the day on which these are received or paid.

Accruals and prepayments

The Group records accruals and prepayments of expenses primarily in relation to the Group's overhead expenses in reporting periods to which they relate.

Interest income and interest expenses

For all financial instruments, interest income and interest expense is recognized through the profit or loss account using the effective interest rate method.

The effective interest rate method calculates the amortized cost of a financial asset or a financial liability and allocates interest income or interest expense to appropriate periods. The effective interest rate is a rate that precisely discounts the estimated futures inflows or payments in the expected period until the maturity of the financial instrument to the carrying value of a financial asset or a financial liability. When calculating the effective interest rate, the Group takes into account all the terms and conditions of a financial instrument agreement (e.g., prepayments, call options, etc.), but excludes potential future losses in connection with non-recoverable loans. The calculation covers all the commissions payable to and receivable from the parties to the agreement, integral components of the effective interest rate, transactional costs and any other premiums and discounts. As a result, commissions that are an integral part of the effective interest rate less direct costs of obtaining the financial instrument are recognized as components of interest income.

In the case of financial assets or groups of similar financial assets for which impairment losses were recognized, interest income is measured using the interest rate that was used to discount the future

cash flows to estimate such impairment losses.

Penalty interests resulting from income tax exposure are included in "Other operational income" or "Other operational expenses" in the income statement.

Fee and commission income and expenses

Commission and fee income is generated when the Group renders financial services to its customers. The Group classifies its commission into the following categories:
- commissions that are an integral part of the effective interest rate;
- commissions for services rendered;
- commissions for executing significant transactions.

Commissions that are an integral part of the effective interest rate are recognized in the income statement adjusted by the calculation of the effective interest rate and are shown in interest income.

Commissions for services rendered and for executing significant transactions are recognized in the income statement, in proportion to the completion of the services rendered, or as a single amount after completing the rendering of a service, respectively and are shown in commission income.

In the case of loans and borrowings with undetermined installment payment dates, e.g., overdrafts or credit cards, commissions and fees are recognized using the straight-line method until the expiry date of a credit limit. Such commissions and fees are recognized as commission income.

The Group distributes insurance products. Insurance agency commissions are recognized as revenue on the sale or renewal of the related insurance policies because the Group is not required to render further significant services after the sale is completed.

Moreover, for some products, the Group is entitled to additional remuneration which represents the portion of the insurance company's profit from the product. Such remuneration is recognized on an accrual basis.

Other operating income and expenses

Other operating income and expenses comprise income and expenses that are not directly related to banking activities. They include proceeds from and costs of selling or disposing of tangible fixed assets and assets held for disposal, income from processing data for related companies, compensation, penalties and fines.

Income tax

Income tax consists of current tax and deferred tax. Income tax is recognized in the income statement, except for taxes related to amounts that are allocated in the other comprehensive income.

A deferred tax provision is calculated using the carrying value method by computing temporary differences between the carrying value of assets and liabilities in the statement of financial position and the tax base of assets and liabilities. In the statement of financial position the Group discloses deferred tax assets net of deferred tax provisions.

A deferred tax asset is recognized only to the extent that it is probable that a tax benefit will be realized in the future.

Segment reporting

A segment is a separate area of the Group's operations that either distributes goods or renders services in a specific sector environment (business segment) or distributes goods or renders services in a specific economic environment (geographical segment). A segment is exposed to certain risks and derives benefits that are specific only for that segment. The business segment has been adopted as the reporting segment in the Group since both risks and rates of return result from differences between products. The Group is managed at the level of two main business segments - Corporate Bank and Consumer Bank. Detailed information about the segments of the Group is presented in Note 3.
Assets and liabilities, revenues and financial results of particular segments are measured in accordance with the accounting policies and standards adopted by the Group.

Non-current assets held-for-sale

Assets or groups of assets together with liabilities directly associated with those assets are classified as non-current assets held-for-sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the assets or group of assets must be available for immediate sale in their present condition and the sale must be highly probable, which means that there is a commitment to a plan to sell the assets and an active program to locate a buyer and complete the plan must have been initiated. Furthermore, the assets or group of assets must be actively marketed for sale at a price that is reasonable in relation to its present fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the assets or group of assets.

Non-current assets held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell and are not subject to depreciation.
No depreciation or amortization applies to such assets.

Accounting estimates and judgments

Determination of the carrying values of selected assets and liabilities as well as revenue and expense requires estimating the effect of uncertain future events on these items at the balance sheet date. The estimates and assumptions are subject to continuous evaluation and are based on historical experience and other factors, including expectations of future events which seem justified in a given situation. The most crucial estimates applied in the preparation of the financial statements are presented below.

Fair value of derivatives

The fair value of financial instruments not quoted on active markets is determined using valuation techniques. If valuation techniques are used to determine the fair values, these methods are periodically assessed and verified. All the models are tested and approved before application. As far as possible, only observable data are used in the models, although in some areas, the entity's management must use estimates. Changes in the assumptions relating to the estimated factors may affect the fair value of financial instruments disclosed.

The Group applies the following methods of measurement of particular types of derivative instruments:

- FX forwards – discounted cash flows model;
- options – option market-based valuation model;
- interest rate transactions – discounted cash flows model;
- futures – current quotations.

Counterparty credit risk is the most significant input from a non-active market used by the Group to measure financial instruments. The Group makes an additional assessment of the risk related to derivative transactions entered into with the Group's clients, including foreign exchange options. The assessment was performed as of the balance sheet date and taking into account the mark-to-market of derivative financial instruments and risk assessment as of that date. The risk related to the derivative financial instruments is monitored by the Group on a regular basis. The key factors affecting counterparty risk assessment are: (i) changes in the fair value of derivative financial instruments resulting among others from changes in foreign exchange and interest rates, and (ii) changes in counterparty credit risk. Taking into account significant volatility of the economic environment, uncertainty exists as to the accuracy of the accounting estimates.

Impairment of loans

At each balance sheet date, the Group assesses whether there is an objective evidence of impairment of loan exposures. If so, the Group records a write-off equal to the difference between the carrying value and the estimated present value of the future cash flows from a given loan exposure. The Group applies statistical analysis of financial assets in respect of which evidence of impairment has not been identified individually, or in spite of finding the evidence of impairment, the individual assessment of the given asset has not indicated the necessity of recording an impairment write-off.

The Group uses estimates to determine whether there is objective evidence of impairment and calculate the present value of future cash flows. The methodology and assumptions used to determine the impairment level of loans are regularly reviewed and updated, as required.

Impairment of assets available-for-sale

In the case of objective evidence of impairment of financial assets classified as assets available-for-sale, cumulative losses that were previously recognized in equity are recognized in the income statement while financial assets are not excluded from the statement of financial position. The amount of cumulative losses that was removed from equity and recognized in the income statement represents the difference between the acquisition cost (net of any principal payments and amortization) and current fair value less impairment of this asset previously recognized in the income statement.

Impairment of financial assets measured at cost

In the case of objective evidence of impairment of equity instruments that are not measured at fair value because the fair value cannot be reliably measured or in the case of a derivative that must be settled by delivery of such an unlisted equity instrument, the amount of the impairment loss is measured by the difference between the carrying amount of financial assets and the present value of estimated future cash flows discounted at the present market rate for similar financial assets.

Impairment of goodwill

The Group carried out impairment tests of goodwill as at 31 December 2011 and 31 December 2012. The estimate of goodwill was performed on the basis of the provisions of IAS 36 concerning determination of the value in use of cash-generating units. The tests did not show any impairment.

Employee benefits

Provisions for future payments in respect of employee benefits guaranteed by the Company Collective Labor Agreement such as jubilee awards and retirement allowances are subject to periodic estimation by an independent actuary.

At each balance sheet date, the Group estimates the level of the provision related to bonuses granted to employees in the form of Citigroup stock option programs and stock award programs. The amount of the provision is determined on the basis of the methodology described in IFRS 2 using an option pricing model. Determination of the provision amount requires application of estimates including the expected level of employee turnover, the expected level of dividends paid by Citigroup and expected option exercise dates.

3. Segment reporting

A segment is a separable component of the Group engaged in business activities, generating income and expenses (including intergroup transactions), whose operating results are regularly reviewed by the Management Board as the chief operating decision-maker of the Group in order to allocate resources and assess its performance.

The Group is managed at the level of two main business segments – Corporate Bank and Consumer Bank. The valuation of a segment's assets and liabilities as well as calculation of financial results comply with the Group's accounting policies applied in the preparation of the financial statements, including intergroup transactions between segments.

The allocation of the Group's assets, liabilities, revenues and expenses to segments was made on the basis of internal information prepared for management purposes. Transfer of funds between the Group's segments is based on market prices. Transfer prices are calculated using the same rules for both segments and any difference results only from maturity and currency structure of assets and liabilities.

Corporate Bank

Within the Corporate Bank segment, the Group offers products and renders services to business entities, local government units and the public sector. Apart from traditional banking services including credit and deposit activities, the segment provides services in the area of cash management, trade financing, leases, brokerage, custody services in respect of securities and offers treasury products on financial and commodity markets. In addition, the segment offers a wide range of investment banking services on the local and international capital markets, including advisory services, obtaining and underwriting financing via public and non-public issues of financial instruments. The activities of the segment also include proprietary transactions in the equity, debt and derivative instruments markets.

Consumer Bank

Within the Consumer Bank segment, the Group provides products and financial services to individuals as well as to micro-enterprises and individual entrepreneurs within the framework of CitiBusiness offer. Apart from keeping bank accounts and providing an extensive credit and deposit offer, the Group offers cash loans, mortgage loans, credit cards, provides asset management services, and acts as agent in the sale of investment and insurance products.

The Group conducts its operations solely on the territory of Poland.

Income statement of the Group by business segment

For the period	2012			2011		
PLN'000	Corporate Bank	Consumer Bank	Total	Corporate Bank	Consumer Bank	Total
Net interest income	715,122	773,159	1,488,281	670,096	764,258	1,434,354
Internal net interest income, including:	(8,956)	8,956	-	8,556	(8,556)	-
internal income	-	8,956	8,956	8,556	-	8,556
internal costs	(8,956)	-	(8,956)	-	(8,556)	(8,556)
Net fee and commission income	250,901	347,957	598,858	307,411	335,759	643,170
Dividend income	2,779	3,714	6,493	1,314	4,374	5,688
Net income on trading financial instruments and revaluation	335,731	36,262	371,993	271,932	30,985	302,917
Net gain on debt investment securities	279,451	-	279,451	30,142	-	30,142
Other operating income	8,605	(27,035)	(18,430)	35,121	(24,833)	10,288

For the period	2012			2011		
PLN'000	Corporate Bank	Consumer Bank	Total	Corporate Bank	Consumer Bank	Total
General administrative expenses	(628,024)	(736,927)	(1,364,951)	(595,802)	(776,204)	(1,372,006)
Depreciation expense	(30,106)	(34,577)	(64,683)	(27,140)	(32,876)	(60,016)
Profit/loss on sale of non-financial assets	54	30	84	105	1,968	2,073
Net impairment due to financial assets and provisions value losses for granted financial and guarantees liabilities	(28,111)	(29,990)	(58,101)	20,110	(96,919)	(76,809)
Operating profit	906,402	332,593	1,238,995	713,289	206,512	919,801
Share in net profits/losses of entities valued at equity method	540	-	540	1,677	-	1,677
Profit before tax	906,942	332,593	1,239,535	714,966	206,512	921,478
Income tax expenses			(269,403)			(185,065)
Net profit			970,132			736,413

As at	31.12.2012			31.12.2011		
PLN'000	Corporate Bank	Consumer Bank	Total	Corporate Bank	Consumer Bank	Total
Total assets, including:	37,764,514	5,744,249	43,508,763	36,666,378	5,611,820	42,278,198
Assets valued at equity method	15,110	-	15,110	57,945	-	57,945
Non-current assets held-for-sale	-	12,554	12,554	15,761	9,901	25,662
Total liabilities and equity, including:	34,667,691	8,841,072	43,508,763	34,556,302	7,721,896	42,278,198
Liabilities	29,193,148	6,924,200	36,117,348	29,911,099	5,922,618	35,833,717

4. Net interest income

PLN'000	2012	2011
Interest and similar income due to:		
Balances with Central Bank	38,240	34,757
Amounts due from banks	54,905	39,088
Amounts from customers, including:	1,260,149	1,180,019
financial sector entities	38,503	29,271
non-financial sector entities	1,221,646	1,150,748
Debt securities available-for-sale	621,697	625,633
Debt securities held-for-trading	101,268	47,893
	2,076,259	1,927,390
Interest expense and similar charges due to:		
Balances with Central Bank	(1)	(1)
Amounts due to banks	(83,657)	(47,192)
Amounts due to financial sector entities	(125,156)	(80,488)
Amounts due to non-financial sector entities	(372,293)	(353,348)
Loans and advances received	(6,119)	(10,843)
Debt securities issuance	(752)	(1,164)
	(587,978)	(493,036)
	1,488,281	1,434,354

Net interest income for 2012 includes interest received on impaired loans of PLN 13,144 thousand (for 2011: PLN 16,821 thousand).

5. Net fee and commission income

PLN'000	2012	2011
Fee and commission income:		
Insurance and investment products (agency)	124,668	128,430
Payment and credit cards	254,393	236,909
Payment services	108,116	114,598
Custody services	87,744	87,585
Charges from cash loans	7,066	9,778
Brokerage operations	47,562	87,926
Cash management services on customers' accounts	28,478	29,072
Guarantees granted	14,397	15,483
Financial liabilities granted	5,960	7,100
Other	28,856	35,852
	707,240	752,733
Fee and commission expense:		
Payment and credit cards	(55,704)	(52,012)
Brokerage operations	(19,921)	(28,213)
Fees paid to the National Depository for Securities (KDPW)	(16,633)	(16,889)
Broker's fees	(4,049)	(4,451)
Other	(12,075)	(7,998)
	(108,382)	(109,563)
	598,858	643,170

The net fee and commission income for 2012 comprises commission income (other than income covered by the calculation of the effective interest rate process) related to financial assets and liabilities not measured at fair value through profit or loss in the amount of PLN 262,109 thousand (for 2011: PLN 245,128 thousand) and commission expenses in the amount of PLN 55,704 thousand (for 2011: PLN 52,012 thousand).

6. Dividend income

PLN'000	2012	2011
Securities available-for-sale	5,153	5,574
Securities held-for-trading	1,340	114
	6,493	5,688

7. Net income on trading financial instruments and revaluation

PLN'000	2012	2011
Net income on financial instruments measured at fair value through profit of loss from:		
Debt instruments	241,066	20,255
Equity instruments	2,459	(4,322)
Derivative instruments, including:	(96,038)	(25,224)
Interest rate	(98,118)	(31,764)
Equity	812	451

PLN'000	2012	2011
Commodity	1,268	6,089
	147,487	(9,291)
Net profit on foreign exchange		
Net profit on foreign currency derivatives	(181,742)	276,363
Revaluation	406,248	35,845
	224,506	312,208
	371,993	302,917

A movement in write-offs resulting from counterparty credit risk on derivative transactions in the amount of PLN 10,698 thousand (in 2011, net write-offs amounted to PLN 1,665 thousand) is included in net income on trading financial instruments and revaluation.

Net income from debt instruments includes the net results on trading in government securities, corporate debt securities and money market instruments held-for-trading.

Income from derivative instruments includes net income due to transactions in interest rate swaps, options, futures and other derivatives.

Net profit on foreign exchange includes profit and losses on revaluation of assets and liabilities denominated in foreign currency and foreign currency derivatives such as forward, swap and option contracts and also contains a margin realized on spot and forward currency transactions.

8. Net gain on debt investment securities

PLN'000	2012	2011
Net gain from debt securities available-for-sale	279,451	30,142

9. Net other operating income

PLN'000	2012	2011
Other operating income		
Data processing for related parties	8,120	15,361
Received interest on excess income tax paid from previous years	-	17,030
Rental of office space	6,499	3,749
Investment property	-	118
Other	20,215	16,996
	34,834	53,254
Other operating expenses		
Amicable procedure and debt collection expenses	(19,043)	(16,265)
Investment property	-	(2,134)
Fixed assets held-for-sale valuation	(1,014)	(2,548)
Fixed assets held-for-sale maintenance cost	(1,681)	-
Other	(31,526)	(22,019)
	(53,264)	(42,966)
	(18,430)	10,288

10. General administrative expenses

PLN'000	2012	2011
Staff expenses		
Remuneration costs, including:	(591,089)	(571,191)
Provisions for retirement allowances	(27,123)	(24,934)
Bonuses and rewards, including:	(128,962)	(109,775)
Payments related to own equity instruments	(7,880)	8,875
Rewards for long time employment **	(1,170)	(827)
	(720,051)	(680,966)
Administrative expenses		
Telecommunication fees and hardware purchases	(170,003)	(167,567)
Advisory, audit, consulting and other external services costs	(81,470)	(91,494)
Building maintenance and rent costs	(111,841)	(106,081)
Advertising and marketing costs	(49,375)	(56,416)
Cash management service, KIR service and other transactional costs	(46,853)	(55,352)
Costs of external services related to the distribution of banking products	(54,037)	(68,264)
Postal services, office supplies and printmaking costs	(25,118)	(31,379)
Training and education costs	(5,384)	(8,144)
Banking supervisory expenses	(3,179)	(4,171)
Other expenses	(97,640)	(102,172)
	(644,900)	(691,040)
	(1,364,951)	(1,372,006)

Staff expenses in 2012 include PLN 22,817 thousand of remuneration and bonuses paid and payable to current and former members of the Management Board (in 2011: PLN 20,189 thousands).
Remuneration costs of the period from 1 January 2012 to 31 December 2012 include the cost of workforce restructuring at PLN 32,400 thousand in 2012. Building maintenance and rent costs of the period from 1 January 2012 to 31 December 2012 include the cost of restructuring of the consumer bank branch network at PLN 9,808 thousand in 2012. The total cost of restructuring provisions was PLN 42,208 thousand. The amount used by 31 December 2012 was PLN 32,400 thousand for workforce restructuring and PLN 6,067 thousand for restructuring of the consumer bank branch network (see Note 33).

11. Depreciation expense

PLN'000	2012	2011
Depreciation of property and equipment	(46,057)	(44,586)
Depreciation of intangible assets	(18,626)	(15,430)
	(64,683)	(60,016)

12. Sale of fixed assets

PLN'000	2012	2011
Profits on:		
Sale of property and equipment and intangible fixed assets	102	2,622
	102	2,622
Losses on:		
Sale of property and equipment	(18)	(549)
	(18)	(549)
	84	2,073

13. Net impairment due to financial assets and provisions value losses for granted financial and guarantees liabilities

PLN'000	2012	2011
Net impairment write-offs of financial assets		
Impairment write-offs:		
Equity investments	(5,092)	-
Amounts due from banks	(865)	(1,276)
Amounts due from customers	(295,660)	(362,878)
Amounts due from matured transactions in derivative instruments	(1,518)	(2,841)
Other	(13,144)	(16,821)
	(316,279)	(383,816)
Reversals of impairment write-offs:		
Amounts due from banks	797	1,719
Amounts due from customers	242,073	303,264
Amounts due from matured transactions in derivative instruments	759	2,960
Recovery on sale of debt	14,551	-
	258,180	307,943
	(58,099)	(75,873)
Net charges to / releases of provisions for granted financial and guarantee commitments		
Establish of provisions for granted financial and guarantee commitments	(22,768)	(39,766)
Release of provisions for granted financial and guarantee commitments	22,766	38,830
	(2)	(936)
	(58,101)	(76,809)

14. Income tax expense

Recognized in the income statement

PLN'000	2012	2011
Current tax		
Current year	(227,705)	(245,269)
Adjustments for prior years	(1,576)	(232)
	(229,281)	(245,501)
Deferred tax		
Origination and reversal of temporary differences	(20,220)	60,788
Written-off assets due to deferred tax	(19,898)	-
Movement in receivables arising from tax deductions	(4)	(352)
	(40,122)	60,436
Total income tax expense in income statement	(269,403)	(185,065)

Reconciliation of effective tax rate

PLN'000	2012	2011
Profit before tax	1,239,535	921,478
Income tax at the domestic corporate tax rate of 19%	(235,512)	(175,081)
Non-deductible expenses, including:	(12,883)	(14,357)

PLN'000	2012	2011
loss on sale of receivables	-	(698)
impairment write-offs	(3,891)	(4,895)
Deductible income not recognized in the income statement	(1,022)	(231)
Deductible expenses not recognized in the income statement	(7)	4,370
Non taxable income	567	1,967
Written-off assets due to deferred tax	(19,898)	-
Other	(648)	(1,733)
Total tax expenses	(269,403)	(185,065)
Effective tax rate	21.73%	20.08%

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 31 December 2012 is related to debt and equity instruments available-for-sale and amounted to PLN (60,470) thousand (31 December 2011: PLN 19,303 thousand).

15. Earnings per share

As at 31 December 2012, earnings per share amounted to PLN 7.42 (31 December 2011: PLN 5.64).

The calculation of earnings per share at 31 December 2012 was based on profit attributable to ordinary shareholders of PLN 970,132 thousand (31 December 2011: PLN 736,413 thousand) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2012 of 130,659,600 (31 December 2011: 130,659,600).

The Bank does not have any ordinary shares that may have a dilution impact.

16. Changes in other comprehensive income

Deferred income tax and reclassification included in other comprehensive income concern the valuation of financial assets available-for-sale (AFS) recognized in the revaluation reserve.

PLN'000	Gross amount	Deferred income tax	Net amount
As at 1 January 2012	(101,597)	19,303	(82,294)
AFS valuation change	699,309	(132,869)	566,440
Valuation of sold AFS moved to income statement	(279,451)	53,096	(226,355)
As at 31 December 2012	318,261	(60,470)	257,791

PLN'000	Gross amount	Deferred income tax	Net amount
As at 1 January 2011	(47,938)	3,090	(44,848)
AFS valuation change	(23,517)	10,486	(13,031)
Valuation of sold AFS moved to income statement	(30,142)	5,727	(24,415)
As at 31 December 2011	(101,597)	19,303	(82,294)

17. Cash and balances with the Central Bank

PLN'000	31.12.2012	31.12.2011
Cash in hand	474,301	503,980
Current balances with Central Bank	883,007	122,080
Deposits	-	353,556
	1,357,308	979,616

On the current account in the National Bank of Poland (NBP), the Group maintains an obligatory reserve with a declared balance as at 31 December 2012 of PLN 824,715 thousand (31 December 2011: PLN 927,619 thousand). The Group may use the obligatory reserve provided that the sum of the average monthly balance on the current account in NBP is not lower than the declared balance.

18. Amount due from banks

Amounts due from banks (by category)

PLN'000	31.12.2012	31.12.2011
Current accounts	177,111	68,056
Deposits	85,964	108,108
Loans and advances	347,086	19,599
Liabilities due to purchased securities with repurchase agreement	765,279	313,635
Other receivables	86,587	38,921
Total gross amount	1,462,027	548,319
Impairment write-offs	(126)	(63)
Total net amount	1,461,901	548,256

The movement in amounts due from banks is as follows:

PLN'000	2012	2011
As at 1 January	(63)	(493)
Increases (due to):		
Write-offs creation	(865)	(1,276)
Other	-	(13)
Decreases (due to):		
Write-offs release	797	1,719
Other	5	-
As at 31 December	(126)	(63)

As at 31 December 2012 and 31 December 2011, recognized impairment on amounts due from banks concerned incurred but not reported (IBNR) write-offs.

19. Financial assets and liabilities held-for-trading

Financial assets held-for-trading

PLN'000	31.12.2012	31.12.2011
Debt securities held-for-trading		
Bonds and notes issued by:		
Banks*	246,409	115,718
Government	2,285,646	1,826,069
	2,532,055	1,941,787

PLN'000	31.12.2012	31.12.2011
Including:		
Listed	2,508,343	1,234,008
Unlisted	23,712	707,779
Equity instruments held-for-trading	-	6,851
Including:		
Listed	-	6,851
Derivative financial instruments	4,306,428	3,856,406
	6,838,483	5,805,044

*As at 31 December 2012, some of the securities (bonds) issued by banks in the amount of PLN 221,486 thousand are covered by Government guarantees (31 December 2011: PLN 115,718 thousand)

Financial liabilities held-for-trading

PLN'000	31.12.2012	31.12.2011
Short positions in financial assets	1,027,729	679,529
Derivative financial instruments	4,818,675	4,160,918
	5,846,404	4,840,447

As at 31 December 2012 and 31 December 2011, the Group did not hold any financial assets and liabilities designated for measurement at fair value through profit or loss at initial recognition.

As at 31 December 2012, financial assets from derivatives transactions included provisions from valuation adjustments due to increased counterparty credit risk for outstanding transactions of PLN 20,883 thousand (31 December 2011: PLN 26,964 thousand).

Derivative financial instruments as at 31 December 2012

PLN'000	Nominal amount with remaining life of				Total	Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years		Assets	Liabilities
Interest rate instruments	56,899,328	41,752,639	85,359,810	15,840,643	199,852,420	3,861,326	4,017,773
FRA	35,182,000	11,600,000	700,000	-	47,482,000	35,035	43,314
Interest rate swaps (IRS)	19,433,985	23,861,328	71,728,964	13,046,709	128,070,986	3,501,690	3,663,075
Currency-interest rate swaps (CIRS)	2,048,100	3,867,235	11,692,472	2,793,934	20,401,741	317,194	302,866
Interest rate options	-	1,500,000	1,238,374	-	2,738,374	7,368	7,368
Futures*	235,243	924,076	-	-	1,159,319	39	1,150
Currency instruments	16,511,520	15,676,671	7,413,650	12,770	39,614,611	444,548	799,505
FX forward	1,892,427	1,009,204	784,787	12,770	3,699,188	42,197	83,475
FX swap	13,343,734	12,579,489	3,857,620	-	29,780,843	309,610	623,139
Foreign exchange options	1,275,359	2,087,978	2,771,243	-	6,134,580	92,741	92,891
Securities transactions	284,209	-	-	-	284,209	158	1,001
Securities purchased / sold pending delivery	284,209	-	-	-	284,209	158	1,001
Commodity transactions	1,960,413	-	-	-	1,960,413	396	396
Options	1,960,413	-	-	-	1,960,413	396	396
Total derivative instruments	75,655,470	57,429,310	92,773,460	15,853,413	241,711,653	4,306,428	4,818,675

**Exchange-traded products*

Derivative financial instruments as at 31 December 2011

PLN'000	Nominal amount with remaining life of				Total	Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years		Assets	Liabilities
Interest rate instruments	49,092,194	56,608,889	87,644,135	16,758,891	210,104,109	3,055,251	3,490,639
FRA	27,850,000	18,100,000	3,000,000	-	48,950,000	18,645	19,538
Interest rate swaps (IRS)	17,097,427	33,589,830	73,622,494	13,583,367	137,893,118	2,671,577	3,113,698
Currency-interest rate swaps (CIRS)	466,912	1,018,874	9,394,045	3,175,524	14,055,355	360,263	343,956
Interest rate options	-	-	1,627,596	-	1,627,596	129	129
Futures*	3,677,855	3,900,185	-	-	7,578,040	4,637	13,318
Currency instruments	24,040,990	9,931,336	7,114,396	24,305	41,111,027	784,474	654,042
FX forward	4,973,582	891,364	961,862	24,305	6,851,113	106,704	38,162
FX swap	18,178,367	8,395,665	776,417	-	27,350,449	460,741	399,536
Foreign exchange options	889,041	644,307	5,376,117	-	6,909,465	217,029	216,344
Securities transactions	307,377	17,156	-	-	324,533	3,566	3,122
Stock options	18,616	17,156	-	-	35,772	3,052	3,052
Futures	5,900	-	-	-	5,900	-	-
Securities purchased / sold pending delivery	282,861	-	-	-	282,861	514	70
Commodity transactions	1,500,744	1,164,562	-	-	2,665,306	13,115	13,115
Swaps	35,452	31,124	-	-	66,576	8,128	8,128
Options	1,465,292	1,133,438	-	-	2,598,730	4,987	4,987
Total derivative instruments	74,941,305	67,721,943	94,758,531	16,783,196	254,204,975	3,856,406	4,160,918

Exchange-traded products

20. Debt securities available-for-sale

PLN'000	31.12.2012	31.12.2011
Bonds and notes issued by:		
Central bank	7,997,178	8,492,235
Other banks*	2,459,016	2,287,740
Non-financial sector entities	-	423,185
Government	4,546,809	6,422,195
	15,003,003	17,625,355
Including:		
Listed instruments	6,315,963	4,943,141
Unlisted instruments	8,687,040	12,682,214

The movement in debt securities available-for-sale is as follows:

PLN'000	2012	2011
As at 1 January	17,625,355	13,029,254
Increases (due to):		
Purchases	274,302,175	339,111,992
Revaluation	419,756	-
Foreign exchange differences	-	271,606
Depreciation of discount, premium and interest	275,282	396,036
Decreases (due to):		
Sale	(277,321,076)	(335,108,047)
Revaluation	-	(54,621)
Foreign exchange differences	(180,939)	-
Amortization of discount, premium and interest	(117,550)	(20,685)
As at 31 December	15,003,003	17,625,355

*As at 31 December 2012, some of the securities (bonds) issued by other banks in the amount of PLN 1,425,266 thousand are covered by Government guarantees (31 December 2011: PLN 1,004,847 thousand)

21. Equity investments valued at equity method

PLN'000	31.12.2012	31.12.2011
Stocks and shares in subsidiaries	15,110	57,945
Including:		
Unlisted instruments	15,110	57,945

The movement in equity investments valued at equity method is as follows:

PLN'000	2012	2011
As at 1 January	57,945	56,332
Increases (due to):		
Revaluation	-	1,613
Decreases (due to):		
Revaluation	(663)	-
Liquidation*	(42,172)	-
As at 31 December	15,110	57,945

*On 11 October 2012, Bank Rozwoju Cukrownictwa S.A. w likwidacji shares, representing 100% of the share in the capital and 100% of votes at the General Meeting of Shareholders, were removed from the Group's consolidated statement of financial position. The exclusion was a result of the company's deletion from National Court Register following its completed bankruptcy proceedings. Proceeds from the liquidation in the amount of PLN 42.4 million, which was equal to the valuation of the shares in the Group's consolidated statement of financial position, were transferred in June 2012.

22. Other equity investments

PLN'000	31.12.2012	31.12.2011
Stocks and shares in other entities*	46,588	46,487
Impairment	(26,667)	(21,575)
	19,921	24,912
Including:		
Listed instruments	1,088	987
Unlisted instruments	18,833	23,925

The movement in other equity investments is as follows:

PLN'000	2012	2011
As at 1 January	24,912	23,949
Increases (due to):		
Revaluation	-	963
Decreases (due to):		
Revaluation	(4,991)	-
As at 31 December	19,921	24,912

*In September 2011, PIA Piasecki S.A. w upadłości shares, representing 19.1% of the share in the capital and 19.1% of votes at the General Meeting of Shareholders, were written offs. The write-offs was a result of the company's deletion from National Court Register following its completed bankruptcy proceedings. The balance value of the shares excluded from the Group's consolidated statement of financial position was equal to zero (the purchase cost was PLN 20,940 thousand with the same amount of impairment).

Financial information on subordinated entities, 31.12.2012

Subordinated entities consolidated under the full method PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Assets	Liabilities	Equity	Revenues	Profit/loss
HANDLOWY–LEASING Sp. z o.o	Warsaw	Leasing	Subsidiary undertaking	97.47	582,395	446,951	135,444	65,171	(14,920)
HANDLOWY INVESTMENTS S.A. 1/	Luxembourg	Investment activity	Subsidiary undertaking	100.00	30,228	607	29,621	2,985	2,536
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	503,900	410,681	93,218	85,167	6,168
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary undertaking	100.00	Entity under liquidation				

Other entities PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/loss
HANDLOWY INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	80.97	6,948	7,108	251	6,857	1,189	557
HANDLOWY – INWESTYCJE Sp. z o.o. 2/	Warsaw	Investment activity	Subsidiary undertaking	100.00	8,162	11,320	42	11,278	536	443

The above presented financial data of the entities available at the time of preparation of the financial statements originate from the non-audited financial statements of the entities.

The explanation of indirect relationships:

1/ Indirect relationship via Handlowy Investments S.A.

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/loss
HANDLOWY INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	19.03	1,307	7,108	251	6,857	1,189	557

2/ Indirect relationship via Handlowy Inwestycje Sp. z o.o.

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/loss
HANDLOWY–LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53	3,125	582,395	446,951	135,444	65,171	(14,920)

The above presented financial data of the entities available at the time of preparation of the financial statements originate from the non-audited financial statements of the entities.

Financial information on subordinated entities, 31.12.2011

Subordinated entities consolidated under the full method

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Assets	Liabilities	Equity	Revenues	Profit/loss
HANDLOWY–LEASING Sp. z o.o	Warsaw	Leasing	Subsidiary undertaking	97.47	767,909	606,658	161,251	76,248	10,887
HANDLOWY INVESTMENTS S.A. 1/	Luxembourg	Investment activity	Subsidiary undertaking	100.00	30,015	544	29,471	731	(3,070)
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	405,320	295,479	109,841	110,885	24,796
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary undertaking	100.00	Entity under liquidation				

Other entities

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/loss
BANK ROZWOJU CUKROWNICTWA S.A. w likwidacji*	Poznań	Banking	Subsidiary undertaking	100.00	42,172	Entity under liquidation				
HANDLOWY INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	80.97	7,016	7,174	113	7,061	502	(809)
HANDLOWY – INWESTYCJE Sp. z o.o. 2/	Warsaw	Investment activity	Subsidiary undertaking	100.00	8,757	12,152	300	11,852	1,488	1,017

The above presented financial data of the entities available at the time of preparation of the financial statements originate from the audited financial statements of the entities except for Handlowy-Investments S.A., Handlowy-Investments II S.a.r.l., PPH Spomasz Sp. z o.o. w likwidacji.

The explanation of indirect relationships:

1/ Indirect relationship via Handlowy Investments S.A

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/loss
HANDLOWY INVESTMENTS II S.a.r.l.	Luxembourg	Investment activity	Subsidiary undertaking	19.03	36	7,174	113	7,061	502	(809)

2/ Indirect relationship via Handlowy Inwestycje Sp. z o.o.

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/loss
HANDLOWY–LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53	3,125	767,909	606,658	161,251	76,248	10,887

The above presented financial data of the entities available at the time of preparation of the financial statements originate from the audited financial statements of the entities except for Handlowy-Investments S.A., Handlowy-Investments II S.a.r.l., PPH Spomasz Sp. z o.o. w likwidacji.

23. Amounts due from customers

Amounts due from customers (by category)

PLN'000	31.12.2012	31.12.2011
Amounts due from financial sector entities		
Loans and advances	498,049	481,764
Purchased receivables	2	18,069
Receivables subject to securities sale and repurchase agreements	336,588	397,030
Other receivables	117,746	131,538
Total gross amount	952,385	1,028,401
Impairment write-offs	(19,113)	(19,086)
Total net amount	933,272	1,009,315
Amounts due from non-financial sector entities		
Loans and advances	13,562,249	12,523,646
Unlisted debt securities	1,013,486	693,217
Purchased receivables	1,207,908	949,453
Effected guarantees	2,342	3,660
Other receivables*	613,969	756,885
Total gross amount	16,399,954	14,926,861
Impairment write-offs	(1,111,814)	(1,216,703)
Total net amount	15,288,140	13,710,158
Total net amounts due from customers	16,221,412	14,719,473

*"Other receivables" includes leasing receivables in the amount of PLN 606,551 thousand (31 December 2011: PLN 740,823 thousand).

The movement in amounts due from customers is as follows:

PLN'000	2012	2011
As at 1 January	(1,235,789)	(1,358,921)
Increases (due to):		
Creation of write-offs	(295,660)	(362,878)
Creation of write-offs in the period for receivables in respect of matured derivative instrument transactions	(759)	-
Other	(2,614)	(8,748)
Decreases (due to):		
Release of write-offs in the period for receivables in respect of matured derivative instrument transactions	-	119
Restating receivables into write-offs	157,104	160,792
Write-offs release	242,073	303,264
Sale of receivables	-	30,583
Other	4,718	-
As at 31 December	(1,130,927)	(1,235,789)

The closing balance of impairment recognized on loans and advances to customers consisted of:

PLN'000	31.12.2012	31.12.2011
Portfolio impairment loss	611,488	718,759
Individual impairment loss	400,831	370,035
Incurred but not reported losses (IBNR)	118,608	146,995

Finance lease receivables

The Group operates on the leasing market through its subsidiary Handlowy-Leasing sp. z o.o. The Group provides finance leases of vehicles, machines and equipment.

Included in "Amounts due from customers" are the following amounts relating to finance lease receivables from non-financial sector entities:

PLN'000	31.12.2012	31.12.2011
Gross finance lease receivables	642,501	789,673
Unrealized financial income	(35,950)	(48,850)
Net finance lease receivables	606,551	740,823

Gross finance lease receivables as follows (by time to maturity):

PLN'000	31.12.2012	31.12.2011
Less than 1 year	274,720	522,424
Between 1 and 5 years	364,304	236,424
More than 5 years	3,477	30,825
	642,501	789,673

As at 31 December 2012, impairment of finance lease receivables amounted to PLN 63,800 thousand (as at 31 December 2011: PLN 63,589 thousand).

Finance lease income is presented in interest income.

24. Tangible fixed assets

Property and equipment

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Gross amount						
As at 1 January 2011	682,281	896	63,586	476,716	4,844	1,228,323
Increases:						
Purchases	318	47	14,071	21,851	19,630	55,917
Reclassification	5,246	-	-	2,411	(7,657)	-
Other increases	-	-	-	3,020	-	3,020
Decreases:						
Disposals	(2,257)	(308)	(18,142)	(12,060)	-	(32,767)
Liquidation	(3,874)	(304)	-	(69,096)	-	(73,274)
Other decreases	-	-	-	(378)	(2,413)	(2,791)
As at 31 December 2011	681,714	331	59,515	422,464	14,404	1,178,428
As at 1 January 2012	681,714	331	59,515	422,464	14,404	1,178,428
Increases:						
Purchases	164	8	-	8,017	23,954	32,143
Reclassification	6,845	-	-	2,958	(9,803)	-
Other increases	-	-	-	6,402	-	6,402
Decreases:						
Disposals	-	(14)	(5,819)	(192)	-	(6,025)
Liquidation	(24,807)	(8)	-	(81,298)	-	(106,113)
Reclassified as tangible fixed assets held-for-sale	(6,753)	-	-	(254)	-	(7,007)
Other decreases	-	-	-	(3,362)	(25,290)	(28,652)
As at 31 December 2012	657,163	317	53,696	354,735	3,265	1,069,176
Depreciation and amortization						
As at 1 January 2011	309,116	895	19,493	441,754	-,	771,258
Increases:						
Depreciation charge for the period	18,913	11	8,367	17,295	-	44,586

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Other increases	-	-	-	3,020	-	3,020
Decreases:						
Disposals	(1,751)	(308)	(10,922)	(12,029)	-	(25,010)
Liquidation	(3,701)	(304)	-	(68,978)	-	(72,983)
Other decreases	-	-	-	(372)	-	(372)
As at 31 December 2011	322,577	294	16,938	380,690	-	720,499
As at 1 January 2012	322,577	294	16,938	380,690	-	720,499
Increases:						
Depreciation change for the period	19,035	16	9,154	17,852	-	46,057
Other increases	-	-	-	6,401	-	6,401
Decreases:						
Disposals	-	(14)	(2,284)	(192)	-	(2,490)
Liquidation	(23,891)	(8)	-	(80,605)	-	(104,504)
Reclassified as tangible fixed assets held-for-sale	(3,117)	-	-	(224)	-	(3,341)
Other decreases	-	-	-	(3,362)	-	(3,362)
As at 31 December 2012	314,604	288	23,808	320,560	-	659,260
Carrying amount						
As at 1 January 2011	373,165	1	44,093	34,962	4,844	457,065
As at 31 December 2011	359,137	37	42,577	41,774	14,404	457,929
As at 1 January 2012	359,137	37	42,577	41,774	14,404	457,929
As at 31 December 2012	342,559	29	29,888	34,175	3,265	409,916

Investment properties

As at 31 December 2012 and 31 December 2011, the Group did not possess investment property and equipment. In 2011, previously held investment property was reclassified as tangible assets held-for-sale (see Note 29).

The movement in investment properties is as follows:

PLN'000	2011	2010
As at 1 January	-	18,308
Reclassified as tangible assets held-for-sale	-	(18,308)
As at 31 December	-	-

25. Intangible assets

PLN'000	Goodwill	Patents, licenses etc.	Software	Other intangible assets	Prepayments	Total
Gross amount						
As at 1 January 2011	1,245,976	2,154	273,641	18,859	4,735	1,545,365
Increases:						
Purchases	-	-	1,720	1	20,687	22,408
Decreases:						
Reclassification	-	-	10,605	-	(11,273)	(668)
As at 31 December 2011	1,245,976	2,154	285,966	18,860	14,149	1,567,105
As at 1 January 2012	1,245,976	2,154	285,966	18,860	14,149	1,567,105
Increases:						
Purchases	-	-	994	-	86,165	87,159
Reclassification	-	-	12,701	-	7,949	20,650
Decreases:						
Liquidation	-	(32)	(10,323)	-	-	(10,355)
As at 31 December 2012	1,245,976	2,122	289,338	18,860	108,263	1,664,559

PLN'000	Goodwill	Patents, licenses etc.	Software	Other intangible assets	Prepayments	Total
Depreciation and amortization						
As at 1 January 2011	-	1,642	239,131	18,835	-	259,608
Increases:						
Depreciation charge for the period	-	168	15,261	1	-	15,430
As at 31 December 2011	-	1,810	254,392	18,836	-	275,038
As at 1 January 2012	-	1,810	254,392	18,836	-	275,038
Increases:						
Depreciation charge for the period	-	168	18,458	-	-	18,626
Decreases:						
Liquidation	-	(31)	(9,005)	-	-	(9,036)
As at 31 December 2012	-	1,947	263,845	18,836	-	284,628
Carrying amount						
As at 1 January 2011	1,245,976	512	34,510	24	4,735	1,285,757
As at 31 December 2011	1,245,976	344	31,574	24	14,149	1,292,067
As at 1 January 2012	1,245,976	344	31,574	24	14,149	1,292,067
As at 31 December 2012	1,245,976	175	25,493	24	108,263	1,379,931

As at 31 December 2012, goodwill includes the amount of PLN 1,243,645 thousand arising from the merger of Bank Handlowy w Warszawie S.A. and Citibank (Poland) S.A. as at 28 February 2001 and the amount of PLN 2,331 thousand as a result of the purchase of an organized part of the enterprise of ABN AMRO Bank (Poland) S.A. as at 1 March 2005.

26. Impairment test for goodwill

For the purpose of carrying out impairment tests, goodwill has been allocated to two cash generating-units: Corporate Bank and Consumer Bank. For both sectors, the allocated goodwill is significant in comparison to the total book value of goodwill.

The allocation of goodwill to cash-generating units is presented in the table below.

Book value of goodwill allocated to unit

PLN'000	
Corporate Bank	851,944
Consumer Bank	394,032
	1,245,976

The basis of valuation of the recoverable amount for a unit is the value in use, assessed on the basis of the financial plan. The plan is based on rational assumptions about future facts that reflect management assessment of future economic conditions and expected results of the Bank. The plan is periodically updated.

The discount rate, which is equivalent to the required rate of return, has been used in the valuation. The required rate of return is assessed on the basis of the capital assets pricing model (CAPM) using a beta coefficient for the banking sector, a risk premium and Treasury bond yield curves. In 2012, the discount rate amounted to 9.5% (in 2011: 12.1%).

Extrapolation of cash flows which exceed the period covered by the financial plan has been based on growth rates reflecting the long-term NBP inflation target that amounted to 2.5 pp as at 31 December 2012.

The applied growth rates do not exceed the long-term average growth rates appropriate to the corporate and retail banking sector in Poland.

The Bank's Management Board believes that reasonable and probable changes in the key assumptions adopted in the valuation of the recoverable amounts for cash-generating units would not cause their book value to exceed their recoverable amount.

27. Income tax assets and liabilities

PLN'000	31.12.2012	31.12.2011
Income tax assets*		
Current tax	2,702	3,436
Deferred tax	218,786	335,321
	221,488	338,757

PLN'000	31.12.2012	31.12.2011
Liabilities due to income tax*		
Current tax	55,343	72,921
	55,343	72,921

*Deferred income tax assets and liabilities are presented in the net amount in the consolidated statement of financial position.

Positive and negative taxable and deductible temporary differences are presented below:

Deferred tax assets are attributable to the following:

PLN'000	31.12.2012	31.12.2011
Interest accrued and other expense	26,523	20,352
Impairment write-offs	126,434	152,251
Unrealized premium	1,193	1,170
Unrealized financial instruments valuation expenses	727,952	626,294
Negative valuation of securities	1,596	920
Income collected in advance	11,950	14,685
Valuation of shares	5,809	48
Commissions	9,877	8,447
Debt securities available-for-sale	-	19,303
Staff expenses and other cost due to pay	60,698	50,772
Other	38,517	27,747
Deferred tax assets	1,010,549	921,989

Deferred tax liability is attributable to the following:

PLN'000	31.12.2012	31.12.2011
Interest accrued (income)	28,648	30,174
Unrealized premium from options	8	96
Unrealized financial instruments valuation income	674,830	517,162
Unrealized securities discount	885	513
Income to receive	4,689	4,069
Positive valuation of securities	3,951	1,036
Debt securities available-for-sale	60,470	-
Investment relief	16,501	17,166
Valuations of shares	1,841	276
Differences between balance-sheet and tax value of leases	-	5,490
Other	(60)	10,686
Deferred tax liabilities	791,763	586,668

Net assets for deferred income tax	218,786	335,321

Movement in temporary differences during the year 2012

The movement in temporary differences relating to deferred tax assets:

PLN'000	As at 1 January 2012	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2012
Interest accrued and other expense	20,352	6,171	-	26,523
Impairment write-offs	152,251	(25,817)	-	126,434
Unrealized premium	1,170	23	-	1,193
Unrealized financial instruments valuation expenses	626,294	101,658	-	727,952
Negative valuation of securities	920	676	-	1,596
Income collected in advance	14,685	(2,735)	-	11,950
Valuation of shares	48	5,761	-	5,809
Commissions	8,447	1,430	-	9,877
Debt and capital securities available-for-sale	19,303	-	(19,303)	-
Staff expenses and other cost due to pay	50,772	9,926	-	60,698
Other	27,747	10,770	-	38,517
	921,989	107,863	(19,303)	1,010,549

The movement in temporary differences relating to deferred tax liability:

PLN'000	As at 1 January 2012	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2012
Interest accrued (income)	30,174	(1,526)	-	28,648
Unrealized premium from options	96	(88)	-	8
Unrealized financial instruments valuation income	517,162	157,668	-	674,830
Unrealized securities discount	513	372	-	885
Income to receive	4,069	620	-	4,689
Positive valuation of securities	1,036	2,915	-	3,951
Debt and capital securities available-for-sale	-	-	60,470	60,470
Investment relief	17,166	(665)	-	16,501
Valuations of shares	276	1,565	-	1,841
Differences between balance-sheet and tax value of leases	5,490	(5,490)	-	-
Other	10,686	(10,746)	-	195
	586,668	144,625	60,470	791,763
Change in net assets for deferred income tax	335,321	(36,762)	(79,773)	218,786

As at 31 December 2012 the net impact on deferred tax due to not included negative temporary differences in Handlowy Leasing Sp. z o.o. amounted PLN 19,898 thousands.

Movement in temporary differences during the year 2011

The movement in temporary differences relating to deferred tax assets:

PLN'000	As at 1 January 2011	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2011
Interest accrued and other expense	11,048	9,304	-	20,352
Impairment write-offs	158,778	(6,527)	-	152,251
Unrealized premium	2,393	(1,223)	-	1,170
Unrealized financial instruments valuation expenses	384,595	241,699	-	626,294
Negative valuation of securities	1,435	(515)	-	920

PLN'000	As at 1 January 2011	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2011
Income collected in advance	17,546	(2,861)	-	14,685
Valuation of shares	6,982	(6,934)	-	48
Commissions	9,644	(1,197)	-	8,447
Debt securities available-for-sale	551	-	18,752	19,303
Staff expenses and other cost due to pay	47,695	3,077	-	50,772
Other	28,952	(1,205)	-	27,747
	669,619	233,618	18,752	921,989

The movement in temporary differences relating to deferred tax liability:

PLN'000	As at 1 January 2011	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2011
Interest accrued (income)	30,031	143	-	30,174
Unrealized premium from options	263	(167)	-	96
Unrealized financial instruments valuation income	339,991	177,171	-	517,162
Unrealized securities discount	2,713	(2,200)	-	513
Income to receive	5,534	(1,465)	-	4,069
Positive valuation of securities	376	660	-	1,036
Investment relief	17,796	(630)	-	17,166
Valuations of shares	889	(613)	-	276
Differences between balance-sheet and tax value of leases	13,955	(8,465)	-	5,490
Other	11,700	(1,014)	-	10,686
	423,248	163,420	-	586,668
Change in net assets for deferred income tax	246,371	70,198	18,752	335,321

28. Other assets

PLN'000	31.12.2012	31.12.2011
Interbank settlements	692	966
Settlements related to brokerage activity	346,822	198,576
Income to receive	45,027	37,411
Staff loans out of the Social Fund	22,971	25,001
Sundry debtors	138,343	125,705
Prepayments	13,881	15,523
	567,736	403,182

29. Non-current assets held-for-sale

As at 31 December 2012, non-current assets held-for-sale include the Group's own property with the total value of PLN 12,554 thousand (31 December 2011: PLN 25,662 thousand), which was reclassified to this group from fixed tangible assets.

The movement in non-current assets held-for-sale is as follows:

PLN'000	2012	2011
As at 1 January	25,662	9,901
Increases:		
Reclassified from investment properties	-	18,308
Reclassified from bank properties	3,666	-
Decreases:		
Revaluation	(1,014)	(2,547)
Disposal	(15,760)	-
As at 31 December	12,554	25,662

30. Amounts due to banks

Amounts due to banks (by category)

PLN'000	31.12.2012	31.12.2011
Current accounts	938,655	1,304,018
Term deposits	537,903	4,132,423
Loans and advances received	323,924	556,973
Liabilities due to sold securities under repurchase agreements	552,680	-
Other liabilities	127	10,518
Accrued interest	3,140	7,446
	2,356,429	6,011,378

31. Amounts due to customers

Amounts due to customers (by category)

PLN'000	31.12.2012	31.12.2011
Deposits from financial sector entities		
Current accounts	444,961	267,645
Term deposits	2,346,533	1,963,538
Accrued interest	3,296	1,077
	2,794,790	2,232,260
Deposits from non-financial sector entities		
Current accounts, including:	13,834,538	12,961,126
corporate customers	6,990,395	5,616,881
individual customers	4,835,774	4,736,739
public sector units	2,008,369	2,607,506
Term deposits, including:	6,984,086	8,709,389
corporate customers	5,110,253	6,700,896
individual customers	1,050,734	1,245,610
public sector units	823,099	762,883
Accrued interest	16,306	19,230
	20,834,930	21,689,745
Total deposits	23,629,720	23,922,005
Other liabilities		
Securities sold under repurchase agreements	3,059,546	-
Other liabilities, including:	160,143	173,089

PLN'000	31.12.2012	31.12.2011
cash collateral	74,380	73,729
Accrued interest	2,756	753
Total other liabilities	3,222,445	173,842
Total amounts due to customers	26,852,165	24,095,847

32. Liabilities due to debt securities issuance

As at 31 December 2012, the Bank had no liabilities due to debt securities issuance. Within the Emisja Bankowych Papierów Wartościowych (Bank Debt Securities Issue) Program, the Bank effected the issue of certificates of deposit ("BPW") in a total amount of PLN 25,336 thousand as at 31 December 2012.

The movement in liabilities due to certificates of deposit issuance (at par value):

PLN'000	2012	2011
As at 1 January	25,325	11,529
Increases – issue		
issue	-	62,607
Decreases – buyout		
buyout	24,860	48,811
early buyout	465	-
As at 31 December	-	25,325

Provided that BPW are held until maturity, at redemption the issuer is obliged to pay the principal, guaranteed interest and premium interest.

33. Provisions

PLN'000	31.12.2012	31.12.2011
Litigation	11,145	23,440
Granted financial and guarantee liabilities	11,476	11,474
Restructuring of the branch network	3,741	-
Other	2,294	-
	28,656	34,914

The movement in provisions is as follows:

PLN'000	2012	2011
As at 1 January	34,914	32,240
Provisions for:		
Litigation	23,440	21,702
Granted financial and guarantee commitments	11,474	10,538
Increases:		
Charges to provisions in the period:	74,272	42,418
litigation	7,002	2,652
granted financial and guarantee commitments	22,768	39,766
workforce restructuring 2012	32,400	-
restructuring of the branch network 2012	9,808	-
other	2,294	-
Decreases:		
Release of provisions in the period	(29,248)	(39,724)
litigation	(6,482)	(894)
granted financial and guarantee commitments	(22,766)	(38,830)
Provisions used in the period, including:	(51,274)	(20)
litigation	(12,807)	(20)
workforce restructuring	(32,400)	-

PLN'000	2012	2011
restructuring of the branch network	(6,067)	-
Other decreases in the period, including:	(8)	-
litigation	(8)	-
As at 31 December	26,656	34,914

34. Other liabilities

PLN'000	31.12.2012	31.12.2011
Staff benefits	53,988	53,440
Interbank settlements	134,372	84,564
Interbranch settlements	684	624
Settlements related to brokerage activity	328,439	194,626
Settlements with Tax Office and National Insurance (ZUS)	9,990	15,588
Sundry creditors	108,804	115,428
Accruals:	322,287	262,830
Provision for employee payments	101,189	73,211
Provision for employee retirement and jubilee payments	36,913	36,210
IT services and bank operations support	93,878	63,177
Consultancy services and business support	38,624	35,337
Other	51,683	54,895
Deferred income	19,787	25,774
	978,351	752,874

35. Financial assets and liabilities by contractual maturity

As at 31 December 2012

PLN'000	Note	Total	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Amounts due from banks (gross)	18	1,462,027	1,120,709	2,228	410	338,680	-
Financial assets held-for-trading							
Debt securities held-for-trading	19	2,532,055	29,435	2,982	178,065	1,518,156	803,417
Financial assets available-for-sale							
Debt securities available-for-sale	20	15,003,003	7,997,178	-	-	2,240,783	4,765,042
Amounts due from customers (gross)							
Amounts due from financial sector entities	23	952,385	428,798	-	72,205	451,382	-
Amounts due from non-financial sector entities	23	16,399,954	8,608,178	731,957	2,110,440	3,884,092	1,065,287
Amounts due to banks	30	2,356,429	2,002,870	-	288,776	64,759	24
Amounts due to customers							
Amounts due to financial sector entities	31	5,856,749	5,674,435	5,534	160,762	16,006	12
Amounts due to non-financial sector entities	31	20,995,416	20,172,842	444,585	375,566	2,342	81

As at 31 December 2011

PLN'000	Note	Total	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Amounts due from banks (gross)	18	548,319	536,906	7,550	3,863	-	-
Financial assets held-for-trading							
Debt securities held-for-trading	19	1,941,787	-	148	67,856	1,042,710	831,073
Financial assets available-for-sale							
Debt securities available-for-sale	20	17,625,355	8,915,419	350,887	-	2,703,399	5,655,650
Amounts due from customers (gross)							

PLN'000	Note	Total	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Amounts due from financial sector entities	24	1,028,401	472,983	-	387,964	150,366	17,087
Amounts due from non-financial sector entities	24	14,926,861	8,311,304	996,426	1,240,080	3,767,172	611,880
Amounts due to banks	31	6,011,378	4,550,141	873,480	30,975	516,141	40,641
Amounts due to customers							
Amounts due to financial sector entities	32	2,232,676	2,157,278	70,036	4,669	18	675
Amounts due to non-financial sector entities	32	21,863,171	20,791,358	552,599	463,318	55,360	536
Liabilities due to debt securities issuance	33	25,336	684	-	24,652	-	-

36. Capital and reserves

Share capital

Series/ issue	Type of shares	Type of preference	Type of limitation	Number of shares	Par value of series / issue [PLN'000]	Method of issue payment	Date of registration	Eligibility for dividends (from date)
A	bearer	none	-	65,000,000	260,000	paid in	27.03.97	01.01.97
B	bearer	none	-	1,120,000	4,480	paid in	27.10.98	01.01.97
B	bearer	none	-	1,557,500	6,230	paid in	25.06.99	01.01.97
B	bearer	none	-	2,240,000	8,960	paid in	16.11.99	01.01.97
B	bearer	none	-	17,648,500	70,594	paid in	24.05.02	01.01.97
B	bearer	none	-	5,434,000	21,736	paid in	16.06.03	01.01.97
C	bearer	none	-	37,659,600	150,638	transfer of CPSA assets to the Bank	28.02.01	01.01.00
				130,659,600	522,638			

Par value of 1 share = PLN 4.00

As at 31 December 2012, the Bank's share capital amounted to PLN 522,638,400 divided into 130,659,600 common bearer shares with a nominal value of PLN 4 each, which has not changed since 31 December 2011.

The Bank has not issued preferred shares.

Principal shareholders

The following table presents the shareholders who, as at 31 December 2012 and 31 December 2011, held at least 5% of the total number of votes at the General Meeting or at least 5% of Bank's share capital:

	Value of shares (PLN'000)	Number of shares	% shares	Number of votes at GM	% votes at GM
Citibank Overseas Investment Corporation, USA	391,979	97,994,700	75.0	97,994,700	75.0
Other shareholders	130,659	32,664,900	25.0	32,664,900	25.0
	522,638	130,659,600	100.0	130,659,600	100.0

During 2012 and during the period from the publication of the previous interim quarterly report for Q3 2012 until the day of the publication of this annual report for 2012, the structure of major shareholdings of the Bank has not changed.

Supplementary capital

As at 31 December 2012, supplementary capital was PLN 3,011,380 thousand (31 December 2011: PLN 3,009,396 thousand). Supplementary capital is designated for offsetting financial position losses or for other purposes including payment of dividends to the shareholders. The General Shareholders' Meeting of the Bank decides upon the utilization of supplementary capital, but a portion of its balance amounting to one third of total share capital may be used exclusively for offsetting losses shown in the financial statements.

The supplementary capital amount is PLN 2,485,534 thousand constituting the excess of the fair value of the issued shares over their nominal value in connection with the business combination of the Bank and Citibank (Poland) S.A., which took place on 28 February 2001.

Revaluation reserve

PLN'000	31.12.2012	31.12.2011
Revaluation of financial assets available-for-sale	257,791	(82,294)

The revaluation reserve is not distributed. As at the day of exclusion of all or part of financial assets available-for-sale from the statement of financial position, retained earnings that were previously presented in "Revaluation reserve" are presented in the income statement.

Other reserves

PLN'000	31.12.2012	31.12.2011
Reserve capital	2,126,900	1,761,529
General risk reserve	507,500	497,500
Foreign currency translation adjustment	2,666	5,053
	2,637,066	2,264,082

Reserve capital

Reserve capital is created from the annual distribution of profits or from other sources, independently of the supplementary capital.

Reserve capital is designated for offsetting financial position losses or for other purposes, including payment of dividends to the shareholders. The General Shareholders' Meeting of the Bank makes decisions on utilization of reserve capital.

General risk reserve

The general risk reserve is recorded out of net profit against unidentified risk arising from banking activities. The General Shareholders' Meeting of the Bank makes decisions on utilization of the general risk reserve subject to applicable regulations.

Dividends

Dividends paid for 2011

In accordance with Resolution No. 30/2012 of the General Shareholders' Meeting of 20 June 2012, the 2011 profit has been distributed, the resolution on dividend pay-out was adopted and the dividend record date and payment date were determined. From the 2011 net profit, PLN 360,620,496.00 was assigned for the dividend pay-out, which means that the dividend per share was PLN 2.76. The number of shares eligible for dividend was 130,659,600.

The dividend record date was set on 5 July 2012. The dividend was paid out on 31 August 2012.

Declared dividends

On 12 March 2013, the Bank's Management Board adopted a resolution on the proposed distribution of profit for 2012. The Bank's Management Board has proposed to allocate the amount of PLN 756,519,084.00 for dividend payment. This means that the dividend per share amounts to PLN 5.79. The dividend record date was designated as 5 July 2013 and the dividend payment date was designated as 30 August 2013. This proposal of the Bank's Management Board will be submitted to the Supervisory Board for opinion and then to the General Shareholders' Meeting for approval.

37. Repurchase and reverse repurchase agreements

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate.

Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates.

As at 31 December 2012, assets sold under repurchase agreements were as follows:

PLN'000	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Financial assets held-for-trading				
Debt securities	858,616	857,493	up to 1 month	857,723
Debt securities available-for-sale	2,763,624	2,757,926	up to 1 month	2,758,802

**including interest*

As at 31 December 2011, no assets were sold under repurchase agreements.

In repo transactions, all gains and losses on the assets held are on the Group's side.

As at 31 December 2012, assets sold through repo cannot be further traded.

In 2012, the total interest expense on repurchase agreements was PLN 81,971 thousand (in 2011: PLN 18,950 thousand).

The Group also purchases financial instruments under agreements to resell them at future dates (reverse repurchase agreements). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchase agreements are entered into as a facility to provide funds to customers.

As at 31 December 2012, assets purchased subject to agreements to resell were as follows:

PLN'000	Carrying amount of receivable*	Fair value of assets held as collateral	Resale date	Resale price
Amounts due from banks	765,278	767,302	up to 1 month	765,611
Amounts due from customers:				
from financial sector entities	336,589	336,892	up to 1 month	336,760

**including interest*

As at 31 December 2011, assets purchased subject to agreements to resell were as follows:

PLN'000	Carrying amount of receivable*	Fair value of assets held as collateral	Resale date	Resale price
Amounts due from banks	313,635	313,586	up to 1 month	313,746
Amounts due from customers:				
from financial sector entities	397,030	396,578	up to 1 month	397,182

**including interest*

As at 31 December 2012 and 31 December 2011, the Group held the option to pledge or sell the assets acquired through reverse repo.

In 2012, the total interest income on reverse repurchase agreements was PLN 45,341 thousand (in 2011: PLN 25,809 thousand).

38. Fair value information

Fair value of financial assets and liabilities

Fair value is an amount for which an asset could be exchanged or a liability could be discharged in a transaction between well-informed and willing parties in a direct transaction other than a force sale or liquidation – the market price (if available) is its best equivalent.

The summary below provides statement of financial position (by category) and fair value information for each category of financial assets and liabilities.

As at 31 December 2012

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets / liabilities	Total balance value	Fair value
Assets							
Cash and balances with Central Bank	17	-	-	-	1,357,308	1,357,308	1,357,308
Amounts due from banks	18	-	1,461,901	-	-	1,461,901	1,461,901
Financial assets held-for-trading	19	6,838,483	-	-	-	6,838,483	6,838,483
Debt securities available-for-sale	20	-	-	15,003,003	-	15,003,003	15,003,003
Equity investments valued at equity method	21	-	-	15,110	-	15,110	15,110
Other equity investments	22	-	-	19,921	-	19,921	19,921
Amounts due from customers	23	-	16,221,412	-	-	16,221,412	16,239,445
		6,838,483	17,683,313	15,038,034	1,357,308	40,917,138	40,935,171
Liabilities							
Amounts due to banks	30	-	-	-	2,356,429	2,356,429	2,356,295
Financial liabilities held-for-trading	19	5,846,404	-	-	-	5,846,404	5,846,404
Amounts due to customers	31	-	-	-	26,852,165	26,852,165	26,848,279
		5,846,404	-	-	29,208,594	35,054,998	35,050,978

As at 31 December 2011

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets / liabilities	Total balance value	Fair value
Assets							
Cash and balances with Central Bank	17	-	-	-	979,616	979,616	979,616
Amounts due from banks	18	-	548,256	-	-	548,256	548,220
Financial assets held-for-trading	19	5,805,044	-	-	-	5,805,044	5,805,044
Debt securities available-	20	-	-	17,625,355	-	17,625,355	17,625,355

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets / liabilities	Total balance value	Fair value
for-sale							
Equity investments valued at equity method	21	-	-	57,945	-	57,945	57,945
Other equity investments	22	-	-	24,912	-	24,912	24,912
Amounts due from customers	23	-	14,719,473	-	-	14,719,473	14,717,010
		5,805,044	15,267,729	17,708,212	979,616	39,760,601	39,758,102
Liabilities							
Amounts due to banks	30	-	-	-	6,011,378	6,011,378	6,011,145
Financial liabilities held-for-trading	19	4,840,447	-	-	-	4,840,447	4,840,447
Amounts due to customers	31	-	-	-	24,095,847	24,095,847	24,095,370
Liabilities due to debt securities issuance	32	-	-	-	25,336	25,336	24,539
		4,840,447	-	-	30,132,561	34,973,008	34,971,501

Depending on the method of determining fair value, individual financial assets or liabilities are classified into the following categories:

- Level I: financial assets / liabilities valued directly on the basis of prices quoted in an active market;
- Level II: financial assets / liabilities valued on the basis of a valuation technique based on assumptions using information from an active market or market-based observations;
- Level III: financial assets / liabilities valued on the basis of valuation techniques using relevant parameters not market-based (counterparty credit risk).

In 2012, the Group did not make any changes in the classification of financial instruments (presented by the fair value method in the consolidated statement of financial position) to categories of fair value assignment (Level I, Level II, Level III).

The tables below present carrying amounts of financial instruments presented in the consolidated statement of financial position measured at fair value, arranged according to the above categories:

As at 31 December 2012

PLN'000	Note	Level I	Level II	Level III
Assets				
Financial assets held-for-trading	19			
derivatives		39	4,304,866	1,523
debt securities		2,507,133	24,922	-
Debt securities available-for-sale	20	5,972,075	9 030 928	-
Liabilities				
Financial liabilities held-for-trading	19			
short sale of securities		1,027,729	-	-
derivatives		1,150	4,817,525	-

As at 31 December 2011

PLN'000	Note	Level I	Level II	Level III
Assets				
Financial assets held-for-trading	19			
derivatives		4,637	3,844,858	6,911
debt securities		1,941,787	-	-

PLN'000	Note	Level I	Level II	Level III
equity instruments		6,851	-	-
Debt securities available-for-sale	20	7,427,042	8,492,235	1,706,078
Liabilities				
Financial liabilities held-for-trading	19			
short sale of securities		679,529	-	-
derivatives		13,318	4,147,600	-

The movement of financial assets and liabilities valued at fair value using relevant parameters not market-based in 2012 is presented below:

PLN'000	Financial assets held-for-trading			Financial assets available-for-sale	Financial assets in total	Financial liabilities held-for-trading
	Derivatives	Debt securities	Equity instruments	Debt securities		Derivatives
As at 1 January 2012	6,911	-	-	1,706,078	1,712,989	-
Total increases and decreases						
in income statement	409	-	-	10,987	11,396	-
in other comprehensive income	-	-	-	181	181	-
Acquisition	-	-	-	1,916,316	1,916,316	-
Clearing	(5,797)	-	-	(2,190,300)	(2,196,097)	-
Other*	-	-	-	(1,443,262)	(1,443,262)	-
As at 31 December 2012	1,523	-		-	1,523	-
Total increases and decreases in the period in the income statement for assets/liabilities held at the end of the period	409	-	-	-	409	-

Increases and decreases in the income statement for the period from 1 January 2012 to 31 December 2012 are included in Net income on trading financial instruments and revaluation in the following manner:		
Total increases and decreases in the income statement for the period	11,396	-
Total increases and decreases in the income statement in the period for assets/liabilities held at the end of the period	409	-

*In 2012, the Group transferred financial assets available-for-sale from the category valued using relevant parameters not market-based (level III) to the category valued using information from an active market (level II). The change of the category concerns commercial debt securities and results from change of their credit risk valuation model at 31 December 2011 which is now market-based. The value of transferred assets available-for-sale was PLN 926,411 thousand as at 31 December 2012. The remaining amount of PLN 516,851 thousand refers to transfer of debt securities purchased during 2012.

The movement of financial assets and liabilities valued at fair value using relevant parameters not market-based in 2011 is presented below:

PLN'000	Financial assets held-for-trading			Financial assets available-for-sale	Financial assets in total	Financial liabilities held-for-trading
	Derivatives	Debt securities	Equity instruments	Debt securities		Derivatives
As at 1 January 2011	54,600	-	-	165,075	219,675	28
Total increases and decreases						
in income statement	5,110	-	-	43,304	48,414	2
in other comprehensive income		-	-	69	69	-
Acquisition	-	-	-	3,729,654	3,729,654	-
Clearing	(5,148)	-	-	(2,232,024)	(2,237,172)	-
Other*	(47,651)	-	-	-	(47,651)	(30)
As at 31 December 2011	6,911	-	-	1,706,078	1,712,989	-
Total increases and decreases in the period in the income statement for assets/liabilities held at the end of the period	(40)	-	-	33,808	33,768	-

Increases and decreases in the income statement for the period from 1 January 2011 to 31 December 2011 are included in Net income on trading financial instruments and revaluation in the following manner:		
Total increases and decreases in the income statement for the period	48,414	2
Total increases and decreases in the income statement in the period for assets/liabilities held at the end of the period	33,768	-

*In 2011, the Group transferred some financial assets and liabilities held-for-trading from the category valued using relevant parameters not market-based (level III) to the category valued using information from an active market or market-based observations (level II). The value of transferred financial assets and liabilities held-for-trading as at 31 December 2011 was, respectively, PLN 47,651 thousand and PLN 30 thousand. The change of the category concerns derivatives and results from termination of the significant credit risk valuation influence for two non-banking customers, included in the 31 December 2010 valuation.

Fair value definition

In the case of short-term financial assets and liabilities, it is assumed that their carrying amount is practically equal to their fair value. In the case of other instruments, the following methods and assumptions have been adopted.

Equity investments

Equity investments recognized under the equity method: In the case of financial assets which are interests in subsidiaries which are not fully consolidated, the fair value was presented as the percentage of net assets of an entity that is attributable to the Group's interests in a given entity. The Management Board of the parent entity believes that this is the best available approximation of fair value of such instruments.

Other equity investments: For non-controlling interests, fair value is the purchase price adjusted for impairment losses for both unlisted and listed investments due to the contractual time limit of the possibility of their disposal.

According to the Group's strategy, presented equity investments will be gradually reduced except for selected strategic investments in "infrastructure companies" that provide services to the financial sector. Particular entities will be sold at the most suitable time under market conditions.

In 2012 and 2011, the Group did not sell equity investments whose fair value previously could not be reliably measured.

Amounts due from customers and banks

Carrying amount of loans is presented at amortized cost less impairment. The fair value of loans and advances is calculated as the discounted value of expected future principal payments and takes into account fluctuations in market interest rates as well as changes in margins during the financial period. In particular, changes in margins on loans are based on concluded transactions. It is assumed that loans and advances will be paid on the contractual date. Retail cash loans based on a rate managed by the Bank are an exception as their carrying amount is considered the fair value. In the case of loans for which repayment dates are not fixed (e.g., overdrafts), the fair value is the repayment that would be required if the amount were due on the balance sheet date. Expected future cash flows connected with homogenous categories of loans and advances, especially loans to individuals, are assessed on the basis of the loan portfolio and discounted using the current interest rate taking into account current margins.

For overnight placements, the fair value is equal to their carrying amount. For fixed interest rate placements, the fair value is assessed on the basis of discounted cash flows using current money market interest rates for receivables with similar credit risk, time to maturity, and currency.

Amounts due to banks and customers

In the case of on-demand deposits, as well as deposits without a pre-determined maturity date, the fair value is the amount that would be paid out if demanded on the balance date. The fair value of fixed maturity deposits is estimated on the basis of cash flows discounted with current interest rates taking into account s current margins in a similar way as adopted for the valuation of loans.

Liabilities due to debt securities issuance

The fair value of liabilities due to debt securities issuance (certificates of deposit) is determined by the current deposit valuation (market purchase price).

39. Contingent liabilities

Information on pending proceedings

As at 31 December 2012, there was no single proceeding regarding receivables and liabilities of the Bank or a subsidiary of the Bank, the value of which would be equal to at least 10% of equity, pending in court, before a public administration authority or an arbitration authority.

The total value of all pending legal proceedings regarding receivables or liabilities with the participation of the Bank and subsidiaries of the Bank did not exceed 10% of the Bank's equity as at 31 December 2012.

In accordance with applicable regulations, the Group recognizes impairment losses for receivables subject to legal proceedings.
In the case of legal proceedings involving the risk of cash outflow as a result of meeting the Group's commitments, the appropriate provisions are created.

As at 31 December 2012, the Bank was a party to 33 court proceedings regarding derivative transactions: in 24 proceedings the Bank acted as a defendant and in 9 as a plaintiff. The claims and allegations in the individual cases against the Bank are based on various legal bases. The subject of the dispute refers mainly to the validity of the derivative transactions and clients' liabilities demanded by the Bank with respect to those derivative transactions, as well as potential claims regarding potential invalidation of such demands by court decisions. Clients try to prevent the Bank from seeking claims resulting from derivative transactions; they dispute their liabilities towards the Bank, question the validity of the agreements and, in some cases, demand payment from the Bank. As at the date of preparation of the financial statements, 3 legally valid court decisions were issued in favor of the Bank in litigation related to financial derivative transactions; there was no final court decision in the remaining cases.

The Bank is a party to proceedings initiated by the President of the Office of Competition and Consumer Protection (UOKiK) against the Visa and Europay payment system operators and banks - issuers of Visa cards and Europay/Eurocard/Mastercard cards. The proceedings concern alleged practices limiting competition on the payment cards market in Poland consisting in the fixing of interchange fees for transactions made with Visa and Europay/Eurocard/Mastercard cards, as well as limiting access to the market for operators who do not belong to the unions of card issuers, against whom the proceedings were initiated. On 22 April 2010, the Appeal Court overturned the verdict of the Court of Competition and Consumer Protection (SOKiK) and referred the case back to the court of first instance. As at 31 December 2012, there was no final court decision in this case. In its decision of 8 May 2012, SOKiK suspended the proceedings until the legally valid closing of proceedings before the Court of Justice of the European Union in a case brought by MasterCard against a decision of the European Commission (ref. no. T 111/08). An appeal was filed against the SOKiK decision of 8 May 2012 with the Appeal Court. On 25 October 2012, the Appeal Court changed the appealed decision by dismissing the application for suspension of the proceedings. The Appeal Court decided that, in view of the case involving the Bank and considered by SOKiK being different from the proceedings before the Court of Justice of the European Union in the case brought by MasterCard against a decision of the European Commission (ref. no. T 111/08), it is not admissible to conclude that the proceedings before the Court of Justice of the European Union are prejudicial proceedings for the case considered by SOKiK.

In 2012, the Group made a significant payment following a court case. Under a legally valid decision resolving a dispute, the Bank paid the amount of PLN 14.4 million awarded to the plaintiff from provisions previously set up against the dispute.

Commitments due to granted and received contingent liabilities

The amount of contingent commitments granted and received, by product category, is as follows:

PLN'000	31.12.2012	31.12.2011
Contingent liabilities granted		
Letters of credit	149,128	138,218
Guarantees granted	1,764,624	2,054,187
Credit lines granted	11,092,470	10,674,678
Underwriting other issuers' securities issues	1,212,550	551,150
Other guarantees	35,186	31,410
	14,253,958	13,449,643

PLN'000	31.12.2012	31.12.2011
Letters of credit by category		
Import letters of credit issued	144,855	132,833
Export letters of credit confirmed	4,273	5,385
	149,128	138,218

As at 31 December 2012 and 31 December 2011, the Group did not have any contingent liabilities granted to subsidiary entities.

The Group makes provisions for contingent commitments granted. As at 31 December 2012, the provisions created for contingent commitments granted amounted to PLN 11,476 thousand (31 December 2011: PLN 11,474 thousand).

Guarantees issued include credit principal repayment guarantees, other repayment guarantees, advance repayment guarantees, performance guarantees, tender guarantees, and bill of exchange guarantees.

PLN'000	31.12.2012	31.12.2011
Contingent liabilities received		
Finance	122,646	6,000
Guarantees	4,798,611	3,807,088
	4,921,257	3,813,088

40. Assets pledged as collateral

Assets are pledged as collateral of the following liabilities:

PLN'000	31.12.2012	31.12.2011
Collateral liabilities		
Amounts due to banks		
securities sale and repurchase agreements	553,463	-
Amounts due to customers		
securities sale and repurchase agreements	3,061,956	-
	3,615,419	-

Details of the carrying amounts of assets pledged as collateral are as follows:

PLN'000	31.12.2012	31.12.2011
Assets pledged		
Debt securities held-for-trading	858,616	-
Debt securities available-for-sale	2,897,331	143,870
Amounts due from banks		
Settlements related to operations in derivative instruments	75,062	38,317
Amounts due from customers		
Stock market trading guarantee funds	110,297	128,331
Other assets		
Settlement of transactions in financial instruments	3,511	-
	3,944,817	310,518

As at 31 December 2012 and 31 December 2011, the debt securities available-for-sale presented in the table constituted a reserve against the funds guaranteed to the Bank Guarantee Fund; in addition, as at 31 December 2012, PLN 2,763,624 thousand was a collateral against securities sold with repurchase agreement. Debt securities held-for-trading constitute security of the Bank's obligations under securities sold with repurchase agreement. For more details on assets covering the Bank's obligations under repo transactions, see Note 37. Other assets disclosed above secure settlement of other transactions including derivatives transactions. The terms and conditions of the transactions executed to date are standard and typical for such dealings.

41. Custodian activities

The Bank offers both custodian services connected with securities accounts for foreign institutional investors and custodian services for Polish financial institutions, including pension, investment and equity insurance funds. As at 31 December 2012, the Bank maintained 11.4 thousand securities accounts (31 December 2011: 14.4 thousand accounts).

42. Operating leases

Leases where the Group is the lessee

Non-cancellable operating lease rentals are payable as follows (by time to maturity):

PLN'000	31.12.2012	31.12.2011
Less than 1 year	35,528	45,476
Between 1 and 5 years	90,680	58,222
More than 5 years	1,360	1,172
	127,568	104,870
Total annual rentals for contracts for an unspecified period of time	3,913	1,162

The Group uses office space under operating lease contracts.

Office space lease contracts are signed for 5 years with the option of extension for another three years; however, some contracts have been signed for a period up to 1 year and some for more than 10 years. Lease payments are subject to annual indexation. The total amount of lease payments in 2012 amounted to PLN 49,091 thousand (in 2011: PLN 42,400 thousand).

These payments are presented in the income statement in “General administrative expenses.”

Leases where the Group is the lessor

Non-cancellable operating lease rentals are payable as follows (by time to maturity):

PLN'000	31.12.2012	31.12.2011
Less than 1 year	1,505	1,454
Between 1 and 5 years	3,921	5,225
More than 5 years	3	53
	5,429	6,732
Total annual rentals for contracts for an unspecified period of time	6,299	2,888

The Group leases some office space under lease contracts which fulfill the economic criteria of operating leases.

Most of the office space lease contracts are signed for an unspecified period of time. Other contracts are signed for a period of between 2 and 10 year. Lease payments are subject to annual indexation. The income related to these contracts amounted in 2012 to PLN 4,796 thousands (in 2011: PLN 3,494 thousands).

These payments are presented in the income statement in “Other operating income.”

43. Cash flow statement

Additional information:

PLN'000	31.12.2012	31.12.2011
Cash related items:		
Cash in hand	474,301	503,980
Nostro current account in Central Bank	883,007	472,080
Current accounts in other banks (nostro, overdrafts on loro accounts)	187,014	68,122
	1,544,322	1,044,182

44. Related parties

Transactions with related parties

In the normal course of business activities, Group entities enter into transactions with related parties, in particular with entities of Citigroup Inc. and subsidiaries (see Note 22).

The transactions with related parties mainly include loans, deposits, guarantees and derivatives transactions.

Apart from the transactions described in this section, in the presented period neither the Bank nor the Bank's subsidiaries conducted any transactions with related entities, which would be individually or jointly significant. No transaction with related entities was concluded on terms other than market terms.

Transactions with Citigroup Inc. entities

The receivables and liabilities towards Citigroup Inc. entities are as follows:

PLN'000	31.12.2012	31.12.2011
Receivables, including:	283,805	102,397
Placements	84,692	-
Liabilities, including:	1,236,202	4,499,545
Deposits	449,070	3,270,560
Loans received	259,289	466,829
Balance-sheet valuation of derivative transactions:		
Assets held-for-trading	3,263,844	2,908,807
Liabilities held-for-trading	3,871,681	3,040,030
Contingent liabilities granted	153,653	406,112
Contingent liabilities received	226,035	221,968
Contingent transactions in derivative instruments (commitments granted/received), including:	168,476,833	157,370,941
Interest rate instruments	135,206,525	131,594,106
FRA	25,641,000	25,400,000
Interest rate swaps (IRS)	89,718,864	86,269,742
Currency – interest rate swaps (CIRS)	17,318,155	11,532,526
Interest rate options	1,369,187	813,798
Futures contracts	1,159,319	7,578,040
Currency instruments	32,155,394	24,389,907
FX forward/spot	943,343	1,712,473
FX swap	27,938,970	19,036,769
Foreign exchange options	3,273,081	3,640,665
Securities transactions	134,707	54,275
Stock options	-	15,686
Securities purchased pending delivery	58,309	13,915
Securities sold pending delivery	76,398	24,674
Commodity transactions	980,207	1,332,653
Swaps	-	33,288
Options	980,207	1,299,365

PLN'000	2012	2011
Interest and commission income	37,781	44,851
Interest and commission expense	9,397	18,150

The Group incurs costs and receives income on derivative transactions with Citigroup Inc. entities to hedge the Bank's position in market risk. These derivative transactions are opposite (back-to-back) to derivative transactions with other Group clients or close the proprietary position of the Group. The net carrying amount of financial derivative transactions as at 31 December 2012 amounted to PLN (607,837) thousand (as at 31 December 2011: PLN (131,223) thousand).

Furthermore, the Group incurs costs and receives income from agreements concluded between Citigroup Inc. entities and the Group for the mutual provision of services.

The costs arising and accrued (including VAT) under concluded agreements in 2012 mainly related to the cost of services provided to the Group for the maintenance of the banking IT systems and advisory support and are included in general administrative expenses and other operating expenses; income was mainly related to the provision of data processing services by the Group to such entities and is presented in other operating income.

PLN'000	2012	2011
General administrative expenses	160,130	146,688
Other operating expenses	329	187
Other operating income	12,047	13,548

In 2012 the capitalization of investments regarding functionality modification of retail banking IT systems took place. Total payments for Citigroup Inc. entities amounted PLN 60,027 thousand (see note 25).

Transactions with subsidiaries

PLN'000	31.12.2012	31.12.2011
Receivables**		
Overdraft facilities	263,150	116,299
Receivables		
Opening balance	116,299	252,157
Closing balance	263,150	116,299
Deposits		
Current accounts, including:	7,843	4,254
consolidated subordinated entities*	869	4,141
subordinated entities valued at equity method	6,974	113
Term deposits, including:	107,539	173,685
consolidated subordinated entities*	99,601	115,916
subordinated entities valued at equity method	7,938	57,769
	115,382	177,939
Deposits		
Opening balance	177,939	224,835
Closing balance	115,382	177,939
Contingent liabilities granted***		
Letters of credit	1,741	17,604
Credit lines granted	309,854	395,009
	311,595	412,613

PLN'000	2012	2011
Interest and commission income, including:	5,408	10,578
consolidated subordinated entities*	5,393	10,567
subordinated entities valued at equity method	15	11
Interest and commission expenses, including:	7,478	9,602
consolidated subordinated entities*	6,392	7,815
subordinated entities valued at equity method	1,086	1,787

**Consolidated entities include: Dom Maklerski Banku Handlowego S.A., Handlowy-Leasing Sp. z o.o., Handlowy Investments S.A. and PPH Spomasz Sp. z o.o. w likwidacji. Reported transactions with these entities are eliminated in the consolidated financial statements.*
*** As at 31 December 2012 and 31 December 2011, receivables of subsidiaries related to overdraft facilities used by consolidated entities.*
****As at 31 December 2012 and 31 December 2011, contingent liabilities granted to subsidiaries related to liabilities granted to consolidated entities.*

As at 31 December 2012 and 31 December 2011, no receivables or contingent liabilities granted to subsidiaries were subject to impairment write-offs.

45. Transactions with members of the Management Board and the Supervisory Board

PLN'000	31.12.2012		31.12.2011	
	Members of the Management Board	Members of the Supervisory Board	Members of the Management Board	Members of the Supervisory Board
Loans granted	603	-	-	-
Deposits				
Current accounts	8,460	2,225	5,700	3,053
Term deposits	3,519	119	3,635	187
	11,979	2,344	9,335	3,240

As at 31 December 2012 and 31 December 2011, no loans or guarantees were granted to members of the Management Board and the Supervisory Board.

All transactions of the Group with members of the Management Board and the Supervisory Board are at arm's length.

46. Employee benefits

Employee benefits are divided into the following categories:

- short-term benefits, which include salaries, social insurance contributions, paid leave and benefits in kind (such as medical care, company apartments, company cars and other free or subsidized benefits). The costs of short-term benefits are expensed in the income statement in the period to which they relate. At the end of a given reporting period, if there is a balance payable which equals the expected undiscounted value of short-term benefits for that period, the Group will record it as an accrued expense;

- benefits after termination of employment – including retirement allowances (see Note 2) and pension plans presented below offered by the Group to its staff.

  A provision is created for future retirement allowances that is shown in the consolidated statement of financial position in "Other liabilities." An independent actuary periodically verifies the provision in accordance with IFRS.

  The Group's pension plan is a defined-premium program in accordance with IAS 19. The Group pays contributions for its staff to a separate organization and, after they are paid, has no other payment liabilities. Premiums are shown as employee benefit expenses in the period they concern.

  <u>Description of the Employee Pension Plan</u>

  The objective of the Employee Pension Plan ("Plan") created by the Group is to save, and increase through investment, funds from premiums paid within the Plan into an individual account of the participant in order to ensure benefit payments after the participant attains the age of 60 years or takes early retirement or if the participant obtains the rights to disability benefits due to incapacity for work.

  The current Plan, which is a continuation of PPE Polskie Towarzystwo Emerytalne "Diament", was implemented on 19 March 2004 under an agreement with Legg Mason Senior Specjalistyczny Fundusz Inwestycyjny Otwarty ("LM Senior SFIO") and is registered in the District Court for Warsaw under number RFJ-8.

  The agreement is concluded with the investment fund Legg Mason Senior SFIO whose management authority is Legg Mason Towarzystw i Funduszy Inwestycyjnych S.A. The fund manager is Legg Mason Zarządzanie Aktywami S.A. (equities) and Western Asset Management (debt) for the fund: Bank Handlowy w Warszawie S.A. The transfer agent, i.e., the entity operating the registry of Plan Participants, is Pekao Financial Services Sp. z o.o.

The basic premium for Plan participants is paid out of the Group's own funds. Each employee who participates in the Plan can also make additional premium contributions to the Plan. The total of premiums paid to Plan is invested in units of LM Senior SFIO;

- other long-term employee benefits – jubilee and other long service awards. Information about jubilee awards is described in Note 2. Information on jubilee awards paid to employees is presented in Note 2. These are paid under a defined-benefit scheme and their valuation is carried out by an independent actuary in accordance with IAS 19;

- employee equity benefits – in the form of stock options granted on Citigroup common stock and also under stock award programs based on shares of Citigroup common stock in the form of deferred stock. Valuation and presentation principles of these programs are described in Note 2 in "Share-based payments." Detailed information concerning the employee equity benefits are presented in the further part of this Note.

Provisions for the above employee benefits are as follows:

PLN'000	31.12.2012	31.12.2011
Provision for remuneration	72,552	64,449
Previsions for unused leave	15,164	-
Provision for employees' retirement allowances and jubilee payments	36,913	36,210
Provision for employees' equity compensation	13,473	8,762
Provisions for other staff expenses	2,294	-
	140,396	109,421

In 2012, the Group's expenses in respect of premiums for the employee pension plan amounted to PLN 22,991 thousand (in 2011: PLN 23,460 thousand).

Employment in the Group:

FTEs	2012	2011
Average employment in the year	5,263	5,807
Employment at the end of the year	4,892	5,646

In 2012, a restructuring process was initiated in connection with the optimization of the branch network aimed at enhancing the effectiveness of the Consumer Bank and other sectors of the Bank. A provision of PLN 32,400 thousand was created for the cost of workforce restructuring and was fully used by 31 December 2012 (see Notes 10, 33). The rules of creating the restructuring provision are described in Note 2 in "Restructuring provision."

Description and principles of employee stock benefit schemes

Under the employee stock benefit program, awards in the form of Citigroup stock (the so-called Capital Accumulation Program, or CAP) or Citigroup stock options (the so-called Stock Ownership Program, or SOP) are offered to selected employees.

Within the framework of the SOP, eligible employees received options to buy stock at the NYSE closing price as at day before the award grant date. Employees acquire the right to a portion of their options on each anniversary of their SOP award grant date. Options granted in 2009 are transferred partially in 33⅓% every year for the next three years, starting from the first anniversary of option acquisition. Options granted in the previous years 2005-2008, were transferred partially in 25% every year, starting from the first anniversary of option acquisition. Employees loss the right to options at the moment of ceasing employment in Citigroup. Options may be exercised by purchase of stocks in the period from the acquisition date of the right to an option to the expiry date of the option.

Within the framework of the CAP, eligible employees receive so-called “deferred shares” of Citigroup. “Deferred shares” within the framework of the CAP are granted at the NYSE average closing price as at the 5 days prior to the grant date. “Deferred shares” give the right to equivalents of dividends, but without voting rights, and must not be sold prior to their conversion into stocks. “Deferred shares” are converted into stocks after the end of a period that is determined in the Program Rules. Employees loss the right to options at the moment of ceasing employment in Citigroup. Deferred shares granted in 2009-2012 will be transferred partially in 25% every year for the next four years, starting from the first anniversary of the option to acquire.

In 2012 Bank Handlowy introduced “Variable Remuneration Components Policy For Managerial Staff At Bank Handlowy w Warszawie S.A.” ("Policy"), according to requirements described in the Resolution 258/2011 of Komisja Nadzoru Finansowego (Polish Financial Supervisory Authority) dated 4-th of October 2011. According to the Policy the Management Board of the Bank and other managerial staff having a significant influence on the Bank's risk profile will receive variable remuneration in relation to individual performance and Bank’s financial results.

A portion of the Variable Remuneration of persons covered by the Policy will be paid in tranches during in the next 3,5 years.

Variable Remuneration – Phantom shares	
Transaction as per IFRS	Transactions share-based payments settled in cash in accordance with IFRS 2
Phantom Shares grant date	21 of January 2013
Number of Phantom Shares granted	The number of shares was set on grant date
Date of maturity	6, 18, 30 and 42 months after grant date
Vesting date	6, 12, 24 and 36 months after grant date
Terms and conditions for acquiring rights to the award	Satisfying of the terms of employment in the Group in years 2013, 2014 and 2015, Bank’s results and individual performance of the employee.
Program settlement	At the settlement date the participants will get an amount of cash being the product held by a participant phantom shares and the arithmetic mean of the lowest and highest prices of shares of the Bank notified on WSE at the vesting date. Acquisition of rights to every tranche will be confirmed by a decision of the Supervisory Board of the Bank in relation to the Management Board and by a decision of the Management Board in relation to other employees covered by the Policy. According to a decision of the above mentioned Bank’s Management the amount of payment may be partially or fully reduced according to conditions given in the Policy. These terms and conditions relate to Bank’s results, individual performance and employment status and will relate to the vesting period of each tranche.

Another component of the Variable Remuneration granted according to the Policy will be Deferred Cash Award.

Variable Remuneration – Deferred Cash Award	
Transaction as per IAS	Other long-term employee benefits in accordance with IAS 19
Grant date of the Deferred Cash Award	21 of January 2013
Granted amount	The amount was settled on the Deferred Cash Award grant date

Variable Remuneration – Deferred Cash Award	
Date of maturity	18, 30 and 42 months after grant date
Vesting date	12, 24 and 36 months after grant date
Terms and conditions for acquiring rights to the award	Satisfying of the terms of employment in the Group in years 2013, 2014 and 2015, Bank's results and individual performance of the employee.
Program settlement	At the settlement date the participants will get an amount of Deferred Cash tranche with an interest counted for the deferral period till the payment date. The interest rate was approved by the Resolution of the Supervisory Board in January 2013. Acquisition of rights to every tranche will be confirmed by a decision of the Supervisory Board of the Bank in relation to the Management Board and by a decision of the Management Board in relation to other employees covered by the Policy. According to a decision of the above mentioned Bank's Management the amount of payment may be partially or fully reduced according to conditions given in the Policy. These terms and conditions relate to Bank's results, individual performance and employment status and will relate to the vesting period of each tranche.

Assumptions of valuation of the employee equity benefit schemes

The fair value of particular awards and the assumptions used in their measurement, except the Stock Purchase Program the amount of which is immaterial for the financial statements, is shown below:

SOP Program	Grant date	Exercise price / stock price at grant date [USD]	Number of eligible employees	Number of options / shares
1	16.01.2007	543.8	1	43
2	22.01.2008	244.5	8	2,096
3	29.10.2009	40.8	202	114,425

CAP Program	Grant date	Exercise price / stock price at grant date [USD]	Number of eligible employees	Number of options / shares
1	20.01.2009	46.72	22	6,251
2	19.01.2010	35.16	17	25,755
3	18.01.2011	50.20	27	45,550
4	17.01.2012	30.54	22	47,093

	SOP Program	CAP Program
Period to acquire the title (in years)	(6) 33.33% after each of the following years (4)-(5) 25% after each of the following years	25% after each of the following years
Expected variances	36.85%	36.85%
Expected average life cycle of the instrument	1 year after the time of rights acquisition	At the time of rights acquisition
Risk free interest rate (for USD)	0.37%	0.37%
Expected dividends (in USD per one share)	0.04	0.04
Probability of premature termination of employment (annual staff turnover for awarded employees)	7%	7%
Fair value of one instrument* (in USD)	0.00 – 4.78	39.56

**Varies depending on the date of exercise*

Options – volumes and weighted-average strike prices (SOP Program):

	31.12.2012		31.12.2011	
	Number	Weighted average strike price [USD]	Number	Weighted average strike price [USD]
At the beginning of the period	110,137	70.62	117,569	70.8
Allocated in the period	-	-	-	-
Transfers	11,717	-	358	-
Redeemed in the period	-	-	7,790	40.8
Expired in the period	5,290	-	-	-
At the end of the period	116,564	44.65	110,137	70.62
Exercisable at the end of the period	116,564	44.65	65,637	89.21

For options that exist at the end of a given period:

31.12.2012			31.12.2011		
Strike price [USD]	Number ['000]	Weighted average period to the end of life cycle [years]	Strike price [USD]	Number ['000]	Weighted average period to the end of life cycle [years]
543.8	0.04	-	543.8	0.04	0.05
244.5	2.1	0.05	244.5	2.1	0.55
40.8	114.42	0.83	40.8	100.58	1.33

The number and the weighted average price of shares (CAP Program) are presented below:

	31.12.2012		31.12.2011	
	Number	Weighted average share price [USD]	Number	Weighted average share price [USD]
At the beginning of the period	114,874	52.74	85,437	71.60
Allocated in the period	47,093	30.54	59,296	50.20
Redeemed/expired in the period	37,318	-	29,859	-
At the end of the period	124,649	39.49	114,874	52.74

47. Subsequent events

After 31 December 2012, there were no major events, not included in the financial statement, that could have a significant influence on the net result of the Group.

48. Risk management

RISK MANAGEMENT ORGANIZATION STRUCTURE AND PROCESS

The Group's activities involve analysis, assessment, approval and management of a broad range of risks associated with its business. Such risk management process is performed at different units and levels of the organization and covers among others: credit risk (including counterparty credit risk, residual risk of accepted collateral and concentration risk), liquidity risk, market risk, and operational risk.

In the risk management area, the Supervisory Board of Bank resolves upon:

- approving a strategy of the Group's activity and the rules of prudent and stable risk management;

- approving a general level of the Group's risk appetite as part of the internal capital adequacy assessment process (ICAAP) document;
- approving the fundamental organizational structure of the Group, determined by the Bank's Management Board and matched to the size and the profile of incurred risks.

The Management Board of the Bank by way of a resolution:

- approves the organizational structure of the Group, which reflects the size and the profile of the risks taken and defines the roles and responsibilities in the area of risk management, ensuring that the functions of risk measurement, monitoring and control are independent from risk taking activities;
- determines the principles of prudent and stable risk management of the Group;
- sets general risk appetite levels accepted by the Group as part of the internal capital adequacy assessment process (ICAAP) document.

Furthermore, the Management Board of the Bank ensures that processes are put in place to manage significant risks identified in ICAAP.

The Management Board of Bank has nominated an independent Chief Risk Officer (CRO) reporting directly to the President of the Management Board and responsible for the management and control of credit risk, market risk, and operational risk, including:

- introducing a risk management system in the Group as well as risk identification, measurement, control and reporting methods;
- developing the risk management policy and developing risk assessment and control systems;
- making credit decisions in compliance with the principles resulting from the credit procedures as well as documents determining the Group's credit policy;
- ensuring the proper safety level of the credit portfolio;
- managing the problem loans portfolio (including collections and debt restructurings).

Processes of credit, market and operational risk management are implemented in the Group based on written strategies and principles of risk identification, measurement, mitigation, monitoring, reporting and control approved by the Management Board or appropriately appointed Committees, including the Assets and Liabilities Management Committee (ALCO), the Risk and Capital Management Committee, and the Business Risk and Control Commission (BRCC).

The Chief Risk Officer presents the organizational structure of the Risk Management Sector to the Management Board of the Bank, taking into account the specificity of credit, market, liquidity and operational risk management in the respective customer segments. For this purpose, organizational units have been set up within the Risk Management Sector that are responsible for:

- managing credit risk of the Corporate Bank;
- managing credit risk of the Commercial Bank;
- managing credit risk of the Consumer Bank;
- managing impaired receivables;
- managing market risk;
- managing liquidity risk;
- managing operational risk,
- supporting risk management in the above areas including in control functions.

Independent risk managers are responsible for developing and implementing risk management policies and practices in the respective business units, overseeing risks in the business units, and responding to the needs and issues of the business units.

Risk management in the Group is supported by a range of IT systems in the following areas:

- obligor and exposure credit risk assessment;
- credit, market and operational risk measurement, reporting and monitoring;
- monitoring and reporting of collateral;
- calculation and reporting of impairment write-offs;
- support of implementation of New Capital Accord requirements.

Significant Risks

Credit risk including also counterparty credit risk results from credit exposure or other exposure related to concluding and clearing below listed transactions, and is defined as the potential for financial loss resulting from the failure of a borrower or counterparty to honor its financial or contractual obligations. Credit risk arises in many of the Group's business activities, hereinafter "products," including:

- Loans and advances;
- FX and derivatives transactions;
- Securities transactions;
- Financing and handling settlements, including trade (domestic and foreign);
- Transactions in which the Group acts as an intermediary on behalf of its clients or other third parties.

The framework described in the "Credit Risk" section of this document covers different types of exposure, as defined in relevant Credit Policies of the Group.

Additionally, within the risk management system, the Group also applies credit risk mitigation rules (including by accepting collateral, thus mitigating the inherent **residual risk**) and manages **concentration risk**.

Liquidity risk is the risk that the Group may be unable to meet a financial commitment to a customer, creditor, or investor when due. Liquidity risk is measured under standards set by the regulator (regulatory liquidity measures) and with internal measures which support liquidity risk management.

Market risk is the risk to profits due to changes in interest rates, foreign exchange rates, commodity prices, and their volatilities. Market risk arises in non-trading portfolios, as well as in trading portfolios. Market risk is measured in accordance with established standards to ensure consistency across businesses and the ability to aggregate risk.

Operational risk is the risk of loss resulting from inadequate or failing internal processes, people, or technical systems, or from external events.

Operational risk includes reputation risk, associated with business practices or market conduct. Operational risk also includes legal risk and the risk of non-compliance with applicable laws and regulations.

Operational risk does not include strategic risk or the risk of loss resulting from decisions made with respect to accepted credit, market, liquidity or insurance risk.

Financial result risk is defined as variability of financial results that cannot be explicitly attributed to other risks identified by the Bank and covered in the calculation of capital requirements or internal capital.

CREDIT RISK

The main objective of the Group's credit risk management is to ensure a high quality of the credit portfolio and stability of activity by minimizing the risk of incurring credit losses. Credit risk is minimized through the Group's regulations and implemented controls.

Principles of the Credit Risk Management Policy

Independent risk management is responsible for establishing the Credit Policy for the Corporate Bank and the Credit Policy for the Commercial Bank, approving other policies and procedures, monitoring credit risk management performance, providing ongoing assessment of the credit risk of the portfolio and approving individually significant credit risk limits. The rules for approving risk are matched with the strategy of the Bank, credit portfolio performance and internal audit results.

For corporate and commercial clients as well as investment banking activities across the organization, the credit process is based on a range of fundamental policies, including:

- Joint business and independent risk management responsibility for the quality of the credit portfolio and process as well as for credit loss;
- Adherence to portfolio guidelines to ensure diversification and maintain risk/capital alignment;
- A minimum of two authorized credit approvers with delegated credit authority required for all significant exposures;
- Dependence of approval level from the risk taken – exposures with a higher risk (including size and risk assessment) require approval at a higher decision-making level;
- Diverse risk rating standards, adequate to every obligor and exposure, including remedial actions;
- Risk rating of every obligor and exposure in a consistent rating process using risk rating models and scorecards (scoring);
- Periodic monitoring of customers' business results and identification of negative changes in their standing which require immediate reclassification of exposure or remedial actions;
- Exceptions to Credit Policies are approved at higher levels within the organization to ensure control over risk policy implementation by higher level managers.

In the Consumer Bank (GCB), the Management Board of the Group has approved credit policies for each credit product offered.

Credit risk in this area is managed by means of:

- detailed credit policies which define the credit scoring rules;
- a system for allocation of credit authority and independent supervision of the quality of credit analyst performance;
- a system of monitoring the quality of IT tools supporting credit scoring;
- a system of risk measurement and control for credit portfolios including: a detailed management information system covering the quality of the credit portfolio and debt collection, identification of impaired exposures, monitoring of delinquencies, monitoring of benchmarks, etc., internal limits of credit portfolio parameters approved by the Management Board;
- debt collection policy rules approved by the Management Board as well as a fraud prevention policy and a credit and debit card transaction authorization policy;
- credit portfolio quality reports to the GCB Risk Committee, the Risk and Capital Management Committee and the Supervisory Board's Risk and Capital Committee;
- stress testing rules;
- monitoring of the performance of scoring models and measurement and identification of impaired exposures;
- checking the behavior of Bank customers in the Credit Information Bureau (BIK);
- collateral valuation policy for mortgage-secured credits offered by GCB.

Each portfolio has stress testing performed at least on an annual basis.

Credit risk assessment and rating

The Group maintains consistent risk ratings across the corporate and commercial credit portfolio, which facilitates comparison of credit exposure across all lines of business, geographic regions and products.

Obligor Risk Rating and Obligor Limit Rating are elements of the assessment of credit risk associated with granted products. Obligor Risk Ratings reflect an estimated probability of default for an obligor within 1 year and are derived primarily through the use of statistical models, external rating agencies, or scoring models.

Obligor Limit Rating (OLR) as a measure of medium to long-term risk of the obligor is subject to assessment in terms of qualitative factors including: cyclicality, sector, management, strategy, vulnerability to regulatory environment, transparency and quality of control processes.

Facility Risk Ratings are assigned using the obligor risk rating and facility-level characteristics such as collateral, thus decreasing the potential loss on a facility in case of default. As a result, Facility Risk Rating reflects a potential expected loss given-default.

Credit Risk is measured at a number of levels, including:

- At facility level, which may include one or more contracts, disposals or transactions;
- At obligor level, if there are multiple facilities approved for an obligor where the risk associated with an obligor default can be assessed;
- At group level, considering the group structure of multiple obligors with common ownership and/or organization;
- At portfolio level where Portfolio Risk Rating is calculated as the average rating of individual facility exposure ratings weighted with the size of exposure.

In case of the amount of exposure, the measurements methods vary from the most simple, such as the value of the asset, to complex, such as estimating potential replacement cost on a derivative contract. The processes required for these measurements also vary considerably, from a simple feed of balances to a complex, multiple simulation engine. With reference to exposures resulting from counterparty credit risk (pre-settlement) for the purpose of risk management, the Bank uses PSE measure (Pre-Settlement Exposure) reflecting future potential exposure of the counterparty. PSE reflects maximum expected exposure of the counterparty during the life of the transaction (or transaction portfolio) at a specific confidence level.

Mark-to-market distribution and PSE amount are dependent on market factors determining the values for particular transactions in the customer portfolio. In case of lack of sufficient data for simulation of transaction portfolio value, more simplified methods are used, which also apply to measurement of exposure for internal capital purposes.

For retail credit exposures, the Group uses scoring models developed on the basis of the history of behavior of the Group’s customers. Such models analyze the behavior of customers in the Credit Information Bureau as well as customer demographics. The quality of performance of scoring models is reviewed on an ongoing basis and monitored annually. As a result, modifications are made in the model or the credit policy.

Credit risk of the retail credit portfolio is measured based on dedicated scoring models and reporting techniques including an analysis of ratios for new customers and existing portfolios with and without impairment.

The effectiveness of scoring models used in risk assessment processes is regularly monitored with population stability reports, KS (Kolmogorov-Smirnov) test reports and portfolio quality reports (delinquency and loss ratios). Each scoring model is validated annually.

Credit risk monitoring

Probability of obligor default is monitored by risk analysts and/or business managers assigned to the obligor.
Credit risk exposure is monitored and managed at two levels: (a) customer level, and (b) portfolio level.

Exposure monitoring and management at customer level includes periodic control reports, an early warning system and periodic reviews of the customer's standing.

Monitoring of portfolio performance and identification of portfolio trends include regular management reports and control reports which also support active response to negative signals or trends.

In addition to various credit reports, risk managers and business representatives conduct regular round tables regarding the portfolio in order to review business pipelines and discuss the credit issues.

In GCB, monitoring covers scoring models, impairment measurements, delinquencies, the effectiveness of debt collection, internal limits, customer behavior checks with BIK, benchmarks, etc.

Risk mitigation

Risk mitigation is a constant and key element of the Group's credit risk management processes. It is achieved as described below:

- Target market and customer selection criteria are determined;
- Maximum credit exposure against obligor is determined through obligor limits related to customer risk ratings and/or through risk acceptance criteria;
- Limits are established and monitored in order to mitigate exposure concentration risk;
- Robust credit due diligence standards are established and maintained;
- Credit process standards are established in order to ensure a consistent approach to each segment;
- Minimum documentation standards are applied;
- Collateral is used in order to minimize the risk and to manage residual risk;
- Expected collateral structure or credit value in relation to collateral value is determined;
- The value of collateral on property and equipment is determined by dedicated specialty functions within the Bank using external valuation where required;
- Credit monitoring and early warning system are used;
- Active portfolio management includes implementation of necessary modifications to the credit strategy based on portfolio reviews or stress testing.

Policy of collateral acceptance

Apart from general rules of credit risk mitigation, the Group has defined specific Corporate and Consumer rules of accepting various types of collateral, including guarantees and similar forms of support (jointly: "collateral"). These rules serve to minimize the residual risk associated with collateral.

As an additional element limiting this risk, in financing of companies and individuals who pursue business activity, revenues from the customer's ongoing business are the key element of creditworthiness assessment of potential borrowers and the primary source of repayment of debt to the Group.

In order to diversify risks associated with collateral, the Group accepts various types of collateral:

- In the Consumer Bank, the most common type of collateral is residential real estate;
- In the Corporate and Commercial Bank, the following types of collateral are mainly accepted:
    - Guarantees,
    - Cash,
    - Securities,
    - Receivables,
    - Inventory,
    - Real estate,
    - Equipment and machines (including vehicles).

Detailed procedures outlining the types of collateral acceptable to the Group and the rules of their establishment and valuation as well as the creation of a special risk unit responsible for the collateral management process allow for the development of appropriate standards for this process, including:

- criteria for acceptance and valuation of collateral;
- documentation standards;
- rules of collateral monitoring (including inspections).

In addition, Corporate Banking credit regulations set such parameters as:

- the structure of collateral required for different types of credit receivables;
- relationship of loan value to collateral value for each type of collateral;
- desirable structure of the different types of collateral in the credit portfolio.

The Group periodically checks whether the current structure of the collateral portfolio in Corporate Banking is compatible with the objectives and whether the value of the collateral is sufficient.

Within the Corporate Bank, the expected ratio of loan value to collateral value is determined in each case in a credit decision. This ratio is also subject to periodic inspection / monitoring.

The principal type of collateral in GCB is an entry in the land and mortgage register for mortgage-secured loans. The Group also uses bridge insurance to mitigate the risk of the borrower's default between the time of disbursement of a loan and the time of making an entry in the land and mortgage register.
The value of collateral is measured at each time on the basis of an expert valuation of real estate commissioned by the Group. Expert valuations are reviewed by an independent valuation division according to valuation guidelines for real estate used as collateral of real estate loans for individuals who are GCB customers. The quality of the division's performance is monitored.

As at 31 December 2012, the financial effect of receivables recovered from collateral for receivables from customers with recognized impairment based on individual measurement in the Group amounted to PLN 129,084 thousand (31 December 2011: PLN 119,251 thousand). This is how much higher the required impairment write-offs of the portfolio would be if the estimation of the write-offs did not include cash flows from such collateral.

Concentration of exposure

The Group sets limits and manages exposures so as to ensure adequate risk diversification in the portfolio. In its credit risk management, the Group defines exposure concentration limits related to the maximum exposure (as per internal reporting):

- against one obligor or a group of multiple obligors with common ownership and/or organization;
- against particular industries (based on the Group's internal classification);
- in a specific foreign currency;
- resulting from transactions generating counterparty credit risk (pre-settlement);
- against the group of the Group's parent entity;
- concentration limits for mortgage-secured exposures and real estate financing exposures;
- against retail credit exposures of the Consumer Bank Risk Division.

The first two concentrations (against obligors and industries), regarding in particular Corporate and Commercial Bank portfolios, are considered the most significant from the concentration risk management point of view in the Group.

In the obligor exposure management process, the Group also monitors the limits defined by the Banking Act and other supervisory resolutions to ensure compliance, including an additional capital requirement determined for these exposures when needed.

Obligor exposure concentration risk

The Group limits the concentration of its exposure to a single customer or a group of customers with common ownership or organization. As at 31 December 2012, the Group's exposure in bank portfolio transactions with groups of customers whose aggregate exposure exceeded 10% of the Group's equity (as defined below in this report) amounted to PLN 6,165,674 thousand, i.e., 134.7% of equity (31 December 2011: PLN 3,684,007 thousand, i.e., 90.4%).

Concentration of exposure to the top 10 non-banking borrowers of the Group:

PLN'000	31.12.2012			31.12.2011		
	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure
GROUP 1	295,507	660,984	956,491	6	533,350	533,356
GROUP 2	773,688	161,095	934,783	365,220	337,648	702,868
CLIENT 3	716,500	200,050	916,550	691,400	75,150	766,550
GROUP 4	217,656	499,661	717,317	328,489	419,451	747,940
GROUP 5	443,147	168,222	611,368	272,859	160,435	433,294
CLIENT 6	399,883	163,637	563,520	199,556	165,924	365,480
GROUP 7	440,436	60,233	500,669	-	-	-
GROUP 8	318,113	175,675	493,788	266,619	61,608	328,227
GROUP 9	303,686	167,502	471,188	187,823	20,539	208,362
GROUP 10	198,076	253,359	451,435	5	200,930	200,935
Total 10	4,106,692	2,510,417	6,617,109	2,311,977	1,975,035	4,287,012

**Excluding investment in shares and other securities*

The Banking Act of 29 August 1997 and its executive regulations issued by the Polish Financial Supervision Authority (KNF) define maximum exposure limits for the Group. Subject to the conditions laid down in Resolution No. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 on the scope and detailed procedures for determining capital requirements for individual risks and Resolution No. 208/2011 of the Polish Financial Supervision Authority of 22 August 2011 regarding specific rules and conditions of including capital requirements in checking compliance with exposure concentration limits and large exposures limits, the Group is allowed to maintain exposure exceeding concentration limits, as defined in Article 71 of the Banking Act, on condition that the excess exposure relates only to transactions classified in the trading portfolio. For the purpose of determining exposure concentration limits set in the Banking Act, equity has been established in accordance with Resolution No. 325/2011 of the Polish Financial Supervision Authority of 20 December 2011 concerning other reductions of first-tier capital, their level, scope and conditions of deducting them against first-tier capital of a Group (...).

As at 31 December 2012, the Group had an exposure to one entity exceeding the statutory exposure concentration limits. The excess exposure resulted from derivative transactions. As a consequence, an additional capital requirement for excess exposure was factored into the calculation of the Group's total capital requirement as at 31 December 2012.

Concentration of exposure in individual industries

Given that there is a large diversity of customers representing individual industries, the table below shows aggregate data for the Group's gross exposure to the top 20 industries and by type of business in particular reporting periods.

Sector of the economy according to the Polish Classification of Economic Activity (PKD)*	31.12.2012		31.12.2011	
	PLN'000	%	PLN'000	%
Wholesale trade, excluding trade in vehicles	4,285,518	21.1%	3,666,012	20.8%
Manufacture and supply of electricity, gas, steam, hot water and air conditioning	2,733,355	13.5%	1,504,309	8.5%

Sector of the economy according to the Polish Classification of Economic Activity (PKD)*	31.12.2012		31.12.2011	
Financial intermediation, excluding insurance and pension funds	1,684,544	8.3%	1,484,166	8.4%
Retail trade, excluding retail trade in vehicles	1,226,034	6.0%	1,216,060	6.9%
Production of food and beverages	1,038,106	5.1%	996,792	5.6%
Wholesale and retail trade in motor vehicles, repair of motor vehicles	832,465	4.1%	689,224	3.9%
Manufacture of motor vehicles, trailers and semi-trailers, excluding motorcycles	791,205	3.9%	585,434	3.3%
Production and processing of coke and petroleum products	715,034	3.5%	750,022	4.2%
Production of basic pharmaceutical substances, medicines and other pharmaceutical products	681,676	3.4%	510,935	2.9%
Metal ore mining	500,584	2.5%	-	-
Top 10 business sectors	14,488,521	71.5%	11,402,954	64.6%
Manufacture of electric appliances	453,766	2.2%	470,948	2.6%
Production of metal goods, excluding machines and equipment	424,532	2.1%	380,510	2.2%
Construction of buildings	346,996	1.7%	400,201	2.3%
Manufacture of chemicals and chemical products	288,537	1.4%	356,961	2.0%
Manufacture of rubber and plastic products	280,816	1.4%	267,054	1.5%
Production of beverages	255,236	1.3%	237,375	1.3%
Telecommunication	253,754	1.3%	263,904	1.5%
Manufacture of furniture	240,335	1.2%	228,580	1.3%
Business of head offices; management advisory	234,640	1.2%	191,107	1.1%
Manufacture of furniture	218,472	1.1%	202,083	1.1%
Top 20 business sectors	17,485,605	86.3%	14,401,677	81.5%
Other sectors	2,781,814	13.7%	3,255,156	18.5%
Total	20,267,419	100.0%	17,656,833	100.0%

**Gross balance-sheet and off-balance-sheet exposure to institutional customers (including banks).*

Although concentration in selected sectors changed compared to the end of 2011, the overall concentration of the portfolio remained stable.

Gross amounts due from customers and banks by type of business

PLN'000		31.12.2012	31.12.2011
Gross amounts due from economic entities and banks			
Financial		2,258,337	1,990,826
Production		3,699,331	3,101,158
Services		752,894	833,862
Other		6,182,812	4,715,556
		12,893,374	10,641,402
Gross amounts due from individuals		5,920,992	5,862,179
	(see Note 18, 23)	18,814,366	16,503,581

In addition to monitoring the present concentration against established limits, the Group also monitors other potential concentrations (by geography and by collateral); however, in view of the specificity of the Group's portfolio, no limits have been established for such concentrations (other than limits of mortgage-secured exposures).

Management of impaired exposures

The active process of portfolio quality management includes both assigning appropriate risk ratings and classification to facilities as well as the application of remedial and debt collection actions. The Bank has put in place a uniform internal system for classification of receivables against predetermined criteria.

Credit exposures with identified impairment are divided into two categories. There is portfolio of exposures managed on the basis of individual classification (classifiable portfolio) and a portfolio of exposures managed on the basis of days of delinquency (delinquency managed portfolio). Eligibility for either portfolio depends on the amount of aggregate exposure to the customer and the exposure management process applied.

For customers in the classifiable portfolio, loans are treated as impaired when there is objective evidence of credit exposure impairment whose criteria include:

- Significant financial difficulty of the obligor;
- Breach of contract, such as default or delinquency in interest or principal payments;
- Granting the borrower a concession, which the lender would not otherwise consider, due to economic or legal reasons relating to the borrower’s financial difficulty;
- High probability of counterparty bankruptcy or information on opened bankruptcy proceedings;
- National or local economic conditions that may be correlated with default of exposure;
- Payment overdue for more than 60 days;
- Significant deterioration of the customer’s rating;
- Bank’s petition for an enforcement procedure to be opened against the counterparty;
- Downgrade of the counterparty’s rating by a recognized external credit rating institution accepted by the Bank.

For customers in the delinquency managed portfolio, loans are considered impaired as soon as a specified benchmark of days past due is met.

Risk Management regularly evaluates the adequacy of the established write-offs for impaired loans.

Customers in the classifiable portfolio (individual assessment)

Impairment is determined by estimating the exposure loss, case by case, and the following factors are considered:

- Aggregate exposure to the customer;
- The viability of the customer’s business model and the capacity to successfully work out their financial difficulties;
- Generating sufficient cash flows to service debt obligations;
- The amount and timing of expected payments;
- The probability of meeting granted contingent commitments;
- The realizable value of collateral and the probability of successful repossession (considering all legal risks and hedge maintenance costs until disposal);
- The expected receipts due to enforcement, bankruptcy and liquidation;
- Estimation of possible expenses concerned in recovering outstanding amounts;
- Where appropriate, the market price of debt.

It is required that the level of impairment write-offs on classifiable exposures that are above materiality thresholds to be reviewed at least quarterly. The review covers collateral held and an assessment of actual and anticipated payments.

Customers in the delinquency managed portfolio (portfolio assessment)

For exposures that are not considered individually significant, impairment is calculated on a portfolio basis, essentially when a specified benchmark of days past due is met. A formulaic approach is used which allocates progressively higher percentage loss rates the longer a customer's loan is overdue.

The tables below present the Group's portfolio grouped by receivables from customers with established impairment are and without impairment. The tables also present the details of impairment write-offs. Impaired receivables are divided into the classifiable portfolio (individual assessment) and the delinquency managed portfolio (portfolio assessment). Exposures without impairment are classified based on internal risk ratings from 1 to 7, where risk category 1 is the best rating.

The main criterion of impairment for GCB customers is a delay in payment of the principal amount and interest, a minimum payable balance, a commission, or an exceeded balance limit. For purposes of impairment, it is assumed that the criterion is met when a payment is overdue for at least 90 days at the impairment assessment date.

Irrespective of delinquency days, impaired exposures include exposures for which the Bank has accepted a facilitation of payment (restructuring of debt), which it would otherwise not consider, due to economic or legal reasons relating to the financial difficulty of the customer, where the Bank does not receive an adequate compensation. Adequate compensation is understood as additional income earned, as a result of which the present value of cash flows is not lower than the carrying value before restructuring.

Additional criteria of impairment include:

- death, permanent disability or serious illness;
- fraud;
- information about initiated bankruptcy proceedings of the customer or bankruptcy declared by the customer;
- impairment or risk of impairment of collateral;
- detention or imprisonment of the customer;
- partial cancellation of the principal amount;
- termination of contract;
- petition of the Bank for an enforcement procedure to be opened against the customer.

The table below presents the maximum exposure of the Group to credit risk:

PLN'000	Note	31.12.2012	31.12.2011
Gross credit receivables (banks and customers)	18, 23	18,814,366	16,503,581
Financial assets held-for-trading	19	6,838,483	5,805,044
Debt securities available-for-sale	20	15,003,003	17,625,355
Other assets	28	567,736	403,182
Contingent liabilities granted	39	14,253,958	13,449,643
		55,477,546	53,786,805

PLN'000	31.12.2012		31.12.2011	
	Amounts due from customers	Amounts due from banks	Amounts due from customers	Amounts due from banks
Receivables with established impairment				
Classifiable receivables				
Gross amount	590,572	-	628,459	-
Impairment write-off	400,831	-	370,035	-
Net amount	189,741	-	258,424	-

PLN'000	31.12.2012		31.12.2011	
	Amounts due from customers	Amounts due from banks	Amounts due from customers	Amounts due from banks
Delinquency managed receivables				
from customers and banks (without individuals) by deliquency				
0-90 days	4,892	-	2,777	-
91-180 days	9,616	-	13,912	-
181-360 days	4,666	-	7,348	
more than 361 days	55,493	-	93,741	-
from individuals, including:	742,893	-	842,662	-
restructured portfolio	134,959		145,932	
Gross amount	817,560	-	960,440	-
Impairment	611,488	-	718,759	-
Net amount	206,072	--	241,681	-
Not impaired receivables				
from customers and banks (excl. individuals), by risk rating				
Risk rating 1-4-	6,726,857	1,454,135	6,003,952	539,362
Risk rating +5-6-	3,911,704	7,892	3,042,996	8,952
Risk rating +7 and greater	133,475	-	303,946	5
Receivables from individuals, by delinquency				
no delinquency	4,827,705	-	4,658,929	
1–30 days	255,525	-	241,540	-
31–90 days	88,941	-	115,000	-
Gross amount	15,944,207	1,462,027	14,366,363	548,319
Impairment	118,608	126	146,995	63
Net amount	15,825,599	1,461,901	14,219,368	548,256
Total net amount	16,221,412	1,461,901	14,719,473	548,256

PLN'000	31.12.2012		31.12.2011	
	Amounts due from customers	Amounts due from banks	Amounts due from customers	Amounts due from banks
Impairment write-offs for impaired receivables				
Impairment write-offs for classifiable receivables	400,831	-	370,035	-
Impairment write-offs for delinquency managed receivables, by delinquency				
for amounts due from customers and banks(without individuals) by deliquency				
0-90 days	1,715	-	959	-
91-180 days	3,233	-	4,063	-
181-360 days	1,864	-	27,021	
more than 361 days	40,248	-	49,656	-
for receivables from individuals	564,428		637,060	
restructured portfolio	99,344		109,452	-
	611,488	-	718,759	-
IBNR provisions				
for receivables from customers and banks (excl. individuals), by risk rating				
Risk rating 1-4-	1,659	86	1,929	29
Risk rating +5-6	18,141	40	20,661	34
Risk rating +7 and greater	4,767	-	11,547	-
for receivables from individuals, by delinquency				
no delinquency	32,058		29,956	
1–30 days	24,250	-	26,784	-

PLN'000	31.12.2012		31.12.2011	
	Amounts due from customers	Amounts due from banks	Amounts due from customers	Amounts due from banks
31–90 days	37,733	-	56,118	-
	118,608	126	146,995	**63**
Total impairment write-offs	1,130,927	126	1,235,789	63

PLN'000	31.12.2012	31.12.2011
Receivables with incurred but not recognized (IBNR) losses		
Regular receivables		
no delinquency	16,946,558	13,714,071
1-30 days	344,490	1,056,657
Overdue receivables		
31-90 days	111,770	125,365
91-180 days	3,228	70
181-365 days	23	1,295
more than 366 days	165	17,224
Gross amount	17,406,234	14,914,682

The Group's ratio of provisions to receivables is presented in the table below:

PLN'000	31.12.2012	31.12.2011
Gross amount		
Receivables with recognized impairment, including:	1,408,132	1,588,899
Classifiable receivables	590,572	628,459
Delinquency managed receivables	817,560	960,440
Receivables without recognized impairment	17,406,234	14,914,682
Total gross amount	18,814,366	16,503,581
Impairment write-offs		
Receivables with recognized impairment, including:	1,012,319	1,088,794
Classifiable receivables	400,831	370,035
Delinquency managed receivables	611,488	718,759
Receivables without recognized impairment	118,734	147,058
Impairment write-offs in total	1,131,053	1,235,852
Net amount		
Receivables with recognized impairment, including:	395,813	500,105
Classifiable receivables	189,741	258,424
Delinquency managed receivables	206,072	241,681
Receivables without recognized impairment	17,287,500	14,767,624
Total net amount	17,683,313	15,267,729
Ratio of provisions to receivables with recognized impairment	71.9%	68.5%

LIQUIDITY RISK

The processes and organization of liquidity risk management

Liquidity risk is defined as the risk that the Group may not be able to meet its financial commitments to customers or counterparties when due.

The objective of liquidity risk management is to ensure that the Group can meet all commitments to customers when due and to secure liquidity necessary to clear all money market transactions when due.

Liquidity risk management is based on:

- Requirements of Polish regulatory institutions and especially resolutions of the Polish Financial Supervision Authority;
- Rules of prudent and stable management of the Bank as well general risk levels approved by the Supervisory Board of the Bank;

taking into account best market practice.

The ultimate responsibility for ensuring that the Bank operates under approved liquidity risk limits lies within the Management Board of the Bank, and ongoing market risk management is performed by:

- Member of the Management Board of the Bank – Head of the Risk Management Sector;
- Assets and Liabilities Management Committee (ALCO);
- Head of the Market Risk unit.
- Persons delegated to

Liquidity management

The objective of liquidity risk management is to ensure that the Bank and Group's entities have adequate access to liquidity in order to meet its financial obligations when due, including under extreme but probable stress conditions.

The Group analyses and manages liquidity risk in several time horizons while distinguishing current, short-, mid- and long-term liquidity, to which appropriate risk measurement methods and limits apply.

Long-term liquidity management is the responsibility of ALCO and as such it is reflected in the Group's strategy. It is based on the monitoring of balance sheet structural ratios and on long-term regulatory liquidity measures and includes the analysis of liquidity gaps, the ability to acquire in the future sufficient funding sources as well as funding costs in the light of the overall business profitability.

Mid-term liquidity management, in the one-year time horizon, is the responsibility of ALCO and is based on the process of the Annual Funding and Liquidity Plan defining the size of internal limits taking into account the business plans for assets and liabilities changes prepared by business units of the Group as part of financial plans for the next budget year.

Short-term liquidity management, in the three-month time horizon, is the responsibility of the Treasury Division and is performed based on short-term regulatory liquidity measures as well as internal limits. In addition, the Group analyses liquidity under stress scenarios, assuming the lack of liquidity gaps in all tenors up to three months as a necessary condition.

Current liquidity management is the responsibility of the Treasury Division and comprises the management of the balances on the Group's nostro accounts and especially the mandatory reserve account with NBP while applying available money market products and central bank facilitates.

Liquidity management with accordance to "Risk management principals" in Group's entities is a part of the entities management board responsibilities. ALCO is the supervisor of the Group's entities liquidity supervisory

Funding and Liquidity Plan

The Head of the Group's Treasury Division is responsible for preparing an annual Funding and Liquidity Plan ("Plan") for the Group and obtaining the ALCO approval for the Plan. The Plan addresses all funding or liquidity issues resulting from businesses plans, especially in the customer deposits and loans area, as defined in annual budgets of particular business entities, as well any material changes in regulatory requirements and market dynamics.

Liquidity risk management tools

The Bank measures and manages liquidity risk by applying both external regulatory measures and additional internal liquidity measures.

Internal liquidity risk management tools

In addition to the regulatory liquidity measures, the Bank's Group applies a range of liquidity risk management tools including:
- Gap analysis – Market Access Report (MAR);
- Stress scenarios;
- Liquidity ratios;
- Market Triggers;
- Significant Funding Sources;
- Contingency Funding Plan.

Stress scenarios

Stress tests are intended to quantify the potential impact of an event on the Group's balance sheet and cumulative gap over a three-month period, and to ascertain what incremental funding may be required under any of the defined scenarios. The scenarios are proposed by the Bank's Treasury and Market Risk and approved by ALCO.

The Group conducts the stress tests monthly. The scenarios assume material changes in the underlying funding parameters, i.e.:
- Concentration event;
- Long-term rating downgrade;
- Short-term rating downgrade;
- Local market event.

Contingency Funding Plan

Treasury is responsible for the preparation and annual update of the Contingency Funding Plan, which defines the Bank's action plan in case of a contingency, specifically in cases assumed in liquidity stress scenarios and described in the annual Funding and Liquidity Plan. The Contingency Funding Plan is approved by ALCO.

The Contingency Funding Plan defines:
- Circumstances / symptoms of contingency events;
- Responsibilities for executing the action plan;
- Sources of liquidity, and in particular the principles of maintenance of a liquid assets portfolio to be used in the case of a liquidity contingency;
- Rules for assets disposal and balance sheet restructuring;
- Procedures for restoring customer confidence.

The levels of the modified gap in cash flows and the level of liquid assets as at 31 December 2012 and 31 December 2011 are shown in the tables below.

The cumulative liquidity gap as at 31 December 2012 in real terms:

PLN'000	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	9,765,848	-	-	-	33,742,915
Liabilities	10,506,745	15,653	430,162	35,614	32,520,589
Balance sheet gap in the period	(740,897)	(15,653)	(430,162)	(35,614)	1,222,326
Conditional derivative transactions – inflows	13,145,218	3,934,663	17,757,422	8,030,165	11,529,551
Conditional derivative transactions – outflows	13,144,474	4,051,952	17,951,240	8,079,727	11,726,748
Off-balance-sheet gap in the period	744	(117,289)	(193,818)	(49,562)	(197,197)
Cumulative gap	(740,153)	(873,095)	(1,497,075)	(1,582,251)	(557,122)

The cumulative liquidity gap as at 31 December 2011 in real terms:

PLN'000	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	9,308,485	-	-	-	32,969,713
Liabilities	10,033,999	954,309	29,492	497,129	30,763,269
Balance sheet gap in the period	(725,514)	(954,309)	(29,492)	(497,129)	2,206,444
Conditional derivative transactions – inflows	17,755,307	5,764,197	10,506,762	4,035,334	11,147,661
Conditional derivative transactions – outflows	17,725,234	5,744,581	10,370,852	4,168,442	11,086,524
Off-balance-sheet gap in the period	30,073	19,616	135,910	(133,108)	61,137
Cumulative gap	(695,441)	(1,630,134)	(1,523,716)	(2,153,953)	113,628

Liquid assets and the cumulative liquidity gap up to 1 year:

PLN'000	31.12.2012	31.12.2011	Change
Liquid assets, including:	18,588,543	19,877,179	(1,288,636)
nostro account in NBP and stable part of cash	1,053,485	310,037	743,448
debt securities held-for-trading	2,532,055	1,941,787	590,268
debt securities available-for-sale	15,003,003	17,625,355	(2,622,352)
Cumulative liquidity gap up to 1 year	(1,497,075)	(1,523,716)	26,641
Coverage of the gap with liquid assets	1242%	1305%	(63p.p.)

Financial liabilities of the Group, by contractual maturity, are presented below.

As at 31 December 2012

PLN'000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Interest
Amounts due to banks	30	2,356,438	1,999,730	-	288,776	64,759	24	3,149
Financial liabilities held-for-trading								
Short positions in financial assets	19	1,027,729	1,027,729	-	-	-	-	-

PLN'000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Interest
Amounts due to customers, including:		26,852,230	25,824,920	450,119	536,328	18,348	93	22,422
Deposits from financial sector entities	31	2,794,850	2,609,180	5,534	160,762	16,006	12	3,356
Deposits from non-financial sector entities	31	20,834,934	20,039,075	419,496	358,093	1,879	81	16,310
Other liabilities	31	3,222,446	3,176,665	25,089	17,473	463	-	2,756
Financial liabilities held-for-trading								
Derivative financial instruments	19	3,809,270	124,324	178,255	305,514	2,345,351	855,826	-
Unused credit lines liabilities	39	11,092,470	10,200,430	17,086	314,945	412,329	147,680	-
Guarantee lines	39	1,799,810	164,907	180,430	825,770	556,805	71,898	-
		46,937,947	39,342,040	825,890	2,271,333	3,397,592	1,075,521	25,571
Gross derivatives								
Inflows		53,149,747	13,303,983	3,980,278	17,088,166	15,970,616	2,806,704	
Outflows		53,662,203	13,325,688	4,091,598	17,221,173	16,198,015	2,825,729	
		(512,456)	(21,705)	(111,320)	(133,007)	(227,399)	(19,025)	

As at 31 December 2011

PLN'000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Interest
Amounts due to banks	30	6,011,402	4,542,694	873,480	30,975	516,141	40,641	7,471
Financial liabilities held-for-trading								
Short positions in financial assets	19	679,529	679,529	-	-	-	-	-
Amounts due to customers, including:		24,095,908	22,927,576	622,635	467,987	55,378	1,211	21,121
Deposits from financial sector entities	31	2,232,262	2,156,197	69,651	4,643	18	675	1,078
Deposits from non-financial sector entities	31	21,689,800	20,649,941	525,214	440,165	54,657	536	19,287
Other liabilities	31	173,846	121,438	27,770	23,179	703	-	756
Liabilities due to debt securities issuance	32	25,336	673	-	24,652	-	-	11
Financial liabilities held-for-trading								
Derivative financial instruments	19	3,381,573	106,334	194,817	598,626	1,982,155	499,641	-
Unused credit lines liabilities	39	10,674,678	9,960,127	51,395	95,927	502,423	64,806	-
Guarantee lines	39	2,085,597	70,497	181,198	927,449	830,038	76,415	-
		46,954,023	38,287,430	1,923,525	2,145,616	3,886,135	682,714	28,603
Gross derivatives								
Inflows		47,773,916	18,299,699	5,319,162	10,305,902	10,649,324	3,199,829	
Outflows		47,680,168	18,313,618	5,321,701	10,178,640	10,561,080	3,305,129	
		93,748	(13,919)	(2,539)	127,262	88,244	(105,300)	

MARKET RISK

The processes and organization of market risk management

Market risk is the risk of negative impact on the Group's earnings and equity resulting from changes in market interest rates, foreign exchange rates, equity and commodity prices, as well all volatilities of these rates and prices.

The objective of market risk management is to ensure that the extent of risk accepted within the Bank corresponds to the level acceptable to the shareholders and banking supervision authorities and to ensure that all exposures to market risk are properly reflected in the calculated risk measures, communicated to relevant persons and bodies responsible for the management of the Group.

Market risk management in the Group is based on:

- Requirements of Polish regulatory institutions and especially resolutions of the Polish Financial Supervision Authority;
- Rules of prudent and stable management of the Bank as well general risk levels approved by the Supervisory Board of the Bank;

taking into account best market practice.

The ultimate responsibility for ensuring that the Bank operates under approved market risk exposure limits lies within the Management Board of the Bank, and ongoing market risk management is performed by:

- Member of the Management Board of the Bank – Head of the Risk Management Sector;
- Assets and Liabilities Management Committee (ALCO);
- Head of the Market Risk unit;
- Heads of risk-taking business units;
- Persons delegated to risk management in Group entities.

Market risk management

Scope of risk

Market risk management applies to all portfolios generating income exposed to the negative impact of market factors including interest rates, foreign exchange rates, equity prices, commodity prices and the parameters of their volatility. Two types of portfolios have been defined for the purpose of market risk management: trading portfolios and bank portfolios.

The trading portfolios include transactions in financial instruments (balance-sheet and off-balance-sheet instruments) expected to generate income owing to change in market parameters over a short period. The trading portfolios include balance-sheet items such as debt securities held-for-trading, i.e., debt securities acquired to be further traded and meeting pre-defined liquidity criteria, as well as all derivative instrument positions broken down into portfolios acquired purely for trading and transactions executed in order to provide an economic hedge of bank portfolio positions. The trading portfolios are valued directly at market prices or using market pricing-based valuation models. The trading portfolio operations are performed by the Bank's Treasury Division in respect of interest rate risk portfolios and FX risk portfolios. The trading portfolio also includes options, manly foreign exchange options and interest rate options. In this area, the Group concludes transactions in a way which ensures concurrent (at each time and immediate) conclusion of an opposite transaction with the same parameters and, in consequence, the option portfolio is excluded from the calculation and monitoring of market risk. The only item related to the conclusion of option transactions which is reflected in market risk measurement, and in particular in foreign exchange risk, is the premium paid/received in a foreign currency.

The bank portfolios include all other balance-sheet and off-balance-sheet positions not assigned to any of the trading portfolios. The transactions are executed to realize a profit over the entire contracted transaction period. The Bank's Treasury Division takes over the interest rate risk positions held in the bank portfolios of all other organizational units of the Group. The mechanism of transferring the interest rate risk positions is based on the transfer price system.

Measurement of the pricing risk of the bank portfolios

The Group typically uses the following methods for measuring the risk of the bank portfolios:

- Interest rate gap analysis;
- Value-at-Close and Total Return methods;
- Interest Rate Exposure (IRE); and
- Stress testing.

Interest rate gap analysis uses the schedule of maturities or revaluations of balance-sheet positions and of derivative instruments used in hedge accounting or qualified as economic hedge for the purpose of establishing the differences between positions whose maturity or interest rate revaluation fall within a given time range.

The general rule in the interest rate gap analysis is that of classifying transactions to respective bank portfolio position revaluation bands by the contracted or assumed transaction interest rate revaluation dates.

It is assumed that:

- transactions with a fixed interest rate (such as term deposits, interbank deposits, portfolio of debt securities available-for-sale with a fixed interest rate, granted loans both repaid in full at maturity and repaid in installments) are classified into appropriate revaluation bands in accordance with their maturity dates;
- transactions with a floating interest rate, updated at a regular frequency (primarily, loans granted with interest set based on a specific rate such as, e.g., WIBOR 1M) are classified into appropriate revaluation bands in accordance with the nearest interest rate revaluation date;
- transactions with an administrated floating interest rate (i.e., any changes in the interest rate and its revaluation date are reserved to sole decision of the Bank) or undefined maturity or interest rate revaluation date are classified into appropriate revaluation bands in accordance with historically observed or expert assessed shifts in the moment and scale of change in the interest rate of given positions in relation to change in the market interest rates (model of minimizing product margin variability). This group of transactions / balance-sheet positions includes among others: current accounts, card loans, overdraft facilities. Additionally, early loan repayments are taken into account based on analysis of actual repayments made by customers before the due date and product interest rate revaluation profiles are set on that basis. This pertains particularly to installment loans;
- transactions insensitive to changes of interest rates, including cash, fixed assets, equity, other assets/liabilities, are classified into the longest revaluation band;
- transactions executed directly by the Treasury Division for the purpose of management of interest rate risk and liquidity risk (Treasury Division's own portfolio) are always classified into appropriate revaluation bands in accordance with the contracted dates.

The Value-at-Close method is an estimation of the economic or "fair" value of positions, equivalent to the market valuation of the trading portfolio. Total return on a portfolio is the sum total of the changes in the value of closing the interest rate gap, accrued interest and gains/losses on sale of assets or cancelling of obligations.

The Interest Rate Exposure (IRE) method is used for estimation of potential impact of a specific parallel shift in the interest rate curves on interest income from the bank portfolio before tax which can be earned in a specific period of time. This is a prospective indicator, equivalent to Factor Sensitivity of trading portfolios. An assumption is made that under standard conditions interest rate shifts are identical for every currency and stand at 100 basis points upwards. IRE measures are calculated separately for positions in each currency in the time horizon of 10 years; however, for the purpose of current monitoring and limiting of interest rate risk positions in bank portfolios, the Bank normally applies IRE measures with one-year and five-year time horizons.

The table below presents the IRE measures for the Group as at 31 December 2012 and 31 December 2011. The list has been broken down into the main currencies, i.e., PLN, USD and EUR, which jointly account for over 90% of the Group's balance-sheet.

PLN'000	31.12.2012		31.12.2011	
	IRE 12M	IRE 5L	IRE 12M	IRE 5L
PLN	39,957	164,132	35,063	157,265
USD	5,872	21,540	1,822	(12,875)
EUR	11,789	42,146	(6,059)	(32,340)

Stress tests measure the potential impact of material changes in the level or directionality of interest rate curves on open interest positions in the bank portfolio.

The Group runs stress tests of predefined interest rate movement scenarios, which represent combinations of market factor movements defined as large moves and stress moves occurring both in Poland and abroad. Values of the assumed market factor movements are revised at least once a year and adjusted as appropriate to changes in the market conditions of the Group's operation.

Activities relating to securities available-for-sale are the responsibility of the Assets and Liabilities Management Bureau within the Treasury Division. Three basic goals of activities in the portfolio of securities available-for-sale have been defined as follows:

- management of the liquidity;
- hedging against the risk transferred to the Treasury Division from other organizational units of the Bank;
- opening of own interest rate risk positions on the Bank's books by the Treasury Division.

The table below presents the risk measured with DV01 for the portfolio of securities available-for-sale broken down by currency:

PLN'000	31.12.2012	31.12.2011	In total in the period 01.01.2012 – 31.12.2012		
			Average	Maximum	Minimum
PLN	(2,975)	(1,613)	(2,211)	(998)	(3,266)
USD	(56)	(739)	(181)	(42)	(759)
EUR	(110)	(937)	(321)	(110)	(1,070)

The Group's activities involving investments in debt securities available-for-sale were also one of the main factors influencing changes in the level of the risk of mismatch in revaluation periods as expressed by the IRE measure.

Measurement of the market risk of the trading portfolios

The following methods are applicable in measurement of the risk of the trading portfolios:

- Factor Sensitivity;
- Value at Risk (VaR); and
- Stress testing.

Factor Sensitivity measures the change in the value of positions in an underlying instrument in the case of a specific change in a market risk factor (e.g., change of the interest rate by 1 basis point at a given point on the interest rate curve, change of the currency exchange rate or share price by 1%).

In the case of interest rates, the applicable sensitivity measure is DV01 (Dollar Value of 1 basis point), which determines the potential change in the value of risk positions on a given interest rate curve at a specific nodal point (which brings together all the cash flows in a given time horizon), caused by a shift in the market interest rate by 1 basis point upwards.

In the case of exchange rate (FX) risk, the Factor Sensitivity value is equal to the value of the FX position in a given currency.

In the case of positions held in equities, the Factor Sensitivity value is equal to the net value of the positions held in the respective instruments (shares, indices, participation units).

Value at Risk (VaR) is the integrated measure of the market risk of trading portfolios which combines the impact of positions in respective risk factors and accounts for the effect of correlation between the fluctuations of different factors. VaR is applied for the purpose of measuring the potential decrease in the value of a position or portfolio under normal market conditions, at a specific confidence level and within a specific time period. In the case of positions opened in the Bank's trading portfolio, VaR is calculated at a 99% confidence level and a one-day holding period.

DV01 as well as VaR for the trading portfolio are calculated net of the economic hedge of the portfolio of securities available-for-sale, i.e., net of derivative instruments intended to hedge the fair value of the portfolio. The exposures to the risk of such transactions are mitigated through the application of relevant risk measurement methods and by the bank portfolio risk limits.

Each day, the Bank runs stress tests on the assumption that the risk factors change by more than expected in the Value at Risk scenario and ignoring the historical correlations of these factors.

The Group keeps records of exposures of the bank portfolios to market risk in twenty-one currencies both for currency positions and exposures to interest rates risk. These exposures are significant only for a few currencies. For a large group of currencies, the exposures are the consequence of a gap between transactions executed on the customer's orders and closing transactions with other wholesale market counterparties. Significant exposures to market risk are opened for PLN, currencies of well-developed markets (predominantly USD and EUR with a lesser focus on GBP, CHF and JPY) and Central European currencies.

The values of significant exposures to the interest rate risk of the trading portfolios risk in terms of DV01 in 2012 are presented in the table below:

PLN'000	31.12.2012	31.12.2011	In the period 01.01.2012 – 31.12.2012		
			Average	Maximum	Minimum
PLN	279	144	102	494	(464)
EUR	24	199	36	266	(190)
USD	(72)	41	(14)	151	(214)

Average exposures to the interest rate risk in the local currency and USD in 2012 decreased compared to 2011 (e.g., DV01 in PLN on average was 12% lower and amounted to PLN 102 thousand) while exposure in EUR was higher than the average in 2011 and amounted to PLN 36 thousand PLN (in 2011: PLN (14) thousand). Most of the biggest exposures accepted by the Treasury Division were higher than in 2011. The maximum exposure in PLN was PLN 494 thousand compared to PLN 353 thousand in 2011 and the position in EUR amounted to PLN 266 thousand compared to PLN 199 thousand in 2011.

The Treasury Division, which trades in financial instruments within the Group, continued the strategy of very active management of exposures to FX risk and interest rate risk by adjusting the volume and direction of such exposures depending on changing market conditions, which is reflected in the range of volatility of these exposures (the minimum and the maximum values in the table above).

The table below presents the levels of risk measured by VaR (net of economic hedges of the portfolio of securities available-for-sale) broken down by FX risk and interest rate risk position in 2012:

PLN'000	31.12.2012	31.12.2011	In the period 1.01.2012 – 31.12.2012		
			Average	Maximum	Minimum
FX risk	1,036	260	1,797	5,814	73
Interest rate risk	7,762	8,201	8,789	13,759	5,032
Spread risk	10,970	737	9,667	11,922	705
Overall risk	13,026	8,202	13,479	17,046	8,066

The overall average level of the market risk of the trading portfolios was nearly 60% higher in 2012 than the average level in 2011, representing an increase by over PLN 5 million, mainly as a result of higher exposures to basis spreads and interest rate positions in the local currency as well as higher volatility of the main market factors. The maximum price risk level was PLN 17.04 million, compared to PLN 16.6 million in 2011.

Equity instruments risk

Dom Maklerski Banku Handlowego S.A. ("DMBH") is the Group's key company trading in equity instruments. In its core business, DMBH has been authorized to accept pricing risk of the trading portfolio of shares, or rights to shares, traded or likely to be traded on the Warsaw Stock Exchange ("WSE"), or Centralna Tabela Ofert ("CTO"), WIG20 index futures and Indexed Participation Units, as well as shares of companies dual-listed on the WSE which are traded on international stock exchanges. The pricing risk of DMBH's portfolios of instruments is managed by means of volume limits applicable to specific types of financial instruments and concentration warning thresholds applicable to instruments of specific issuers. Moreover, DMBH uses warning thresholds of potential loss under stress scenarios and the cumulative realized loss on the trading portfolio.

The Group's FX exposure

The table below presents the Group's FX exposure by main currencies:

31.12.2012

PLN'000	Balance-sheet transactions		Contingent derivative transactions		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	3,752,504	5,418,512	3,984,868	2,178,249	140,611
USD	3,310,617	3,748,608	2,720,593	2,322,573	(39,971)
GBP	744,330	778,407	36,073	705	1,291
CHF	729,900	323,669	160,834	556,935	10,130
Other currencies	409,754	642,996	714,355	505,067	(23,954)
	8,947,105	10,912,192	7,616,723	5,563,529	88,107

31.12.2011

PLN'000	Balance-sheet transactions		Contingent derivative transactions		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	5,778,996	5,919,359	14,295,578	14,116,412	38,803
USD	3,689,767	6,941,684	15,393,092	12,159,887	(18,712)
GBP	665,296	787,704	126,654	34	4,212
CHF	357,479	268,902	78,209	159,865	6,921
Other currencies	371,277	406,166	950,148	930,863	(15,604)
	10,862,815	14,323,815	30,843,681	27,367,061	15,620

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failing internal processes, people, or technical systems, or from external events.

Operational risk includes reputation risk, associated with business practices or market conduct. Operational risk also includes legal risk and the risk of non-compliance with applicable laws and regulations.

Operational risk does not include strategic risk or the risk of loss resulting from decisions made with respect to accepted credit, market, liquidity or insurance risk.

Operational risk management structures

- Supervisory Board:
  - The Supervisory Board approves the Bank's strategy and the rules of prudential and stable risk management in the Bank Handlowy w Warszawie S.A. Group prepared by the

Management Board and covering operational risk arising in the Bank's activity, and in particular general rules of operational risk management;
  - On the basis of synthetic reports submitted by the Management Board, which define the scale and the types of operational risk to which the Bank is exposed, the probability of its occurrence, its consequences and methods of its management, as well as the operational risk profile, the Supervisory Board performs periodic assessments of implementation of the assumptions of the strategy by the Management Board;
  - The Supervisory Board exercises oversight over the operational risk management system and assesses its adequacy and effectiveness. The Supervisory Board is supported by Committees of the Supervisory Board: the Audit Committee and the Risk and Capital Committee.
- Management Board:
  - The Management Board is responsible for the development and implementation of the risk management strategy, including organization and effective functioning of the operational risk management system. The Management Board defines the policy, rules and procedures of operational risk management, including the entire scope of the Bank's operations. With support of the relevant appointed Committees, the Bank's Management Board adopts decisions relating to capital planning and monitoring of capital adequacy and to adjustments necessary for the purpose of upgrading the systems and processes in the case of material changes in the level of risk in the Bank's activity, in external economic factors or on identification of substantial irregularities;
  - The Management Board of the Bank is responsible for the establishment of and changes to the Bank's organizational structures with the aim of adjusting them to the strategy, the risk profile, the market and the regulatory environment;
  - The Management Board of the Bank is responsible for the preparation and presentation to the Supervisory Board of synthetic reports on operational risk;
  - The Management Board of the Bank ensures disclosure of information enabling assessment of the Bank's approach to operational risk management to the market environment.
- The Management Board of the Bank is supported in the operational risk management process by appointed Committees and a separate independent unit responsible for operational risk management.

The main principles and approaches to operational risk management in the Group (including risk identification, measurement, mitigation, control, monitoring and reporting) are regulated by the "Rules of Prudential and Stable Management of Risk in the Bank Handlowy w Warszawie S.A. Group", a document adopted and approved by the Bank's Management Board and Supervisory Board.

The Group's approach to operational risk management is described in the Policy of Operational Risk Management and Self-assessment Procedure. The objective of the policy is to provide for a consistent and effective process of operational risk identification, control, assessment, monitoring, measurement and reporting, as well as for general effectiveness of the internal control environment throughout the Group. Each of the main business segments and every entity of the Group must implement and maintain an operational risk management process consistent with the requirements of the policy.

Due to limited appetite for residual operational risk, the family of operational risks (including technological and technical risk, outsourcing risk, fraud risk, money laundering risk, information security risk, continuity of business risk, tax and accounting risk, product risk, model risk, HR risk, compliance risk, legal risk, reputational risk and other risks) is managed through an effective control environment.

The operational risk management process in the Group is organized in accordance with the following principles and rules:

- The senior management of the Bank are responsible for management of operational risk in accordance with the Operational Risk Management Policy;
- Management of operational risk is based on the following six key elements:
  - risk identification;

- risk limitation;
- risk self-assessment (RCSA);
- risk monitoring;
- risk measurement; and
- risk reporting;

- The processes of risk identification, self-assessment, measurement, monitoring and reporting, in all principal aspects, are uniform and generally adopted by all of the Bank's organizational units;
- The processes of risk mitigation are set for each and every organizational unit and can differ across those units;
- The processes of calculation and reporting of the regulatory capital requirement for operational risk and statutory reporting are regulated by the Procedure for Calculation of the Capital Requirement for Operational Risk under the Standard Method and Operational Risk Reporting.

The Risk and Control Self-Assessment process has been implemented for ongoing identification, control, assessment, monitoring, measurement and reporting of the quality of the control environment and potential threats. Data on effects of operational risk events (losses) have been regularly collected and monitored for several years.

The Group manages operational risk using a variety of tools and techniques including policies, procedures, check lists, limits, self-assessment processes, information security control tools, contingency planning, process automation and centralization, insurance, and audits.

Organization and execution of an effective operational risk management process in companies is a responsibility of the Management Boards of companies. The Management Boards of companies ensure adequate organizational structures and the implementation of processes and procedures adequate to accepted operational risk. The Supervisory Boards of companies exercise supervision over the operational risk management system and assess its effectiveness and adequacy. Cohesion of standards under the Policy of Operational Risk Management and Self-assessment Procedure is enforced by relevant controlling units in companies supported by the Bank's risk management units. Effectiveness of operational risk management in companies and the Bank is audited and assessed against uniform standards.

Risk measurement and control mechanisms

Control processes introduced in the Group mitigate causes of negative effects of operational events (including operational losses), reduce the probability of occurrence of such events and minimize the severity of potential effects. Control mechanisms include segregation of duties, Know Your Customer (KYC) policy compliance, and employee proprietary securities trading policy requirements.

Each organizational unit must establish an appropriate system of controls that are commensurate with the level of operational risk and other risks being managed, including proper documentation of the control procedures and appropriate staff training. Each organizational unit is required to evaluate the size of risks, including risks that are unacceptable or outside of the organizational unit's risk appetite, as well as risks which require appropriate actions for their mitigation or transfer.

Additionally, there is periodic assessment of the adequacy and effectiveness of controls, which covers testing of the adequacy and effectiveness of the Key Controls at a frequency commensurate with the underlying risk and frequency of control (self-assessment), as well as independent reviews by internal audit. In case of identification of deficiencies or an area of unacceptable risk, the management is responsible for formulating a corrective action plan. Completion of corrective actions is subject to independent monitoring and control.

Continuity of Business (CoB) plans, aiming at reduction of operational risk exposure, are prepared according to international standards. Quality of those processes is confirmed with a certificate of compliance with BS 25 999 issued by UKAS (United Kingdom Accreditation Service).

The Group manages compliance risk, which is defined as all and any effects of non-compliance with laws, including international regulations or laws of other jurisdictions which are relevant to the Group's operation, internal regulations and the Group's code of conduct. Compliance with laws, internal regulations, corporate regulations, standards of conduct and good practice standards is an integral part of the professional duties of each employee of the Group. It is the responsibility of the Bank's Management Board to effectively manage compliance risk, develop a compliance policy, ensure that it is followed and take corrective or disciplinary action in the event of any irregularities in applying the Bank's compliance policy. Compliance is the Bank's unit which supports the Bank's Management Board and business units and monitors the Bank's subsidiaries to ensure compliance of the Bank's operation with laws, internal standards, regulations and Citigroup policies. Compliance is an independent function, comprising compliance risk identification, assessment, monitoring, testing, reporting and consulting and ensuring compliance with laws, the Bank's internal regulations, codes of conduct and good practice standards. As the unit responsible for coordination and monitoring of compliance in the Bank, the Compliance Department reviews and assesses the Bank's compliance risk management process on an annual basis, in implementation of the Annual Compliance Plan, and submits relevant reports to the Bank's Management Board and Supervisory Board.

Pursuant to legal regulations, the Group can outsource to third parties the performance, on behalf and for the benefit of the Group, of intermediation in banking activities on the basis of an agency contract, as well as factual activities relating to banking operations (outsourcing). All decisions to outsource activities relating to banking activity are in the sole discretion of the Bank's Management Board. The use of third party services gives a greater number of customers access to information on the services and products offered by the Group as well as access to new technological solutions. The Group intends to use the possibility of outsourcing activities relating to banking activity, particularly in areas of information technology and in cases where outsourcing is justified by business needs and at the same time does not endanger secure operation of the Group. As outsourcing involves not only benefits but also increased risk, which the Group can be exposed to in its operation, the Group takes measures aimed at mitigating that type of risk, particularly by ensuring compliance with legal requirements and internal regulations, operating an effective system of internal control, and monitoring co-operation with third parties, security of processed information and privileged banking information.

Staffing risk is monitored based on staff rotation indicators, opinions of employees, and market levels of staff remuneration and benefits. The Talent Inventory Review conducted on an annual basis constitutes an important part of the Group's HR policy. The process enables identification of persons critical to respective processes together with their potential replacements, who are being prepared to take over relevant key positions through a cycle of training and development programs. With this process, the Group is able to ensure continuity of staffing of the key positions.

The Group uses a corporate insurance program in order to reduce operational risk exposure. Under the program, losses exceeding defined limits are covered by corporate insurance.

Monitoring and reporting

The Risk and Capital Management Committee, supported by Commissions, is responsible for ongoing monitoring of operational risk.

Operational risk reports, regularly presented to the respective Committees, cover data necessary to monitor the Bank's operational risk profile including:

- Results of internal and external audits;
- RCSA Results;
- KRI – Key Risk Indicators;
- Operational Risk Events (operational losses) and Relation of Losses to Revenues;
- Information about Control Issues and corrective actions;
- COB and Information Security – updates and issues;
- Capital requirements;
- Stress Tests.

Operational risk event data are collected in a system of registration of information required for analysis, management and regulatory reporting.

Within the consolidated oversight over the Bank and subsidiaries, operational risk data are presented to Commissions and Committees supporting the Management Board and the Supervisory Board of the Bank in the operational risk management process.

Stress tests

Operational risk stress tests are conducted annually on the assumption that the frequency is subject to change depending on the results of regular operational risk monitoring.

Audit

The quality and effectiveness of the operational risk management process (including the self-assessment process) in respective organizational units of the Group are subject to inspections carried out by the internal audit.

FINANCIAL RESULT RISK

The risk of financial results is defined as the volatility of financial results which cannot be conclusively attributed to the other risks identified by the Bank and covered in the calculation of capital requirements and internal capital.

The risk is managed by the Group through proper planning including negative political and economic scenarios for the country.

The Group conducts stress tests for the budget, which include the impact on the income statement of stress test results for all risks (credit losses, operational losses, etc.) and stress test results for the Group's revenue.

EQUITY MANAGEMENT

According to the Banking Act, banks in Poland are obliged to maintain equity at a level adequate for their specific business risks.

The Group's equity amounted to PLN 7.4 bn as at 31 December 2012 (as at 31 December 2011: PLN 6.4 bn). Regulatory capital, which included increases and decreases required by the Polish Financial Supervision Authority (KNF), amounted to PLN 5.0 bn (as at 31 December 2011: PLN 4.4 bn) Such capital level is considered sufficient for conducting business activity. The capital level is regularly monitored by using the capital adequacy ratio.

In 2008, the Group launched the process of estimating internal capital. The Group identified significant risks and assessed the capital required for coverage of these risks.

The Group determines a policy of future dividend payment to the shareholders as part of the capital management process. The dividend policy depends on a number of factors including the Group's profits, the Group's expectations concerning future financial results, the level of capital requirements, as well as tax, regulatory and legal issues.

Signatures of Management Board Members

Date	Name	Position/function	Signature
14.03.2013	Sławomir S. Sikora	President of the Management Board	....
14.03.2013	Brendan Carney	Vice-President of the Management Board	....
14.03.2013	Robert Daniel Massey JR	Vice-President of the Management Board	....
14.03.2013	Misbah Ur-Rahman-Shah	Vice-President of the Management Board	....
14.03.2013	Witold Zieliński	Vice-President of the Management Board Chief Financial Officer	....
14.03.2013	Iwona Dudzińska	Member of the Management Board	....