Management Report on the Activities of the Bank Pocztowy S.A. Capital Group in 2013

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LETTER FROM THE CHAIRMAN OF THE SUPERVISORY BOARD

Jerzy Jóźkowiak

Chairman of the Supervisory Board of Bank Pocztowy S.A.

Dear Sirs and Madams,

The annual report presents financial performance of the Bank Pocztowy S.A. Capital Group in 2013, i.e. in the period that proved challenging for the entire economy. Significantly, the Group reported satisfactory financial performance, including the second highest net profit since the beginning of its operations.

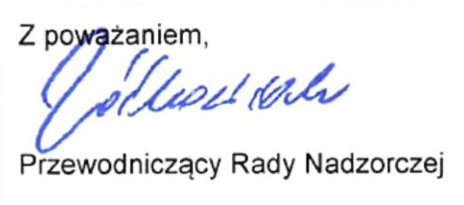
Such results were possible thanks to a very good business performance – dynamic acquisition of new clients, opening new accounts, sale of credit facilities and deposits, which, to a large extent, results from strategic partnership with the Poczta Polska Capital Group. Dynamic growth of the Capital Group in line with the strategy followed for the last three year was combined with the Group's responsibility for capital ratios, which are of key importance for the security of the enterprise and its clients, and was reinforced by a rational approach to costs and necessary investment projects.

The development of the Bank Pocztowy S.A. Capital Group is achieved through persistent implementation of the strategy focused an effective use of a wide distribution network of Poczta Polska, its key stakeholder. Not only is Poczta Polska the majority shareholder of the Bank, but it is also its business partner. Consequently, the Group may offer its products to millions of residents of smaller towns and hundreds of thousands small local firms. Carrying out its social mission to provide equal access to financial services for all Poles, irrespective of their place of residence, the Group offered its products and services though several thousand of offices of Poczta Polska operating countrywide, 295 own sales points and electronic distribution channels (online or telephone banking), mobile agents, postmen and other agents. The extensive network provides easy access to banking products countrywide and constitutes a considerable competitive advantage for the Bank Pocztowy Capital Group.

Significantly, the information summarizing the activities of the Bank Pocztowy S.A. Capital Group in 2013 presented in the report confirm effectiveness of its operations and a considerable potential offered by postal banking. Postal banking is a well-tried business model fairly widespread globally, based on a strategic partnership of the post and the bank assuming creation of own bank controlled by the post. That is why the recent immense success of postal banks operating worldwide can also be enjoyed by Bank Pocztowy locally.

I am sure that in 2014 the Group will pursue its ambitious goals in customer acquisition, distribution network expansion and that it will generate the expected excellent financial performance.

Best regards,
Chairman of the Supervisory Board



LETTER FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

Tomasz Bogus

Chairman of the Management Board of Bank Pocztowy S.A.

To the Stakeholders of Bank Pocztowy S.A.,

I would like to encourage you to read the Annual Report of the Bank Pocztowy S.A. Capital Group, summarizing our business activities in 2013, the year of record high operating income and second highest net profit generated by the Group ever.

Operating income of the Group reached PLN 294.3 million and was by 1.4% higher than in 2012. The net profit of PLN 36 million was the second highest result in 24 years of our operations. At the same time, in the last 12 months the Bank Pocztowy S.A. Capital Group followed its strict cost control policy, which resulted in a Cost/Income ratio decrease to 71.3%.

The Group had established very ambitious goals for 2013. Therefore, it should be stressed that it managed to generate so high performance despite unfavorable market environment and no additional financing. Eventually, the Bank acquired nearly 300 thousand new clients. At the end of 2013 the number of consumers and microenterprises using our services reached 1.4 million, i.e. by 130 thousand more than in 2012. At the end of 2013 the Group managed 840 thousand current accounts, i.e. 113 thousand more than in the previous year.

The balance sheet total of the Group grew by 3.7% year-on-year up to PLN 7.4 billion. The Group also increased the amount of originated loans and advances, which reached PLN 5.2 billion (versus PLN 4.7 billion year-on-year). At the end of December the volume of deposits stood at PLN 6.2 billion (as compared to PLN 6.3 billion in 2012). Following the strategy of further diversification of sources of financing operations, in 2013 we successfully completed a bond issue covering ordinary bonds of PLN 147.85 million and three issues of short-term bonds with the total value of PLN 140 million.

The Group also insisted on maintaining Capital Adequacy Ratio at the level higher than required by the Polish Financial Supervision Authority. At the end of December 2013 CAR amounted to 12.8%, while the Tier 1 capital ratio stood at 9.5%.

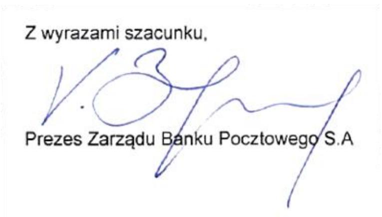
Last year, we also continued dynamic development of the sales network. At the end of the year the Bank managed a network of 295 own sales points and Micro-branches. Pursuing our goal of establishing a network of 1,000 outlets providing financial services, we opened 68 Micro-branches, while our strategic partner and stakeholder, Poczta Polska S.A., launched 260 Postal Financial Zones by the end of 2013.

Our business model implemented was highly appreciated by market experts and Bank Pocztowy was awarded for various areas of its operations. Three awards were granted to the Bank in the Fifth edition of the Banking Forum - the Fastest Growing Bank, Best Bank in small and medium banks category and Manager of the Year – an award for the Chairman of the Management Board of the Bank. The Bank also focuses on establishing top quality market communication, having implemented reporting standards similar to those applied by listed banks. Therefore, we are very proud of the award for the best report on the activities of the company in the banks and financial institutions category, granted in the October 2013 in the Eight edition of The Best Annual Report competition.

In 2014 we will follow the development model reinforcing sustainable profitability of Bank Pocztowy. We intend to generate at least 10% ROE (net) and to control operating expenses, which will further improve the cost to income relation. Our activities will grow the Bank's value for its stakeholders and foster organic growth in our demanding market. We will still work towards increasing capital of the Bank through an IPO or capital injection by the existing shareholders. These steps, however, will be possible in an advantageous market environment and after obtaining the shareholders' approval.

I would like to thank all our clients for yet another year of your confidence in Bank Pocztowy and I do encourage you to actively use our simple and easily accessible banking services.

Best regards,
Chairman of the Management Board of Bank Pocztowy S.A.



SUMMARY OF THE YEAR

"The year 2013 saw continued dynamic growth of the Bank Pocztowy Capital Group. Despite disadvantageous market environment and no capital injection we managed to report very good business results and satisfactory financial and capital position.

- Tomasz Bogus

Chairman of the Management Board of Bank Pocztowy S.A.

294.3
(in PLN million)
income
+1.4% YoY

36.0
(in PLN million)
net profit
-7.5% YoY

7.4
(in PLN billion)
balance sheet total
+ 3.7% YoY

1.25
million consumers
As at 31.12.2013

177.2
thousand microenterprises
As at 31.12.2013

286.9
thousand new consumers
In 2013

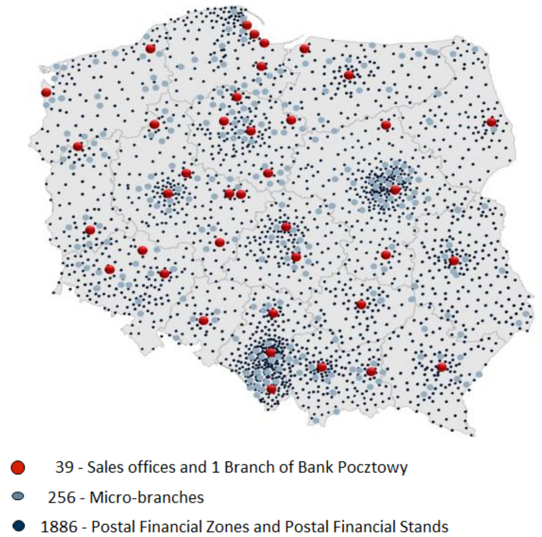
5.1
(in PLN billion)
net exposure
As at 31.12.2013

6.2
(in PLN billion)
deposits
As at 31.12.2013

1,700
Headcount in FTEs
As at 31.12.2013

GENERAL INFORMATION ABOUT THE BANK POCZTOWY S.A. CAPITAL GROUP

Reactivation of postal banking in Poland was the idea underlying establishment of Bank Pocztowy S.A. in Poland. Initially, the Bank was a typical settlement institution with performance highly related to the volume of settlements with Poczta Polska.

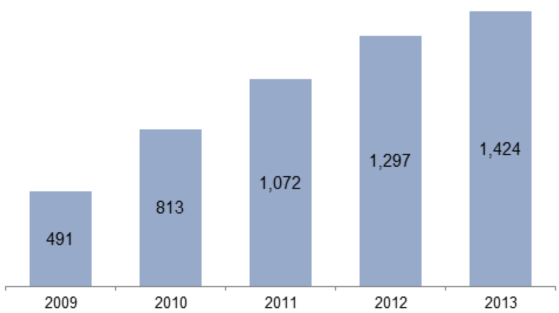


At present, Bank Pocztowy S.A., the parent in the Capital Group, focuses on consumer banking and provides a supplementary offer for institutional clients. The Bank' target group are residents of smaller towns and micro- and small enterprises operating locally. The Bank pays special attention to the needs of the elderly. Having those in mind, the Bank has launched an extensive financial education program and an attractive offer for people not using financial services.

Pursuing its mission of *Simple and accessible banking*, the Bank offers reasonably-priced, simple and comprehensible financial services in a friendly environment. It also constantly responds to changing client needs and actions of competitors to develop closer relationships with its customers.

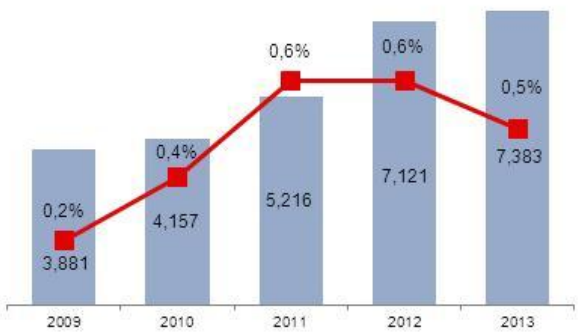
Poczta Polska S.A. is a strategic shareholder and a business partner of Bank Pocztowy S.A. holding 75%, i.e. 10 shares in its share capital. Powszechna Kasa Oszczędności Bank Polski S.A. also holds shares in the bank (25% + 10 shares).

Number of consumers and microenterprises ('000)



Thanks to the strategic alliance with Poczta Polska, the Bank's services and products are available in ca. 7.8 thousand sales points countrywide. Apart from Poczta Polska, Bank Pocztowy offers its services and products through 295 own outlets, electronic distribution channels (online and telephone banking) and a network of mobile agents of a subsidiary – Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o. Additionally, the Bank's products are distributed by 26 thousand postmen and other agents. The wide distribution network constitutes a unique competitive advantage of the Bank.

Balance sheet total (in PLN million)
ROA (net) (%)



At the end of 2013 the Bank provided services to 1,423.7 thousand consumers and micro-enterprises. In 2013 it acquired 286.9 thousand new consumers, contributing to the process of preventing financial exclusion, which is a negative phenomenon observed in Poland. The Bank provided products and services to over 15.1 thousand institutions, i.e. by 5.9% more than in December 2012.

On 31 December 2013 the balance sheet total of the Bank Pocztowy Capital Group amounted to PLN 7,382.7 million and represented 0.5% of total assets of the Polish banking sector[1].
Gross loans and advances to customers reached PLN 5,180.5 million.

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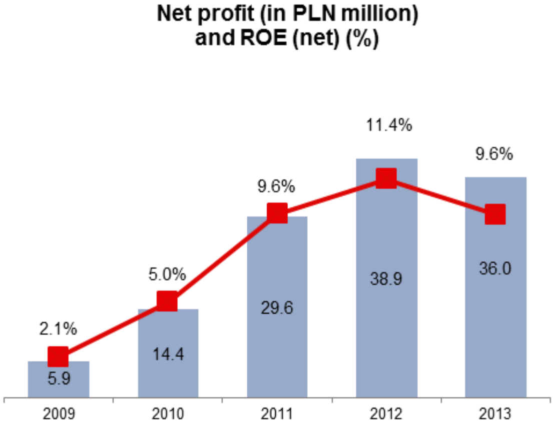
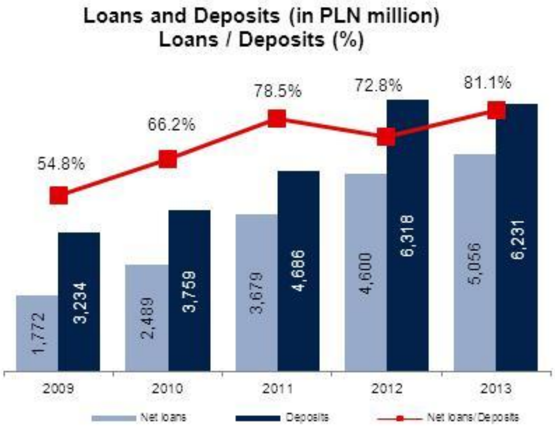
[1] *Source: Financial Supervision Authority, Monthly data for the banking sector file – December 2013.*

Liabilities to Group clients stood at PLN 6,230.6 million and included mainly cash from consumers of PLN 4,157.2 million.

Following its dynamic growth reported in recent years, Bank Pocztowy S.A., the parent in the Capital Group, managed to gain an important position in selected segments of the Polish banking sector. The Bank secures a good position in the current account market with a share of 3.0%[2]. In 2013 the Bank managed accounts of over 6%[3] of elderly Poles, which is a good result considering low demand for banking services in this group. Bank Pocztowy is also an important financial partner of public benefit institutions, such as schools, foundations, and non-profit institutions. At the end of December 2013 its share in credit outstandings of the banking sector from non-profit institutions reached 5.3% and the share in deposits and other liabilities of the sector to this customer group amounted to 2.4%[4].



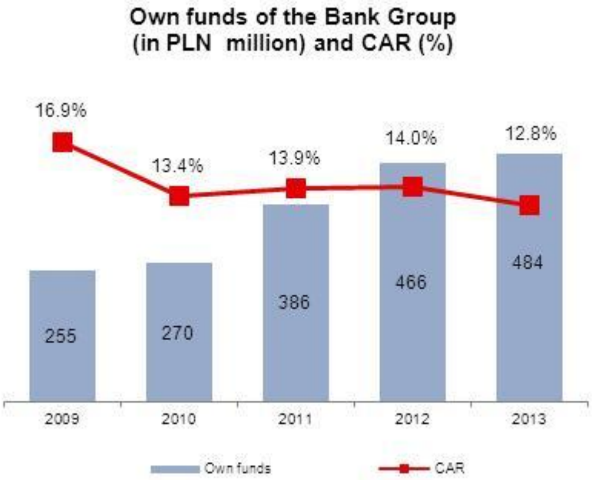
Financial liquidity of the Bank Pocztowy S.A. Capital Group was good in 2013. At the end of the year the relation of loans and advances to deposits stood at 81.1%. The Group also holds sufficient equity considering the scale of its operations. In December 2013 the solvency ratio for the Group amounted to 12.8%, and Tier 1 reached 9.5%.



Subsidiaries of the Bank also play an important role in implementing the strategy of the Capital Group.

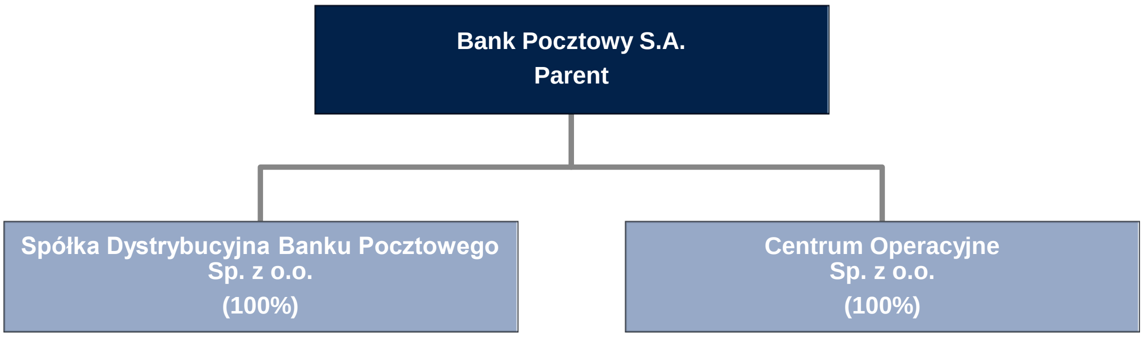
- Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o., whose key objective is to support distribution channels of Bank Pocztowy and access prospect clients from remote locations.
- Centrum Operacyjne Sp. z o.o., providing professional services in process administration for products and services for entities in the financial sector.

At the end of 2013 the headcount in the Bank Pocztowy Capital Group was 1,700 FTE.s



[2] Source: PRNews.pl Current account market – Q3 2013, 12 December 2013
[3] Source: Central Statistical Office – Number of old-age pensioners and pensioners at the end of 2013
[4] WEBIS data for Bank Pocztowy, data of the National Bank of Poland for Monetary receivables and liabilities of financial institutions, December 2013 for the banking sector

Bank Pocztowy Capital Group



Since November 2011 bonds of Bank Pocztowy S.A. have been traded in the Over-The-Country *Catalyst* market. After meeting reporting requirements, the bonds have been listed in the *Calatyst* market, which was a clear signal for investors and contractors of Bank Pocztowy S.A. that the entity has become a listed, hence a transparent company, reliable for its market and business stakeholders.

Historical background

Bank Pocztowy started operations in 1990. Reactivation of postal banking in Poland was the idea underlying its establishment. To this aim and in order to develop Bank Pocztowy S.A. the GIRO non-cash settlement system was launched to enable fast and easy processing of bulk payments, reduce costs of issuing and circulating cash in the economy and to provide bank services to clients, in particular consumers, through a wide distribution network of Poczta Polska. Therefore, initially the Bank was a typical settlement institution with performance highly related to the volume of settlements with Poczta Polska.

In 1998, transformation into a consumer bank was initiated. The Bank started to reach an increasingly large group of clients through a sales network of Poczta Polska and own branches and sales points. At the same time, it started to launch new products. In 1999 all post offices provided comprehensive services related to GIRO personal accounts and, additionally, Visa Electron cards to the accounts were offered. In 2003, the Bank launched an online information system. Two years later, in 2005, GIRO personal accounts were renamed to *Pocztowe Konto Nestor* for elderly people and *Pocztowe Konto Standard*.

Agreement concluded by Bank Pocztowy and Poczta Polska in 2006 regulating the terms of cooperation between the institutions in consumer banking services was a breakthrough event for the Bank's consumer business. Under the agreement over 2 thousand *Postal Financial Points* were opened in post offices by the end of 2009 to streamline service provision to the Bank’s customers by post office staff. Following the gradual changes and development of the sales network, in February 2010 the number of clients exceeded 500 thousand, in October 2011 it was 1 million, and now it its approaching 1.5 million.

In 2010 the Bank’s subsidiaries: Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o. and Centrum Operacyjne Sp. z o.o. were established and started business activities. As a result ,the Bank Pocztowy Capital Group was set up.

Key financial data of the Bank Pocztowy S.A. Capital Group for the years 2009-2013

	2009	2010	2011	2012	2013
Balance sheet total (PLN '000)	3,881,000	4,156,609	5,215,801	7,120,653	7,382,745
Loans and advances to customers[1]/(in PLN '000)	1,772,350	2,488,835	3,679,382	4,599,545	5,055,712
Liabilities to customers (in PLN '000)	3,233,529	3,759,124	4,685,735	6,317,949	6,230,578
Equity (PLN '000)	281,812	294,968	321,395	361,470	391,765
Income of the Group[2]/ (in PLN '000)	221,495	221,165	258,473	290,255	294,320
Administrative expenses (PLN '000)	(178,352)	(195,204)	(209,837)	(218,356)	(212,738)
Net impairment losses (in PLN '000)	(33,804)	(9,673)	(12,877)	(25,099)	(42,398)
Gross profit (PLN '000)	8,096	17,529	37,531	48,665	43,260
Net profit (PLN '000)	5,907	14,412	29,555	38,949	36,027
Net ROA (%)	0.2	0.4	0.6	0.6	0.5
Net ROE (%)	2.1	5.0	9.6	11.4	9.6
Costs including amortization and depreciation/income (C/I)[3]/ (%)	81.0	87.8	80.6	74.7	71.3
Solvency ratio (%)	16.9	13.4	13.9	14.0	12.8
Tier 1 (%)	16.6	13.2	10.6	9.9	9.5
NPL[4] / (%)	7.2	7.2	5.0	4.7	5.4
Net interest margin to total assets [5]/ (%)	4.2	3.6	4.1	3.8	3.6
Headcount (FTEs)	1,154	1,323	1,496	1,571	1,700
Number of offices	57	74	161	227	295
Number of consumers and microenterprises ('000)	491	813	1,072	1,297	1,424

1. *Net loans and advances*
2. *Net interest income, net fee and commission income, gain/loss on financial instruments measured at fair value through profit or loss and realized gain/loss on transactions on securities available for sale.*
3. *Income increased by gain/loss on other revenue and operating expenses.*
4. *NPL (non-performing loans) – the share of impaired loans and advances in the entire credit portfolio. The ratio for the years 2009-2011 was recalculated to ensure data comparability.*
5. *Interest margin – change in the methodology of calculating interest margin for data presented in the Management Report on the Activities of the Bank for the years 2011 and 2012. The currently applied methodology takes into account average assets (calculated as average daily assets), while in the former one the assets covered two periods: assets at the end of a given year and the previous one.*

1. EXTERNAL FACTORS

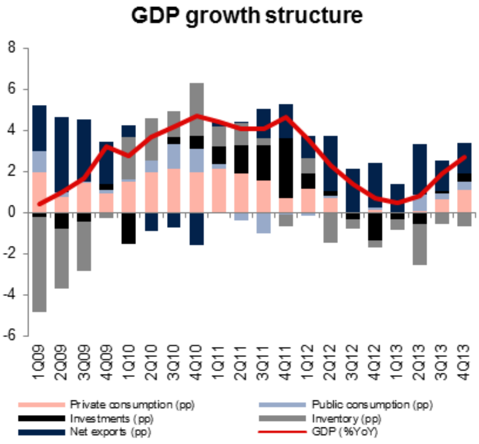
1.1 Key trends in the economy

1.6%
growth in Gross Domestic Product in 2013

Central Statistical Office data

Gross Domestic Products and its components

Based on the data published by the Central Statistical Office, the economic growth in 2013 was slower than in 2012 and the rate amounted to 1.6%. The first half of the year was particularly difficult for the economy, as the economic slowdown was the most severe in the first quarter. According to the Central Statistical Office the rebound was observed in the second half of the year and in the last quarter of 2013 the GDP growth reached 2.7% year-on-year. The key driver of the Polish economy in 2013 was export of goods and services accompanied by relatively slow increase in imports, while the domestic demand growth reached -0.1%. Deterioration of the situation in the labor market resulted in lower household consumption. In 2013 it increased by 0.8% only, i.e. the least since 1995. Additionally, investment outlays in national economy dropped by 0.4%, but the decrease was lower than in 2012. Investment outlays shrunk in the first six months, to start growing slowly in the second half of the year and reach the growth rate of 1.3% in the last quarter year-on-year.



Source: Central Statistical Office of Poland

Labor market

In 2013 the condition of the labor market deteriorated comparing to the previous year. In the first quarter the unemployment rate exceeded 14.0% and was the highest since the first quarter of 2007. The rate levelled out in the second half of the year thanks to Labor Fund outlays on activating the unemployed. Mild weather at the end of the year favored seasonal works, which improved employment statistics. Despite a further slowdown in the economy in 2013 versus 2012, the unemployment rate reported in Decembe December 2012.

The employment figures reported by the business sector confirm the downt urn in the labor market. In December 2013, 5,491 thousand people worked in the business sector, as compared to 5,474 thousand in December 2012. Employment in the business sector dropped from January to October year-on-year, only the last two months saw a slight increase. Employment reduction was particularly visible in the first half of the year, which translated into a very low domestic demand. In the second half of the year enterprises started to create new workplaces following growing domestic and export demand.

Redundancies and high unemployment did not create favorable conditions for pay rises in the business sector. While in 2012 average salary growth rate reached 3.5%, in 2013 it dropped to 2.9%. Thanks to very low inflation, in 2013 the growth of salaries in real terms reached 2.0% in the business sector.

Inflation

In 2013 average annual inflation amounted to 0.9% versus 3.7% a year before. Lower consumption and investment demand translated into a gradual decrease in the CPI from January to June. Implementation of amended regulations on cleanliness standards in districts and a significant increase in charges for waste disposal imposed on households resulted in an upsurge of the ratio up to 1.1% year-on-year. In the following months the inflation rate decreased again. Lower global crude oil prices comparing to 2012 also contributed to lower inflation. In December CPI amounted to

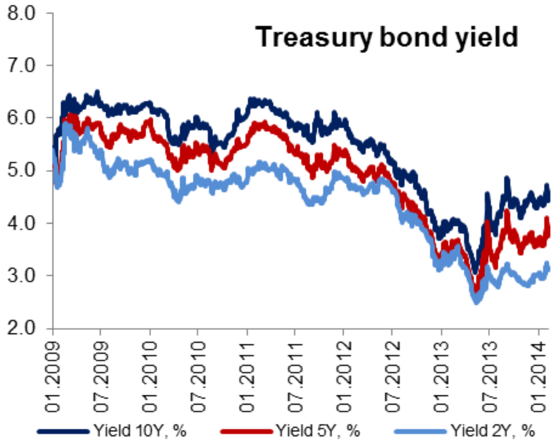
Source: Central Statistical Office of Poland, NBP

0.7% p.a., which was the lowest ratio since 2006 and significantly below the lower threshold determined by the National Bank of Poland. In 2013 core inflation (excluding food and electricity prices) amounted to 1.2% versus 2.2% in 2012, while in December 2013 the ratio dropped to of 1.0% year-on-year.

Public finance and the treasury debt securities market

The year 2013 was a difficult period for Polish public finance. Economic slowdown translated into lower income reported in the first 6 months of the year than that assumed in the Budget Act. The key reason was lower VAT inflows. Consequently, the government was forced to amend the budget in the second half of the year. In the amended budget, projected GPD growth rate was changed from 2.2% to 1.5%, average annual inflation rate from 2.7% to 2.4% and the budgetary deficit was increased from PLN 35.6 billion to PLN 51.6 billion. The government was able to increase the deficit following approval of the amendments to the Act on public finance, which suspended sanctions imposed on public finance after breaching the so-called first prudence threshold, i.e. when the public debt to GDP relation exceeds 50%. According to the data of the Ministry of Finance in 2013 the budgetary deficit was finally lower than that assumed in the amendments and amounted to PLN 42.2 billion, while the projections of income were met in 101.2% and of expenditure in 98.2%.
According to estimations published by the Ministry of finance, at the end of 2013 the public debt amounted to PLN 890.6 billion (54.8% of GDP) versus PLN 840.5 billion (52.7% GDP) in 2012.

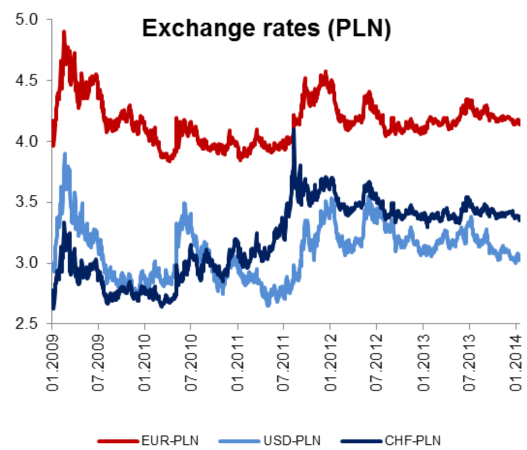
State budget problems did not adversely affect treasury debt securities in the first half of 2013. The strategy followed by the Monetary Policy Council and information published by the Minister of Finance concerning limiting the supply of treasury securities in the second half of the year (at the end of June the Ministry of Finance had financing for over 80% of the loans requested) and encouraged investors do invest in Polish government securities. In the second half of the year, the American Federal Reserve announced reducing the purchase of assets in 2013, which affected global debt markets, including Poland. Moreover, changes in the retirement system which were implemented rapidly in the second half of 2013 was a local factor adversely affecting the prices of treasury securities. Eventually, at the end of the year 2-year bond yield amounted to 3.05%, and for 5-year bonds it was 3.65%.



Source: Bloomberg

Exchange rate

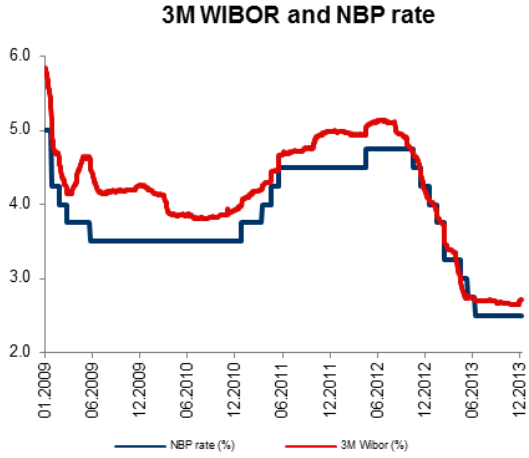
At the beginning of 2013 the Polish zloty remained relatively strong and the EUR/PLN rate reached 4.10 in April. Later events in global economy and decisions of central banks, however, weakened the Polish zloty against the euro to 4.35. Fiscal cliff in the USA, solvency problems of Cyprus, further monetary policy easing in Japan, reduction of interest rates by the European Central Bank, information about the planned limitation of asset purchase in the second half of the year published by the American Federal Reserve and the actual reduction in December, a military conflict in Syria were the key factors determining currency rates. A sudden depreciation of the zloty in June made the National Bank of Poland intervene in the currency market, which prevented further fall of the value of the zloty. Domestic events, such as interest rate reductions by the Monetary Policy Council, amendments to the budgetary assumptions in 2013, changes in the retirement system and in the government had an insignificant effect on the zloty. At the end of 2013 the PLN/EUR exchange rate stood at 4.15.



Source: Bloomberg

Monetary policy

At the beginning of 2013 the Monetary Policy Council continued easing the monetary policy process started in 2012. Due to the economic slowdown and decreasing inflation pressure, interest rates were reduced six times, by 150 base points in total. The most recent interest rate reduction took place in July (the reference rate of the National Bank of Poland dropped from 4.00% at the beginning of the year to 2.5%) and the Monetary Policy Council declared interest rate stabilization in the long run. Interest rate reduction by the National Bank of Poland translated into lower market rates in 2013. At the end of 2013, WIBOR 3M amounted to 2.71% versus 4.11% at the end of 2012.



Source: NBP, Bloomberg

Economic ratios

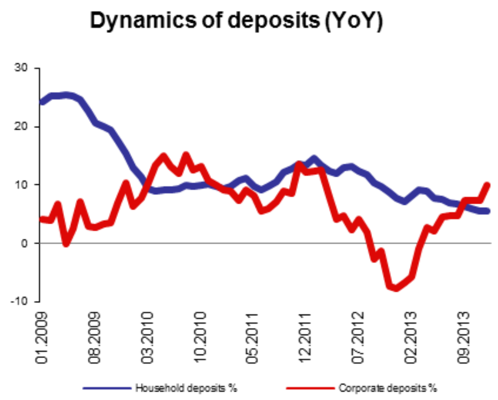
	2009	2010	2011	2012	2013
GDP (YoY)	1.6%	3.9%	4.5%	1.9%	1.6%
Average inflation in the period	3.5%	2.6%	4.3%	3.7%	0.9%
Registered unemployment rate (period end)	12.1%	12.4%	12.5%	13.4%	13.4%
Deposits and other liabilities (in PLN billion, period end)	625.0	682.0	761.9	797.9	846.0
- Households (in PLN billion, period end)	383.6	421.2	478.0	514.9	543.6
- Enterprises (in PLN billion, period end)	164.9	181.3	203.3	187.8	206.5
Receivables (in PLN billion, period end)	651.7	770.0	880.8	901.1	937.3
EUR/PLN (average rate)	4.32	3.99	4.12	4.19	4.19
USD/PLN (average rate)	3.11	3.01	2.96	3.26	3.16
CHF/PLN (average rate)	2.86	2.89	3.35	3.47	3.41
Reference rate (period end)	3.50%	3.50%	4.50%	4.25%	2.50%
WIBOR 3M (period end)	4.27%	3.95%	4.99%	4.11%	2.71%

Source: Central Statistical Office, National Bank of Poland, Bloomberg

1.2 Situation in the banking sector

Deposits of households and enterprises

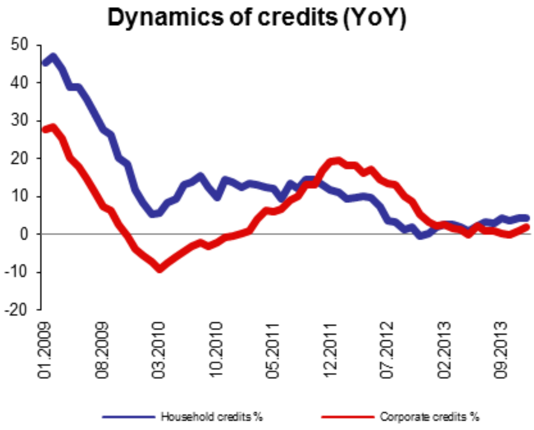
At the end of 2013 the total deposits in the banking system amounted to PLN 846 billion, i.e. by 6% more than at the end of 2012. Deposits held for households stood at PLN 543.6 billion. In 2013 the dynamics of deposits held of households dropped to 5.6% in December year-on-year (versus 7.7% in December 2012). The deposit growth was lower than in previous years due to a difficult situation in the labor market and lower interest rates of the National Bank of Poland, which deteriorated the attractiveness of investing in the banking sector. In December 2013, deposits of enterprises increased by 10% year-on-year, up to PLN 206.5 billion. The increase resulted from gradually improving condition of the business sector and moderate investment activities of firms.



Source: NBP

Loans and advances to households and enterprises

At the end of 2013 the credit receivables in the banking system reached PLN 937.3 billion, i.e. by 4% more than at the end of 2012. Loans and advanced to households went up by 4.5% up to PLN 562.4 billion in 2013. Housing loans in the local currency grew from PLN 148.8 billion in December 2012 to PLN 170.3 billion at the end of 2013. Record low interest rates and a considerable housing offer of developers



Source: NBP

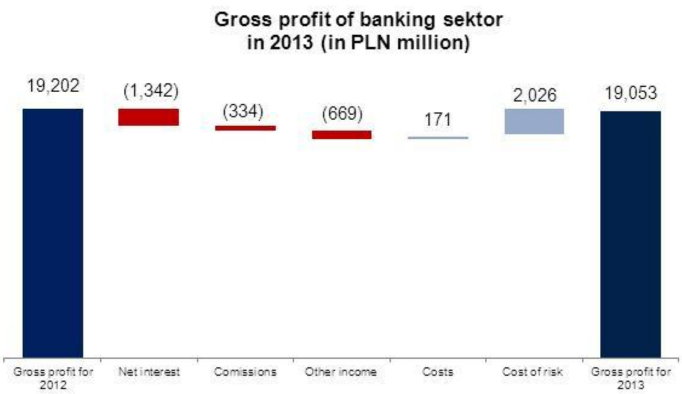
positively affected new lending. Additionally, a number of people intending to finance acquisition of a flat with a credit facility decided to buy an apartment in 2013 due to amendments to Recommendation S, which will prohibit financing 100% of a real property with a bank loan. On the other hand, consumers had to struggle with a difficult situation in the labor market and waited for the launch of the Flat for the Young program, which impeded the increase in the mortgage loans in the Polish zloty. The portfolio value of foreign currency loans dropped to PLN 165.4 billion, i.e. was by PLN 9.5 billion lower than at the end of 2012. The decrease in the portfolio value resulted in particular from fluctuations in the exchange rate of the zloty and early repayments, as the access to foreign currency financing was extremely difficult. Receivables of the banking sector due to consumer loans from individuals increased. In December 2013 they totaled PLN 138.4 billion (versus PLN 132.1 billion in December 2012). Consumer loan volume resulted from more relaxed criteria applied by certain banks in loan request analysis related to the improved macroeconomic trends in the second half of 2013 and optimistic outlooks for 2014. In December 2013 the value of loans granted to enterprises was PLN 274.6 billion versus PLN 270.4 in December 2012 (1.5% growth). Despite the rebound in the economy in the second half of 2013 enterprises used free production capacities and were not ready to invest in their increasing.

Interest rate on deposits and loans

In 2013 the Monetary Policy Council continued easing the monetary policy. The reference rate was reduced to the lowest level in history (i.e. down to 2.50%), which considerably affected interest on deposits and loans. According to the data of the National Bank of Poland in 2013 the average interest rate on new deposits of households in PLN amounted to 2.9% versus 4.7% in 2012. Average interest on new deposits of enterprises amounted to 2.7% as compared to 4.4% in the previous year. Average interest on new loans granted to households in the Polish zloty in 2013 stood at 10.0%, having dropped by 1.1 p.p. versus 2012. As for loans for households, the interest on housing loans amounted to 5.5% (versus 7.0% in the prior year), and interest on consumer loans reached 14.9% (16.1% in 2012). In the business sector, the interest on new loans in the local currency amounted to 4.9% in 2013, while in 2012 it was 6.7%.

Financial performance of the banking sector

In 2013 banks reported a net profit of PLN 15.4 billion, i.e. at a level similar to that of 2012[5]. Banking sector performance was affected by:



Source: Polish Financial Supervision Authority

- Intense competition for deposits, due to which costs of financing dropped more slowly than asset profitability in the market of decreasing interest rates. Consequently, the net interest income of the banking sector deteriorated considerably.
- Decrease in the net fee and commission income. While some banks increased fees for account maintenance, many followed the recommendations of the Financial Supervision Authority, reduced the sale of investment insurance products (*polisolokaty*), and implemented recommended changes in disclosure of revenue due to sale of bancassurance products.
- Decrease in other income, mainly due to dividend and foreign exchange transactions.

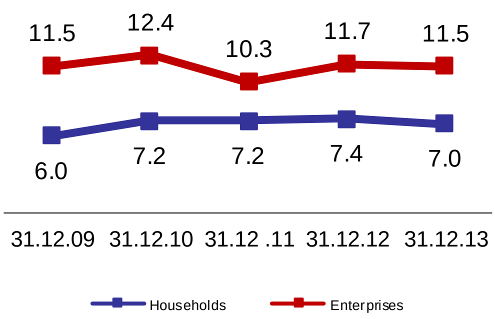
[5] *Source: Financial Supervision Authority, Monthly data for the banking sector file – December 2013.*

- An insignificant decrease in operating expenses. The change results from a reduced number of people employed in the banking sector (by ca. 0.8 thousand FTEs) and a lower number of branches (by nearly 0.2 thousand).
- A considerable decrease in impairment losses on non-performing loans due to improved quality of credit receivables.

The share of impaired receivables in the total receivables from the non-financial sector dropped from 8.8% in December 2012 to 8.5% at the end of 2013[6]. The year 2013 also saw an improvement in the quality of credit exposures of banks to enterprises and households.

Banks allocated a portion of profits for 2013 to increase capital and did not acquire a high volume of new loans, therefore the solvency ratio of the domestic banking sector grew from 14.7% in December 2012 to 15.8% in December 2013. In December 2013 Tier 1 ratio amounted to 14.2% (versus 13.1% at the end of 2012).

Non-performing loans in the banking sector (%)



Source: Financial Supervision Authority

1.3 Capital market

The situation in the Warsaw Stock Exchange was fairly unstable during the entire 2013. In the first half of the year the share prices grew considerably. In the second half of the period, however, and in December in particular, indexes plummeted due to changes in the retirement system proposed by the government. Consequently, indices of the Warsaw Stock Exchange were only slightly changed at the end of the year. The key Warsaw Stock Exchange index, WIG, increased by 8.1%, while WIG20 dropped by 7.1%. Indexes of smaller companies, however, i.e. mWIG40 and sWIG80 grew considerably - by 31.1% and 37.3%, respectively. Holders of bank shares also enjoyed high return on investment, as WIG-banki, a sector sub-index, grew by 21%.

PLN 593.5

billion value of Polish companies listed at the WSE

+ 13.4% YoY

At the end of December 2013 the value of Polish firms listed at the Warsaw Stock Exchange reached PLN 593.5 billion and was by 13.4% higher than in December 2012. In 2013 companies chose the capital market as the source of financing growth more often than a year before. 23 companies debuted on the Stock Exchange, as compared to 19 IPOs in 2012.

The number of investors also grew significantly. In 2013 shares worth PLN 256.1 billion changed hands as result of session transactions, i.e. by 26.3% more than in the previous year.

Over-the-counter trading systems, i.e. an alternative share market for companies with high potential of growth *NewConnect* and the bond market *Catalyst* were growing fast as well. For instance, the value of debt securities of 182 issuers traded on the *Catalyst* market reached PLN 619.2 billion at the end of December 2013, as compared to PLN 567.4 billion of debt securities quoted by 163 issuers.

In 2013 the Warsaw Stock Exchange introduced a new index WIG30, which will replace WIG20, and it expanded the range of available instruments to include new structured products, interest rate contracts and implemented a new multiplier for WIG20 contracts.

The year 2013 was successful investment fund managers. At the end of 2013 the value of investment fund assets amounted to PLN 189.0 billion, having grown by 29.6% during the year. Growth rate of private equity funds turned out to be the highest, accounting for PLN 23.6 billion out of PLN 43.2 billion of the entire growth of fund assets. In 2013 the average rate of return from funds investing in the Polish

[6] *Source: NBP. Financial data of the banking sector. File - receivables*

market ranged from 1.5% for debt funds investing in Polish treasury securities to 31.1% for equity funds investing in stocks of small and medium enterprises[7].

1.4 Macroeconomic factors potentially affecting the Bank's performance

Situation in the economy will gradually improve in 2014. Internal demand is likely to grow in the current year.

Projection: +3.4% GDP YoY

According to the Bank, the macroeconomic situation will improve gradually in 2014 and the economic growth rate will increase to 3.4%. After the period when net exports were the key driver of economic growth in Poland, the year 2014 will bring the long-expected rebound of the internal demand. The process will be enhanced by improvement in the situation in the labor market and more optimistic consumer sentiments. Lower unemployment rate and growing employment will encourage households to draw up loans and, indirectly, they will foster private consumption. Growing salaries combined with inflation close to the lower deviation limit from the inflation target of the National Bank of Poland will also drive consumer spending. Additionally, easing the monetary policy will also encourage business activity. According to the Bank's projections, the economic rebound, inflation and GDP outlooks will make the Monetary Policy Council tighten the monetary policy before early 2015. The Bank expects that at the end of 2014 the reference rate will amount to 2.50%.

New regulations will also apply and they will affect financial results of the banking sector in Poland, in particular:

- Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC;
- Regulation of the European Parliament and of the Council (EU) no. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending the Regulation (EU) no. 648/2012;
- reduction of the interchange fee from 1.25% to 0.5% from July 2014 in line with the applicable law.

Moreover, works and negotiations have been carried out on the following issues:

- Draft Recommendation U covering good bancassurance practices – the recommendation prepared will set out a framework for appropriate identification, supervision and management of risks related to insurance products offered by banks and provide guidelines concerning accounting policy, internal controls and compliance function in banks, which should ensure appropriate direct and indirect regulation of the area discussed in the Recommendation in all processes related to the bank's activities. Recommendation U is planned to enter into force not later than 1 November 2014.
- elimination of the possibility to avoid a tax liability related to earning income on funds accumulated by the taxpayer due to their saving, keeping or investing (refers in particular to investment insurance products and structured products offered in the form of investment policies);
- Draft Act on Bank Guarantee Fund, a structured list of banks and amendments to other acts of law – the draft does not foresee introduction of a new fee for an organized liquidation of banks fund.

Other challenges for the Polish banking sector in 2014 may include:

- deterioration of the situation in the global economy due to escalation of the Kiev-Moscow conflict, crisis in the euro zone and normalization of the monetary policy by the Federal Reserve. This scenario would adversely affect Polish exporters and could hinder the economic growth rate. Additionally, reducing excessive liquidity of global financial markets could translate into equity outflow from emerging markets, including from Poland. This in turn, would entail a limited demand

[7] *Source: Analizy OnLine "Investment funds performance (December 2013)".*

for services offered by the Bank and higher costs of risk related to the deterioration of the financial position of clients;

- GDP growth rate lower than projected and improvement in the domestic labor market slower than expected. If this scenario materializes, the Bank's risk will grow, which may entail a deterioration of the credit portfolio quality,
- deterioration of perception of Poland among investors and capital outflow. This scenario would result in a weaker zloty and sale of domestic treasury bonds. It will also lead to higher costs of servicing public debt and limited possibility to finance business investments.

1.5 Regulatory environment

The financial and organizational condition of the Bank Pocztowy Capital Group was affected by the following amendments of law:

- Act of 12 July 2013 amending the act on payment services and other selected acts (Journal of Laws of 2013 item 1036). The Act entered into force as of 7 October 2013.
- Act of 26 July 2013 amending the act on Bank Guarantee Fund and other selected acts (Journal of Laws of 2013 item 1012). The Act entered into force as of 4 October 2013.
- Ordinance of the Minister of Finance of 11 December 2012 amending the ordinance on tax return to selected taxpayers, invoice issuing and storing and a list of goods and services to which the VAT exemption does not apply (Journal of Laws, item 1428). The Ordinance entered into force as of 1 January 2013.
- Resolution No. 7/2013 of the Polish Financial Supervision Authority dated 8 January 2013 on issuing Recommendation D concerning management of IT technology and information technology environment security in banks (Official Journal of the Polish Financial Supervision Authority of 2013, item 5). The Polish Financial Supervision Authority expects that the recommendation will have been implemented by 31 December 2014.
- Resolution No. 8/2013 of the Polish Financial Supervision Authority dated 8 January 2013 on issuing Recommendation M concerning operational risk management in banks (Official Journal of the Polish Financial Supervision Authority of 2013, item 6). The Polish Financial Supervision Authority expects that the recommendation will have been implemented by 30 June 2013, except for item 17.3, which should enter into force by 31 December 2013 at the latest.
- Resolution No. 59/2013 of the Polish Financial Supervision Authority dated 26 February 2013 on issuing Recommendation T on good practices in managing retail credit exposures (Official Journal of the Polish Financial Supervision Authority of 2013, item 11). The provisions of the Recommendation in question were implemented before 31 July 2013, within the deadline specified by the Authority.
- Resolution No. 148/2013 of the Polish Financial Supervision Authority dated 18 June 2013 on issuing Recommendation S on good practices in managing mortgaged credit exposures (Official Journal of the Polish Financial Supervision Authority of 2013, item 23). The Polish Financial Supervision Authority expected that the recommendation would be implemented by 1 January 2014 at the latest, except for recommendations 6, 9.1, 12, 14.10, 15.8 and 20, which should enter into force by 1 July 2014.
- Position of the Polish Financial Supervision Authority on insurance fee recognition under revenue in banks of 7 March 2013.
- Position of the Polish Financial Supervision Authority of 23 December 2013 providing detailed guidelines on accounting treatment of recognizing revenue from sale of bancassurance products.
- Recommendations of the Payment System Council on security of proximity cards of 30 September 2013. The provisions will come into force after 6 months from approving the Recommendation.
- Recommendation of the Polish Banks Association dated 10 July 2012 on good practices related to insurance with elements of investment or saving in the Polish bancassurance market. The Recommendation entered into force as of 1 January 2013.
- Recommendation of the Polish Banks Association dated 10 July 2012 on good practices related to insurance coverage linked with bank products in the Polish bancassurance market. The Recommendation entered into force as of 1 January 2013.

2. SIGNIFICANT EVENTS IN THE CAPITAL GROUP IN 2013

2.1 Growing client base

At the end of 2013 Bank Pocztowy had the total of 1,438.8 thousand clients, including:

- 1,246.5 thousand consumers (in 2013 the number grew by 127.4 thousand),
- 177.2 thousand microenterprises versus 177.6 thousand at the end of 2012,
- 15.1 thousand other institutional clients (small and medium enterprises, public sector entities, public benefit institutions and entities in the Poczta Polska Capital Group). The number of the Bank's clients in the segment grew by 0.8 thousand in 2013.

1.44
million
clients of Bank Pocztowy
As at 31.12.2013

The dynamic growth in number of clients has proved the efficiency of the product offer policy applied by the Bank. The policy is based on offering simple, user-friendly products and avoiding complicated procedures and incomprehensible communication.

2.2 Significant increase in new loans

In 2013 the Bank Pocztowy Capital Group took steps to optimize its balance sheet structure and increase the share of highly profitable assets, in particular consumer loans. At the end of December 2013 the total gross loans and advances to customers granted by the Group amounted to PLN 5,180.5 million, i.e. by PLN 485.9 million (i.e. 10.3%) more than at the end of 2012. The Group had a 0.6% share in credit receivables from the banking sector clients[8].

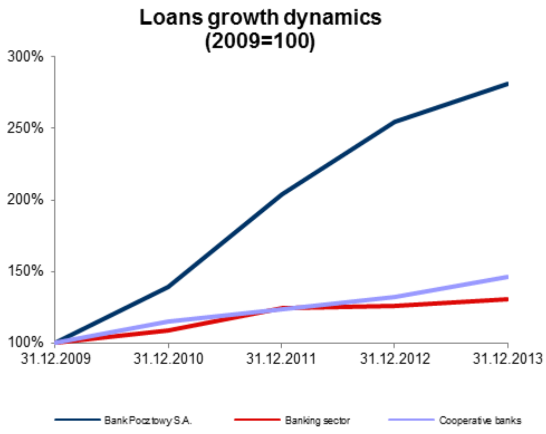
The increase in new loans of the Group was related to:

- an increase in credit receivables from individuals. At the end of 2013 they amounted to PLN 4,105.7 million and grew by 541.3 million (i.e. by 15.2%) versus the end of 2012. The growth resulted from a growth in the number of new consumer loans, which amounted to PLN 1,723.1 million and grew by 22.3% in 2013;
- stabilization of credit exposure extended to institutional clients. Credit receivables of the Group in this category reached PLN 638.6 million,
- decrease in credit exposure to local authorities. It amounted to PLN 356.6 million and was by 13.7% lower than in the previous year. The deterioration resulted from a difficult financial position of local authorities, a decrease in the credit liabilities towards the banking sector, and low market attractiveness for the Group resulting from relatively low profitability.

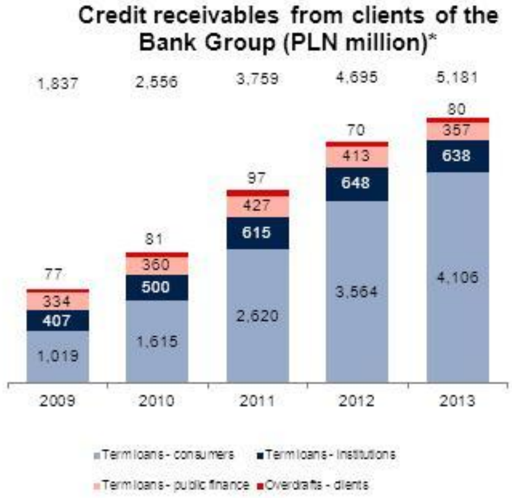
Loans and advances to customers of the Bank Pocztowy S.A. Capital Group (in PLN '000)

	31.12.2013	Structure (31.12.2013)	31.12.2012	Structure (31.12.2012)	Change 2013/2012 PLN '000	Change 2013/2012 %
Loans and advances to customers (gross)	**5,180,504**	**100.0%**	**4,694,651**	**100.0%**	**485,853**	**10.3 %**
Overdraft facilities	79,626	1.5%	69,379	1.5%	10,247	14.8 %
Term loans	5,100,878	98.5%	4,625,272	98.5%	475,606	10.3 %
individuals	4,105,692	79.3%	3,564,369	75.9%	541,323	15.2 %
institutional clients	638,572	12.3%	647,471	13.8%	(8,899)	(1.4)%
local authorities	356,614	6.9%	413,432	8.8%	(56,818)	(13.7)%
Net impairment allowances on receivables	**124,792**	**-**	**95,106**	**-**	**29,686**	**31.2 %**
Net loans and advances	**5,055,712**	**-**	**4,599,545**	**-**	**456,167**	**9.9 %**

[8] *Source: WEBIS data for Bank Pocztowy, data of the National Bank of Poland for Monetary receivables and liabilities of financial institutions, December 2013 - for the banking sector*



Source: Financial Supervision Authority, Bank Pocztowy



In 2009 and 2010 interest on loans was not assigned to individual Bank client categories. In 2009 it was PLN 7,576 thousand, in 2010 - PLN 9,061 thousand.
In 2009 gross loans amounted to PLN 1,844 million, in 2010: PLN 2,565 million.

The Group's credit exposure structure had changed in the last years and also in 2013. First of all, the share of loans and advanced to consumers, i.e. of the largest group in the structure, increased. At the end of 2013 such exposures accounted for 79.3%, i.e. were by 3.4 p.p. higher than the previous year.

In the years 2009-2013 the Bank Pocztowy Capital Group acquired new loans considerably faster than the banking sector. The value of loans and advances in the Group grew by 280.9%, as compared to the growth in the entire banking sector of 130.8%.

Key competitors of the Bank Pocztowy Capital Group are entities with a well-developed traditional sales network, such as PKO Bank Polski S.A., Bank Pekao S.A., cooperative banks and credit unions.

2.3 Increase in consumer deposits

At the end of December 2013 liabilities of the Bank Pocztowy Capital Group to clients totaled PLN 6,230.6 million versus PLN 6,318.0 million at the end of 2012 (a 1.4% decrease). The Group had a 0.7%[9] share in credit liabilities to the banking sector clients.

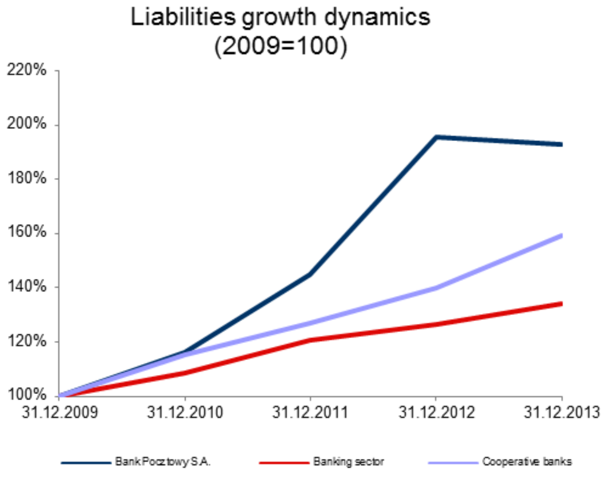
In 2013 deposits of consumers grew in the Group up to PLN 4,157.2 million versus PLN 4,063.0 million at the end of 2012 (a 2.3% growth).

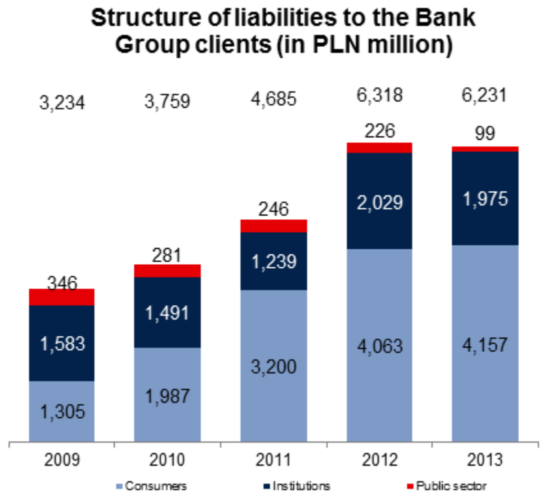
The value of funds kept on accounts of institutional clients totaled PLN 1,974.7 million and dropped by 2.7% during the year.

Liabilities to customers of the Bank Pocztowy S.A. Capital Group (in PLN '000)

	31.12.2013	Structure (31.12.2013)	31.12.2012	Structure (31.12.2012)	Change 2013/2012 PLN '000	%
Liabilities to clients	**6,230,578**	**100.0%**	**6,317,949**	**100.0%**	**(87,371)**	**(1.4)%**
Institutional clients	1,974,662	31.7%	2,028,859	32.1%	(54,197)	(2.7)%
Individual clients	4,157,171	66.7%	4,063,038	64.3%	94,133	2.3 %
Public sector clients	98,745	1.6%	226,052	3.6%	(127,307)	(56.3)%

[9] *Source: WEBIS data for Bank Pocztowy, data of the National Bank of Poland for Monetary receivables and liabilities of financial institutions, December 2013 - for the banking sector*





In the years 2009-2011 non-bank financial entities were classified as institutions, in line with the reporting standards applied in the Bank.

Source: Financial Supervision Authority, Bank Pocztowy

In the recent years, stable deposits of consumers accounted for two third of the total value of deposits.

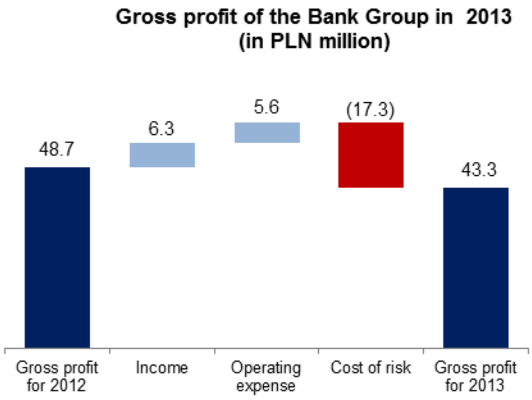
From 2009 to 2013 the value of liabilities to clients grew by 192.7%, as compared to the growth in the entire banking sector of 134.2%.

2.4 Record high income and stable costs

In 2013 the Bank Pocztowy Capital Group generated the second-highest net profit since the Bank's inception. It reached PLN 36.0 million and was by 7.5% lower than the record high net profit reported in 2012.

Key factors determining the financial profit or loss of the Group in 2013:

- Income growth. The income grew by PLN 298.4 million and it was the highest result since the beginning of the Bank's operations (2.1% year-over-year). In the environment with record low interest rates, net interest income increased thanks to a significant growth in new loans extended to consumers.
- A decrease in operating expenses. At the end of 2013 operating expenses amounted to PLN 212.7 million and were by 2.6% lower than in 2012.
- Increase in the impairment loss from PLN -25.1 million in 2012 to PLN-42.4 million in 2013 (68.9% growth).



**Income including profit/loss from other operations*

Financial performance of the Bank Pocztowy S.A. Capital Group in 2013

	2013	2012	Change 2013/2012
Operating income[1] (in PLN '000)	298,396	292,120	2.1 %
General and administrative expenses (in PLN '000)	(212,738)	(218,356)	(2.6)%
Profit before cost of risk (in PLN '000)	85,658	73,764	16.1 %
Net impairment losses (in PLN '000)	(42,398)	(25,099)	68.9 %
Gross profit (loss) (in PLN '000)	43,260	48,665	(11.1)%
ROA (net) (in %)	0.5	0.6	(0.1) p.p.
ROE (net) (in %)	9.6	11.4	(1.8) p.p.
C/I (%)	71.3	74.7	(3.4) p.p.
CAR (%)	12.8	14.0	(1.2) p.p.
Tier 1 (%)	9.5	9.9	(0.4) p.p.

1 Group's income with other operating revenue and expenses.

As a result of an income growth and cost discipline the cost/income ratio improved and amounted to 71.3% in 2013, i.e. was by 3.4 p.p. lower than in 2012.

In 2013 every PLN 100 of invested equity generated PLN 9.6 of net profit, i.e. by PLN 1.8 less than in the previous year. Lower return on equity resulted from higher cost of risk.

Capital adequacy ratio of the Group remained high and it exceeded the minimum level recommended by the supervising authority. On 31 December 2013 the solvency ratio amounted to 12.8%, as compared to 14.0% in December 2012. Tier 1 capital ratio of the Group was also good and amounted to 9.5% at the end of 2013.

2.5 Bond issue

In order to diversify funds for financing new lending, in 2013 Bank Pocztowy S.A. issued short-term and long-term treasury bonds.

In 2013, Bank Pocztowy organized the following bond issues:

- Issue of short-term bonds, based on a resolution of the Extraordinary Shareholders Meeting of 26 April 2013 on the issue of short-term, ordinary non-interest bearing bonds. Under the Program the Bank will issue bearer shares with the face value of PLN 300 million with the maturity date from 14 days to 1 year. The bonds issued will not be traded in the over-the-counter *Catalyst* market. In 2013, Bank Pocztowy organized 3 issues of short-term bonds:
  - on 27 August 2013 the Bank issued D1 series bonds with the face value of PLN 60 million. The issue covered 600 bonds with the face value of PLN 100,000 each. The issue price was PLN 99,154.10. Bond redemption at face value was carried out on 2 December 2013,
  - on 30 September 2013 the Bank issued D2 series bonds with the face value of PLN 30 million. The series comprised 300 bonds with the face value of PLN 100,000 with the issue price of PLN 99,139.00 each. The Bank redeemed the bonds at face value on 8 January 2014,
  - on 2 December 2013 the Bank issued D3 series bonds with the face value of PLN 50 million. The series comprised 500 bonds with the face value of PLN 100,000 with the issue price of PLN 98,405.30 each. The bonds will be redeemed on 2 June 2014 at their face value.
- Issue of ordinary B2 series bonds. On 13 December 2013 the Bank issued 14,785 ordinary bearer bonds with the face value of PLN 10,000 each. They are floating interest bonds determined as WIBOR6M+margin of 140 b.p., equal to 4.10% in the first interest period. Bond redemption date was set at 13 December 2016. 13 March 2014 was the first day when B2 series bonds were quoted in the over-the-counter Catalyst market.

In order to strengthen its capital base, in 2012 Bank Pocztowy S.A. issued subordinated C series bonds with the face value of PLN 50 million. In February 2013 the Bank introduced them to the over-the-counter *Catalyst* market. They are floating interest bonds maturing on 5 October 2022.

At the end of December 2013 the total amount of bonds issued by the Bank was PLN 525,190 thousand, including PLN 297,340 thousand of bonds quoted on the *Catalyst* market.

Bank Pocztowy S.A. provided detailed information on the issue of bonds in its current reports, which are available at the website of the *Catalyst* market and the Bank.

2.6 Awards and distinctions

In 2013 Bank Pocztowy S.A. consequently implemented its strategy, which was appreciated by market participants and recognized in form of awards and distinctions granted to the Bank for key areas of its operations. Individual awards were also won by the Bank's managers and experts.

In February 2013 Bank Pocztowy was granted a *Success Code* award by the *Wprost* weekly for product simplicity and financial education program for unbanked persons. The organizers additionally emphasized that the Bank's strategy translated into one of the most dynamic growths in the sector considering the number of new accounts.

Bank Pocztowy came second in the increase in the number of personal accounts for yet another year. The result was confirmed by a cyclical report of Bankier.pl web portal published in March. The report summarized activities of banks in the entire 2012 and the ranking prepared by *PR News* for the first half of 2013.

An important event for the Bank, confirming its growing role in the banking market in Poland, was the 5th edition of the *Banking Forum* Conference which was held in April. On this occasion Bank Pocztowy was granted three prestigious awards – *The fasters growing Bank, The best Bank in the small/medium bank category* and a title *Manager of the Year* for the Chairman of the Management Board of Bank Pocztowy S.A., Tomasz Bogus.

In June 2013 the Bank was voted the best bank offering consumer loans in the poll *Top 50 Banks in Poland*. When selecting the winners, the authors of the ranking considered two criteria – loans (defined as receivables from individuals) and a number of accounts. The growth and the absolute value of the increase were taken into account.

A cash loan offered by Bank Pocztowy was awarded several times during 2013. In June it was ranked first in the ranking of the Bankier.pl web portal twice, in May it came first in the ranking of TotalMoney.pl and in August it was ranked second in the ranking prepared by experts of Money.pl.

Moreover, *Pocztowe Konto Firmowe (Company Postal Bank Account)* was also awarded by the market in July and August. It was ranked third in the ranking of Money.pl comparing 83 business accounts available in the market. The account was also on the third place of the ranking of Bankier.pl.

Transparency of the information policy and the top quality of reporting of Bank Pocztowy S.A. was appreciated in October 2013 when the Bank was granted an award for the best Management's report on the activities of the Bank for 2012 in the *Banks and Financial Institutions* category of *The Best Annual Report* competition organized by the Institute of Accountancy and Taxes.

Bank Pocztowy was ranked third in a satisfaction survey for Internet users in 2013. It was the second award granted to the Bank by *Wirtualna Polska* web portal and a yet another form of recognizing the Bank for its quality and growing position in the banking market. The ranking was prepared for the third time upon a request of wp.pl web portal by *Expandi*. The firm analyzed nearly 180 thousand Internet posts placed on various forums, comments under articles, in blogs and social networks. 91% of all comments about Bank Pocztowy were either positive or neutral, which is the best result amount 20 banks compared. The ranking showed that Internet users particularly appreciate the Bank's credit offer.

Monika Kurtek, Chief Economist of Bank Pocztowy S.A. was granted an individual prestigious Bull and Bear 2012 award in the ranking organized by *Gazeta Parkiet*. She was ranked first for her accuracy in assessing market projections for 2012 beating over 20 teams of analysts from banks and financial institutions.

2.7 Post balance sheet events

In January 2014, Bank Pocztowy S.A. entered into the following agreements with Poczta Polska S.A.:

- an arrangement concerning early repayment of the subordinated loan granted to the Bank in July 2011;
- a new subordinated loan agreement for the amount equal to the amount of the loan granted in July 2011.

The objective of these activities was to maintain capital measures at appropriate levels determined by supervising institutions.

3. ACTIVITIES IN THE CONSUMER MARKET

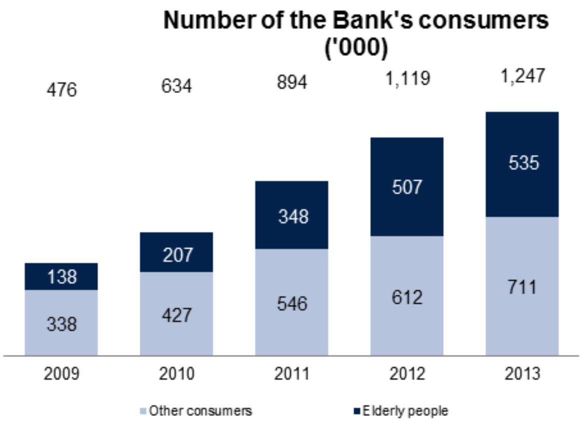
3.1 Consumers

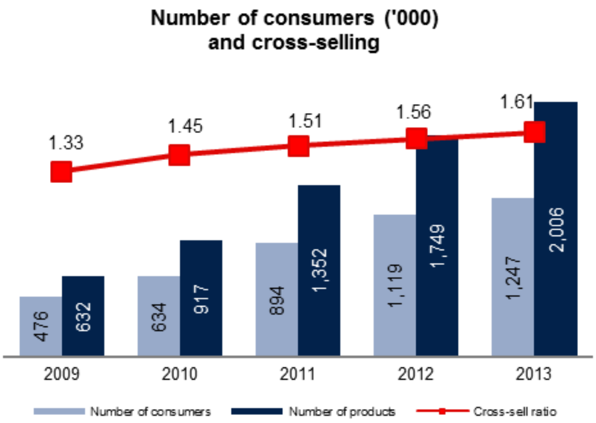
In 2013 Bank Pocztowy S.A. acquired over 286.9 thousand new consumers. A group of these individuals was acquired under a wider project of Poczta Polska, Bank Pocztowy and Zakład Ubezpieczeń Społecznych (Social Insurance Institution) encouraging elderly people to accept payments of social security benefits to a bank account.
Following the Bank's actions aimed at stimulating customers to use banking services, such as an introduction of fees for clients who do not use the account, an insignificant number or current account holders who did not use the account left the Bank. Consequently, at the end of 2013 the number of customers of Bank Pocztowy reached 1,246.5 thousand, i.e. 127.4 more than in 2012. Nearly 43% of consumers are elderly people.

287

thousand new consumers

In 2013





The largest group of consumers (1,019 thousand) were current account holders.

Apart from fostering a dynamic growth of the number of new customers, the Bank also developed relationships with its existing customers. In 2013 individual clients used 1.61 of the Bank's product, while in 2012 it was 1.56 product.

3.2 Development of the product offer for consumers

Bank Pocztowy S.A. prepared a simple and comprehensible offer for consumers including a wide range of credit and deposit products. The Bank also offers insurance and investment products through its distribution channels. The offer covers the following product groups:

- current accounts (*Pocztowe Konto Standard and Pocztowe Konto Nestor*)
- saving accounts (*Nowe Konto Oszczędnościowe, Pocztowe Konto Oszczędnościowe*),
- term deposits,
- consumer credit (including cash loans for staff of Reduced Credit Risk Employers[10], cash loans for elderly people and cash loans for other consumers, including revolving overdrafts,
- mortgage loans (including housing loans, mortgage loans and debt consolidation loans),
- insurance and investment products.

A current account is the key product used for acquiring consumers and the focal point in customer relationships. In order to acquire new clients in September 2013 the Bank introduced changes to the fee and commission scheme for personal accounts and it introduced a fee for keeping accounts of non-active

[10] *Reduced Credit Risk Employers include: the Police, city authorities, fire stations, public healthcare units, companies listed at the WSE and companies from the Poczta Polska Capital Group.*

customers. At the same time, keeping accounts of clients using payment cards and payments of bills at the bank and post offices remained free of charge.

Striving to acquire stable consumer deposits, in 2013 the Bank developed its term deposit offer introducing progressive term deposits *More and more*, where the interest rate depend on the term of the deposit. These deposits also assume a monthly payment of interest accrued to the current account and no interest loss if the deposit is terminated before maturity. To increase the value of long-term deposits the Bank offers progressive term deposits with a two- and three-year term to maturity.

In 2013 the Bank introduced material changes to the credit offer:

- it introduced a permanent offer dedicated to elderly people,
- it expanded sales networks and started cooperation with network agents distributing cash loans,
- it revised the principles of establishing collateral for cash loans,
- it offered cash loans with accident insurance and mortgage loans with AVIVA insurance package on promotional terms,
- it increased maximum limits for credit cards.

To stimulate consumers to use banking services, Bank Pocztowy introduced two promotional programs: *I like Pocztowy!* and *I earn with Pocztowy*, offering financial bonuses to consumers for recommending the Bank's services and for using additional products and services of the Bank.

The Bank offers *bancassurance* products thanks to its cooperation with insurance companies, such as: Pocztowe Towarzystwo Ubezpieczeń Wzajemnych, Aviva Towarzystwo Ubezpieczeń na Życie S.A., Grupa Ergo Hestia, Towarzystwo Ubezpieczeń Europa S.A. and Amplico Life S.A. Changes in the insurance offer proposed to the Bank's clients included:

- Expanding the insurance product range sold with cash loans to include life insurance and adding unemployment insurance to the mortgage loan offer.
- Introducing life insurance products for credit card holders - increasing the sum insured with the increase of maximum credit limits.
- Offering life insurance *Support for relatives* for current account holders.
- Launch of the *Golden Future* Investment Program. The program is offered to clients in the form of Group Investment Insurance Agreement with the saving term of at least 8 years. It enables investing funds in four Unit-Linked Insurance Plans with various investment risks. After the investment period the client may transfer the principal amount to the Premium Agreement, concluded in the form of individually continued insurance for the period of 30 years.
- Offering health insurance products in the insurance outlet (the Bank's website enabling the Bank's clients to compare products and make a purchase).
- Expanding the offer to include Accident Insurance for holders of a current account with an overdraft limit.

The Bank has also started works to introduce the following products to the bancassurance offer: drug policy, insurance package to the *Standard* and *Nestor* current accounts and *assistance* services.

3.3 Credit operations

At the end of 2013 gross credit receivables of Bank Pocztowy S.A. from consumers totaled PLN 4,146.7 million versus PLN 3,604.4 million at the end of 2012 (a 15.0% increase). The Bank's share in credit receivables from consumers of the banking sector amounted to 0.9% (by 0.1 p.p. more than at the end of 2012)[11].

[11] *Source: WEBIS data for Bank Pocztowy, data of the National Bank of Poland for Monetary receivables and liabilities of financial institutions, December 2013 for the banking sector*

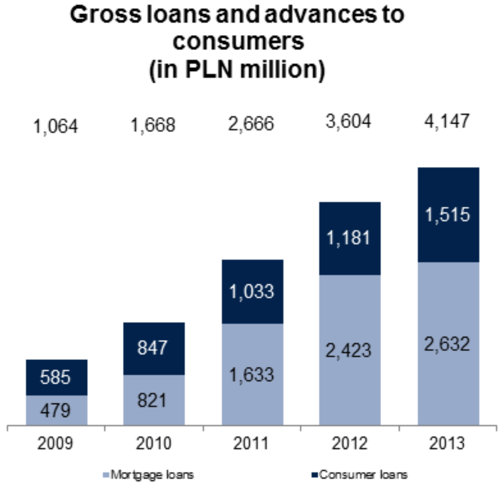
Gross loans and advances of Bank Pocztowy S.A. - consumers (in PLN '000)

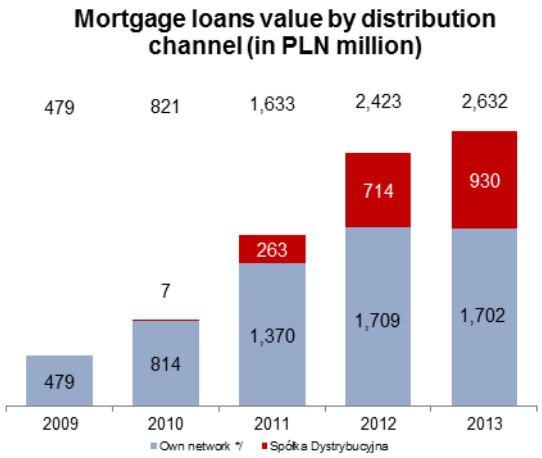
	31.12.2013	Structure (31.12.2013)	31.12.2012	Structure (31.12.2012)	Change 2013/2012 PLN '000	%
Gross loans and advances, inclu	**4,146,661**	**100.0%**	**3,604,381**	**100.0%**	**542,280**	**15.0 %**
Mortgage loans	2,632,211	63.5%	2,423,284	67.2%	208,927	8.6 %
Consumer loans	1,514,450	36.5%	1,181,097	32.8%	333,353	28.2 %

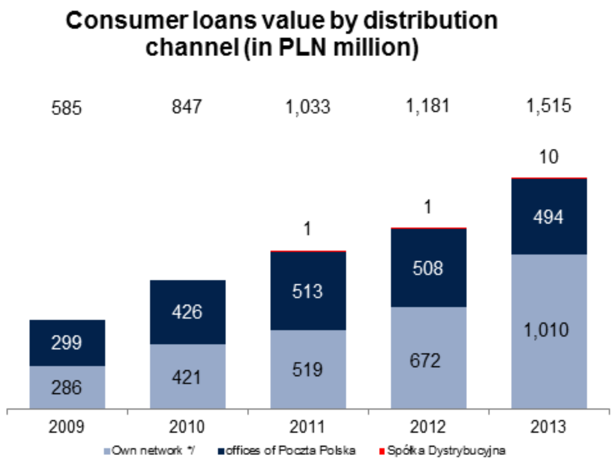
Source: management information of the Bank. The data present the principal amount only. Default interest, due and undue interest, EIR fees, other prepaid expenses and revenue, other restricted revenue and interest and other receivables were not included.

A large portion of the portfolio are mortgage loans. At the end of 2013 the Bank's receivables due to mortgage loans reached PLN 2,632.2 million and were by 8.6% higher than in December 2012.

In 2013 the Bank, offering local currency loans only, extended PLN 325.4 million of mortgage loans (98% of which were housing loans), i.e. by 61.8% less than in 2012, when the sales reached PLN 852.1 million. The decrease resulted from the strategy followed. Due to limited capital, the Bank focuses on the sale of products with the highest profitability considering their effect on the capital, which implies promoting the sale of cash loans and a stable sale of mortgage loans.

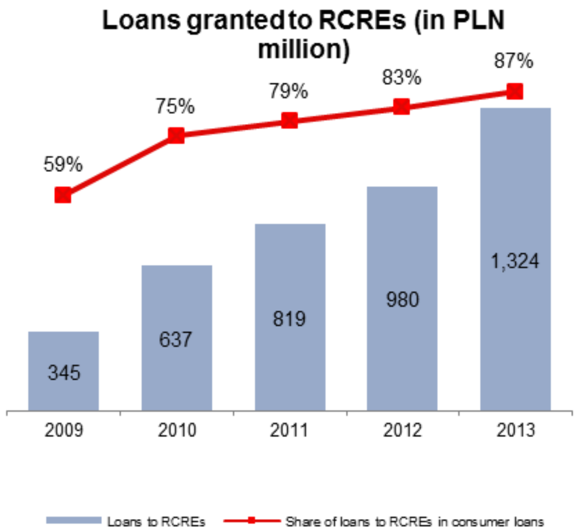






**/including loans and advances granted in cooperation with agents.*

Mortgage loans in the Bank's portfolio were granted mainly through own sales points. At the end of 2013, 64.7% of the Bank's credit exposure was sold through own sales points (as compared to 70.5% in 2012). At present Spółka Dystrybucyjna Banku Pocztowego is the only distribution channel for mortgage loans of the Bank, hence the sale through this channel in the total Bank's receivables due to mortgage loans has been growing gradually. At the end of 2013, the Bank's receivables due to mortgage loans sold through this channel reached PLN 930.0 million and increased by 30.2% during the year.



In 2013 the Bank dynamically acquired new consumer credits. At the end of December 2013 receivables due to such products reached PLN 1,514.5 million, i.e. by 28.2% more than a year before. In 2013 the Bank sold consumer loans with the value of PLN 886.4 million, i.e. by 41.5% higher than in 2012. The key distribution channels are own sales network and the offices of Poczta Polska.

In the consumer loan portfolio the Bank focuses on more secure facilities for Reduced Credit Risk Employers (RCRE), which constituted 87.4% of the entire portfolio at the end of December 2013.

3.4 Deposits

When acquiring deposits in the market Bank Pocztowy strived to optimize costs of financing due its high liquidity in 2013.

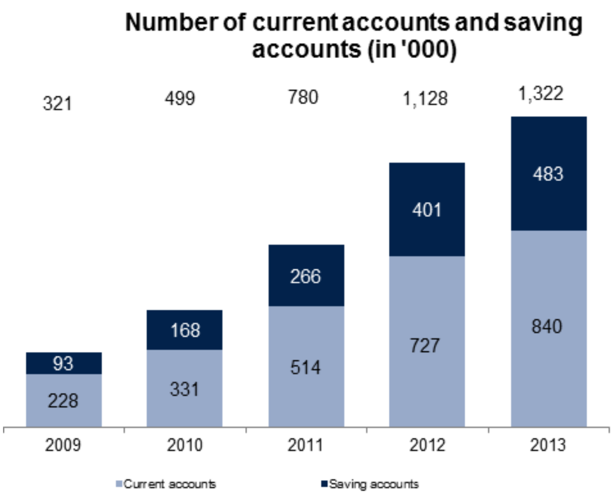
As at 31 December 2013 consumers deposited in the Bank the total of PLN 4,095.6 million versus PLN 3,969.3 million at the end of December 2012 (a 3.2% growth). Consequently, the Bank's share in consumer's deposits market reached 0.8%[12].

Deposits of Bank Pocztowy S.A. - consumers (in PLN '000)

	31.12.2013	Structure (31.12.2013)	31.12.2012	Structure (31.12.2012)	Change 2013/2012 PLN '000	%
Client deposits, including:	**4,095,641**	**100.0%**	**3,969,327**	**100.0%**	**126,314**	**3.2%**
Current accounts	745,877	18.2%	549,634	13.8%	196,243	35.7%
Saving accounts	1,483,109	36.2%	1,467,450	37.0%	15,658	1.1%
Term deposits	1,866,655	45.6%	1,952,243	49.2%	(85,588)	(4.4)%

Source: management information of the Bank. The data present the principal amount only, excluding interest accrued.

In 2013, funds deposited on current accounts of consumers increased to reach PLN 745.9 million in December 2013, i.e. by 35.7% more than a year before. At the end of 2013 Bank Pocztowy managed 839.7 thousand active current accounts of consumers. This implies that in 2013 the Bank acquired a 112.4 thousand accounts net and was one of the banks reporting the highest increase in the number of current accounts. In September 2013 Bank Pocztowy S.A. was ranked tenth in the bank ranking for the number of current accounts with the market share of 3.0%[13].

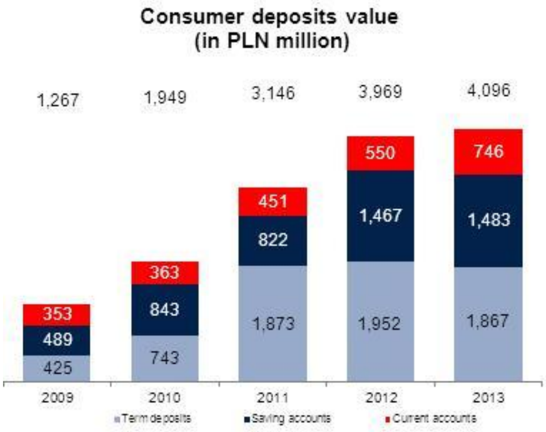


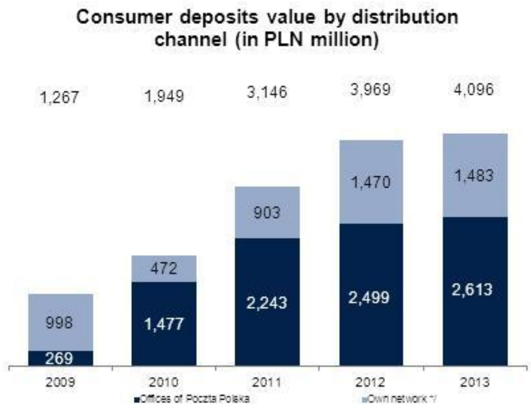
More and more progressive deposits introduced to the offer in 2013 were the most popular saving product among consumers. In the second half of 2013 the Bank limited acquisition of deposits, due to its moderate liquidity needs.

In December 2013 consumers deposited PLN 1,483.1 million on saving accounts in the Bank, i.e. by 1.1% more than at the end of 2012. The result was affected by a less attractive saving product offer. Following a decrease in interest rates, the interest on saving accounts in the Bank dropped from 3.7% at the end of 2012 to 1.8% in December 2013.

In December 2013, 63.8% of consumers' funds deposited in Bank Pocztowy, i.e. 0.8 p.p. more than at the end of 2012 were acquired through Poczta Polska.

[12] Source: WEBIS data for Bank Pocztowy, data of the National Bank of Poland for Monetary receivables and liabilities of financial institutions, December 2013 for the banking sector
[13] Source: PRNews.pl Current account market – Q3 2013, 12 December 2013



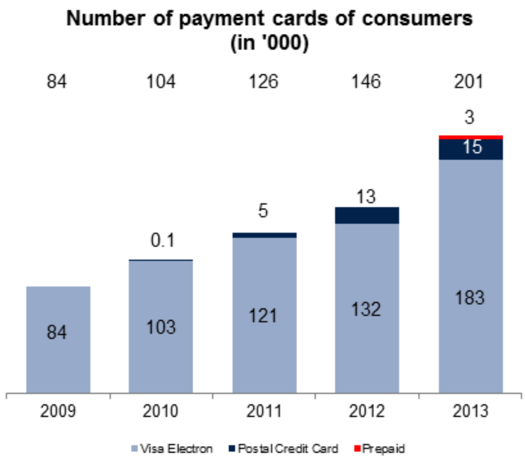


*/including accounts opened through agents

3.5 Bank cards

Bank Pocztowy S.A. offers the following types of bank cards to consumers:

- Visa Electron debit cards issued to personal accounts and saving accounts,
- *Postal Visa Credit Cards,*
- *Zasilacz* pre-paid cards (a pilot).



Major changes in the payment card offer of the Bank:

- Debit cards. Anticipating the increase in the sale of cards and in the number of transactions carried out using such cards, the Bank decided to exempt consumers from payment for account maintenance only if they hold a payment card and offered exemption from a monthly payment for the card provided that a user has concluded non-cash transactions for the total amount of PLN 200 (for *Nestor* account) and PLN 300 (for *Standard* account) in a given month. Moreover, the Bank replaced the limit of free-of-charge cash withdrawals in own offices with free-of-charge withdrawals in nearly 5,000 cashpoints of PKO Bank Polski, BZ WBK and Planet cash4you located countrywide. The offer change increased the sales from ca. 3 thousand to 11 thousand new debit cards a month. At the same time, the number of cash transactions concluded using the cards grew by 38% and the value - by 36%.
- *Postal Credit Cards.* The Bank launched a card promotion for new customers and did not charge any fee for issuing cards and the first year of their use. To encourage customers to activate their cards and actively use the credit limit, the Bank launched a promotion reducing the interest rate for cardholders down to 9.99%. The Bank also increased the maximum credit limit amount from PLN 5,000 to PLN 20,000 and introduced additional insurance covering repayment of credit card debt.
- *Zasilacz* pre-paid cards. In 2013, the Bank carried out a pilot sale of *Zasilacz* pre-paid cards in 153 post offices. Experience from the pilot project will be used to develop a strategy for development and sale of pre-paid cards in the Bank.

By the end of December 2013 Bank Pocztowy S.A. issued 201.1 thousand payment cards for consumers (i.e. by 38.1% more than at the end of 2012), including 15.2 thousand credit cards (i.e. by 14.3% more than a year before).

4. ACTIVITIES IN THE INSTITUTIONAL CLIENT MARKET

4.1 Institutional banking clients

Applying general, financial and business relations criteria, Bank Pocztowy S.A. has divided its institutional clients into the following categories:

- Small and medium enterprises (SME),
- Microenterprises,
- Housing institutions such as condominiums, housing associations, property managers and social housing associations,
- Public Finance and Public Benefit Organizations,
- Poczta Polska and companies from its Capital Group.

177.2
thousand Microenterprises in the Bank's portfolio
As at 31.12.2013

In line with the Bank's strategy for 2012-2015, one of the key areas of the dynamic growth of the Bank is development of the microenterprises sector.

In December 2013, Bank Pocztowy S.A. had the total of 192.3 thousand clients as compared to 191.9 thousand at the end of 2012. Most of the Bank's clients are Microenterprises. At the end of December 2013, 177.2 thousand microenterprises accounted for 92.1% of all institutional clients of the Bank. At the same time, during the financial year the number of Housing institutions in the Bank's portfolio grew considerably from 10.7 thousand at the end of 2012 to 11.4 thousand in December 2013.

4.2 Development of the product offer for institutional clients

The key product in packages tailored to individual needs of institutional client segments is the current account. The Bank offers the following types of current accounts to institutional clients:

- *Company Postal Accounts – for Microenterprises,*
- *Postal Business Package – for SMEs and property managers,*
- *HOUSE Postal Package* and *Mini House Postal Package* – for condominiums, housing associations and social housing associations,
- *Organization Postal Package and Small Organization Postal Package - for public benefit organizations and other non-profit organizations.*

As for deposits, the Bank offers standard and individually negotiated deposits with a wide range of agreement periods, Company Saving Accounts (for microenterprises) and Business Saving Accounts (for SMEs, Housing institutions and Public Benefit Organizations).

The Bank's credit offer for institutional clients includes in particular:

- overdraft facilities (in the current and credit accounts),
- non-revolving working capital loans (in the credit account),
- investment loans,
- loans with a thermo-modernization and renovation premium and with subsidies from the Regional Fund for Environmental Protection and Water Management in Łódź offered to Housing institutions,
- mortgage loans.

Bank Pocztowy offers comprehensive settlement services of unique quality, thanks to the access to Poczta Polska's infrastructure. The key settlement services provided in collaboration with Poczta Polska:

- managing documents of payments to the Social Security Institution and Tax Offices,
- cash payments under interbank settlements.

The Bank's settlement offer includes:

- *Giro Payment* (cash payments to third parties available at the offices Poczta Polska and the Bank's own network),
- over-the-counter deposits (cash payments to the client's account at the offices Poczta Polska and the Bank's own network based on standard or individual terms),
- *Postal Collect* (identifying bulk payments using virtual accounts generated to a client's bank account),
- *Postal Collective Transfer* (managing bulk domestic non-cash payment orders in the Polish zloty),
- sealed cash deposits (accepting sealed cash deposits from clients).

The Bank also developed relationships with companies offering international cash transfers. The Bank's key competitive advantage is the widest distribution network in Poland, composed of ca. 5,000 post offices and bank's sales points where customers can collect cash transfers. Since 2008 the Bank has cooperated with Money Gram Payment Systems Inc., providing agency services in cash transfers to Poland.

In order to improve competitiveness of its offer for institutional clients and to streamline processes, in 2013 the Bank took the following actions:

- It redesigned the offer and credit processes for microenterprises. It added new credit products for financing current needs of businesses to the offer for microenterprises, such as *Light Credit Line* and *Express Installment Loan.* Additionally, it simplified and automatized sales processes and adjusted portfolio management processes to the segment needs,
- It implemented the first stage of the new online banking system *Pocztowy24 Business* and successfully completed client migration to the new application. At the same time, the Bank continued works to expand system functionality scope in subsequent implementation stages,
- It also optimized the credit process for the SME and microenterprises segment. The credit process was tailored to the nature of companies in the SME segment and exposure size (for example a different process is applied to exposures up to PLN 1 million and to larger exposures). Automatized credit approval process for credit transactions up to PLN 200 thousand,
- It streamlined the credit process for the Housing segment, which has optimized the time of request processing and reduced the process costs,
- It continued automation of the account opening process for businesses and Housing institutions,
- It started implementation of current services for individuals not carrying out business activities, owners of multi-family buildings,
- It added bancassurance products for institutional clients to its offer (for instance property insurance, and payment protection insurance),
- It enabled clients to make on-line payments (real-time recording in the accounts) and priority incoming payments (recorded in D+1 time scheme) at the offices of Poczta Polska (depending on client configuration in Poczta Polska IT systems),
- It concluded agreements (or annexes to agreements) with Polish and foreign banks to meet the requirements of EMIR Regulation and appropriately adjusted its front-office and back office systems to the operations.

The treasury offer for institutional clients has been expanded to include:

- currency forward contracts,
- purchase and sale of debt securities (treasury and non-treasury securities, certificates of deposit),
- possibility to conclude currency forward transactions under a treasury limit.

4.3 Credit operations

The Bank followed a credit policy for institutional clients aimed at reducing credit exposure to an individual client and significantly reduced financing extended to local government units and high-risk industries (such as building companies and developers). At the same time, the Bank strived to improve profitability of credit transactions concluded. As the credit exposure extended by the banking sector to institutional clients remained stable, the policy translated into an insignificant decrease in the Bank's credit outstandings from institutional clients in 2013.

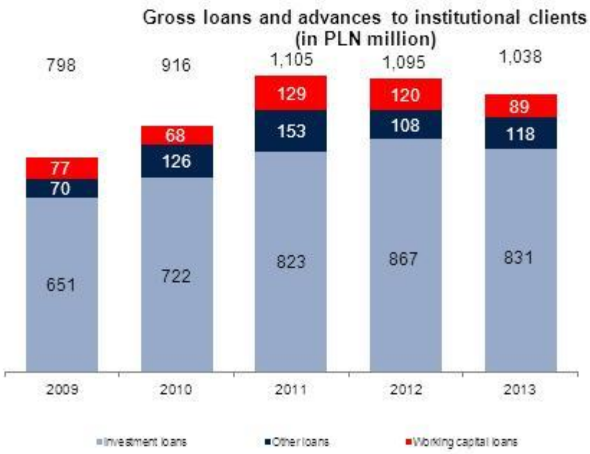
In December 2013 credit receivables of Bank Pocztowy S.A. from institutional clients totaled PLN 1,038.4 million and were by 5.2% lower than a year before. Bank Pocztowy, however, is a strong player in the market of services for non-profit organizations.

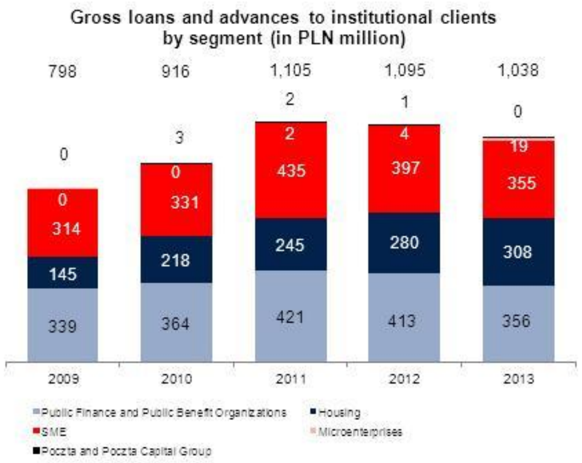
Investment loans are the product most often sold to institutional clients and they accounted for 80% of the total credit exposure of the Bank from this group of clients at the end of 2013.

Loans and advances of Bank Pocztowy S.A. - institutional segment (PLN '000)

	31.12.2013	Structure (31.12.2013)	31.12.2012	Structure (31.12.2012)	Change 2013/2012 PLN '000	%
Institutional loans	**1,038,371**	**100.0%**	**1,094,927**	**100.0%**	**(56,555)**	**(5.2)%**
Investment loans	830,600	80.0%	867,220	79.2%	(36,620)	(4.2)%
Working capital loans	89,223	8.6%	119,841	10.9%	(30,618)	(25.5)%
Other loans	118,548	11.4%	107,866	9.9%	10,682	9.9 %

Source: management information of the Bank. The data present the principal amount only. Default interest, due and undue interest, EIR fees, other prepaid expenses and revenue, other restricted revenue and interest and other receivables were not included.
In 2013 the Bank carried out an internal reclassification of key categories of exposures extended to institutions. The amounts of investment loans and other loans differ from figures presented in the Management Report on the activities of the Bank for 2012 and 2011. The change consists in reclassifying local currency mortgage loans and debt consolidation loans from investment loans to other loans. Moreover, corporate bonds were reclassified from other loans to investment loans.





4.4 Deposits

As at 31 December 2013 deposits of institutional clients amounted to PLN 1,220.3 million, i.e. by 5.0% less than in 2012. At the end of 2013 Bank Pocztowy held a 0.7% share in the market of deposits of institutional clients and controlled 2.4% of the market of deposits made by non-profit organizations operating for the benefit of households[14].

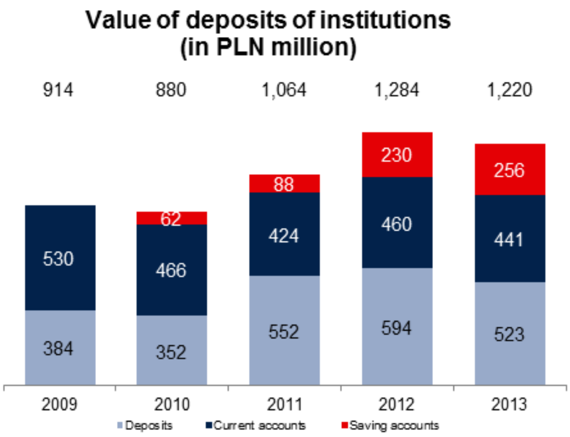
Most institutional clients invest free cash in term deposits. In December 2013 term deposits of institutional clients amounted to PLN 523.5 million, i.e. 42.9% of total deposits of this client group.
The amount of funds deposited in savings accounts of institutional clients also increased considerably, to reach PLN 255.8 million in December 2013, i.e. by 11.4% more than a year before. At the same time, their share in the structure of deposits of institutional clients increased from 17.9% at the end of 2012 to 21.0% in December 2013.

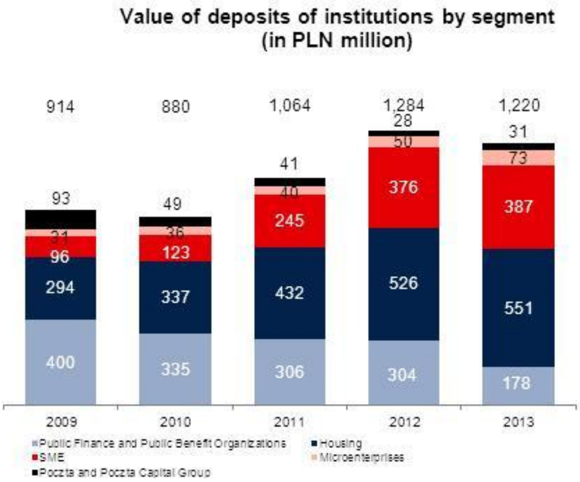
[14] *Source: WEBIS data for Bank Pocztowy, data of the National Bank of Poland for Monetary receivables and liabilities of financial institutions, December 2013 for the banking sector*

Deposits of Bank Pocztowy S.A. - institutional segment (PLN '000)						
	31.12.2013	Structure (31.12.2013)	31.12.2012	Structure (31.12.2012)	Change 2013/2012 PLN '000	%
Total deposits of institutions	**1,220,338**	**100.0%**	**1,283,893**	**100.0%**	**(63,555)**	**(5.0)%**
Current accounts	440,980	36.1%	460,158	35.8%	(19,178)	(4.2)%
Saving accounts	255,827	21.0%	229,657	17.9%	26,170	11.4 %
Deposits	523,531	42.9%	594,078	46.3%	(70,546)	(11.9)%

Source: management information of the Bank. Deposits excluding those with terms negotiated individually.
2012 data restatement to ensure comparability. Reclassification of funds deposited in current accounts – classified to current liabilities of other banks in the institutional segment.

Housing institutions where those to deposit the highest amount at the Bank. In December 2013 term deposits of these entities reached PLN 550.8 million, i.e. 45.1% of total deposits of institutional clients. Deposits of SMEs were also considerable and amounted to 387.4 million, i.e. accounted for 31.7% of the total deposits of institutional clients.





In December 2013 Bank Pocztowy S.A. managed the total of 197.8 thousand of current accounts of institutional clients as compared to 198.0 thousand at the end of 2012.

5. TREASURY OPERATIONS

Treasury operations of Bank Pocztowy S.A. focused on two areas of the Treasury Department: managing interest rate risk, current liquidity risk and currency risk under the Banking Book and managing trade products and customer service under the Trading Book. The Bank's Assets and Liabilities Committee (ALCO) in the Finance Function is responsible for managing non-current liquidity risk, including development of an internal transfer pricing policy and the policy of issuing debt securities by the Bank.

1,842

(in PLN million)
financial assets

As at 31.12.2013

5.1 Banking Book

The Banking Book is used in particular to manage current liquidity, interest rate risk and currency risk of the Bank.

In 2013 the Bank concluded mainly sale and purchase transactions in securities and deposited or borrowed funds in the interbank market as a part of managing the requirement reserve level. Moreover, it entered into sell-buy-back and buy-sell-back transactions and derivative transactions such as FRA, IRS or SWAP.

Transfer payments of Poczta Polska managed in individual accounts are an important element of the Bank's liquidity management policy. In 2013 the average balance of such deposits reached PLN 426.0 million, while at the end of 2013 it was PLN 897.2 million versus PLN 1,008.1 million at the end of 2012.

At the end of 2013 the total financial assets of the Bank reached PLN 1,842.0 million, i.e. by PLN 388.0 million (26.7%) more than at the end of 2012. Government bonds accounted for 52.0% of the Bank's financial assets and constituted their key element. In December 2013 the face value of Government Bonds was PLN 957.5 million and was by PLN 267.6 million (i.e. by 21.8%) lower than at the end of 2012. Debt instruments issued by the National Bank of Poland also constituted a high share (45.6%) in the total financial assets of the Bank. As at 31 December 2013 their value reached PLN 839.8 million and was by PLN 699.9 million higher than at the end of 2012.

Securities available for sale with the total nominal value of PLN 1,445.0 million constituted 79.0% of the debt instrument portfolio and the remaining 21.0% were bonds held to maturity with the total face value of PLN 387.0 million.

Investments in financial assets (in PLN '000)

	31.12.2013	31.12.2012	Change 2013/2012 PLN '000	%
Investments in financial assets	**1,842,036**	**1,453,987**	**388,049**	**26.7 %**
available for sale, including:	**1,455,018**	**1,061,225**	**393,793**	**37.1 %**
Treasury bonds	585,445	832,374	(246,929)	(29.7)%
Treasury bills	-	49,855	(49,855)	(100.0)%
Bank bonds and certificates of deposit	29,740	9,068	20,672	228.0 %
Shares	8	8	-	0.0%
Debt instruments issued by the National Bank of Poland	839,825	169,920	669,905	394.2%
held to maturity, including:	**387,018**	**392,762**	**(5,744)**	**(1.5)%**
Treasury bonds	372,080	392,762	(20,682)	(5.3)%
Bank bonds and certificates of deposit	14,938	-	14,938	-

In its securities portfolio the Bank also holds bonds held to maturity issued by other banks and classified to receivables from other banks. In 2013 the value of bonds reached PLN 36.3 million, i.e. by 21.8% more than in December 2012.

In 2013 interest revenue due to financial instruments and receivables from other banks amounted to PLN 68.3 million and was by 16.5% lower than in 2012. The decrease resulted from reduced market interest rates. Like in the previous year, 88.1% of interest revenue due to financial instruments and bank receivables (PLN 60.2 million) was generated from the securities portfolio.

Gain on transactions in available-for-sale securities was highly affected by internal changes in the portfolio structure aimed at maintaining interest rate risk under the limits awarded.

5.2 Trading Book

In 2013 the gain/loss on financial instruments and gain/loss on foreign exchange transactions amounted to PLN 1.2 million versus PLN 3.5 million reported in 2012. The Bank generated a lower gain on trade transactions, debt instruments mainly. The lower gain resulted from significant changes in interest rates in the second half of 2013 related to a gradual decrease in risk appetite in global markets, which, in turn, stemmed from the expected gradual limitation of QE3 by the US Federal Reserve, hence the risk materialized at the end of the year. The Bank generated the total gain on own and client transactions under individually negotiated currency transactions of PLN 1.8 million versus PLN 2.4 million in 2012. In 2013 the Bank's trade transactions in the currency and interest rate market (trading in treasury bonds) remained insignificant.

At the end of 2013, the Bank concluded transactions denominated in 10 foreign currencies, i.e. the euro, American dollar, fund sterling, Swiss franc, Japanese yen, Canadian dollar, Czech koruna, Swedish krone, Danish krone and Norwegian krone.

The Bank also traded in interest rate financial instruments, mainly in treasury debt securities.

6. BUSINESS ACTIVITIES OF COMPANIES FROM THE BANK POCZTOWY CAPITAL GROUP

6.1 The Capital Group

No changes in the structure of the Bank Pocztowy Capital Group took place in 2013.

Holding 100% of shares in each subsidiary, the Bank carries out its supervisory function through its representatives working and exerting control in supervisory boards of the companies. Operations of Bank Pocztowy S.A.'s subsidiaries considerably support business operations of the parent.

Companies from the Capital Group hold current accounts and deposit free cash using term deposits in Bank Pocztowy. Related-party transactions are carried out at arm's length.

3

companies in the Bank Pocztowy Capital Group

Bank Pocztowy S.A. as the Parent

6.2 Centrum Operacyjne Sp. z o.o.

Centrum Operacyjne Spółka z ograniczoną odpowiedzialnością was established by Bank Pocztowy S.A. on 20 May 2010. The share capital of the company amounted to PLN 2,500,000 and all shares were acquired by Bank Pocztowy. The Shareholders' Meeting increased the share capital by PLN 783,782.50 up to PLN 3,283,782.50 on 1 July 2010.

The core business of the company is supporting settlement processes of Bank Pocztowy, clients of the Bank Pocztowy Capital Group and Poczta Polska. It carries out its tasks using competencies and experience gained at the Bank. The company manages business processes using specialized tools, which enables it to tailor its approach to manage operating processes. To this aim, the company uses modern lean management tools. The processes managed are constantly improved and streamlined through elimination of bottlenecks. Additionally, the company has implemented the "paperless office" initiative.

At the end of 2013, the balance sheet total of Centrum Operacyjne amounted to PLN 6,616.1 thousand.

In 2013 the company reported a net profit of PLN 1,256.4 thousand, as compared to a loss of PLN 16 thousand incurred in 2012. The profit was possible thanks to better cost effectiveness.

6.3 Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o.

Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o. was established by Bank Pocztowy S.A. on 20 May 2010. The share capital of the company amounted to PLN 2,000,000 and all shares were acquired by Bank Pocztowy. On 30 September 2011, the Extraordinary Shareholders' Meeting increased the share capital of the company by PLN 679,760 up to PLN 2,679,760.

The core business of the company is the sale of financial products and services, aimed, in particular, at diversifying product and service distribution channels of Bank Pocztowy S.A. and supporting sales channels of the Bank. The company's objective is also to attract new clients not using the Bank's services due to a considerable distance from the nearest sales office.

At the end of 2013 Spółka Dystrybucyjna cooperated with 161 Mobile Agents, while a year before products of Bank Pocztowy were distributed by 51 Agents only.

At the end of December 2013, the balance sheet total of Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o. amounted to PLN 4,745.1 thousand.

In 2013 the company reported a net profit of PLN 621.0 thousand, as compared to a net profit of PLN 820.7 thousand generated in 2012.

7. CONSOLIDATED FINANCIAL PERFORMANCE

7.1 The change in the method of recognizing revenue due to sale of bancassurance products linked with credit facilities

With relation to the letter of the Polish Financial Supervision Authority of March 2013 addressed to the entire banking sector and concerning the method of recognizing revenue due to sale of bancassurance products, the Bank changed the method of recognizing the revenue in question in the accounting records for 2013. The change concerned bancassurance services, which were assessed as unrelated to credit facilities, and consisted in:

- deferring a revenue portion corresponding to the fee for time spent by the Bank's staff on post-sales support for insurance services (in accordance with the stage of completion principle);
- recognizing provisions for potential reimbursement of the remuneration by the Bank due to early termination of insurance policies;
- adequate recognition of cost of selling the insurance, in line with the matching principle.

Changes resulting from the implemented methodology were recognized in the accounting records as at 30 June 2013 and covered the period from January to June 2013. As the changes made did not significantly affect the Bank's equity, the Bank did not adjust the opening balance for 2013.

In December 2013, similarly to other banks, the Bank received a letter of the Polish Financial Supervision Authority with detailed guidelines concerning the accounting treatment of the revenue due to sale of bancassurance products. The letter recommended more stringent criteria than those applied by the Group to assessing direct relation of an insurance product and a credit facility and implemented a fair value model to distribution of the agency fee for the sale of insurance. The Group applied a new accounting treatment of revenue due to sale of bancassurance products to sales carried out in 2013 and in previous years. Retrospective changes in the accounting principles (policy) resulted in restating the financial data in the approved financial statements for prior years, i.e. the opening balance as at 1 January 2012 and, consequently, as at 1 January 2013 and the financial performance for 2012.

Following the changes in the accounting principles (policy) the Group recognizes the revenue and expense due to sale of bancassurance products related to credit facilities in the following manner:

- cash loans with insurance policy – from 6 to 11% of the revenue due to sale of bancassurance products related to cash loans is recognized on a one-off basis as commission income, while the remaining portion of the income is accounted for as interest income using the effective interest method during the credit financing period;
- mortgage loans with insurance policy – from 0% to 15% of the revenue due to sale of bancassurance products related to mortgage loans is recognized on a one-off basis as commission income, while the remaining portion of the income is accounted for as interest income using the effective interest method during the credit financing period.

The costs of sale of bancassurance products are accounted for proportionally to the method of recognizing the revenue due to sale of bancassurance products related to the facility.

As a result of changes in the accounting principles, the Capital Group made the following adjustments:

- adjustment of equity by PLN 11.7 million as at 31 December 2012, including: an adjustment of the net profit for 2012 by PLN 6.4 million.
- adjustment of the net profit for 2013 by PLN 8.1 million.

The total amount of the Group's equity adjustment was PLN 19.7 million as at 31 December 2013.

The accounting principles applied to bancassurance products were presented in the consolidated financial statements for the year ended 31 December 2013 in notes 5b and 5f (15)(iii).

7.2 Key factors determining the financial profit or loss

7.3%

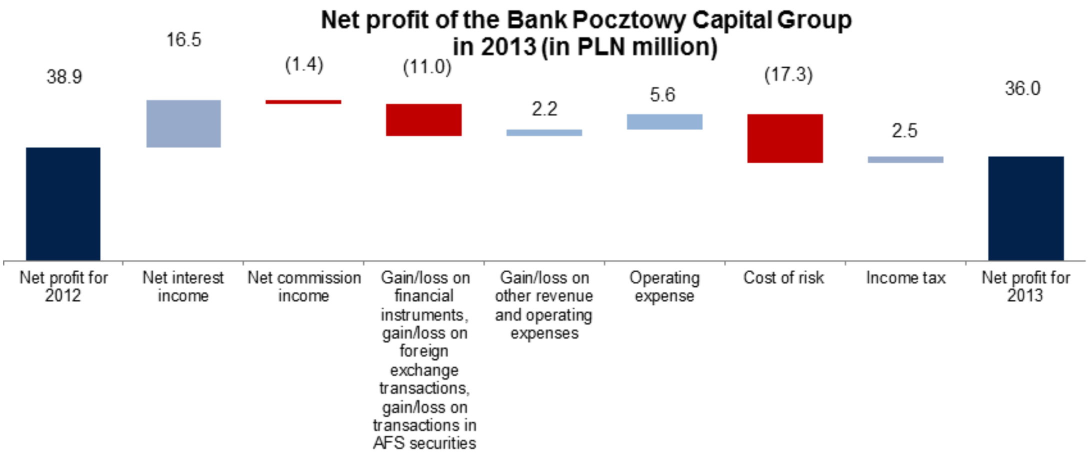
Increase in net interest income

versus 2012

In 2013 the Bank Pocztowy Capital Group generated a net profit of PLN 36.0 million, i.e. by 7.5% less than the record high profit generated in 2012. It was the second highest net profit of the Group since its establishment.

The financial profit of the Bank's Capital Group in 2013 was determined by the following factors:

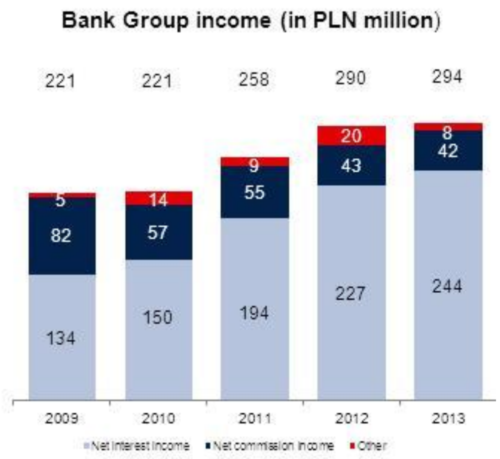
- An increase in the net interest income generated despite disadvantageous market trends, i.e. decreasing market interest rates. The net interest income amounted to PLN 243.8 million, i.e. by 7.3% more than in 2012 mainly due to an increased value of new loans extended to consumers.
- A decrease in the net commission income. The Group generated a net commission income of PLN 41.6 million, i.e. by 3.3% less than in 2012. It was affected by lower commission income due to settlement and cash transactions (by 11.4%, i.e. PLN 4.7 million).
- Lower gain/loss on transactions in securities available for sale, gain/loss on foreign exchange transactions and gain/loss on financial instruments. The Group generated the total income from such transactions of PLN 8.9 million, i.e. by 55.4% less than in 2012. The decrease resulted from the fact that the Monetary Policy Council ended the cycle of reducing interest rates in Poland and from growing aversion to risk in financial markets, which entailed higher price volatility and a pressure for a gradual increase in profitability of Polish debt instruments.
- Lower costs of operations. In 2013 the Group maintained its cost discipline, which resulted in a reduction of operating expenses by 2.6% down to PLN 212.7 million. The cost of employee benefits reached PLN 92.4 million and was by 8.7% lower than in 2012. At the same time, non-peronnel costs amounted to PLN 98.4 million and were by 2.3% higher than in 2012.
- Higher impairment losses on assets. In 2013 the cost of risk reached PLN 42.4 million and grew by 68.9% comparing to 2012. The Group recognized additional impairment losses for consumer credit portolio and credit receivables from institutional clients.

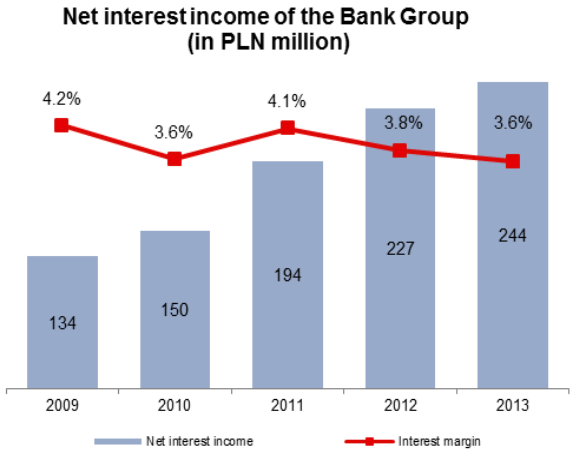


The key income statement items:

Key income statement items of the Bank Pocztowy S.A. Capital Group (in PLN '000)

	2013	2012	Change 2013/2012 PLN '000	%
Operating income	**294,320**	**290,255**	**4,065**	**1.4 %**
Net interest income	243,807	227,282	16,525	7.3 %
Net fee and commission income	41,628	43,064	(1,436)	(3.3)%
Gain/loss on financial instruments measured at fair value through profit or loss and gain/loss on foreign exchange transactions	2,905	6,678	(3,773)	(56.5)%
Gain/loss on available-for-sale securities	5,980	13,231	(7,251)	(54.8)%
Gain/loss on other revenue and operating expenses	**4,076**	**1,865**	**2,211**	**118.6 %**
General and administrative expenses	**(212,738)**	**(218,356)**	**5,618**	**(2.6)%**
Net impairment losses	**(42,398)**	**(25,099)**	**(17,299)**	**68.9 %**
Gross profit	**43,260**	**48,665**	**(5,405)**	**(11.1)%**
Income tax	(7,233)	(9,716)	2,483	(25.6)%
Net profit	**36,027**	**38,949**	**(2,922)**	**(7.5)%**





Net interest income

In 2013, like in the previous year, the net interest income constituted the key source of income for the Bank Pocztowy Capital Group. It amounted to PLN 243.8 million and was by PLN 16.5 million, i.e. by 7.3% higher than in 2012.

Apart from lower market interest rates, the net interest income of the Group in 2013 was determined by the following internal factors:

- lower interest income. In 2013 it amounted to PLN 423.4 million and was by 6.1% lower than in the previous year. The key item in the income category, interest income from term loans granted to individuals amounted to PLN 294.3 million, i.e. was by 1.5% higher than in 2012. The result was possible due to a significant increase in new lending to this customer group. The decrease in the value of the Capital Group's credit portfolio in the institutional client and local authorities segment, however, resulted in a significant drop in interest income in this client group. Interest income on financial instruments deteriorated as well.
- lower interest expense. In 2013 interest expense reached PLN 179.6 million and was by 19.6% lower than in 2012. The Group incurred much lower interest expense due to term deposits to institutional clients, which resulted primarily from lower funds deposited in current accounts and due to current accounts. Interest expense on term deposits of consumers grew, however, due to a considerable increase in their value along with expense due to treasury bonds (due to other bond issues in 2013) and a subordinated loan.

Despite the Group's activities aimed at increasing the share of more profitable assets in the balance sheet, record low interest rates translated into a drop in interest margin. In 2013 the Bank Pocztowy Capital Group generated an interest margin of 3.6% versus 3.8% in 2012.

Interest income and expenses of the Bank Pocztowy S.A. Capital Group (in PLN '000)

	2013	2012	Change 2013/2012 PLN '000	%
Interest income	**423,400**	**450,790**	**(27,390)**	**(6.1)%**
Income on receivables from banks	**9,607**	**15,747**	**(6,140)**	**(39.0)%**
Income on receivables from clients, including:	**355,103**	**369,012**	**(13,909)**	**(3.8)%**
Overdraft facilities	7,480	8,609	(1,129)	(13.1)%
Credit facilities and term loans	347,623	360,403	(12,780)	(3.5)%
individuals	294,269	289,803	4,466	1.5 %
institutional clients	37,980	47,030	(9,050)	(19.2)%
local authorities	15,374	23,570	(8,196)	(34.8)%
Revenue from investment financial assets classified as:	**58,541**	**65,735**	**(7,194)**	**(10.9)%**
available for sale	37,891	43,945	(6,054)	(13.8)%
held to maturity	20,650	21,790	(1,140)	(5.2)%
Revenue from financial assets held for trading	**149**	**296**	**(147)**	**(49.7)%**
Interest expense	**(179,593)**	**(223,508)**	**43,915**	**(19.6)%**
Expense due to liabilities to other banks	**(1,729)**	**(848)**	**(881)**	**103.9 %**
Expense due to liabilities to customers, including:	**(156,552)**	**(207,363)**	**50,811**	**(24.5)%**
Current accounts	(43,503)	(71,848)	28,345	(39.5)%
Term loans	(113,049)	(135,515)	22,466	(16.6)%
individuals	(82,795)	(75,359)	(7,436)	9.9 %
institutional clients	(28,780)	(55,559)	26,779	(48.2)%
local authorities	(1,474)	(4,597)	3,123	(67.9)%
Cost of issue of debt securities and a subordinated loan	**(21,312)**	**(15,297)**	**(6,015)**	**39.3 %**

Net fee and commission income

Net fee and commission income was the key element of non-interest income of the Group. In 2013 it amounted to PLN 41.6 million and was by 3.3% lower than in the previous year.

Fee and commission income and expense of the Bank Pocztowy S.A. Capital Group (in PLN '000)

	2013	2012	Change 2013/2012 PLN '000	%
Fee and commission income	**73,006**	**68,041**	**4,965**	**7.3 %**
originated loans and advances	747	1,671	(924)	(55.3)%
settlement and cash transactions	36,742	41,460	(4,718)	(11.4)%
payment and credit cards	17,126	13,377	3,749	28.0 %
keeping bank accounts	10,568	5,121	5,447	106.4 %
sale of insurance products	3,589	3,091	498	16.1 %
other	4,234	3,321	913	27.5 %
Fee and commission expense	**(31,378)**	**(24,977)**	**(6,401)**	**25.6 %**
keeping current accounts and term deposits	(14,788)	(11,150)	(3,638)	32.6 %
managing payment cards, ATM and POS cash withdrawals	(5,944)	(4,105)	(1,839)	44.8 %
cash management services for the Bank	(5,574)	(5,189)	(385)	7.4 %
sale of bank products	(1,211)	(1,045)	(166)	15.9 %
other services	(3,861)	(3,488)	(373)	10.7 %

Commission income amounted to PLN 73.0 million and was by 7.3% higher than in 2012. The Capital Group reported in particular an increase in:

- revenue due to bank account maintenance (by 106.4%). The growth resulted from an increasing number of accounts managed and changes in the *Fee and Commission Scheme* introduced in the fourth quarter of 2013.
- payment cards and credit cards (by 28.0%) mainly due to an increase in the number of transactions performed by clients and the number of cards issued.
- sale of bancassurance products (by 16.1%), in particular accident insurance offered with the sale of cash loans.

The commission income due to the key element in this income category of the Group, i.e. settlement and cash operations, however, decreased by 11.4%. It was the effect of discontinuation of managing non-cash transfers of Social Security and related benefits in April 2012, reducing rates for Social Security transfers and a further decrease in the volume of settlements and cash operations.

In 2013 fee and commission expense increased as well. In 2013 it amounted to PLN 31.4 million, i.e. by 25.6% more than in 2012. In value terms, fee and commission expense related to current accounts for term deposits grew by 32.6% as a result of increasing cash withdrawals from current accounts provided by postmen and costs related to payment cards (by 44.8%).

Other income

In 2013 the gain/loss on financial instruments, the gain/loss on foreign exchange transactions and gain/loss on sale of available-for-sale securities amounted to PLN 8.9 million versus PLN 19.9 million in 2012. The category was discussed in detail in Section 5 dedicated to treasury operations.

In 2013 other operating income (other revenue/operating expenses) amounted to PLN 4.0 million and was by PLN 2.2 million, i.e. by 118.6% higher than in 2012. At the end of 2013 other operating revenue increased by 15.0%, i.e. by PLN 1.1 million up to PLN 8.7 million. The key item causing the increase in other operating revenue by PLN 2.2 million was revenue due to release of a provision for future liabilities (PLN 1.9 million growth).

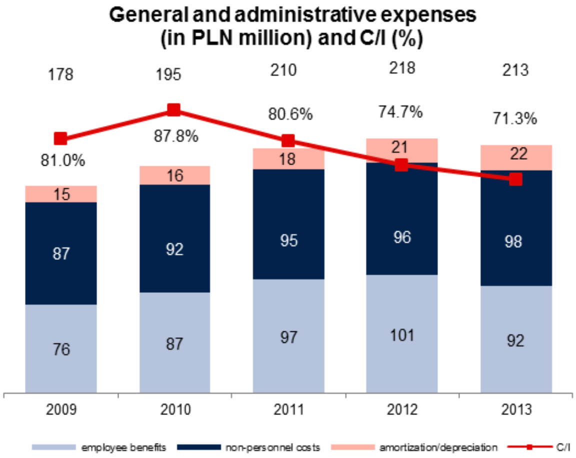
In 2013 other operating expense was by 18.7%, i.e. PLN 1.1 million lower than in 2012. The highest decrease resulted from allowances for provisions for receivables from various debtors.

General and administrative expenses

In 2013, the Bank Capital Group focused on further cost optimization. In 2013 operating expenses of the Group reached PLN 212.7 million and decreased by 2.6% comparing to 2012, when the item value was PLN 218.4 million.

General and administrative expenses including amortization and depreciation of the Bank Pocztowy S.A. Capital Group (PLN '000)

	2013	Structure (2013)	2012	Structure (2012)	Change 2013/2012 PLN '000	%
Administrative expenses including amortization and depreciation	**(212,738)**	**100.0%**	**(218,356)**	**100.0%**	**5,618**	**(2.6)%**
Employee benefits	(92,372)	43.4%	(101,147)	46.3%	8,775	(8.7)%
Non-personnel costs	(98,427)	46.3%	(96,252)	44.1%	(2,175)	2.3 %
Amortization/depreciation	(21,939)	10.3%	(20,957)	9.6%	(982)	4.7%



The key element of operating expense of the Group were non-personnel costs. In 2013 they stood at PLN 98.4 million and grew by 2.3% comparing to 2012. Higher costs of external services, such as telecommunication and advisory services, and legal support were the key reasons for growth. At the same time, the Group's outlays on promotion, advertising and other non-personnel costs decreased comparing to 2012.

In 2013 the Group spent PLN 92.4 million, i.e. by 8.7% less than in 2012 on employee benefits. Despite higher headcount, personnel costs were reduced thanks to the Bank's activities aimed at optimizing and adjusting the employment structure in the Bank's Head office to its business needs and due to changes in the remuneration system principles applied to sales staff.

Following its saving strategy in 2013 the Group renegotiated contracts with suppliers, awarded new contracts by tender and carried out investment projects to develop operations and reduced process costs.

Net impairment losses

In 2013 impairment losses amounted to PLN 42.4 million (versus PLN 25.1 million in 2012). The Capital Group recognized impairment losses in particular for the following items:

- exposure due to an increase in consumer loans resulting from portfolio growth (increase in impairment losses by PLN 12.5 million);
- loans granted to institutional clients;
- loans for real property financing granted to individuals, still considering increased pre-collection activities of the Group the losses were by PLN 2.1 million lower than in 2012.

Higher impairment losses recognized in the income statement were a natural consequence of a dynamic growth of the Group's credit portfolio in the preceding years and the process of gradual portfolio maturing. Despite higher impairment losses in 2013 the cost of risk of the Group was at the market level and amounted to 0.9%.

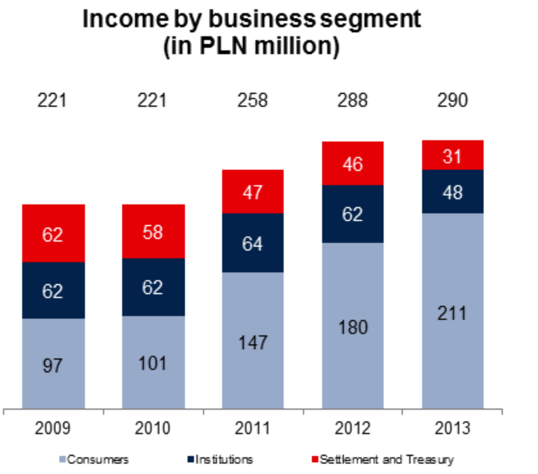
Net impairment losses (PLN '000)

	2013	2012	Change 2013/2012 PLN '000	%
Loans and advances granted to clients	**(42,398)**	**(25,099)**	**(17,299)**	**68.9 %**
Overdraft facilities	**(3,164)**	**(1,393)**	**(1,771)**	**127.1 %**
Term loans	**(39,234)**	**(23,706)**	**(15,528)**	**65.5 %**
individuals	**(30,830)**	**(19,837)**	**(10,993)**	**55.4 %**
consumer loans	(19,576)	(7,034)	(12,542)	178.3 %
real estate loans	(10,230)	(12,308)	2,078	(16.9)%
credit card debt	(1,024)	(495)	(529)	106.9 %
institutional clients	**(8,795)**	**(3,771)**	**(5,024)**	**133.2 %**
local authorities	**391**	**(98)**	**489**	**-**

7.3 Business segment performance

Applying its management model (where the key criteria are the type of product, service and buyers) Bank Pocztowy S.A. divided its operations into the following business segments:

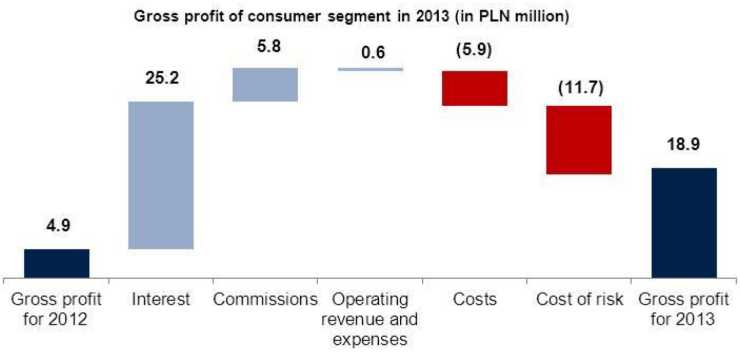
- consumers,
- institutions,
- settlement and treasury.



Consumer segment

From management accounting perspective the consumer segment offers products targeted at individuals. The Bank's offer includes deposit, credit, insurance and investment products and is sold through a countrywide network of own outlets and Poczta Polska offices, online banking, mobile channels and the call center.

In 2013 the consumer segment generated a gross profit of PLN 18.9 million, which was by PLN 14.0 million, i.e. by 286.2% higher than in 2012.



Key gross profit growth drivers in the consumer segment:

- a considerable improvement in the net interest and commission income. Net interest income constituted the key source of segment income. It amounted to

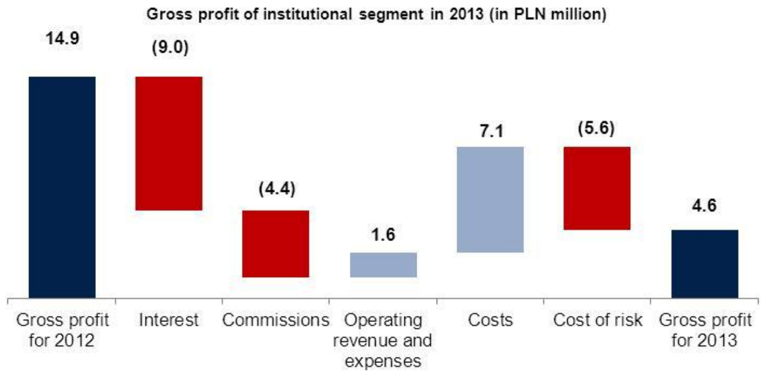
PLN 204.5 million and grew by PLN 25.2 million. A considerable improvement of the net interest income resulted from a dynamic growth of new lending to consumers. At the end of 2013 the credit portfolio value of the segment amounted to PLN 4,146.7 million and grew by 15.0% during the year. The consumer segment generated a net fee and commission income of PLN 6.3 million, i.e. by PLN 5.8 million more than in 2012. The increase was possible thanks to higher revenue from current account maintenance;

- higher administrative expenses. In 2013 the consumer segment costs reached PLN 164.2 million, i.e. by PLN 6.0 million more than in 2012. The key driver of growth were higher front-office expense related to new Bank's offices and an increase in amortization and depreciation costs of PLN 1.5 million, up to PLN 17.1 million;
- higher negative net impairment losses. In 2013 they amounted to PLN 32.1 million comparing to PLN 20.4 million in 2012, due to the process of maturing of consumer loan portfolio.

Institutional segment

Institutional segment in management accounting includes operating profit/loss from services provided to business entities with legal personality, individuals and entities with no legal personality carrying out business activities under applicable regulations and central and local administration entities. The Bank's offer for these clients includes credit and deposit products and settlement services with products aimed at improving cash management efficiency. Products are offered through the Bank's own network, the network of Poczta Polska and financial agents.

In 2013 the institutional segment generated a gross profit of PLN 4.6 million versus PLN 14.9 million in 2012 (a decrease of PLN 10.3 million).



The institutional segment profit was driven by the following items:

- lower net interest income. It amounted to PLN 38.5 million, i.e. by 19.0% less than in 2012. The change resulted from lower margin on deposit products, which amounted to 1.14% in 2013, as compared to 1.40% a year before.
- lower net commission income. The segment generated a net commission income of PLN 4.4 million, i.e. by 30.1% less than in 2012. The highest income drop was reported in fees for Eliksir transfers made through Infokonto, which resulted from lower fees for transfers and no commission for transferring cash surpluses;
- a decrease in administrative expenses. They amounted to PLN 34.6 million, i.e. by 7.1 less than in 2012, which was a consequence of changes in the cash management system.
- higher negative net impairment losses. In 2013 they amounted to PLN -10.3 million, as compared to -4.7 million a year before.

Settlement and treasury segment

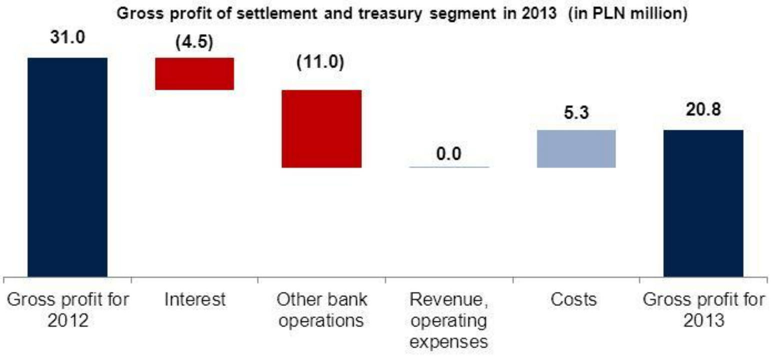
Settlement and treasury segment in management accounting includes:

- gain/loss on operating activities covering settlement services. Key settlement services include: managing documents for payments to the Social Security Institution and Tax Offices, non-cash transfer of Social Security benefits to beneficiaries and cash payments in inter-bank settlements.
- gain/loss on financial instruments measured at fair value through profit or loss, gain/loss on foreign exchange transactions and realized gain/loss on transactions on securities available for sale.

The segment also concludes transactions in the inter-bank market, invests the cash surplus in market instruments and acquires funds for the Bank. It repurchases client funds obtained by operating segments at a transfer rate and sells the funds to finance their credit operations.

In 2013 the settlement and treasury segment generated a gross profit of PLN 20.8 million versus PLN 31.0 million in 2012 (a decrease of PLN 32.9%).

The key gross profit drivers in the settlement and treasury segment in 2013:



- a decrease in the net commission income. In 2013 it amounted to PLN 21.9 million and was by PLN 4.5 million (16.9%) lower than in the previous year. It was the effect of reducing rates for Social Security transfers in December 2013 and discontinuation of managing non-cash transfers of Social Security and related benefits in April 2012;
- lower gain/loss on treasury operations comprising a realized gain/loss on transactions on securities available for sale, a gain/loss on financial instruments measured at fair value through profit or loss and gain/loss on foreign exchange transactions. It amounted to PLN 8.9 million and was by PLN 11.0 million lower than in 2012,
- lower administrative expenses. In 2013 the segment costs reached PLN 10.1 million, i.e. by PLN 5.3 million less than in 2012.

7.4 Key effectiveness ratios

Lower profit of the Bank Pocztowy Capital Group reported in 2013 and resulting mainly from the increase in the cost of risk led to deterioration of the return on assets and return on equity. In 2013 return on equity of the Group stood at 9.6% and was by 1.8 p.p. lower than in 2012. Significantly, the economic downturn translated into lower ratios in the entire sector, i.e. net return on equity of the banking sector dropped by 0.9 p.p. to 10.3%.[15]

Higher income of the Bank's Capital Group along with stable operating expenses improved the Cost/Income relation. In 2013 the Cost/Income ratio amounted to 71.3%, i.e. was by 3.4 p.p. lower than in 2012.

Key effectiveness ratios of the Bank Pocztowy S.A. Capital Group

	31.12.2013	31.12.2012	Change 2013/2012
ROE (net)	9.6%	11.4%	(1.8) p.p.
ROA (net)	0.5%	0.6%	(0.1) p.p.
Costs including amortization/income (C/I)	71.3%	74.7%	(3.4) p.p.
Net interest margin	3.6%	3.8%	(0.2) p.p.
CAR	12.8%	14.0%	(1.2) p.p.
NPL (non-performing loans) – the share of impaired loans and advances in the entire credit portfolio	5.4%	4.7%	0.7 p.p.

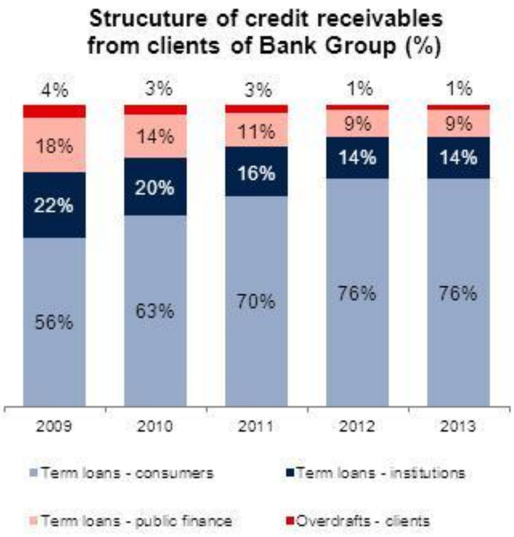
Net ROE *calculated as a net profit for a given year to average equity (calculated as the average of equity at the end of a given year and at the end of the previous year) taking into account the net profit for a given year.*
Net ROA *calculated as a net profit for a given year to average assets (calculated as the average of assets at the end of a given year and at the end of the previous year).*
Costs including amortization and depreciation/Income (C/I) *calculated as the general and administrative expenses including amortization and depreciation to total income (net interest income, net fee and commission income, gain/loss on financial instruments measured at fair value through profit or loss, gain/loss on foreign exchange transactions, realized gain/loss on transactions on securities available for sale, other operating revenue and expenses).*
Net interest margin *calculated a relation of net interest income for a given year to average assets (calculated as average daily balance of assets). The methodology of calculating the margin was changed due to standardization of internal reporting of the Bank.*
NPL *(Non Preforming Loans) calculated as a relation of impaired loans to the gross loans and advances to clients.*

The share of impaired loans in the credit portfolio reached 5.4% versus 4.7% in 2012. Significantly, the ratio was considerably better than that of the entire Polish banking sector (7.7%)[16].

[15] *Source: Financial Supervision Authority, Monthly data for the banking sector file – December 2013.*
[16] *Source: Financial Supervision Authority, Monthly data for the banking sector file – December 2013.*

7.5 Changes in the statement of financial position in 2013 – key items

As at 31 December 2013 the balance sheet total of the Bank Pocztowy Capital Group amounted to PLN 7 382.7 million and was by PLN 262.1 million, i.e. by 3.7% higher than at the end of 2012.



Assets

The key increase in assets was recognized in net loans and advances to customers. At the end of 2013 they amounted to PLN 5 055.7 million and grew by PLN 456.2 million during the year. The item accounted for 68.5% of the total assets of the Group (versus 64.6% a year before). The amount of investments in financial assets increased as well to reach PLN 1 842.0 million, i.e. by PLN 388.0 million more than in 2012. Consequently, their share in assets increased from 20.4% at the end of 2012 to 25.0% in December 2013.

Cash in hand and at the National Bank of Poland, however, decreased comparing to 2012. In December 2013 it amounted to PLN 327.2 million and decreased by 607.5 million comparing to the end of 2012. Consequently, its share in assets increased from 13.1% at the end of 2012 to 4.4% in December 2013.

Key balance sheet items of the Bank Pocztowy S.A. Capital Group (PLN '000)

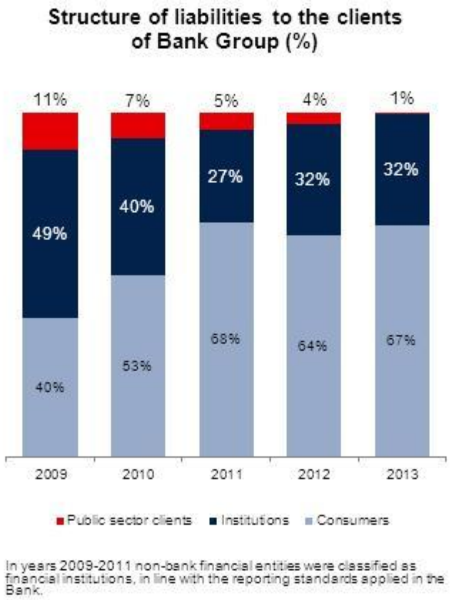
	31.12.2013	Share (31.12.2013)	31.12.2012	Share (31.12.2012)	Change 2013/2012 (PLN '000)	%
Cash in hand and deposits with the Central Bank	327,242	4.4%	934,743	13.1%	(607,501)	(65.0)%
Receivables from other banks	36,329	0.5%	29,849	0.4%	6,480	21.7 %
Loans and advances granted to clients	5,055,712	68.5%	4,599,545	64.6%	456,167	9.9 %
Investments in financial assets	1,842,036	25.0%	1,453,987	20.4%	388,049	26.7 %
Net non-current assets	74,881	1.0%	71,552	1.0%	3,329	4.7 %
Other assets	46,545	0.6%	30,977	0.5%	15,568	50.3 %
Total assets	**7,382,745**	**100.0%**	**7,120,653**	**100.0%**	**262,092**	**3.7 %**
Liabilities to the Central Bank	11	0.0%	6	0.0%	5	83.3 %
Liabilities to other banks	41,762	0.6%	2,824	0.0%	38,938	1,378.8 %
Liabilities arising from sold securities (repo)	49,610	0.7%	0	0.0%	49,610	-
Liabilities to clients	6,230,578	84.4%	6,317,949	88.7%	(87,371)	(1.4)%
Liabilities arising from issue of debt securities	431,597	5.8%	206,282	2.9%	225,315	109.2 %
Subordinated liabilities	142,027	1.9%	142,891	2.0%	(864)	(0.6)%
Other liabilities	95,395	1.3%	89,231	1.3%	6,164	6.9 %
Total liabilities	**6,990,980**	**94.7%**	**6,759,183**	**94.9%**	231,797	3.4 %
Total equity	391,765	5.3%	361,470	5.1%	30,295	8.4 %
Total equity and liabilities	**7,382,745**	**100.0%**	**7,120,653**	**100.0%**	**262,092**	**3.7 %**

Other assets include: financial assets held for trading, current income tax receivables, net deferred income tax assets, other assets. Other liabilities include: financial liabilities held for trading, provisions, net deferred income tax provision, current income tax liabilities, other liabilities.

Equity and liabilities

The following changes in the equity and liabilities structure of the Bank Pocztowy Capital Group took place in 2013:

- the amount of liabilities towards customers. At the end of 2013 they amounted to PLN 6,230.6 million and decreased by PLN 87.4 million comparing to the end of 2012. They accounted for 84.4% of the balance sheet total versus 88.7% in December 2012,
- the value of liabilities due to issue of debt securities increased to reach PLN 431.6 million in December 2013, i.e. by PLN 225.3 million more than a year before. They accounted for 5.8% of the equity and liabilities of the Bank versus 2.9% in December 2012,
- liabilities due to securities sold amounted to PLN 49.6 million, while at the end of 2012 the Capital Group did not hold any liabilities of this kind,
- equity amounted to PLN 391.8 million and accounted for 5.3% of the total equity and liabilities as compared to PLN 361.5 million and a 5.1% share in December 2012. The Capital Group's equity increased following an allocation of the profit for 2012 to other reserve capital.



8. MANAGING KEY RISK TYPES

8.1 Risk management objectives and principles

The key objective of risk management in Bank Pocztowy S.A. is to ensure security of funds entrusted by the Group's clients and effectiveness of decisions made in order to maximize income generated over a longer perspective, with an acceptable level of accompanying risks.

Risk management in the Bank is an integrated process based on supervisory requirements and internal regulations approved by the Supervisory and Management Board of the Bank. Internal regulations in force are reviewed on a periodic basis, taking into account the developments in the Group's external and internal environment.

The Bank has adopted a three-level system of organizing internal risk management regulations.

5.4%

NPL lower than the average of the banking sector

+ 0.7 p.p. YoY

The general risk management framework has been determined in the following documents adopted by the Supervisory Board:

- General Risk Management Policy of Bank Pocztowy S.A.;
- General Capital Management Policy of Bank Pocztowy S.A.;
- Growth Strategy of Bank Pocztowy S.A. for 2012-2015;
- Financial Plan of Bank Pocztowy S.A. for 2014;
- Risk Management Strategy of Bank Pocztowy S.A. for 2014.

Principles of managing each risk type, approved by the Management Board and delegating duties to individual Departments, Offices and Subsidiaries, provide necessary details to the above documents. Based thereon, detailed operating procedures with descriptions of individual activities (including controls) to be performed by the Departments, Teams and Positions, have been developed.

The risk management system includes:

- the Supervisory Board;
- the Management Board;
- risk management committees established by the Management Board pursuant to internal regulations in force;
- organizational units managing individual risk types;
- control units (including the internal audit and compliance unit);
- other organizational units.

The target risk structure at the level of the Bank and the Capital Group depends on the defined risk appetite. The risk appetite determines the readiness of the Bank and the Group to assume a specific risk within a determined time horizon and it is subject to acceptance by the Management Board. The risk appetite is a substantial element of the Bank's Strategy and Financial Plan approved by the Supervisory Board.

Identification and measurement of each risk type result in determining those which are material for the Group, classifying them from the permanent materiality assessment perspective (permanently and temporarily material risks) and for the purpose of capital coverage.

The following risk types are classified as permanently material for the Bank:

- credit risk;
- liquidity risk;
- interest rate risk related to the banking book;
- currency risk;
- operational risk.

Additionally, the Bank identifies the following material risk types:

- compliance risk;
- strategic risk;

- business cycle risk;
- outsourcing risk;
- Pillar 2 credit risk;
- residual risk;
- concentration risk;
- price risk related to debt instruments in the trading book.

8.2 Credit risk

Credit risk is the risk assumed by the Group under credit transactions and resulting in its inability to recover the amounts disbursed, loss of income or a financial loss. It is the outcome of credit product development and launch as well as the lending process on the one hand and measures employed with a view to reducing the probability of losses, on the other. The Group's credit risk includes both counterparty and settlement risk.

While developing its current credit risk management policy, the Group aims to maintain the share of exposures with recognized impairment in the credit portfolio (NPL ratio) as determined in the risk strategy, an appropriate level of equity, analyze strengths and weaknesses of the Group's lending process and anticipate the opportunities and threats for its further growth. The Group's acceptable credit risk policy also takes into account cyclicality of economic processes and changes in the credit portfolio itself.

The Group has reviewed methodologies and all parameters in order to adapt them to changing market conditions.

The following principles have been adopted for the credit risk management process:

- analyzing credit risk of individual exposures, the entire portfolio and the capital requirement related to credit risk;
- using internal and external limits determined by the risk appetite in various areas of the credit portfolio, the Banking Law and recommendations of the Polish Financial Supervision Authority, respectively. The types and levels of the limits used by the Group with regard to lending are determined by internal regulations on credit limits related, among other things, to large exposure concentration, industry concentration, exposure concentration based on type of collateral and product;
- functions related to direct analysis of applications, risk assessment and credit related decision making are separated from those focused on client attraction (sales of banking products);
- creditworthiness is the main criterion underlying all credit transactions with clients;
- credit decisions are made in the Group in accordance with procedures and competencies determined in internal regulations on credit risk assessment and credit decision making;
- each credit transaction is monitored from its conclusion to full settlement in terms of utilization, timely repayment, legal security, equity and organizational relationships of the obligor and, in the case of institutional clients, also in terms of their current economic and financial position;
- developments in the real estate market as well as the legal and economic assumptions and framework for valuation of property provided as collateral for credit exposures are monitored on a periodic basis.

Credit risk management in the Group is based on written policies and procedures defining methods of identification, measurement, monitoring, limiting and reporting of credit risk. At least once a year, the Group reviews and verifies these instructions, procedures and credit risk limits. The regulations determine the scope of competencies assigned to each unit of the Bank in the credit risk management process.

In order to determine the credit risk level, the Group uses the following measures:

- probability of default;
- recovery rates;
- share and structure of impaired loans;

- coverage of impaired loans with impairment losses;
- scoring model efficiency measures;
- cost of risk.

The Group prepares the following cyclical reports on its credit risk exposure:

- monthly report for the Management Board and Credit Committee of the Bank;
- quarterly report for the Supervisory and Management Board.

Portfolio quality

At the end of December 2013, the share of exposures with recognized impairment in the total loan portfolio amounted to 5.4%, i.e. increased by 0.7 p.p. year on year. The portfolio quality deterioration resulted mainly from its gradual reaching of maturity, which was not balanced with a growth in the value of new loans. Despite this, quality of the Group's loan portfolio was considerably higher than the banking sector average, which at the end of December 2013 demonstrated NPL of 7.7%. [17]

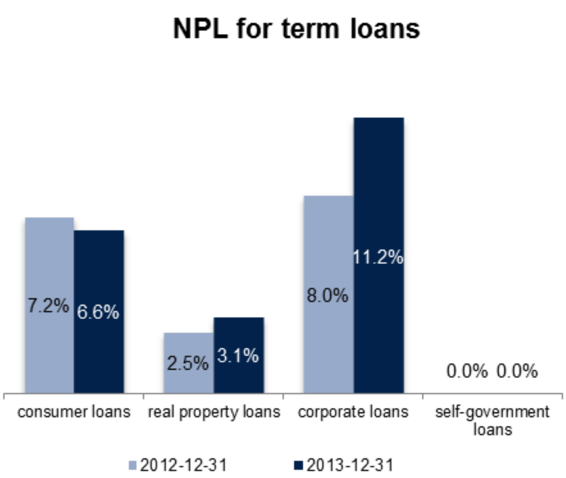
Portfolio quality – the share of loans with recognized impairement in the loan portfolio

	31.12.2013	31.12.2012	Change 2013/2012
Group's total, including:	**5.4%**	**4.7%**	**0.7 p.p.**
for private individuals	4.6%	4.3%	0.3 p.p.
for corporate clients	11.2%	8.0%	3.2 p.p.

The share of impaired loans increased mostly in the corporate credit portfolio. In December 2013, it reached 11.2% and was 3.2 p.p. higher than a year before. NPL for loan receivables from individuals increased from 4.3% at the end of 2012 to 4.6% in December 2013.

Loans granted to self-government institutions as well as real property loans bore the lowest risk at the end of 2013 (NPL of 0.0% and 3.1%, respectively).

In December 2013, the value of exposures with recognized impairment was PLN 277.2 million and was PLN 55.5 million higher than at the end of 2012. Term loans to private individuals accounted of majority of the amount. The value of these exposures was PLN 189.4 million including PLN 114.2 million of consumer loans. During 2013, the value of impaired term loans granted to private individuals increased by PLN 34.5 million. Further, the Group's corporate loan portfolio included impaired loans of PLN 71.5 million. The amount was PLN 19.5 million higher than at the end of 2012.



Portfolio quality – loans with recognized impairment (PLN'000)

	31.12.2013	31.12.2012	Change 2013/2012
Group's total, including:	**277,241**	**221,777**	**55,464**
for private individuals	189,362	154,886	34,476
for corporate clients	71,470	51,992	19,478
for self-government clients	0	0	0

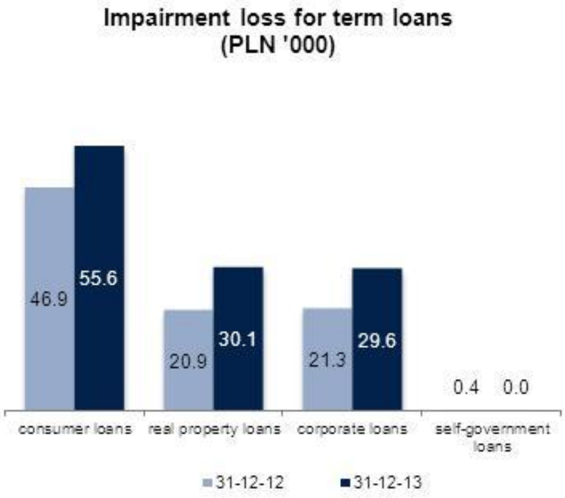
[17] *Source: Financial Supervision Authority, Monthly data for the banking sector file – December 2013.*

Impairment loss

At the end of 2013, the impairment loss on the loan portfolio of the Capital Group was PLN 124.8 million, which was 31.2% more than at the end of December 2012.

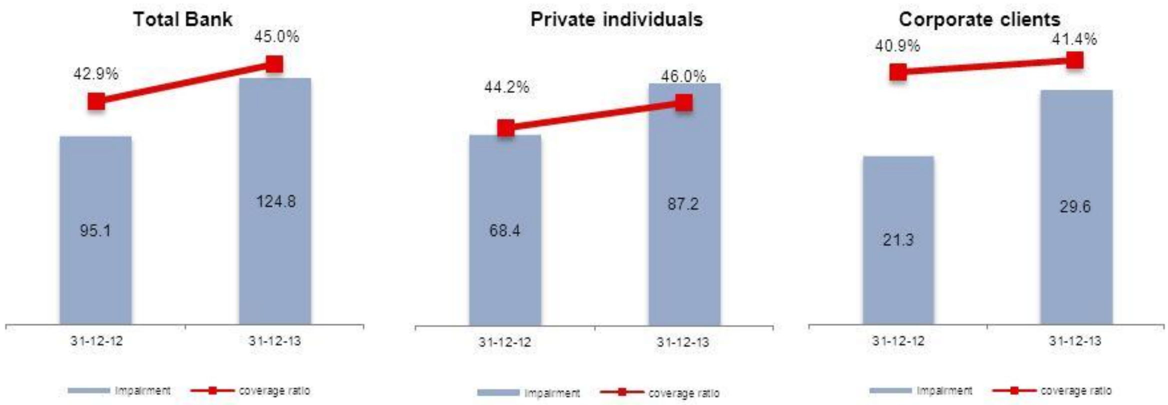
The total impairment loss included the loss on impaired exposures of PLN 109.9 million and incurred but unreported losses (IBNR) of PLN 14.9 million.

At the end of the analyzed period, the value of impairment losses for overdraft facilities was PLN 8.0 million and PLN 117.8 million for term loans and credit facilities. The total impairment loss for term loans and credit facilities granted to individuals was PLN 87.2 million and increased by PLN 18.7 million during the year. It included mostly loss on consumer loans (PLN 55.6 million) and for real property loans (PLN 30.1 million). Impairment loss on corporate loans amounted to PLN 29.6 million and was PLN 8.3 million higher than at the end of December 2012. For credit exposure to self-government institutions the Bank recognized an IBNR allowance of PLN 24 thousand compared to PLN 412 thousand a year before.



During 2013, the coverage ratio of impaired loans increased in the Group. In December 2013, it amounted to 45.0% and was 2.1 p.p. higher compared to the end of 2012. The ratio level was as follows:

- 48.8% for overdraft facilities;
- 44.8% for term loans including 46.0% for individuals and 41.4% for corporate clients.



8.3 Credit policy

The Group updated its individual credit policies in relation to regular reviews of the loan granting process and the necessity to update credit risk parameters arising from PFSA recommendations. It has also carried out a comprehensive review of internal principles and procedures for compliance with external regulations, with the review results reflected in the process of internal regulations update.

Retail clients

In the area of retail loan portfolio, the key changes include adjusting the Group to T, S, and J Recommendation requirements. The compliance work included:

- determining the risk appetite and internal exposure concentration limits for retail loans secured and non-secured by mortgage;
- determining the maximum acceptable DtI and LtV levels and requirements regarding own contribution;
- updating requirements regarding stress testing to include testing of debtors' and Bank's sensitivity to changes in the business environment;

- introducing the obligation of regular verification of real property market databases;
- reviewing and updating of the process of verifying the market value of housing properties;
- verification of the policy of legal security of loans dedicated to retail clients;
- introducing an optional simplified evaluation of creditworthiness of the Group's existing clients applying for non-mortgage loans.

Additionally, changes were introduced to optimize and improve loan granting processes, to include: modification of the methodology of determining household costs and income included in the calculation of creditworthiness and of the methodology of determining the nominal interest growth parameter based on the historical variability of rates. A periodic update of other risk parameters as well as financial and legal documents required to calculate creditworthiness was carried out on a regular basis.

Corporate clients
With regard to the corporate loan portfolio, the Group commenced a series of initiatives aimed at improvement of the loan granting process efficiency and methods of credit risk management, to include in particular elements regarding evaluation of creditworthiness in the Micro-enterprise segment and of selected SME clients.

Following a review of the loan granting process, the Group changed the credit risk evaluation methodology and introduced new parameters of credit products dedicated to corporate clients. In order to optimize the process, for selected credit products, a system of risk evaluation and loan decision making was introduced based on a new, standardized and automated credit process in Ferryt system.

Further, key changes involved achieving compliance with S and J recommendation in terms of credit risk management in the Group, to include:

- reviewing and updating of the process of verifying the market value of commercial properties;
- determining the maximum acceptable level of LtV ratios and own contribution requirements;
- providing details to the process of evaluation of investment funding, the structure and manner of releasing subsequent loan tranches, investment progress control.

Debt collection
With regard to debt collection, the Group transferred restructuring operations to separate specialized organizational units / positions in the Bank. It concluded cost-free arrangements with external entities to maintain the loan collection process in the form of an electronic reminder process. This allowed optimization of debt collection costs. The Group has established a dedicated pre-collection unit. Additionally, for the purpose of pre-collection maintenance of loan transactions, cooperation with the external entity was extended to allow faster and direct contact with mortgage loan and Micro-enterprise segment clients who default on payment. In order to improve the corporate client monitoring process, in 2013 the Bank initiated development of an application dedicated to this part of the process. At the end of 2013, the first project stage, i.e. daily monitoring, was implemented.

8.4 Liquidity risk

Liquidity risk is the risk of the Bank's losing the capacity to pay its liabilities on a timely basis due to an unfavorable structure of its assets and liabilities and cash flow mismatch. Liquidity risk may arise from a cash flow mismatch, sudden withdrawal of deposits, concentration of funding sources and the credit portfolio, inadequate level of liquid assets, limited liquidity of assets, the Group's clients' default on their obligations or other unexpected developments in the financial market.

The Group's liquidity risk is managed at the level of the Bank as the liquidity risk assumed by the subsidiaries is immaterial considering the nature of their business.

The objective of liquidity risk management is to balance proceeds and payments of funds under on- and off-balance sheet transactions in order to ensure cost-effective funding sources, generating of cash surpluses and their appropriate use. The Bank builds the structure of its assets and liabilities so as to ensure the achievement of assumed financial ratios with the liquidity risk level accepted by the Group.

The following principles have been adopted for the liquidity risk management process:

- maintaining an acceptable liquidity level based on an appropriate portfolio of liquid assets;
- stable funds being the key source of funding for the Bank's assets;
- undertaking initiatives aimed at maintaining the liquidity risk level within the accepted risk profile;
- supervisory liquidity measures are maintained above the defined limits.

Liquidity risk management in the Bank is based on written policies and procedures defining the methods of identification, measurement, monitoring, limiting and reporting of liquidity risk. The regulations determine also the scope of competencies assigned to each unit of the Bank in the liquidity risk management process. In order to ensure high standards of liquidity risk management compliant with best banking practices, at least once a year the Bank reviews and verifies the policies and procedures, including internal liquidity limits.
In order to determine the liquidity risk level, the Bank uses a number of measurement and assessment methods, such as:

- contractual and actual liquidity gap method;
- deposit base stability and concentration check;
- surplus of liquid assets over unstable liabilities;
- stress analyses.

With a view to mitigating the liquidity risk, the Bank uses liquidity limits and thresholds for selected measures, including liquidity ratios or the mismatch between accumulated actual cash flows generated by assets and liabilities in individual time ranges.

Pursuant to Resolution No. 386/2008 of the Polish Financial Supervision Authority of 17 December 2008 on liquidity requirements for banks (as amended), the Bank monitors and complies with requirements concerning supervisory liquidity ratios. In 2013, the Bank fulfilled the requirements concerning the minimum supervisory liquidity ratios as specified in the aforesaid Resolution.

As at 31 December 2013, liquidity ratios remained within the applicable liquidity risk limits.

The following table presents supervisory liquidity measures as at 31 December 2013 and 31 December 2012.

Liquidity measures

	31.12.2013	31.12.2012	Limit
M1 (PLN'000)	447,457	702,417	0
M2	1.31	1.48	1
M3	2.88	4.17	1
M4	1.13	1.19	1

The Bank has defined contingency plans to address sudden changes in the deposit base. An analysis of immediately available funding sources shows that in case of a sudden liquidity drop, the Bank is able to obtain sufficient funds without the need to implement its contingency plans. As at 31 December 2013, the Bank's portfolio of liquid assets was sufficient to deal with an actual crisis.

The following tables present actual liquidity gaps for the Bank as at 31 December 2013 and 31 December 2012.

Actual liquidity gap in 2013 (PLN'000)

	Up to 1 month (inclusive)	Over 1 month up to 3 months (inclusive)	Over 3 months up to 6 months (inclusive)	Over 6 months up to 1 year (inclusive)	Above one year up to 5 years (inclusive)	Over 5 years
Gap	647,912	(166,771)	(94,812)	(209,737)	(731,189)	2,120,637
Total gaps	647,912	481,141	386,329	176,592	(554,597)	1,566,040

Actual liquidity gap in 2012 (PLN'000)

	Up to 1 month (inclusive)	Over 1 month up to 3 months (inclusive)	Over 3 months up to 6 months (inclusive)	Over 6 months up to 1 year (inclusive)	Above one year up to 5 years (inclusive)	Over 5 years
Gap	919,837	(171,412)	(107,579)	(56,248)	(1,452,275)	1,708,917
Total gaps	919,837	748,425	640,846	584,598	(867,677)	841,240

8.5 Interest rate risk

Interest rate risk results from the exposure of the Group's financial performance and equity to adverse changes in interest rates.

The interest rate risk arises from:
- mismatch of revaluation dates: the risk is expressed as a threat to the Bank's revenue, mostly interest income, in case of unfavorable changes of market interest rates or significant changes of the balance sheet revaluation structure resulting in changes in the interest gain/loss;
- basis risk arising from imperfect correlation between interest rates on products that generate interest income and expense and have the same revaluation dates;
- yield curve risk where the ratio between the interest rates concerning different periods but the same index or market changes;
- client option risk arising when clients change the amount and timeline of cash flows on assets, liabilities and off-balance sheet items according to their rights arising from loan or deposit agreements, without incurring any additional costs.

The Group's interest rate risk is managed at the level of the Bank as the liquidity risk assumed by the subsidiaries is immaterial considering the nature of their business.

The Bank adapts its interest rate risk management to the type and scale of its business. Interest rate risk in the Bank may be related to the banking book and to the trading book.

The objective of interest rate risk management is to build a structure of assets and liabilities ensuring protection of the present value and the net interest income of the Bank for the banking book and to obtain financial benefits through transactions on interest rate instruments concluded on own account in the trading book, with the accepted interest rate risk level.

Interest rate risk management in the Bank is based on written policies and procedures, which define the methods of:
- risk identification;
- risk measure calculation (risk measurement);
- risk exposure limiting – determining the acceptable risk level;
- monitoring items and changes in each book, portfolio and the limit use levels;
- risk exposure reporting;
- hedging exposures against interest rate risk.

In order to ensure high standards of interest rate risk management, compliant with best banking practices, in 2013 the Bank reviewed the applicable policies and procedures.

Interest rate risk related to the banking book is measured and monitored with the use of such risk measures as:
- BPV, Basis Point Value denotes interest rate risk expressed as a cash value, related to maintaining of a given position when interest rates change by one basis point;
- NII (net interest income) – a change in the net interest income representing the difference between interest income and expense with an interest rate change at a specified level;
- BPV gap value in each revaluation range;
- duration: a measure of interest rate risk interpreted as the average duration of an instrument or portfolio;
- early repayment of loans and withdrawal of deposits ratios for each type of products and entities.

Interest rate risk related to the trading book is measured and monitored with the use of such risk measures as:
- BPV and BPV gap value in each revaluation range;
- Value at Risk (VaR).

Additionally, the Bank performs stress tests involving sensitivity analysis and examining the effects of interest rate changes on the present value of risk-exposed items based on specified changes in the yield curve, and the effects of changes in interest rates on the net interest income of the Bank.

The following table presents the results of stress tests performed as at 31 December 2013 and 31 December 2012.

Results of stress tests for +/- 200 b.p. (PLN'000)		
Change in the present value of the banking book	**31.12.2013**	**31.12.2012**
200 b.p. down	(7,837)	(11,802)
200 b.p. up	8,374	13,052

The following table presents the BPV level for the trading book as at 31 December 2013 and 31 December 2012.

BPV for the trading book (PLN'000)		
	31.12.2013	**31.12.2012**
BPV	0	0

8.6 Currency risk

Currency risk arises from the current and future performance of the Bank and the Capital Group as well as their equity being exposed to adverse changes in foreign exchange rates.

The Group's currency risk is managed at the level of the Bank as the currency risk assumed by the subsidiaries is immaterial considering the nature of their business.

The objective of currency risk management is to protect the exchange gain and obtain financial benefits through transactions concluded in FX instruments on own account, with the accepted risk level.

In the process of currency risk management, the said risk in the Bank is measured through:

- calculation of the total position of the Bank;
- calculation of the position in each currency;
- calculation of Value at Risk (VaR);
- stress tests.

The following table presented VaR level for currency risk in 2013 and as at 31 December 2013 and 31 December 2012.

VaR measure statistics for currency risk (PLN'000)					
	Minimum	**Maximum**	**Average**	**31.12.2013**	**31.12.2012**
VaR	7	322	34	28	13

In 2013 and 2012, the Bank's currency risk was very low due to an insignificant share of foreign currency assets and liabilities in the balance sheet total (below 2%). The value of the total currency position did not exceed 2% of equity, which did not generate a capital requirement with respect to this risk type.

8.7 Operational risk

The Group defines operational risk as the risk of a loss arising from inadequacy or unreliability of internal processes, people and systems or from external events. The definition does not include strategic and reputational risks, which are managed separately, but it does include legal risk.

According to assumptions adopted by the Bank and by the Group, the operating risk management structure includes all organizational units, branches and subsidiaries. All directors manage operational risk in their organizational units and branches on an ongoing basis. Ongoing management includes employment of measures aimed at evaluating the risk scale, mitigating the effects of risk events and reducing the probability that the risk will be assumed in the future. The Management Board of the Bank supervises the overall operational risk management process. The Operational Risk Committee is a body consulting the measures employed to change the operational risk level. Coordination of the operational risk management process is the responsibility of the Risk Function.

Each employee is to identify operating risk events pertaining to his/her position that are then collected in a dedicated database. The events are verified by operational risk coordinators on an ongoing basis and monitored by a coordinating unit for the number of events and loss value. Risk monitoring enables employment of measures that reduce the effects of events and implementation of instruments mitigating future risk.

The Supervisory Board, Management Board and Operational Risk Committee receive cyclical reports on operational risk.

The Group improves its operational risk management processes in the Bank structures and in cooperation with other Group companies, including Poczta Polska, on an ongoing basis. According to the Bank, research regarding operational risk exerts a positive effect on the operational risk level, both currently and in the future. In 2013, initiatives were undertaken with the objective to bring the Bank's operations in line with the requirements of Recommendation M.

Additionally, operational risk in the Bank is mitigated based on procedures related to implementation of the "General Security Policy of Bank Pocztowy S.A." governing such issues as anti-money laundering, fraud prevention, protection of the Bank's resources, continuity of business, protection of personal data, confidential information and business secret as well as security of information in IT systems.

8.8 Other risks

In addition to the above risks described in detail, the Group identifies and assesses the following risk types:

- compliance risk;
- strategic risk;
- business cycle risk;
- reputation risk;
- outsourcing risk.

Compliance risk
Compliance risk is the risk that the effects of the Group's non-compliance with the law, internal regulations and codes of conduct will occur. The Group considers compliance risk generated both by the Bank and its subsidiaries and manages the compliance risk arising from cooperation between the Bank and Poczta Polska S.A.

The compliance risk management process is based on written policies and procedures that define the key principles to be followed by the Bank's employees and explain the key processes that identify the said risk, enabling its management at all organizational levels of the Group.

The scope of compliance risk management includes:

- the Group's compliance with the law and requirements imposed on banks;
- compliance with appropriate market standards, good practices and codes of conduct adopted by the banking sector;
- preventing money laundering and the funding of terrorism;
- preventing fraud detrimental to the Group.

The compliance risk management process includes risk identification, measurement, monitoring, mitigating and reporting.

Compliance risk identification is a continuous process which is carried out:

- when internal regulations are consulted by the compliance unit for their conformity with the law and requirements imposed on banks;
- based on the outcome of compliance tests and internal regulations compliance self-assessment;
- based on ongoing analyses, including operational risk events base, follow-up functional control and internal audit reports, record of court cases, information on customer complaints related to compliance risk, information from organizational unit heads regarding compliance risks, and fraud reports.

Identified compliance risk events are recorded by the compliance unit in the compliance risk events database.

Compliance risk measurement is performed on a quarterly basis by the compliance unit using a risk scoring model that takes into account the anticipated effects of compliance risk on the organization and its clients, including the probability of its occurrence, and other criteria, such as:

- the number of compliance risk events or actual losses arising from such risk;
- the number of negative press publications and accusations regarding compliance risk in the Bank.

As a result of measurement, the risk is scored using a 3-level scale (low, medium or high).

As far as compliance risk arising from cooperation between the Bank and Poczta Polska S.A. is concerned, the compliance unit records compliance risk events and monitors measures aimed at explanation and mitigation of the said risk.

Strategic risk
Strategic risk is the risk to which the Group is directly, and its financial performance and equity indirectly, exposed due to unfavorable or incorrect strategic decisions, failure to implement or improper implementation of the strategy and developments in the business environment or incorrect response to such changes.

In November 2012, the Supervisory Board of the Bank approved the *Strategy of Bank Pocztowy S.A. for 2012-2015,* which modified the previous direction and pace of development and defined five strategic objectives for the Bank. The key strategic assumption is to concentrate on acquisition of products which are considered the most profitable from the perspective of capital employed, while maintaining the cost discipline with regard to operating and personnel expenses.

Strategy implementation monitoring, taking into account the (direct or potential) effect of external factors, is aimed at examining the effectiveness of initiatives undertaken with a view to accomplishing the Bank’s objectives defined in the Strategy.

Business cycle risk
The business cycle risk is the risk of long-term negative effects of an unfavorable stage of the business cycle (e.g. economic slowdown or recession) on the financial performance or equity of the Group.

As the economic situation affects the banking sector, an analysis of the macro-economic conditions should be part of the decision-making process at banks. The Bank monitors the macro-economic ratios presenting the situation of the Polish economy on a continuous basis and once a month prepares detailed macro-economic reports that underlie the decision-making process in the Group.

The business cycle risk occurs when the overall economic situation deteriorates. In the case of growing unemployment, taxes, inflation, or interest rates or when significant changes in foreign exchange rates occur, the financial standing of customers may deteriorate (including that of the Seniors as target clients), which may translate into a limited capacity to pay their liabilities at their due dates and a reduced demand for the products offered by the Bank (loans, deposits). A slowdown may also result in increased impairment losses on loans and advances or a slower rise in the value of the Bank’s credit portfolio due to a drop in demand for loans and in the number of clients that meet the loan granting criteria. Market volatility, economic slowdown and growing unemployment may also result in a significant decrease in the value of the clients’ assets, such as real property securing payment of loans originated by the Bank.

Considering the moderate level of economic activity in Poland and adverse conditions in the labor market in 2013, the business cycle risk at the Bank continues to be material. Although activity ratios improved gradually in the second half of the year, the economic recovery is only on the way and the effects of deterioration in the labor market and adverse conditions in the enterprise sector may be felt by the banking sector at a later time.

Reputational risk
The reputational risk is related to damage to the Bank’s reputation in the eyes of its existing and potential clients and stakeholders. This may result in unfavorable effects on the Bank’s equity, i.e. the negative impact on its planned performance, among others through outflow of the existing clients or no inflow of new clients.

Outsourcing risk
Outsourcing risk is a risk third party’s negative impact on the continuity, integrity or quality of the Bank's operations, its assets or employees.

Outsourcing banking activities and the related banking business processes to third parties necessitates the Bank’s performance of numerous analyses, both before establishing a relationship and in the course of cooperation with the insourcer. Outsourcing risk materiality assessment depends on the scope of outsourced activities and the number of entities that perform them for and on behalf of the Bank. Outsourcing a broad range of activities to a small number of third parties creates concentration risk and potential problems with timely performance of the activities if the said entities discontinue their services. On the other hand, too large a number of insourcers gives rise to a risk that the Bank may lose control over the performance of the outsourced activities.

Since the Bank has concluded an agency agreement with Poczta Polska S.A. and a series of outsourcing agreements with its own subsidiaries, i.e. Centrum Operacyjne Sp. z o.o. and Spółka Dystrybucyjna

Banku Pocztowego Sp. z o.o., at present it has to face the risk of concentrating the entrusted activities, to include the risk that the above entities discontinue the performance of the outsourced tasks.

Outsourcing risk management in the Bank is based on written policies and procedures defining methods of identification, measurement and monitoring of outsourcing risk. The regulations determine also the scope of competencies assigned to each unit of the Bank in outsourcing banking activities and the related banking business processes.

8.9 Capital adequacy

Capital adequacy management is aimed to ensure that the Group's equity level is not lower than the one required by internal and external regulations. The regulations link the required capital level with the scale of operations and risks assumed by the Group.

Considering the above, the Group regularly:

- identifies risks material for its business;
- manages material risks;
- determines internal capital to be maintained should the risk materialize;
- calculates and reports capital adequacy measures;
- allocates internal capital to individual business areas;
- performs stress tests;
- compares its capital needs with the level of equity held;
- integrates the capital adequacy assessment with development of the Bank's Strategy, financial and sales plans.

Equity
The Group's equity consists of Tier 1 and Tier 2 capital. In 2013, Tier 1 capital included:

- core capital: share capital, supplementary capital and reserve capital;
- general risk reserve;

and was reduced by:

- the carrying amount of intangible assets;
- loss on measurement of financial instruments classified as available for sale;
- other items, as specified in supervisory regulations.

Tier 2 capital of the Group in 2013 included:

- a portion of gains on measurement of debt instruments classified as available for sale, as determined by the applicable regulations;
- cash obtained from a subordinate loan received in 2011 from Poczta Polska and two issues of subordinate bonds (carried out in 2011 and 2012, respectively);
- other items, as specified in supervisory regulations.

Capital requirements (Pillar 1)
For the purpose of determining the total capital requirement, the Bank uses methods arising from Resolution 76/2010 of the Polish Financial Supervision Authority of 10 March 2010, including in particular:

- the standard method of calculating the capital requirement arising from the credit risk in accordance with Appendix 4 to the above resolution;
- the standard method of calculating the capital requirement arising from the credit risk in accordance with Appendix 17 to the above resolution;
- the standard method of calculating the capital requirement arising from operational risk in accordance with Appendix 14 to the above resolution (in 2012, there was a change from the previously used basic ratio method);
- the basic method of calculating the capital requirement arising from the currency risk in accordance with Appendix 6 to the above resolution;
- the maturity method to calculate the capital requirement arising from the general interest rate risk in accordance with Appendix 10 to the above resolution;

- the basic method of calculating the capital requirement arising from the specific debt instrument price risk in accordance with Appendix 9 to the above resolution;
- the method of calculating the capital risk arising from the exceeded exposure concentration limit compliant with Appendix 12 to the above resolution;
- the method of calculating the capital risk arising from the exceeded capital concentration limit compliant with Appendix 13 to the above resolution.

Since the trading scale was immaterial and the level of currency transactions performed was low, the capital requirement regarding market risks and currency risk for the Group was PLN 0.00. This meant that at the end of 2013 the Group had a capital requirement arising from credit risk and from operational risk.

In 2013 the supervisory solvency ratio of the Group was above the required regulatory minimum.

The Bank has worked on achieving compliance both on the Bank and the Group level with Regulation of the European Parliament and of the Council (EU) no. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending the Regulation (EU) no. 648/2012.

Internal capital (Pillar 2)
When identifying key risks that occur in the Group's operations, having included the scale and complexity of a given operation, additional risks are considered which, according to the management, are not fully covered by Pillar 1 risks. The identification is to optimally adjust the structure of internal capital to the actual capital needs that reflect the true risk exposure level.

For the additional risk purpose, the internal capital is calculated based on internal method accepted by the Management Board, which include the scale and specifics of the Group's operations in a given risk context.

Additionally, when determining the internal capital, the Group applies a conservative approach with regard to risk diversification among each risk type.

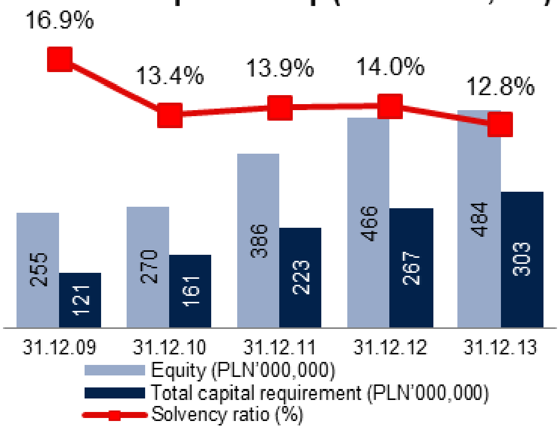
Please note that due to the specifics of liquidity risk and in light of market standards and practices, the Group does not determine an additional internal capital for this risk type. For this reason, special focus is placed on the process evaluation and management.

In 2013 the internal solvency ratio of the Group was above the required regulatory minimum.

Disclosures (Pillar 3)
Pursuant to Resolution no. 385/2008 of Polish Financial Supervision Authority of 17 December 2008, regarding detailed principles and a manner of publishing quality and quantity data regarding capital adequacy of banks and the scope of information subject to publication (with subsequent amendments) and to *General Principles of Disclosing Information on Capital Adequacy in Bank Pocztowy S.A.* accepted by the Supervisory Board of the Bank, the Group publishes its capital adequacy data in a separate document published on an annual basis, not later than 30 days of the approval of the annual financial statements by the General Meeting.

In 2013, the disclosures regarding capital adequacy were presented in accordance with deadlines arising from the provisions of the above Resolution.

Capital adequacy of the Bank's Capital Group (in PLN'000,000)



The following tables present detailed calculation of base figures regarding regulatory capital and the solvency ratio as at 31 December 2012 and 31 December 2013.

Equity (PLN'000)

	31.12.2013	31.12.2012
I. Tier 1 capital	360,121	329,660
1. Core capital	267,220	224,776
a) Share capital	97,290	97,290
b) Supplementary capital	34,068	33,761
c) Reserve capital	135,862	93,725
2. Additional items of Tier 1 capital	142,372	140,294
a) General risk reserve	106,345	101,345
b) Net profit for the period	36,027	38,949
3. Items reducing Tier 1 capital, including:	(49,471)	(35,410)
a) Carrying amount of intangible assets	(30,215)	(27,339)
b) Prior year loss	(16,476)	(7,981)
c) Other	(2,780)	(90)
II. Tier 2 capital, including:	123,810	135,946
1. Subordinated liabilities classified as Tier 2 capital	123,140	131,740
2. Other	670	4,206
Equity	**483,931**	**465,606**

Capital requirements (PLN '000)

	31.12.2013	31.12.2012
Capital requirements for credit, counterparty credit, dilution and settlement risk, including for exposures	267,672	233,697
with 0% risk weight	0	0
with 20% risk weight	5,884	6,800
with 35% risk weight	45,440	42,305
with 50% risk weight	1,091	737
with 75% risk weight	145,771	121,279
with 100% risk weight	69,086	61,232
with 150% risk weight	400	1,344
other risk weights	0	0
Capital requirement for operational risk	35,390	33,179
Total capital requirement	**303,062**	**266,876**
Solvency ratio	**12.8%**	**14.0%**
Tier 1	**9.5%**	**9.9%**

In 2013 the Group's activities ensured the maintaining of capital ratios on a save level, above the regulatory minimum.

9. ORGANIZATIONAL AND INFRASTRUCTURAL DEVELOPMENT

9.1 Organizational structure of the Bank

Bank Pocztowy S.A. includes four areas managed by individual Management Board Members:

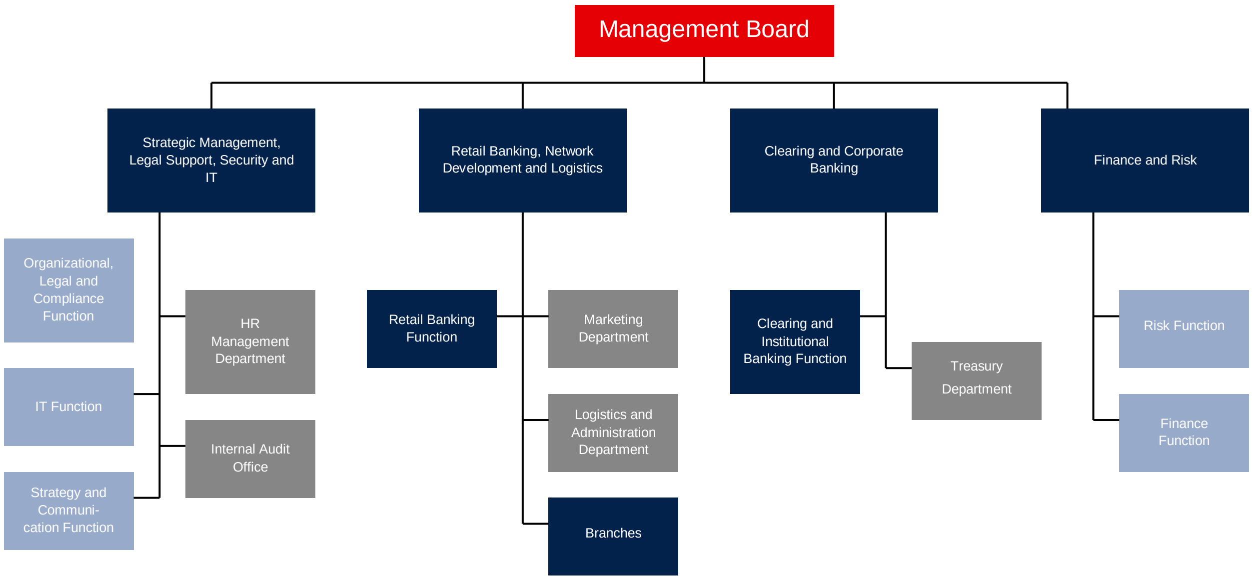
- Strategic Management, Legal Support, Security and IT
- Retail Banking, Network Development and Logistics
- Clearing and Corporate Banking
- Finance and Risk.

1,000

Micro – branches and Postal Finance Zones

Sales network development plan

Organizational structure of Bank Pocztowy S.A.



Key objectives and tasks assigned to each area:

<u>Strategic Management, Legal Support, Security and IT</u>

- Organization, Legal and Compliance Function: ensure efficient operation of the Bank's bodies, secure and efficient anti-fraud and AML operation and prevention of terrorism funding, efficient legal support to protect the interests of the Bank, ensure security, safe and efficient operation of the protected Bank's infrastructure.
- IT Function: maintain the IT infrastructure and systems on the appropriate level and develop IT systems in compliance with external clients' expectations.
- Strategy and Communication Function: develop and verify the Bank's strategy, ensure internal and external communication, build a positive image of the Bank and coordinate its activities regarding capital investments.
- Human Resources Management Department: develop HR, training and social policy, ensure proper quality and qualifications of staff.
- Internal Audit Office: ensure tight and efficient internal control.

<u>Retail Banking, Network Development and Logistics</u>

- Retail Banking Function: develop and pursue the retail sales policy regarding bank and external products, develop the retail business.

- Logistics and Administration Department: ensure proper conditions and means of labor and organize an efficient network of retail sales for products of the Bank and of other entities.
- Marketing Department: support sales through marketing campaigns performed in compliance with the needs of sales departments, plan and implement coherent marketing communication in on- and off-line channels, build and pursue the brand strategy on the market in accordance with the overall Bank's strategy; cooperate on development of product policy and implement sales plans in terms of product and transactions offered to clients in remote channels.

Clearing and Corporate Banking

- Clearing and Corporate Banking Function: sales of banking products and services to corporate clients; corporate business development.
- Treasury Department: perform operating activities connected with the management of liquidity, interest rate and currency risk within the accepted limits; generate profit on the trade of financial instruments on own account or on the account and behalf of clients.

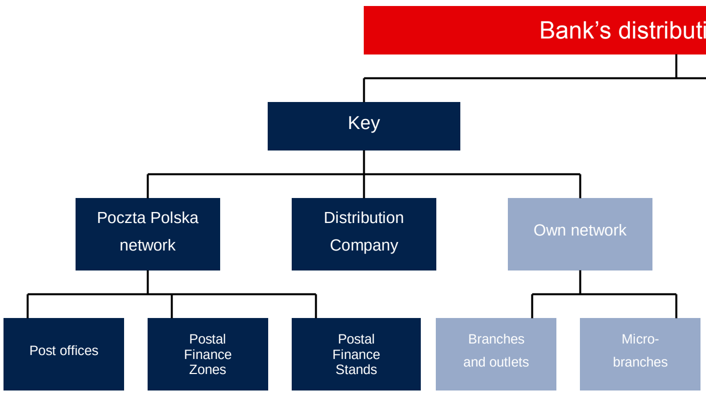
Finance and Risk

- Risk Function: develop the system of integrated risk and capital management, support implementation of the Bank's strategy and maintain the accepted risk appetite level; develop the risk function strategy aligned with the overall strategy of the Bank; develop the Bank's policy regarding credit risk and an efficient risk monitoring, restructuring and debt collection system.
- Finance Function: implement the financial planning process in the Bank, monitor performance on financial plans, maintain accounting records; pursue internal and strategic management of assets, liabilities and structural liquidity of the Bank.

9.2 Banking product distribution channels

Bank Pocztowy S.A. has a developed sales network consisting of:

- key channels, i.e. the own network of the Bank, Poczta Polska sales network and the distribution network of Spółka Dystrybucyjna;
- supporting channels, i.e. e-banking, call center and agents.



Standard Micro-branch

At the end of 2013, the own distribution network of the Bank included 295 entities (one Branch, 38 Outlets and 256 Micro-branches). During 2013, the network was increased by 69 Micro-branches. One Outlet was closed.

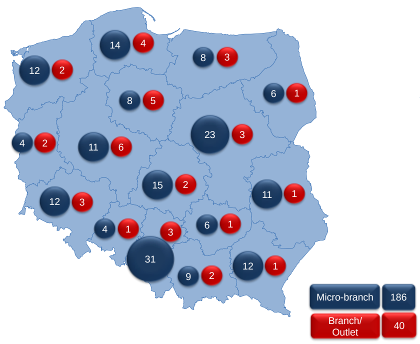
The development of the Micro-branch network, being the largest group of the points of sales, remained a key strategic initiative of the Bank. The Micro-branches are separate points of sales operated within post offices, with full access to banking databases, systems and applications, operated by the Bank's employees.

The Bank develops internet distribution channels, too. Individual clients may use *Pocztowy24* internet banking system, while corporate clients are offered *Pocztowy24 Biznes*. Call center is a phone banking system allowing clients access to their accounts and other banking services on the phone or through

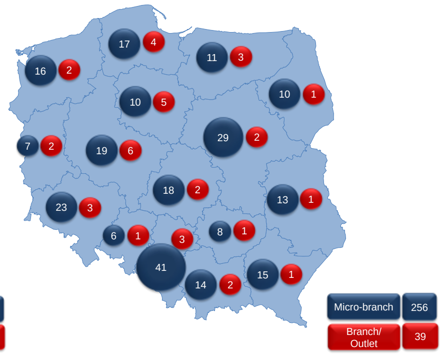
Internet communicators. In 2013, the Bank extended the functionality of their e-distribution channels allowing its clients opening *Pocztowe Konto Standard* (standard postal account) and *Pocztowe Konto Nestor* (postal account for seniors) through Internet.

Traditional distribution channels of Bank Pocztowy S.A. by province

31.12.2012



31.12.2013



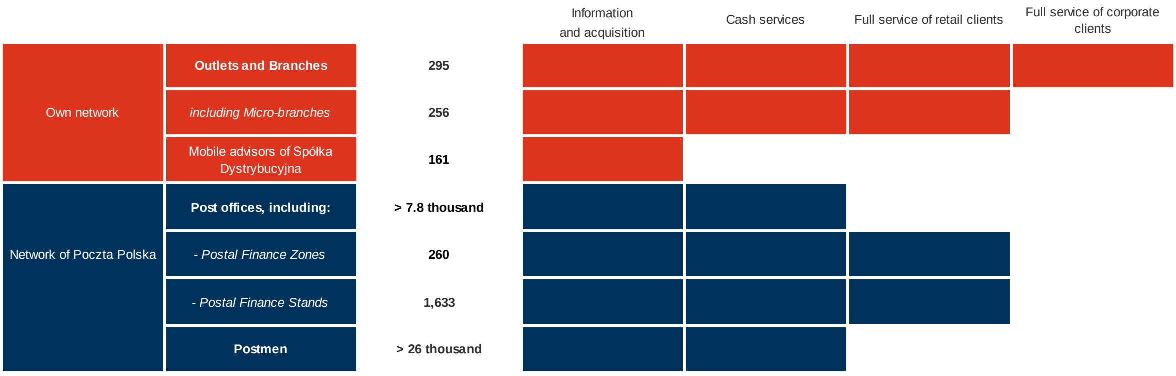
Further, the products of the Bank are distributed through a network of mobile advisors to Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o., which carries out acquisition of credit products among clients with limited access to the Bank's sales network.

At the end of 2013, Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o. cooperated with 161 advisors.

The Bank provides financial services using the sales network of Poczta Polska (about 7,800 outlets including 1,633 Postal Finance Stands and 260 Postal Finance Zones). The Bank's products are also distributed through 26,000 postmen.

The extensive network provides easy access to the Bank's products countrywide.

Scope of services provided by individual channels distributing products and services of Bank Pocztowy



9.3 Development projects

In 2013, the total investment outlays incurred by Bank Pocztowy S.A. for development projects amounted to PLN 9.3 million. It was close to the 2012 level (PLN 9.4 million). Most investments regarded IT and included improvement and development of basic IT environment components. Outlays for development of e-distribution channels and improvement of the own network of Bank's points of sales constituted another significant cost item.

Non-personnel expenses related to the projects amounted to PLN 2.0 million and were PLN 1.0 million lower than in 2012.

IT and Operations

Key activities regarding development of IT systems in the Bank in 2013:

- <u>Improvement of the Bank's IT system:</u> It is to include the central system and its supporting systems. In 2013, the Bank developed the final version of the target business processes and the central banking system model. The preparation work included analysis of the architecture of IT solutions used by the Bank and optimization of the change management process.

- Implementing Front-End in the Bank's Outlets: The key objective of the project is to develop a Front-End application and implement software for internet browsers to serve clients in the Bank's own network and then in Poczta Polska outlets. In 2013, the system was implemented in all Micro-branches and employees were trained on its functionalities. The implementation process in other Outlets, not included in the pilot in 2012, was also completed. Work on software upgrade was continued to provide the system with new functionalities.
- Implementing Front-End in the outlets of Poczta Polska S.A. The project is a continuation of Front-End application implementing in the Bank's Outlets, with the key objective is to implement the new solution in the outlets of Poczta Polska to allow: extending the scope of products and services offered to clients through post offices, allowing access to the products and services in all post offices, improving and accelerating the sales of Bank's products and post-sales service offered to its clients. The work performed in 2013 included testing of on-line payments in cooperation with Poczta Polska S.A. and implementing the process in the production environment in post offices. After the positive pilot results involving opening accounts in Ferryt, the process was implemented in the production environment for Bank's clients served in post offices.

Development of e-distribution channels

In 2013 the Bank worked on implementation of a new Internet platform for retail and corporate clients. The purpose of the investment is to provide a modern solution that will replace the existing Internet banking platform for retail and corporate clients and allow the opening of a new access channel, i.e. mobile banking, in future. The solution will be integrated with Front-End system accessible in the Bank's outlets, which will allow simultaneous presentation of data in all distribution channels (outlets, call center, Internet banking, and mobile banking). The work performed in 2013 focused mainly on migration of corporate clients to the production environment, pilot for corporate clients, development of the retail part of the project, testing of applications for retail clients and commencing the pilot for these clients. In 2014, *Nowa platforma www* system will be fully operable and accessible for all clients of the Bank.

Network of banking outlets

The Bank carried out the following projects regarding traditional distribution channels:

- Micro-branches: The purpose of the project is to improve efficiency of sales in post offices through development of the Micro-branches network. In 2013, 69 Micro-branches were opened.
- Revitalization of own network: The Bank continued revitalizing of own network involving adjustment of the Outlets to the accepted Book of Standards. Advisors are equipped with new computers. New outlets have friendly arrangement with space supporting communication with clients, modern and innovative solutions. The above changes are to support unification of service standards and improved image and technical standard of the premises. The Bank closely cooperates with this respect with Poczta Polska S.A., which is also revitalizing its network.

Projects related to the Bank's operations

The key initiative with this respect involved the building of Customer Relationship Management system, a tool that will allow strengthening relations with clients.

The key objective of the project was to provide with comprehensive CRM solutions that would integrate all communication channels and sales supporting systems. This will allow developing of client data collection mechanisms and preparing of a special offer accessible in a preferred distribution channel. The offer will be accessible through an advisor with the use of the CRM tool, in IVR in remote channels and on the website through integration of systems under the project. The work on CRM tool development included a detailed specification underlying the test version of the operational CRM including sales supporting modules: Startup Panel, Manager Panel, Client Card, Issues and Tasks and Calendar. Another stage of the analysis was commenced to extend the application with the following modules: Campaign Generator, Reports, and Messages for Clients. The business part includes the product related and client activation strategy, cross-selling activities extended to all distribution channels to include Poczta Polska and improved business processes related to sales of new products to Bank's clients.

In the first half of 2013, Bank Pocztowy S.A. launched a pre-paid card and allowed its service in Front-End system. At present, the Bank carries out the pilot sales of the pre-paid cards in selected post office across the country.

10. HUMAN RESOURCES MANAGEMENT

10.1 Headcount and employment structure

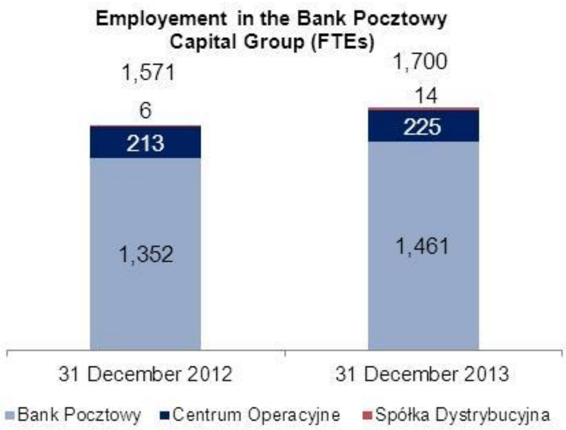
As at 31 December 2013, the headcount in the Bank Pocztowy Capital Group was 1,700 FTEs and was 129 FTEs higher than at the end of 2012.

As at 31 December 2013, the headcount in Bank Pocztowy S.A. was 1,461 FTEs and increased by 109 FTEs during the year. The increase resulted mostly from development of the retail sales network, i.e. Micro-branch type outlets.

35
years – the average age for employed persons
As at 31.12.2013 r.

At the end of 2013 Bank Pocztowy S.A. employed 1,475 people. The employment structure was as follows:

- females (1,058) dominated among employees;
- the average employee age was 35;
- the average number of years spent with the Bank was 4;
- all employees were high school or university graduates, out of whom 69% held university diplomas, and 7% completed post-graduate studies.



10.2 Training and development

The development policy pursued by Bank Pocztowy in 2013 arose mostly from “Development Strategy of Bank Pocztowy S.A. for the years 2012-2015”. Training and development projects were addressed mostly to managers, retail banking employees and the staff of Poczta Polska.

Development programs and courses for managers

In 2013, the Bank delivered the following training projects for managers:

- Development program for key managerial staff: a program for the professional team of key managers established in 2012 was continued with the purpose to improve their strategic competency level. Activities performed included training on financial analysis and strategic marketing, as well as courses improving their managerial skills. The program was delivered by ICAN Institute, the publisher of *Harvard Business Review Polska*. Participation in the program allowed the trainees access to the tools allowing achievement of the world standard competency level.
- *EkstraKLASA Menedżerów* development program. The comprehensive development program is addressed to managers in the retail sale network of Bank Pocztowy S.A. The completion of the program (commenced in October 2013) is planned for October 2014. Its objective is to improve business efficiency of participants through:
  - standardizing managerial competencies in the retail network;
  - identifying individual leadership styles and personal efficiency improvement methods;
  - providing practical tools and solutions to allow efficient leading of people and teams in frequently changing environment.

  Further, the program includes an in-depth analysis of development needs, the cycle of four training modules, as well as evaluation of the program on the business level.
- Individual managerial coaching, i.e. a project dedicated to top level managers, aimed at improvement of their effectiveness in the organization.

- *Mazowiecka Akademia Przywództwa Innowacyjnego* project. Managers and successors participated in a series of classes co-funded by European Social Fund under *Mazowiecka Akademia Przywództwa Innowacyjnego (Mazovian Academy of Innovative Leadership)* project. The workshop included three modules: directing, managing and leadership and were delivered by a well-known and appreciated psychologist. Their participants included Department and Office Heads and Deputies and individuals appointed as their successors in the cycle 2012/2013. The total number of trainees included 41 people divided in six groups.
- *Mentoring i sukcesja w Banku Pocztowym S.A*. (Mentoring and Succession in Bank Pocztowy S.A.) development program. The program is performed in the Head Office and addressed to successors, deputies and key employees (mentors). The project objective is to ensure replacement for key employees with unique competencies and gradual preparing of their successors. The mentoring process has the form of managerial mentoring, during which individuals with professional experience and successes appoint their successors or deputies. During the program, they transfer their knowledge to the appointed individuals and inform them about key success factors. The program includes also expert mentoring, where directors appoint mentors from among employees with unique competencies so that they can transfer their knowledge to appointed trainees. The mentoring process is carried out on a regular basis, upon an annual cycle. Both mentors and trainees have participated in introduction workshops aimed at detailed analysis of the process and tools supporting the mentoring program. In 2013, 134 employees were appointed to the program and trained in seven workshop groups. They were also offered with a program including three soft skill modules: Presentation and Communication, Personal Efficiency i.e. Self-Management in a Team and Assertiveness and Motivation. The first module was delivered to 67 employees divided in seven trainee groups.
- Managerial workshops: In April 2013, workshops dedicated to the entire managerial staff of Bank Pocztowy took place. Their objective was to summarize the Q1 performance and to develop business initiatives decisive for the successful implementation of the Bank’s strategy in subsequent years.

Additionally, improvement of managerial skills included continued training on employee assessment based on CREDO value code, efficient recruitment and goal cascading.

Training improving efficiency of the retail banking operations
The following courses were delivered to retail banking employees:

- Inception training dedicated to new hires, including the product offer of the Bank, IT systems and professional sales methods on the basic and advanced level.
- Additional courses regarding new products offered by the Bank and allowing authorization to perform specific banking transactions.
- *Ekstraklasa to MY* retail workshops: This is an annual meeting of all retail banking employees. Its objective in 2013 was to enhance cooperation in the retail banking area. During the workshop, the employees could demonstrate their creativity, team work skills and courage in facing new challenges. Further, it included summary of retail performance in 2013 and presentation of assumptions for 2014.

Other training initiatives
Individual growth: The support included employees who had won the top scores in the CREDO-based assessment process. They were awarded with a package of individual development-focused measures. Additionally, individual support in the form of training, conferences, seminars and post-graduate courses included IT, finance, new trends in retail banking, HR and foreign languages.

E-learning: The training is dedicated mostly to Bank's employees. They regard mostly security, banking secret, personal data protection and ethics. Training on quality standards, anti-money laundering and update of product offer addressed to sales employees are also performed on the e-learning platform.
The e-learning courses included the total of 3,770 people. [18]

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[18] *Training participant: a Bank’s employee participating in a class; one employee can participate in a few classes*

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Obligatory training as imposed by the law, e.g. the labor law, banking law, public finance, occupational health and safety, personal data protection and risk management.

Training for new hires *Witamy w Pocztowym (Welcome to Pocztowy)*. Its objective is to introduce new hires to the mission, vision, strategy, values, processes and principles adopted by the Bank. Further, the training includes IT systems and practical information useful in the first weeks spent with the Bank.

Training for employees of Poczta Polska S.A. and companies of the Bank's Capital Group

In 2013, using the support of internal trainers of Bank Pocztowy S.A., product and sales courses were delivered to Poczta Polska S.A. employees under the Agency Agreement including product and sales training arrangements.

In 2013, 6,166 employees were trained in Bank Pocztowy, 307 stationary courses delivered including 130 individual classes.

Distribution Company employees were trained on cash loans.

Operating Center employees participated in professional courses related to amendments to labor and tax law and business trip settlement. Further, managers were trained on anti-mobbing policy and team operation. A cycle of courses on competency development and testing called First Step Manager and Strategic Leadership Academy by ICAN was commenced.

10.3 Incentive system

In order to ensure effective achievement of assumed business objectives and improve the potential of the Organization, in 2013 the Bank used the Management by Objectives system introduced in 2011. Apart from cascading and participative defining of the objectives, the system is used to determined individual goals for managers. Focusing on key objectives allows additional mobilization and preparing of the Bank for the stretch goal achievement (including finance) even in rapidly changing business conditions. Implementation of MbO assumptions contributes to improved productivity and competencies of employees providing appropriate incentives and involving them in tasks aimed at strategic objectives.

In 2013 the Bank changed the principles of delivering the goal setting workshops. Having strategic objectives defined by the Management Board, the managers worked on goals in the “cost” and "revenue" groups. Effects of their work, in the form of detailed goals, were then presented to the Management Board and discussed. The concept allowed developing a detailed map of objectives, i.e. the structure of managerial goals, and precise analysis of operating objectives along with ratios and individuals in charge of each goal, as well as aligning the Bank's structure of objectives.

On the turn of June and July, a mid-year review of the MbO performance was carried out. It was similar to the goal setting process, i.e. in the cascade form. During the concluding conversations, the expected efficiency improvement was the key point, and update, including new initiatives and settlement, was added to Individual Goal Lists. MbO charts of managers were standardized. The maximum weight assumed for development goals was 30%, and at least half of them would have to have financial measures attached (cost or revenue-related with the performance settlement at the end of 2013), with financial (cost and revenue) objectives being assigned the weight of at least 70%. Further, it was decided that the settlement of goals above 100% would take place only in the case of over-performance of quantity-related goals, and in exceptional cases, for over-performance of quality-related goals.

As a result, the goals determined were focused on improved work efficiency and Bank's performance, subject to application of the goals with financial measures compliant with MbO standardization output being determined by the management level.

In mid-2013, bonus granting principles were introduced for Collection Unit employees in High Risk Loan Monitoring and Management Department. The principles will remain valid for one calendar year and are to motivate the employees to provide the Bank with the best financial result possible through maximized revenue on interest, commissions and derecognition of impairment losses (principal recovery).

10.4 Extra benefits

The Bank Pocztowy Capital Group provides its employees with extra benefits, to include:

- Employee pension schemes (EPS) being an important element securing the financial perspectives of employees related to the need to raise additional capital for the post-employment period. Such schemes are carried out by Bank Pocztowy S.A. and Centrum Operacyjne Sp. z o.o.
- Comprehensive health care programs in Bank Pocztowy S.A. and Centrum Operacyjne Sp. z o.o.: They provide a broad access to private health care for all employees. Under the contract, the health care may include family members on preferential terms.
- Sports and leisure programs: The Bank and Centrum Operacyjne Sp. z o.o. offer their employees to join a sports and leisure program provided by Benefit Systems Sp. z o.o. MultiSport card allows unlimited access to a network of sports and leisure facilities across the country. Under the contract, each employee may buy additional cards for kids and a partner.
- The MultiBenefit rebate program carried out in cooperation with Benefit Systems Sp. z o.o. Accessing an Internet platform, employees may purchase goods on preferential terms and use a number of leisure related offers, such as movies, theaters and weekend outings.

10.5 IT systems in HR processes

In 2013, Bank Pocztowy S.A. continued the project of rationalizing and sorting out the key HR processes commenced in 2012. Among others, it extended the application supporting HR management, called KARO. The system is to systematize and simplify management processes related to HR, training, improve the employee evaluation process, goal setting and assessment under MbO and allow efficient recruitment. In 2013, the following HR processes have been transferred to the IT system: HR application, employee statement of joining the private health care system, MultiSport, change of personal data and registering a family member with Social Insurance Institution (ZUS).

Apart from improving the data access and flow among employees, managers and HR Management Department in relation to personal and HR data management, the purpose of introducing IT systems to HR management is to replace hard copies of certain documents (e.g. holiday requests, personal evaluation forms or training requests) with their electronic versions.

11. DEVELOPMENT STRATEGY

11.1 Development strategy of the Bank Pocztowy Group and its implementation

3	1,000	14%
million of clients in 2015	Outlets dedicated to sales in 2015	consolidated ROE in 2015
31.12.2013: 1.42 million of clients	31.12.2013: 516 outlets	2013: 9.6% ROE

The Bank Pocztowy Group pursues its strategy based on strategic partnership with Poczta Polska, its strategic shareholder.

In 2013, the Group continued implementation of “Development Strategy of Bank Pocztowy S.A. in 2012-2015” adopted in November 2012.

According to the strategy, the key strategic objectives include:
- 3 million of retail clients and micro-enterprises by the end of 2015;
- consolidated net ROE of 14% in 2015;
- continuing the strategic partnerships with Poczta Polska;
- increasing the Bank’s equity.

Implementation of the strategy should allow achievement of the extremely ambitious goal to serve 3 million retail clients and micro-enterprises by the end of 2015 (at the end of 2013, the Bank served over 1.42 million such clients). The goal is to be achieved through:
- continued fast development of the sales network to reach 1,000 outlets, i.e. 360 Micro-branches and 640 Postal Finance Zones (at the end of 2013, there were 256 and 260 such outlets, respectively) dedicated to sales of bank and insurance products in the network of the Bank and Poczta Polska. The basic network will be supported by sales and service of clients in other outlets of the Bank and Poczta Polska, and the growing in importance modern channels, to include WWW, call center and mobile tools;
- fast winning of clients through offering of an attractive current account with free transfers as an option. The service is addressed in particular to individuals using traditional financial services offered by Poczta Polska;
- activation of Poczta Polska sales network;
- strong acquisition activities aimed at financially excluded individuals (i.e. those not using financial services);
- development measures initiated in the micro-enterprise sector.

Improved profitability and achieving net consolidated ROE of 14% in 2015 is another strategic objective of the Bank. This will be possible among others through an increase in revenue, focusing on most profitable products, optimization of employment and payroll structure, reducing low-efficiency business lines and tight control of operating expenses. The consolidated net ROE for 2013 amounted to 9.6%.

Continuing the strategic partnerships with Poczta Polska is another key element of the strategy. This is achieved among others by sales management synergies (including the Micro-branches and Postal Finance Zones), separation of the financial services function in Poczta Polska Group and development of new technologies.

Further development of the Bank requires increase of its equity. Accumulation of the generated net profit will be the key source of equity increase in the years 2012-2015. Further, the strategy assumes continued increase in equity in the form of additional capitalization (e.g. through IPO or shareholder contributions). The manner and deadline of possible additional capitalization will depend on shareholders' decisions and favorable market standing. The subordinated debt is used to maintain capital measures on the levels recommended by the regulator.

The Group pursues its strategy maintaining safe levels of equity ratios, i.e. solvency ratio above 12% (12.8% at the end of 2013) and Tier 1 ratio above 9% (9.5% at the end of 2013).

In the retail credit sector, the Bank aims at an increase in the sales of cash loans and maintaining a stable level of sales in mortgage loans. As far as corporate banking is concerned, the Bank plans focusing on development of an offer addressed to micro-enterprises and SME. It is also planning to maintain an attractive offer and development speed in the housing segment.

The Group plans to enhance its loan campaign maintaining a relevant and prudent risk management level. The non-performing loan (NPL) share ratio in the loan portfolio cannot exceed 8% (5.4% at the end of 2013).

The following initiatives are also crucial for the achievement of the strategic objectives:

- development and optimization of IT: plans include replacement of the central system, improvement and development of IT systems and tools with special focus on those supporting sales and client service;
- development of e-banking: improving the functionality and quality of the WWW channel and implementing of mobile solutions;
- implementing of Customer Relationship Management: developing and implementing of client relation building strategy and initiation of cross-selling activities;
- development of the micro-enterprise sector through implementation of new products, in particular loans with a new loan granting process, revitalizing of the distribution network and sorting out the client base.

Since additional capitalization is not available in the fast-changing external conditions (macro-economic situation, regulatory changes), the Bank continues developing of a new development strategy that would determine financial and business objectives for subsequent years, adjusted to the current conditions and optimized in terms of capital.

11.2 Performance vs. Group's plans in 2013

The Group had established very ambitious goals for 2013. They included winning about 0.5 million new clients, opening of approx. 400 current accounts, owning 300 operable Micro-branches and efficiency improvement. The continuing macro-economic difficulties and lack of capital, though, disallowed their achievement.

In 2013 Bank Pocztowy attracted nearly 300 thousand new clients. At the same time, following a modification of its product offer regarding personal accounts, aimed at activation of the existing clients (and the related improved efficiency of operation) some clients have left. As a result, at the end of 2013 the number of consumers and microenterprises using our services reached 1.42 million, i.e. by 130 thousand more than in 2012. At the end of 2013 the Group managed 840 thousand current accounts, i.e. 113 thousand more than in the previous year.

At the end of December 2013 Bank Pocztowy S.A. had 256 operating Micro-branches, i.e. 69 more than a year before. The smaller than planned number of new outlets (113) resulted from a decision to verify the available locations for efficiency and to postpone the opening of some of them to 2014.

Due to interest income being lower than planned (mostly due to very low market interest rates) and an increase in the risk costs, the Bank generated a net profit smaller than in the record-hitting 2012 year. This in turn translated into a deteriorated net ROE (from 11.4% in 2012 to 9.6% in 2013).

An increase in revenue and efficient cost optimization policy allowed the Bank an improvement in the cost/income ratio from 74.7% in 2012 to 71.3% in 2013.

11.3 Directions for development in 2014

In 2014 the Bank will focus on acquiring clients, development of the Micro-branch network and efficiency improvement.

The increase in the number of clients (by approx. 200,000 in 2014) will be achieved in correlation with the high speed of acquiring current accounts. The goals will be supported mostly with product and sales related initiatives, service quality and client relation management projects, implementation of an e-commerce offer integrated with Poczta Polska, further improvement of sales efficiency of Poczta Polska network, continued acquisition and educational measures addressed to "non-banked" and financially excluded individuals, as well as development of the micro-enterprise segment.

The Bank will continue strengthening its relations with clients. To this end, it will continue implementing of CRM strategy, increase the importance of cross-selling, improve functionality and quality of the WWW channel and implement mobile banking solutions.

In cooperation with Poczta Polska, the Bank will continue developing of the banking and postal sales network. It is planning to have 360 operating Micro-branches by the end of 2014. At the same time, it will continue developing of Postal Finance Zones. According to the current plans, by the end of 2014, there should be 600 zones in place. Further, its strategic partnership with Poczta Polska will be demonstrated by synergy in sales management and improved selling processes both in the Bank and Poczta Polska, as well as in integrated development and optimization of IT tools.

An intensified loan campaign in the retail sector in 2014 should reach a two-digit level, with retail deposits as its key funding source. The business development will take place with the safe level of capital and liquidity ratios.

Improved efficiency of operations is among the key tasks of the Bank for 2014. To this end, the Bank will focus on increase in revenue and tightly control operating expenses through incentivizing of sales of most profitable products and focusing on most efficient business lines. The growing share of loans in the asset structure should ensure an improved interest income level. However, despite a projected improvement in macro-economic conditions in 2014, a significant growth in interest income may be hard to generate, among others due to very low market interest rates.

The Bank will continue its attempts to raise additional capital (e.g. through IPO or shareholder contribution) but his will depend on a positive decision of shareholders and favorable market conditions.

The achieving of the goals adopted for 2014 will strongly depend on the external economic conditions, in particular the scale of the economic upturn in Poland.

The Bank continues developing of a new development strategy that would determine financial and business objectives for the subsequent years, adjusted to the current conditions and optimized in terms of capital access.

12. SOCIAL INITIATIVES

12.1 Bank's policy of supporting social and charity initiatives

A Unique Financial Education Program for action against financial exclusion

Social initiative

Bank Pocztowy S.A., the parent company in the Bank Pocztowy Capital Group, addresses its offer mainly to inhabitants of towns and villages, proposing simple and easily comprehensible products in outlets close to their place of residence. Therefore, its social initiatives are focused mainly on local communities.

The Bank supports social and charity initiatives addressed to its two key target groups:

- the elderly, including the Third Age University students;
- public benefit organizations, such as schools, religious societies, foundations, associations and uniformed services.

Bank Pocztowy S.A. has a Donation Committee. According to the Bank's By-laws, the ceiling value of donations for a given financial year is 1.5% of gross profit generated in the previous financial year.

In 2013, the total amount of financial support granted by Bank Pocztowy S.A. exceeded PLN 372 thousand. For comparison, in 2011 and 2012 the total donations exceeded PLN 264 thousand and PLN 266 thousand, respectively.

12.2 Supporting education, science and business

Various initiatives aimed at convincing non-client groups to use the services offered by the financial sector take a special place among educational projects pursued by the Bank. Along with anti-exclusion activities, the Bank provides financial support for initiatives aimed at promoting digitalization in towns and villages.

Along with Presspublica Sp. z o.o., the publisher of Rzeczpospolita Daily, in 2013 the Bank organized a competition called Small Business in Small Places. Its objective was to promote business among young people living in small towns and villages. In May 2013, during a final gala, three young businessmen from small villages, authors of the best business plans, were awarded. Further, in February 2013, the Bank supported organization of Fairs for Microenterprises organized by the student association of Warsaw School of Economics.

Further, the Bank supported pupils and students. The Bank:

- provided funding to a scholarship program called *Przekaz ku przyszłości* carried out by *Pocztowy Dar* Foundation. The program is addressed to talented and ambitious pupils of primary, secondary and high schools who want to develop their talents. The scholarship allows funding of additional courses, including language lessons, and purchasing of items necessary to develop educational projects (e.g. software, tooling, sports accessories etc.). Its beneficiaries include top students with additional scientific, cultural, sport or social achievements;
- was a founder of *Przekaz ku przyszłości* program, under which over 70 students of primary, secondary and high schools received scholarships to cover costs of their education;
- was involved in organization of a competition called *Road to Harvard*. Its objective is to present ambitious young people with opportunities offered by one of the world's best universities. Four winners of the competition could spend a week in that university.

In 2013 Bank Pocztowy S.A. organized a debate during *European Forum of New Ideas* devoted to the problem of lack of access to banks and costs generated by this on the national economy level. During a discussion panel entitled *How to include an excluded group in the economic blood circulation system* representatives of various institutions, business people and individuals interested in the topic presented possible anti-exclusion scenarios.

In June 2013, the Bank helped Uczelnia Łazarskiego to organize an international debate regarding funding of universities, and became a sponsor of a discussion panel entitled *Opportunities of increasing funding addressed to potentially excluded youth*.

In 2013, the Bank supported organizations dealing with assistance to the elderly, such as Kazimierz Wielki University in Bydgoszcz - for Third Age University, Regional branches of Polish Association of Pensioners and the Handicapped in Sieradz and in Szczecin, Association for the Elderly *Przystań na Parkowej* in Wadowice, Association *Hospicjum Św. Kamila* in Gorzów Wielkopolski, *Hospicjum Sanktuarium Maryjnego* in Licheń and Teachers' Labor Union with the registered office in Warsaw for the Pensioner Section in Bydgoszcz.

The Bank donated funds to organizations dealing with integration of the handicapped and disadvantaged people, to include Association *W Naszych Rękach* and Association *Różowa wstążeczka* in Bydgoszcz.

12.3 Promotion of sports

In 2013 Bank Pocztowy S.A. promoted sports and active lifestyle supporting Unibax Toruń and Stal Gorzów Wielkopolski motorcycle racing clubs.

It also supported smaller initiatives that promoted sports among kids and youth. Its involvement in the sponsoring of school volleyball contest in Piła or Jagiellonia Białystok youth football team are just examples of such projects.

Bank Pocztowy S.A. co-funded the organization of a trekking project called The Roof of Africa organized by Student Hiking Club. The Bank supported also Opole University Music Band.

13. MANAGEMENT AND CORPORATE GOVERNANCE

13.1 Corporate governance: principles and scope of application

6 General Shareholders' Meetings in 2013	6 Meetings of Supervisory Board in 2013	52 Meetings of Management Board in 2013

Draft corporate governance principles for institutions supervised by Polish Financial Supervision Authority

On 14 January 2014 Polish Financial Supervision Authority (PFSA) presented draft *Corporate Governance Principles for Institutions Supervised by PFSA* for the purpose of consultation. The draft presents a set of principles determining internal and external relations in institutions supervised by PFSA, including those with shareholders and clients, organization, internal supervision and key internal systems and functions, as well as statutory bodies and their cooperation. The principles should be adopted by relevant institutions by the end of 2014 at the latest.

Compliance with the principles will be verified on a regular basis under BION process and in the form of inspections.

The Bank intends to implement the principles as of their effective date. At present, relevant analyses are pending, including gap analysis.

Banking ethics code

On 11 June 2013, Bank Pocztowy S.A. adopted the *Banking Ethics Code* developed by the Polish Bank Association. The document, accepted by the General Meeting of Polish Bank Association on 18 April 2013, is a set of good practices regarding banking operations and determines standards of acting for banks themselves, their employees and banking agents.

According to the Code, banks, as public trust institutions, should comply with the law, recommendations of PFSA, resolutions of banking self-government, standards presented in the Code and good commercial practices. Banks, their employees and banking agents shall act in compliance with principles of professionalism, fairness, objectivity, due care and best knowledge. In the course of their operations banks should support socio-economic growth in Poland, improve the general wealth level through application of corporate social responsibility principles, introduce innovative solutions and promote social education. Social responsibility is the fundamental principle that should underlie relations of banks and their employees with their business environment. When implementing their business strategies, banks should consider not only economic conditions, but also rightful interests of their clients, employees, shareholders, business partners and local communities. The *Banking Ethics Code* includes standards presented in *Good Practices for the Financial Market*.

Good Practices of Companies Listed with WSE: information regarding Bank's intent

Since no securities of Bank Pocztowy S.A. are traded on the regulated market (its bonds are listed with Catalyst, in an alternative trading system), it is not obliged to comply with *Good Practices of Companies Listed with WSE*.

In 2013 the Bank applied the principles set in this document in the scope applicable to non-public companies. When preparing for IPO, on 24 April 2012 the Management Board of the Bank decided to apply Good Practices of Companies Listed with WSE. In the relevant resolution, it declared the will to comply with the relevant principles and recommendations contained therein as of the date of the prospectus approval, except from Principle IV.10 and Recommendations I.5, I.9, I.11 and I.12. In a justification to the resolution, the Management Board provided a detailed explanation why the above principles would not be followed in the Bank.

13.2 Control system in the process of preparing financial statements

Internal control in the Bank

Bank Pocztowy S.A. has an internal control department adjusted to its nature, risk profile and scale of its operations. The process of introducing internal control is supervised by the Supervisory Board, while the Management Board designs the system, introduces it and ensures its efficient operation.

The internal control system is a part of the management system. Its purpose is to support decision-making processes that improve efficiency of the Bank's operations, reliability of its financial reporting and compliance with the law and internal regulations.

The internal control includes risk controls, compliance controls and internal audit. Along with institutional control performed by the internal audit unit, functional control is performed on all organizational levels of the Bank by each employee. It includes quality and correctness control of activities performed and supervision roles of managers.

Detailed principles of internal control operation are determined by internal regulations of the Bank. The internal control system includes all processes performed in the Bank, including preparation of financial statements.

Internal control of financial statements preparation takes place:

- in the stage of developing internal regulations that describe processes performed in the course of Bank’s operations, for their compliance with accounting regulations, in particular with International Financial Reporting standards and the Accounting Act; internal accounting regulations are regularly verified for compliance risk;
- in the stage of ongoing operations, where entries in the Bank’s accounting records are verified in line with functional control principles;
- in organizational units independent from operating units, where the control includes entries in the accounting records in accordance with internal General Ledger management procedures;
- in the stage of generating input data for financial statements through algorithms that validate data in IT systems that support the reporting process;
- in organizational units that prepare the financial statements through verification of consistency and integrity of the presented data.

13.3 Entity authorized to audit financial statements

Supervisory Board appoints the entity authorized to audit or review financial statements upon a motion of the Management Board and recommendation of the Audit Committee.

On 21 May 2012 the Supervisory Board of the Bank, pursuant to Article 12.2.8 of the By-laws of Bank Pocztowy S.A. and to Article 3.1.25 of Operating Rules of the Supervisory Board of Bank Pocztowy S.A. appointed Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly Deloitte Audyt Sp. z o.o.) as the entity authorized to audit the financial statements of Bank Pocztowy S.A for the years 2012-2014.

Information of the fee of the entity authorized to audit financial statements (PLN'000)

	31.12.2013	31.12.2012
Statutory audit of the financial statements[1/]	358	356
Review of interim financial statements[1/]	239	204
Other services[2/]	706	210
TOTAL	**1,303**	**770**

1/ Fee payable for the services performed in 2012 and 2013 based on the agreement of 28 May 2012 on audit of the financial statements for the years 2012 – 2014 (Deloitte Audyt Sp. z o.o.) to include:
- separate and consolidated financial statements for the 12 months of 2013 and 12 months of 2012;
- condensed separate and consolidated financial statements for the 3, 6 and 9 months of 2013 and 6, 8 and 10 months of 2012;

2/ Fee for services performed in 2013 based on:
- agreement of 14 November 2013 regarding the audit of PSI business model (Deloitte Advisory Sp. z o.o.);
- agreement of 4 April 2013 regarding pre-implementation analysis of the central banking system and support in market analysis (Deloitte Business Consulting S.A.).
Fee for services performed in 2012 based on:
- agreement of 14 February 2012 on performance of advisory services involving delivery of market benchmarks regarding recovery rate levels, probability of non-performance and conversion parameter (Deloitte Advisory Sp. z o.o.);
- agreement of 10 October 2011 regarding pre-implementation analysis of the central banking system and support in market analysis (Deloitte Business Consulting S.A.).
In 2012 the other services category was extended and now it includes all services to Deloitte. In the Management Board's report for 2012 other services included only payments directly related to the audit of the financial statements.

13.4 Shareholding structure and share capital

At the end of 2013 the share capital of Bank Pocztowy S.A. amounted to PLN 97,290,400 and was divided into 9,729,040 with the face value of PLN 10 each. It included:

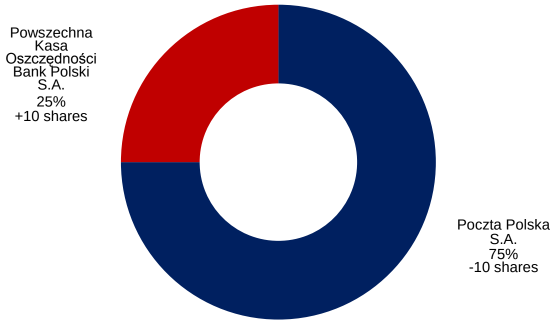
- 291,300 registered A series shares carrying no voting preference, but carrying preferential rights to asset distribution in case of liquidation of the Bank in proportion of 5 to 1 versus ordinary shares;
- 9,437,740 (nine million four hundred thirty seven thousand seven hundred forty) ordinary registered B series shares.

Poczta Polska S.A. is a strategic shareholder and a business partner of Bank Pocztowy S.A. holding 75% minus 10 shares in its share capital. PKO Bank Polski S.A. is a minority shareholder holding 25% plus 10 shares; it purchased the shares in 2004.

All A series shares are held by Poczta Polska. If voting on the distribution of assets of Bank Pocztowy, Poczta Polska will hold 77.76% of votes, while PKO Bank Polski 22.33% of votes.

Shareholding structure

	Number of shares	Interest in the share capital
Poczta Polska S.A.	**7,296,770**	**74.9999%**
Powszechna Kasa Oszczędności Bank Polski S.A.	**2,432,270**	**25.0001%**



During 2013 the share capital level and shareholding structure of the Bank did not change.

According to the current strategy, an IPO with Warsaw Stock Exchange may be a form of raising additional capital for Bank Pocztowy in future. Therefore, B series shares shall become bearer shares as determined in the Act on securities trading following their dematerialization.

The Bank's shareholders have carried out negotiations regarding its target ownership structure. As at the date of this report, the Bank did not have any information on binding decisions made with this regard.

13.5 Key information regarding Poczta Polska S.A., the strategic stakeholder of Bank Pocztowy Capital Group

Poczta Polska S.A., the largest operator on the Polish market, is the majority shareholder of Bank Pocztowy S.A. With 445-year tradition, its network includes about 7,800 outlets that provide services to businesses and individuals. Poczta Polska provides postal services (postage of letters and packages), bank and insurance services (through its capital group companies) and logistic services. Further, it has invested in digital services that allow client access to postal services without visiting post offices, available at Envelo.pl digital platform.

The Poczta Polska Capital Group includes Poczta Polska S.A. with Bank Pocztowy S.A., Poczta Polska Usługi Cyfrowe Sp. z o.o., Pocztowa Agencja Usług Finansowych S.A., Pocztowe Towarzystwo Ubezpieczeń Wzajemnych, Pocztowe Życie Sp. z o.o., Pocztylion – Arka PTE S.A., POST-TEL Sp. z o.o. and POSTDATA S.A.

Detailed information regarding Poczta Polska and its financial performance is available at http://www.poczta-polska.pl/o-firmie/.

Poczta Polska S.A. is fully owned by the State Treasury and is supervised by the Minister of Administration and Digitalization.

13.6 Cooperation with Poczta Polska S.A.

Bank Pocztowy acts in strategic partnership with Poczta Polska based on a program determining its key objectives and the ways to achieve them.

The strategic partnership assumes that the Bank will play a significant role in implementing the financial services development strategy in Poczta Polska Capital Group and develop a network of own outlets based on the infrastructure of Poczta Polska, dedicated to distribution of its products and services. According to the program, a new model of managing financial services and new and efficient sales model are introduced based on the network of outlets and employees of Poczta Polska.

Bank Pocztowy has a unique opportunity to use the network operated by Poczta Polska, consisting of approx. 7.8 thousand outlets (post offices and agencies) across the country. Since the own network of the Bank is located mostly within the infrastructure of Poczta Polska, its development is not capital intensive. In the case of greenfield outlets (without access to the Poczta Polska network), the necessary capital expenditure would be much higher than in the case of developing the network in the existing postal outlets. The development program provides the target number of 1,000 outlets dedicated to the sales of banking products and services (including 360 micro-branches and 640 Postal Finance Zones served by employees of Poczta Polska, dedicated solely to sales of financial and insurance products), which will be accompanied with a simplified structure of sales networks and a reduced number of management levels.

Access to Poczta Polska outlets located across the country, including small towns and villages, where no other banks operate to provide competition, the Bank has successfully acquires clients from its target segments. Strategic plans of financial services development include further improvement of sales efficiency in Postal Finance Zones with business indicators aimed at the levels generated in Micro-branches.
Agency agreement is the key type of agreement underlying the sales of Bank's products and services. According to such agreement, the network of Poczta Polska outlets sells among others savings accounts, business and savings accounts, term deposits, cash loans for individuals, loans for micro-enterprises, credit cards and the related services. Access to the postal sales network and infrastructure allows

the Bank providing corporate clients with variety of services, to include payment orders for counterparties (among others through Money Gram), payments to client and own accounts (the so-called wpłaty otwarte and wpłaty zamknięte) as well as cash processing services.

Further, Poczta Polska is the Bank's client provided with comprehensive financial services. Cash payments accepted in Poczta Polska network and transferred to bank accounts of beneficiaries, including Social Insurance Institution and Tax Offices (transferred funds) and cash payments to third parties indicated by Bank's clients performed in Poczta Polska are significant sources of commission revenue for the Bank.

The cooperation with Poczta Polska is regulated by a series of agreements regarding key cooperation areas. They have been concluded on market terms and almost all for an unlimited period.

13.7 Investor relations

Since December 2011 bonds of Bank Pocztowy S.A. have been traded in an alternative trading system, on Catalyst market.

The key objective of investor relations is to provide stakeholders with ongoing reliable information regarding Bank Pocztowy in a simple and comprehensible manner, in compliance with the law.

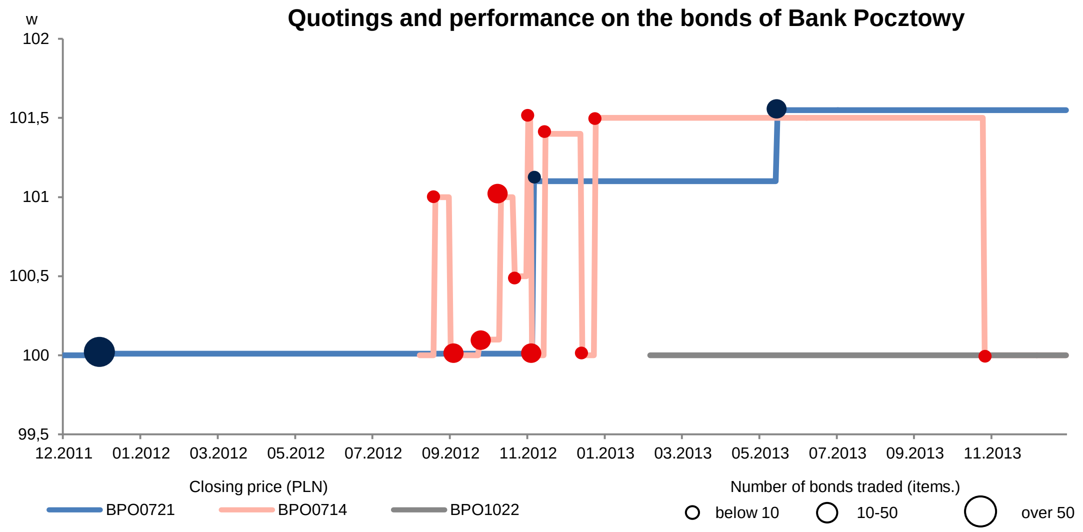
Since Bank's shares are not traded on a regulated market, in 2013 its activities regarding investor relations focused on:

- developing relations with holders of Bank's bonds or parties interested in purchasing them;
- fulfilling information obligations related to the fact that the Bank's bonds are quoted with the alternative trading system on Catalyst market maintained by Warsaw Stock Exchange (*ASO GPW*).

At the end of 2013, the following bonds of Bank Pocztowy S.A. were quoted with ASO GPW (Catalyst):

Series	Type	ASO GPW symbol	NDS symbol	Issue date	First quoting date	Redemption date	Face value (in PLN)	Number of bonds	Issue value (in PLN)	Interest
A	subordinated	BPO0721	PLBPCZT00015	08.07.11	02.12.11	08.07.21	10,000	4,734	47,340,000	WIBOR6M+375 bp*
B	ordinary	BPO0714	PLBPCZT00023	10.07.12	27.08.12	10.07.14	10,000	20,000	200,000,000	WIBOR6M+170 bp
C	subordinated	BPO1022	PLBPCZT00031	05.10.12	20.02.13	05.10.22	10,000	5,000	50,000,000	WIBOR6M+350 bp

** until 8.07.16; from 9.07.16 to 8.07.21 WIBOR6M+3.75+1.5 p.p.*



Bank Pocztowy S.A. has published annual and semi-annual reports in order to fulfil the information duties related to Catalyst and to provide good transparency of its operations.

Further, although not obliged by the law, the Bank publishes selected financial data. The publication provides an opportunity to organize press conferences at which representatives of the Management Board discuss performance for a given period.

In 2013, Bank Pocztowy S.A. had four successful bond issues:

- one of three-year ordinary bonds of B2 series totaling PLN 147.85 million, with the redemption date 13 December 2016;
- three series of short-term bonds (D1, D2 and D3) of PLN 60 million, PLN 30 million and PLN 50 million, respectively. D1 and D2 series bonds were redeemed on 2 December 2013 and 8 January 2014, respectively.

Following the issue of B2 series bonds, Bank's representatives participated in a series of meetings with corporate investors organized as a roadshow. The B2 series bonds were offered at ASO GPW on 13 March 2014.

Series	Type	ASO GPW symbol	NDS symbol	Issue date	First quoting date	Redemption date	Face value (in PLN)	Number of bonds	Issue value (in PLN)	Interest
B2	ordinary	BPO1216	PLBPCZT00049	13.12.13	13.03.14	13.12.16	10,000	14,785	147,850,000	WIBOR6M+140 bp

The following individual is in charge of ongoing investor relations:

Magdalena Ossowska-Krasoń
Communication Office Director
e-mail: M.Ossowska-Krason@pocztowy.pl
Phone: (22)328 76 06
Mobile: 601 057 496

All current and periodic reports submitted to Catalyst through EBI and other information regarding bonds issued by the Bank are published at the Bank Pocztowy website (www.pocztowy.pl), in the section Obligacje Banku Pocztowego.

13.8 By-laws amending principles

In order to amend By-laws of bank Pocztowy S.A., the General meeting must pass a resolution and the related amendment must be registered in the National Court Register. Prior to presenting the General Meeting with a draft resolution regarding such an amendment, the Management Board passes its own resolution regarding the proposed changes, accepting the draft General Meeting's resolution. Then, the draft is presented to the Supervisory Board for approval. According to the Code of Commercial Companies, a resolution regarding amendment of by-laws must be passed by the majority of ¾ of votes. Pursuant to Article 34.2 of the Banking Law of 29 August 1997, an amendment to bank's by-laws requires an approval of Polish Financial Supervision Authority, if it regards:

- the business name;
- registered office, core business and scope of operations;
- bodies and their competencies, with special focus on those of management board members appointed upon PFSA's approval and decision making principles, basic organizational structure of the bank, principles of making statements regarding property rights and obligations, the manner of issuing internal regulations and making decisions related to the management of liabilities and assets whose total value related to one entity exceeds 5% of equity;
- internal control system operation principles;
- equity and financial management principles;
- preferences or limitations of voting rights related to shares.

On 5 September 2013 amendments to the Bank's By-laws were registered in the National Court Register, previously accepted by the General Meeting on 12 July 2013 and on 1 August 2013. During the Extraordinary Meeting, the Bank's shareholders decided to amend the By-laws with respect to the manner of appointing Supervisory Board Members.

Further, on 29 January 2014, other amendments to the By-laws were registered in the National Court Register, previously accepted by the General Meeting on 9 December 2013 with regard to provision of payment services, acceptance of Supervisory Board Members selection and evaluation policy and acceptance of a similar policy regarding the Management Board Members.

The By-laws are available at the Bank's website under www.pocztowy.pl.

13.9 Activities of the corporate bodies of the Bank

General Shareholders Meeting

Operation of the General Meeting
General Meetings are held in the registered office of the Bank in Bydgoszcz or in Warsaw. Ordinary Shareholders' Meetings are convened by the Management Board of the Bank.

Extraordinary Shareholders' Meetings may be convened if necessary by the Management Board following its own decision or as requested by shareholders representing at least 1/20 of the share capital. The General Meeting is convened and prepared in accordance with the provisions of the Code of Commercial Companies and the Bank's By-laws.

The Ordinary Shareholders' Meeting convened by the Management Board in line with the routine procedure is held once a year, within six months of the end of each financial year.

The Supervisory Board may convene an Ordinary Shareholders' Meeting if the Management Board fails to do so within the statutory deadline, or an Extraordinary Shareholders' Meeting if necessary.

Further, in specified cases, shareholders are entitled to call or request the calling of the General Meeting. The shareholders may participate in the General Meeting and vote in person or through a plenipotentiary.

Issues to be raised at the General Meeting are presented to the Supervisory Board for consideration and approval.

Resolutions of the General Meeting, except from specific cases, are passed in open voting by an ordinary majority of votes, unless stated otherwise in the Code of Commercial Companies, or in the By-laws. Secret voting takes place when appointing and dismissing members of Bank's bodies or liquidators, deciding on their prosecution and in personnel related matters. Further, secret voting may take place if at least one shareholder present or represented at the General Meeting requests so.

The By-laws do not allow voting by correspondence or using electronic means of communication.

The Supervisory Board of the Bank is appointed and dismissed by the General Shareholders' Meeting in secret voting.

The manner of resolving when appointing members of the Supervisory Board is determined by the common law, including Code of Commercial Companies and the By-laws, whose provisions regarding the procedure were modified by resolutions of Extraordinary Shareholders' Meeting of 12 July 2013 and 1 August 2013.

The provisions describe the manner of appointing Supervisory Board members from among shareholders, including representation of individual shareholders in the body and principles of appointing independent members, their number and conditions they should fulfil.

Key powers of the General Meeting
General Shareholders' Meeting should in particular:
- analyze and approve Management Board's report on the activities of the Bank and financial statements for the previous financial year;
- decide on profit distribution / loss coverage;
- grant a vote of acceptance to members of the Bank's bodies.

Further, the powers of the General Meeting includes resolving on:
- appointment and dismissal of Supervisory Board members;
- amending the By-laws;

- increase or decrease of the share capital;
- approving the Supervisory Board operation rules;
- redemption of shares and conditions thereof;
- recognition and derecognition of special funds;
- issues of bonds;
- appointing of liquidators;
- other matters raised by the shareholders and Supervisory Board;
- determining principles of remuneration and employment conditions for the Management Board Chairman.

In 2013, Ordinary Shareholders' Meeting was held on 15 March. During the meeting, 100 percent of the share capital was represented and resolutions were passed regarding:

- approval of the Management Board's report on the activities of Bank Pocztowy S.A. in 2012;
- approval of the Management Board's report on the activities of Bank Pocztowy S.A. in 2012;
- approval of the Management Board's report on the activities of Bank Pocztowy S.A. Capital Group in 2012;
- approval of the consolidated financial statements of the Bank Pocztowy Capital Group for 2012;
- distribution of profit generated by Bank Pocztowy S.A. in 2012;
- a vote of acceptance for members of the Bank's Management Board for 2012;
- a vote of acceptance for members of the Bank's Supervisory Board for 2012.

During 2013, six Extraordinary Meetings were called, during which the following resolutions were passed:

- on the issue of short-term bonds of Bank Pocztowy S.A.;
- on amending the By-laws of Bank Pocztowy S.A.;
- on amending the Supervisory Board's operating rules;
- on approving the policy of selecting and evaluating the Supervisory Board's Members.

Supervisory Board

In accordance to the Code of Commercial Companies, the Management Board and Supervisory Board manage and supervise the Bank, respectively.

The Supervisory Board exercises general supervision of the Bank's operations.

Composition
The Supervisory Board consists of seven members appointed and dismissed by the General Meeting. The members are appointed for a joint office term of three years. The By-laws provide a detailed description of cases when the number of Supervisory Board Members drops below seven.

In each case it happens the Management Board is obliged to promptly, within 14 days at the latest, convene the General Meeting in order to organize a by-election.
The mandates of members of the Supervisory Board expire as of the date of the General Meeting approving the financial statements for the last full financial year during which the members have held their positions. If a new member is elected during the office term, his/her mandate expires along with the mandate of the other members. Further, the mandate expires in the case of death, resignation or dismissal.

The present 9th term of office of the Supervisory Board commenced in June 2011 and will end in 2014 once the financial statements of the Bank for 2013 have been approved.

The Chairman of the Supervisory Board is appointed by Poczta Polska S.A., a shareholder, while the Vice Chairman by PKO Bank Polski S.A., another shareholder, from among appointed members (also if the Supervisory Board is elected in separate groups). The Supervisory Board members may elect a Secretary among themselves.

The By-laws provisions describe the manner of appointing Supervisory Board members from among shareholders, including representation of individual shareholders in the body and principles of appointing independent members, their number and conditions they should fulfil.

Following amendments to the By-laws of Bank Pocztowy S.A. introduced by resolutions of Extraordinary Shareholders' Meeting of 12 July 2013 and of 1 August 2013, Janusz Wojtas resigned from the position of the Supervisory Board Chairman, remaining its Member.

As at 31 December 2013 the composition of the 9th term of office Supervisory Board was as follows:

- Jerzy Jóźkowiak – Chairman of the Board;
- Jakub Papierski – Vice-Chairman of the Supervisory Board;
- Piotr Michalski – Secretary of the Supervisory Board;
- Paweł Borys –Member of the Supervisory Board;
- Mariusz Czyżak – Member of the Supervisory Board;
- Bogusław Grabowski – Member of the Supervisory Board;
- Janusz Wojtas –Member of the Supervisory Board.

Competencies of the Supervisory Board members have been presented at the Bank's website at: http://www.pocztowy.pl/pdf/o_banku/Statut_Banku_Pocztowego.pdf.

Operation

The Supervisory Board operates in accordance with the Rules developed by it and approved by the General Meeting. Its meetings are called in the manner determined in the Rules, at least four times in each financial year.

The Supervisory Board may pass resolutions provided that at least half of its members are present at a meeting, including the Chairman or Vice Chairman, if all its members have been invited to the meeting. The members may participate in the passing of resolutions giving their votes in writing through other members of the Supervisory Board.

The Supervisory Board may pass resolutions among its meetings, in writing or using remote communication media (e-mail, fax etc.). On 15 November 2013, Extraordinary Shareholders' Meeting of Bank Pocztowy S.A. approved amendments to the Supervisory Board's Operating Rules regarding the detailed procedures of passing resolutions in writing and using remote communication media and participation of its members in voting through another member of the Supervisory Board or through remote communication media.

The passing of resolutions pursuant to the above procedures does not include election of the Secretary, appointing, suspending and dismissing of Management Board members.

Resolutions of the Supervisory Board are adopted with an absolute majority of votes cast. In case of a tie, the Chairman has the deciding vote if present at the meeting.

Supervisory Board's Meetings

The agenda and issues to be discussed during the Supervisory Board's meetings held in 2013 were determined by the Chairman of the Supervisory Board resulted from the ongoing operations of the Bank, and included issues raised by the Management Board and Supervisory Board Members.

Supervisory Board's decisions had the form of resolutions, approvals regarding Management Board's motions and information materials presented by the Bank.

In 2013, the Supervisory Board held six meetings supervising the ongoing operations of the Bank.

Audit Committee

The Audit Committee is a body within the Supervisory Board.

Its members are appointed by the Supervisory Board from among its members. Its operational rules are approved by the Supervisory Board.

The Audit Committee is in particular responsible for:

- monitoring of the financial reporting process;
- monitoring of effectiveness of the internal control mechanisms, internal audit and risk management processes;
- monitoring of financial audit;
- monitoring of the unbiased approach and independence of the certified auditor and the entity authorized to audit financial statements;
- recommending an entity authorized to audit financial statements to the Supervisory Board for the purpose of auditing or reviewing financial statements of the Bank.

According to the Audit Committee Operating Rules approved by the Supervisory Board on 19 May 2011, amended by the Resolution of the Supervisory Board of 16 October 2013, the Audit Committee consists of at least three people, including the Chairman, appointed by the Supervisory Board from among its members. At least one Committee member should be independent and have accounting/auditing qualifications. At present, Bogusław Grabowski, the Audit Committee Chairman, meets these requirements.

The Audit Committee meets at least once a quarter. Its meetings are called by the Chairman upon his own decision or following a motion of its member. Had the Chairman been unable to call a meeting for any reason, it may be called by another Committee member appointed by the Chairman. The Committee meetings may be called following a motion of another Supervisory Board Member, the Management Board, an internal or external auditor of the Bank, in particular if the Internal Audit Head escalates material disputable issues with the Management Board. The Committee may operate if at least half of its members are present. Its resolutions are adopted with an absolute majority of votes cast by the members present at the meeting. In the case of a tie, the person chairing the meeting holds the deciding vote.

If necessary, the Audit Committee, following an initiative of its Chairman or another member appointed by the Chairman, may pass resolutions among the meetings in writing or using remote communication media.

In 2013, no changes in the composition of the Audit Committee occurred.

As at 31 December 2013 the composition of the Audit Committee was as follows:

- Bogusław Grabowski, Audit Committee Chairman;
- Piotr Michalski, Audit Committee Member;
- Paweł Borys, Audit Committee Member.

The Audit Committee provides the shareholders with reports of its activities for the previous reporting year. The reports are attached to the set of documents prepared for the General Meeting for information purposes.

No other committees have been appointed by the Supervisory Board.

Management Board

Appointing and dismissing Management Board Members
According to the Bank's By-laws, the Management Board consists of 3 to 5 members appointed by the Supervisory Board. Composition of the Management Board: Chairman, Vice Chairmen, including First Vice Chairman, Members. The members are appointed for a joint three-year office term.

The mandates of members of the Management Board expire as of the date of the General Meeting approving the financial statements for the last full financial year during which the members have held their positions. Further, the mandate expires in the case of death, resignation or dismissal.

The mandate of a Management Board Member appointed during the term of office expires at the same time as the mandate of the remaining members.

According to the Code of Commercial Companies, the General Meeting can dismiss or suspend a Management Board member.

The Management Board Chairman, Vice Chairmen and other Members are appointed and dismissed by the Supervisory Board, which considers their qualification to hold these positions and acts in accordance with the Banking Law and guidelines regarding evaluation of qualifications of managing body members and holders of key positions issued pursuant to Article 16 of Regulation (EU) no 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority).

Two Management Board Members: the Chairman and Member in charge for risk management are appointed upon an approval of the Polish Financial Supervision Authority.

Composition
As at 31 December 2012 the composition of the 8th term of office Management Board was as follows:

- Tomasz Bogus – Chairman of the Management Board,
- Szymon Midera – Vice Chairman of the Management Board,
- Radosław Sałata – Member of the Management Board,
- Michał Sobiech – Member of the Management Board.

On 28 February 2013 the Supervisory Board elected the Management Board for the 9th term of office. The Supervisory Board’s resolutions appointing the Management Board Members became effective as of 15 March 2013 (the date of the Ordinary Shareholders' Meeting that approved the financial statements of the Bank for 2012 and granted the vote of approval to the Management Board for 2012).

Composition of the 9th term of office Management Board:

- Tomasz Bogus – Chairman of the Management Board,
- Szymon Midera – Vice Chairman of the Management Board,
- Radosław Sałata – Member of the Management Board,
- Michał Sobiech – Member of the Management Board.

Qualifications and professional experience of the Management Board Members

Tomasz Bogus (Chairman of the Board, supervising Strategic Management, Legal Support, Security and IT areas) has held the Chairman position since 7 October 2009.

He commenced his professional career in 1991 in Powszechny Bank Gospodarczy S.A. in Łódź as an inspector in the Legal Office and Management Board’s Secretariat. Then he held the position of a specialist in the Restructuring Department. On 1 August 1997, he was appointed a Deputy Director in Enterprise Banking Department of PBG S.A. From December 1998 to August 2001 he worked in Austria Creditanstalt Poland S.A. Bank as a Branch Director in Łódź.

From September 2001 to March 2006 he worked in BRE Bank S.A. - Multibank, first as Deputy Director of Commercial Management Department, where he was in charge of, among others, development of the network of POS, commercial representatives and remote distribution channels, and then as Director in Retail Banking Sales Department. Among others, he was in charge of managing sales in MultiBank, preparing and performing sales plans, managing business lines and distribution channels. From April 2006 to June 2008 he worked in BRE Bank S.A. as Bank Director in charge of management of corporate branches and was responsible for management of sales and servicing of large, medium and small enterprises and the network of corporate branches. He joined Bank Pocztowy in October 2008, when he was appointed a Management Board Member in charge of cash management and corporate banking.

By education, he is a lawyer. In 1991 he graduated from Law and Administration Faculty of the University of Łódź. In January 2000 he obtained a certificate of a legal counsel. In 2006 he completed the post-graduate BAI school in Madison, U.S., and in 2008, INSEAD in Fontainebleau, France. He is a graduate of Advanced Management Program in Harvard Business School.

Szymon Midera (Vice Chairman of the Board, in charge of Retail Banking, Development of Network and Logistics) has held the position of the Vice Chairman since 15 July 2008.

He commenced his professional career in November 1999 in the Provincial Office in Łódź as Advisor to the First Vice Governor of Łódź. From November 2001 to December 2002 he held the position of Advisor to Chairman of the Management Board in Charge of Communication in Bank Częstochowa S.A.

From November 2001 to March 2005 he worked in BRE Bank S.A. – mBank, as the Spokesman, Head of Press Office and then as the Head of Communication and Brand Management Department. In 2005-2007 in BRE Bank S.A. he held the position of Vice Director of Marketing and Investor Relations Department. From August 2007 to July 2008 he worked in BRE Bank S.A. - mBank as Director of Marketing and Business Development Office.

By education, he is an economist. In 1999 he graduated from Economics and Sociology Faculty of the University of Łódź, specializing in International Business and Political Relations. In 2008, also at Łódź University, but in the Management Faculty, he completed Executive MBA in PAM Center delivered by Towson University and Robert H. Smith School Business with an MBA certificate of Towson University. In November 2013, the completed *Advanced Management Programme* at INSEAD.

Radosław Sałata (Management Board Member supervising Clearing and Corporate Banking and Treasury Department) has held the position of the Board Member since 1 July 2012.

Prior to becoming the Management Board Member, he worked as an expert in AT Kearney, a strategic advisory firm, where he performed financial sector projects involving among others restructuring of the financial services retail sale network, preparation of banking product implementation for corporate clients or preparing feasibility study regarding market launch of a modern financial institution heavily relying on remote access channels. In 2007-2008, as a co-founder and Vice Chairman of the Management Board of Finamo S.A. he was in charge of developing an independent financial advisory firm for individuals and SME, operating across the country. In 2005-2007 he introduced Eurobank EFG in Poland under the business name of Polbank EFG, where as Director in charge of Partner Networks and Vice Chairman of the Management Board of Polbank Dystrybucja sp. z o.o. was responsible for establishing and managing of a network of franchise branches, mobile and broker sales.

Prior to joining the banking sector, he was in charge of tariff policy in Polkomtel S.A.

He graduated from Accounting and Finance Management (Management Faculty) and International Business and Political Relations (Economics and Sociology Faculty) of the University of Łódź.

Michał Sobiech (Management Board Member supervising Finance, Risk and Client Service) has held the Board Member position since 7 October 2009.

He commenced his professional career in 1998 in Banking Department of KPMG Polska Audyt. He remained with that firm until 2004, the latest position occupied being a Manager. In 2004-2009 he worked for Kredyt Bank S.A., among others as Director of Financial Reporting Department and Director of Risk Management Department.

In 2009, prior to being appointed the Management Board Member in the Bank, he worked in Bank Pocztowy S.A. as Finance Function Managing Director.

By education, he is an economist. In 1999 he graduated from Finance and Banking Faculty of the Warsaw School of Economics. In 2010 he completed *Advanced Management Program* at IESE Business School. He is a member of ACCA.

Competencies

The Management Board manages the Bank and represents it before third parties in the scope determined by the Code of Commercial Companies, the Bank's By-laws and Operating Rules of the Management Board.

When performing its tasks, the Board makes decisions in the forms of resolutions; in particular, the Board:

- determines the Bank's strategy;
- determines the pricing policy;
- determines the annual financial plan;
- determines the employment and remuneration policy;
- approves the Management Board's Operating Rules;
- approves the Organizational Rules of the Bank;
- appoints proxies;
- designs and ensures efficient operation of the management system;
- makes decisions regarding liabilities or assets whose total value related to a single entity exceeds 5 percent of equity or grants the related general or specific authorization regarding cash investments in domestic and foreign securities;
- determines the principles of prudent and stable management of the Bank to include:
  - risk management policy;
  - internal control principles;
  - capital management principles, including internal capital estimation;
  - variable salary component policy;
- determines the general level of the risk incurred by the Bank and appropriately adjusted internal limits that reduce the risk specific to individual operation areas;
- determines the Bank's compliance risk policy;
- approvers internal procedures of the Bank regarding estimation of internal capital, capital management and planning;
- approves the Bank's information policy.

Operation

The Management Board operates pursuant to the Management Board Operating Rules developed by it and approved by the Supervisory Board. Chairman of the Board manages its operation. Its meeting are called and chaired by the Chairman, and in his absence, the First Vice Chairman. In the absence of the latter, a Board Member appointed pursuant to the order determined in a resolution of the Management Board.

Resolutions of the Management Board are passed with an absolute majority of votes. In case of a tie, the Chairman has the deciding vote if present at the meeting. A resolution may be passed provided all the members of the Management Board have been properly informed about the planned meeting.

In 2013, the Management Board held 52 meetings.

When performing its statutory tasks regarding the Bank's operation, during the meetings the Board analyzed a variety of issues, in particular regularly focusing on:

- current performance of individual business functions compared to the financial plan and the consolidated performance of the Capital Group;
- reports on management of selected risks, including credit risk, operational risk, market, liquidity, commercial and capital adequacy risk.

Further, the Management Board monitored key strategic projects of the Bank that required its direct support.

Reports presented on a regular basis during the Management Board meetings included:

- compliance, to include key information on material events and changes that occurred in

the reporting period in the supervised areas, as well as for compliance of internal regulations and processes of the Bank with the law;
- performance of the Bank strategy and summary of the status of each project, including the strategic ones commenced by the Bank;
- regarding internal audits held in the Bank, as well as implementation of the resulting recommendations and regulatory requirements;
- activities of committees operating in the Bank, including ALCO, Credit Committee, Operational Risk and Donation Committee.

With regard to issues raised in relation to banking operations, the Management Board discussed and decided on approval of directional activities recommended by business areas, to include implementation of conceptual assumptions of product, deposit and capital policy.

Further, the Management Board analyzed issues subsequently raised during Supervisory Board and General Shareholders' Meetings and those related to amendments in the Bank's By-laws that necessitated implementation.

Internal regulations to be implemented or amended that necessitated adjustment of internal regulations to the expectations, recommended good practices and other recommendations issued by banking sector supervisors were another important topic discussed by the Board in the scope regarding various aspects of banking operations, e.g. loans, deposits, bancassurance and risk management. Further, the Board discussed changes to regulations arising directly from organizational changes in the Bank, those related to development or ongoing operations.
Bank Pocztowy S.A. has the following committees:

- Assets and Liabilities Committee (ALCO);
- Loan Committee (LC);
- Operational Risk Committee (ORC);
- IT Initiatives Prioritization Committee (ITIPC);
- Loan Appellation Committee (LAP);
- Strategic Prioritization Committee (SPC).

The committees operate based on internal regulations approved by the Management Board of the Bank. In principles, these regulations described tasks and competencies of a given committee.

The Management Board Members are included in the following committees: Loan Committee, Assets and Liabilities Committee, Operational Risk Committee.

Remuneration paid to members of the Management Board and Supervisory Board of the Group Companies

In 2013, the total remuneration (calculated as the sum of remuneration, bonuses, benefits in cash, in kind or in any other form) paid to the Management Board Members of the Group Companies amounted to PLN 2,650 thousand compared to PLN 3,018 thousand in the previous year.

Remuneration paid and due to members of the Management Board and Supervisory (PLN'000)

	2013	2012
Management Board	**2,650**	**3,018**
Short-term employee benefits (payroll, bonuses and payroll charges)	2,556	2,963
Termination benefits	94	55
Supervisory Board	**2,138**	**1,968**
Short-term employee benefits (payroll, bonuses and payroll charges)	2,138	1,968

Principles of granting the annual bonus to the Management Board Members

The Management Board Members of Bank Pocztowy S.A. may receive annual bonuses pursuant to the Act on remunerating managers of certain entities of 3 March 2000 and Ordinance of the Minister of Administration and Digitalization of 15 October 2013 regarding annual bonuses for managers of certain entities.

The above Ordinance determines detailed principles of granting the annual bonus to the individuals referred to in Article 2.1 to 2.4 of the Act on remunerating of managers of certain entities of 3 March 2000.

According to the executory regulations, in the case of Bank Pocztowy S.A.:

- the Supervisory Board applies for the bonus for the Chairman of the Management Board to the General Meeting;
- the annual bonus for the Vice Chairman and Members of the Management Board is granted by the competent body as determined in labor law regulations, i.e. by the Supervisory Board.

The executive regulations determine general principles of granting bonuses. The annual bonus may be granted to an entitled individual if the entity:

- has generated a financial profit or significantly reduced a net loss;
- has efficiently implemented its tasks and statutory objectives;
- has timely settled its liabilities under public law;
- has obtained approval of its financial statements for the financial year if these financial statements are subject to such approval, or has submitted correctly prepared financial statements for the financial year.

The annual bonus is payable to the entitled individuals only if they held the managerial position for the entire financial year and did not breach their obligations as employees during the period, whose employment or management contracts have not been terminated through their fault, who have not been dismissed from their positions for reasons justifying a contract termination without a notice through an employee's fault.

The application for the bonus should be submitted within three months of the date of approving the financial statements of the entity for the previous financial year or of submitting its correctly prepared financial statements for the previous financial year if they are not subject to an approval. [19]

The annual bonus may be granted within three months of the date of approving the entity's financial statements for the financial year, if subject to an approval, or of submitting the correctly prepared financial statements for the financial year. The granting of the annual bonus must be justified. The justification must include the proposed amount, reason for its granting and information on the effects of the payment on the financial standing of the entity. [20]

Securities issued by the Bank, held by the Management Board Members
As at the date of this report, the Management Board Members held no securities issued by the Bank.

[19] In accordance with the Ordinance of the Minister of Administation and Digitalization of 15 October 2013 regarding annual bonus for managers of certain business entities, the application for the 2012 annual bonus should be submitted within 14 days of the effective date of the Ordinance.
[20] In accordance with the Ordinance of the Minister of Administation and Digitalization of 15 October 2013 regarding annual bonus for managers of certain business entities, the entitled individuals may be granted with 2012 annual bonus within 14 days of the effective date of the Ordinance.

14. MANAGEMENT BOARD'S REPRESENTATIONS

14.1 True and fair character of the presented financial statements

The Management Board of Bank Pocztowy S.A. represents that according to its best knowledge:

- the annual consolidated financial statements and the comparative data have been prepared in accordance with the valid accounting principles and provide a true, fair and clear picture of the material and financial standing of the Bank Pocztowy Capital Group and its financial performance;
- the Management Board's report on the activities of the Bank Pocztowy Capital Group presents a true picture of development, achievements and the financial standing of the Group, including key risks and threats.

14.2 Selection of the entity authorized to audit financial statements

The Management Board of Bank Pocztowy S.A. represents that the entity authorized to audit financial statements, Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly Deloitte Audyt Sp. z o.o.) auditing the annual consolidated financial statements of the Bank Pocztowy Capital Group for 2013 has been selected in accordance with the valid legal regulations. Both the entity and certified auditors have met the conditions necessary to issue an independent and unbiased opinion in accordance with the valid regulations and professional standards.

These consolidated financial statements of the Bank Pocztowy S.A. Capital Group for 2013 include 89 numbered pages.

Signatures of Members of the Management Board of Bank Pocztowy S.A.

Tomasz Bogus
Chairman of the Management Board of Bank Pocztowy S.A.

Szymon Midera
Vice-Chairman of the Management Board of Bank Pocztowy S.A.

Radosław Sałata
Member of the Management Board of Bank Pocztowy S.A.

Michał Sobiech
Member of the Management Board of Bank Pocztowy S.A.

Bank Pocztowy

The Bank Pocztowy S.A. Capital Group

Consolidated financial statements for the year ended 31 December 2013

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Consolidated income statement

for the year ended 31 December 2013

	Note	period from 1 January 2013 to 31 December 2013	period from 1 January 2012 to 31 December 2012 (restated)
Continuing operations*)		**PLN '000**	**PLN '000**
Interest income	7	423 400	450 790
Interest expenses	7	(179 593)	(223 508)
Net interest income		**243 807**	**227 282**
Fee and commission income	8	73 006	68 041
Fee and commission expense	8	(31 378)	(24 977)
Net fee and commission income		**41 628**	**43 064**
Gain/loss on financial instruments measured at fair value through profit or loss and gain/loss on foreign exchange transactions	9	2 905	6 678
Gain/loss on available-for-sale securities	10	5 980	13 231
General and administrative expenses	11.12	(212 738)	(218 356)
Net impairment losses	13	(42 398)	(25 099)
Other operating revenue	14	8 739	7 601
Other operating expenses	15	(4 663)	(5 736)
Operating profit/loss		**43 260**	**48 665**
Gross profit		**43 260**	**48 665**
Income tax	16	(7 233)	(9 716)
Net profit		**36 027**	**38 949**

*) In the year ended 31 December 2013 and in the comparable period no operations were discontinued in the Capital Group.
**) The Capital Group does not calculate diluted earnings per share, because in the current period and in the preceding years there have been no capital categories resulting in share dilution.

Notes to the consolidated financial statements presented on pages from 11 to 141 constitute an integral part hereof.

Consolidated statement of other comprehensive income

for the year ended 31 December 2013

	Note	period from 1 January 2013 to 31 December 2013	period from 1 January 2012 to 31 December 2012 (restated)
		PLN '000	PLN '000
Net profit		**36 027**	**38 949**
Items which may be reclassified to the consolidated income statement in future			
Gain/loss from measurement of financial assets available for sale, including:	25, 36c	(5 759)	6 343
- deferred tax	16	1 351	(1 488)
Items which will not be reclassified to the consolidated income statement in future	-		
Actuarial gains and losses on measurement of defined benefit plans, including:	-	27	59
- deferred tax	16	(7)	(14)
Total other comprehensive income		**(5 732)**	**6 402**
Total income		**30 295**	**45 351**

Notes to the consolidated financial statements presented on pages from 11 to 141 constitute an integral part hereof.

Consolidated statement of financial position

as at 31 December 2013

	Note	Balance as at 31 December 2013 PLN '000	Balance as at 31 December 2012 (restated) PLN '000	Balance as at 1 January 2012 (restated) PLN '000
Assets				
Cash and balances in the Central Bank	20	327 242	934 743	74 043
Receivables from other banks	21	36 329	29 849	29 161
Financial assets held for trading	23	1 369	766	10 014
Loans and advances to customers	24	5 055 712	4 599 545	3 672 869
Investments in financial assets	25	1 842 036	1 453 987	1 324 712
- available for sale	25	1 455 018	1 061 225	921 192
- held to maturity	25	387 018	392 762	403 520
Property, plant and equipment	26	44 666	44 213	47 703
Intangible assets	27	30 215	27 339	24 801
Current income tax receivables	16	98	61	2 937
Net deferred tax assets	16	18 004	14 871	12 640
Other assets	28	27 074	15 279	11 645
Total assets		**7 382 745**	**7 120 653**	**5 210 525**

	Note	Balance as at 31 December 2013 PLN '000	Balance as at 31 December 2012 (restated) PLN '000	Balance as at 1 January 2012 (restated) PLN '000
Liabilities and equity				
Liabilities to the Central Bank	29	11	6	10
Liabilities to other banks	30	41 762	2 824	1 859
Liabilities arising from sold securities with a repurchase arrangement	22	49 610	0	0
Financial liabilities held for trading	23	17	17	307
Liabilities to customers	31	6 230 578	6 317 949	4 685 735
Provisions	32	3 419	3 995	4 827
Current income tax liabilities	16	3 138	7 826	0
Other liabilities	33	88 821	77 393	109 471
Liabilities arising from issue of debt securities	34	431 597	206 282	0
Subordinated liabilities	35	142 027	142 891	92 197
Total liabilities		**6 990 980**	**6 759 183**	**4 894 406**
Equity				
Share capital		97 290	97 290	97 290
Supplementary capital		34 068	33 761	33 301
Revaluation reserve		(1 351)	4 381	(2 021)
Other reserve capitals		242 207	195 070	163 944
Retained earnings		19 551	30 968	23 605
Total equity	36	**391 765**	**361 470**	**316 119**
Total liabilities and equity		**7 382 745**	**7 120 653**	**5 210 525**

Notes to the consolidated financial statements presented on pages from 11 to 141 constitute an integral part hereof.

Consolidated statement of cash flows

for the year ended 31 December 2013

	Note	period from 1 January 2013 to 31 December 2013	period from 1 January 2012 to 31 December 2012 (restated)
		PLN '000	**PLN '000**
Cash flows from operating activities			
Net profit		36 027	38 949
Total adjustments:		(824 396)	600 913
Amortization/depreciation		21 939	20 957
Accrued interest		(3 360)	7 053
Interest paid		23 034	7 562
Foreign exchange gain/(loss)		0	1
Gain/loss on investing activities		(13)	(83)
Change in the balance of receivables from other banks	40	(8 623)	109
Change in financial assets held for trading		(603)	9 248
Change in term loans		(456 167)	(926 677)
Change in measurement of financial derivatives		0	0
Change in investment securities available for sale	40	(400 903)	(132 201)
Change in investment securities held to maturity		5 744	10 758
Change in the balance of other assets	40	(11 577)	(3 378)
Change in liabilities to the Central Bank		5	(4)
Change in liabilities to other banks		38 938	965
Change in the balance of liabilities due to securities with repurchase agreement		49 610	0
Change in financial liabilities held for trading		0	(290)
Change in liabilities to customers		(87 371)	1 632 215
Change in provisions		(576)	(832)
Change in other liabilities	40	12 011	(31 531)
Income tax paid		(13 746)	(2 747)
Tax expense recognized through profit or loss		7 233	9 716
Other items		29	72
Net cash from operating activities		**(788 369)**	**639 862**
Cash flows from investing activities			
Receipts from investing activities		**58**	**149**
Sale of property, plant and equipment		58	149
Payments to investing activities		**25 527**	**20 330**
Acquisition of intangible assets		12 828	10 961
Acquisition of property, plant and equipment		12 699	9 369
Other payments for investing activities		0	0
Net cash from investing activities		**(25 469)**	**(20 181)**

Notes to the consolidated financial statements presented on pages from 11 to 141 constitute an integral part hereof.

Cash flows from financing activities			
Proceeds from financing activities		**227 850**	**250 000**
Proceeds from issue of subordinated bonds		0	50 000
Proceeds from subordinated liabilities contracted		0	0
Issue of debt securities		227 850	200 000
Payments to financing activities		**23 657**	**8 185**
Payment of lease liabilities		623	623
Repayment of interest on financial instruments issued and subordinated liabilities contracted		23 034	7 562
Net cash from financing activities		**204 193**	**241 815**
Net increase/(decrease) in cash and cash equivalents		(609 645)	861 496
including net exchange differences		(127)	260
Cash and cash equivalents at the beginning of the period		941 345	79 849
Cash and cash equivalents at the end of the period	40	**331 700**	**941 345**

Notes to the consolidated financial statements presented on pages from 11 to 141 constitute an integral part hereof.

Consolidated statement of changes in equity

for the year ended 31 December 2013

	Note	Share capital	Supplementary capital		Revaluation reserve	Other reserve capitals	Retained earnings		Total equity
			Statutory supplementary capital	Share premium			Undistributed profit/loss	Profit/loss for the period	
		PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
As at 1 January 2013		**97 290**	**25 161**	**8 600**	**4 185**	**195 070**	**(2 568)**	**45 386**	**373 124**
Adjustments related to changes in accounting principles		0	0	0	196	0	(5 413)	(6 437)	**(11 654)**
As at 1 January 2013 (restated)		**97 290**	**25 161**	**8 600**	**4 381**	**195 070**	**(7 981)**	**38 949**	**361 470**
Profit for the period		0	0	0	0	0	0	36 027	**36 027**
Total comprehensive income		0	0	0	(5 732)	0	0	0	**(5 732)**
Comprehensive income		**0**	**0**	**0**	**(5 732)**	**0**	**0**	**36 027**	**30 295**
Profit distribution allocated to other capitals		0	307	0	0	47 137	(8 495)	(38 949)	**0**
As at 31 December 2013	36	**97 290**	**25 468**	**8 600**	**(1 351)**	**242 207**	**(16 476)**	**36 027**	**391 765**

Notes to the consolidated financial statements presented on pages from 11 to 141 constitute an integral part hereof.

Consolidated statement of changes in equity

for the year ended 31 December 2012

	Note	Share capital	Supplementary capital		Revaluation reserve	Other reserve capitals	Retained earnings		Total equity
			Statutory supplementary capital	Share premium			Undistributed profit/loss	Profit/loss for the period	
		PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
As at 1 January 2012		**97 290**	**24 701**	**8 600**	**(2 158)**	**163 944**	**(537)**	**29 555**	**321 395**
Adjustments related to changes in accounting principles		0	0	0	137	0	(1 242)	(4 171)	**(5 276)**
As at 1 January 2012 (restated)		**97 290**	**24 701**	**8 600**	**(2 021)**	**163 944**	**(1 779)**	**25 384**	**316 119**
Profit for the period		0	0	0	0	0	0	38 949	**38 949**
Total comprehensive income		0	0	0	6 402	0	0	0	**6 402**
Comprehensive income		**0**	**0**	**0**	**6 402**	**0**	**0**	**38 949**	**45 351**
Profit distribution allocated to other capitals		0	460	0	0	31 126	(6 202)	(25 384)	**0**
As at 31 December 2012 (restated)	36	**97 290**	**25 161**	**8 600**	**4 381**	**195 070**	**(7 981)**	**38 949**	**361 470**

Notes to the consolidated financial statements presented on pages from 11 to 141 constitute an integral part hereof.

(in PLN' 000)

Notes to the consolidated financial statements

1. General information

Bank Pocztowy S.A. ("Bank'', "Parent") is the parent company in the Bank Pocztowy S.A. Capital Group ("Group"). The Bank was established pursuant to a decision of the President of the National Bank of Poland No. 18 dated 5 April 1990 on establishing Bank Pocztowy Spółka Akcyjna in Bydgoszcz.

On 16 May 1990 the Bank was entered to the Commercial Register, section B by the Business Division of the District Court in Bydgoszcz under No. RHB 1378. The Bank has been entered into the National Court Register under No. 0000010821.

The REGON statistical number assigned to the Bank is 002482470.

According to the Company's Charter, its duration is unlimited.

As at 31 December 2013 the Bank's shareholders were the following:

Entity's name	Number of shares	Number of votes	Nominal value per share	Interest in the share capital
Poczta Polska S.A.	7 296 770	7 296 770	10	74,9999%
Powszechna Kasa Oszczędności Bank Polski S.A.	2 432 270	2 432 270	10	25,0001%
	9 729 040	**9 729 040**		**100%**

No changes in the shareholding structure occurred since 31 December 2012.

The Bank's core business includes domestic and international banking activities and other activities related to banking in compliance with the applicable law.

In line with the Polish Classification of Business Activity (PKD 2007), the core business of the Bank has been classified to other monetary intermediation (6419Z).

The Bank operates based on the provisions of the binding law as well as the Bank's Charter.

2. Composition of the Group

As at 31 December 2013 the Capital Group included Bank Pocztowy S.A. and the following subsidiaries consolidated using the full method:

Entity	Registered office	Core business	Percentage interest in the Bank's share capital	
			Balance as at 31 December 2013	Balance as at 31 December 2012
Centrum Operacyjne Sp. z o.o.	Bydgoszcz	Financial services support activities	100%	100%
Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o.	Warsaw	Financial intermediation	100%	100%

As at 31 December 2013 and 31 December 2012, the share in the total number of votes held by the Bank in subsidiaries was equal to the interest in their capitals. Moreover, the Bank has the majority of members of the Supervisory Board in each company and therefore it has the right to appoint all Management Board Members in each company.

Centrum Operacyjne Spółka z ograniczoną odpowiedzialnością was established by the Bank on 20 May 2013. It commenced its operations on 28 May 2010.

The Company was established in order to provide process administration services for products and services of entities from the financial sector. In line with the Polish Classification of Business Activity (PKD 2007) the core business of the entity was classified as Other auxiliary activity related to financial services, excluding insurance and pension funds (6619Z).

In 2013 Centrum Operacyjne Sp. z o.o. provided services to the Bank, Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o. and Pocztowe Towarzystwo Ubezpieczeń Wzajemnych.

As at 31 December 2013 and 31 December 2012 the share capital of the Company amounted to PLN 3 284 thousand (including a contribution of PLN 784 thousand).

Spółka Dystrybucyjna Banku Pocztowego Spółka z ograniczoną odpowiedzialnością was established by the Bank on 20 May 2010. It commenced its operations on 28 May 2010.

The Company was established in order to organize operations and operate within mobile sales structures for financial products and services, in particular those related to the cooperation with the Bank. In line with the Polish Classification of Business Activity (PKD 2007) the core business of Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o. is other forms of loan granting (6492Z).

In 2013 and 2012 Spółka Dystrybucyjna Banku Pocztowego Spółka z ograniczoną odpowiedzialnością cooperated mainly with the Bank, distributing its products.

As at 31 December 2013 and 31 December 2012 the share capital of the Company amounted to PLN 2 680 thousand (including a contribution of PLN 680 thousand).

3. Identification and approval of the consolidated financial statements

The Bank prepared the consolidated financial statements for the year ended 31 December 2013. They were approved by the Management Board of the Bank on 19 March 2014.

4. Composition of the Management Board of the Parent

As at 31 December 2013 the composition of the Management Board was the following:

- Tomasz Bogus – Chairman of the Management Board,
- Szymon Midera – Deputy Chairman of the Management Board,
- Radosław Sałata – Member of the Management Board,
- Michał Sobiech – Member of the Management Board.

The Management Board of the Bank did not change from 31 December 2012 to 31 December 2013.

5. Accounting principles

5 a Basis for preparation of the consolidated financial statements and the statement of compliance of the consolidated financial statements with applicable accounting principles

These consolidated financial statements have been prepared in accordance with the historical cost principle, except for available-for-sale financial assets and held-for-trading financial assets, including derivatives, which are measured at fair value.

These consolidated financial statements have been presented in Polish zlotys (PLN) and all figures are in PLN thousand, unless stated otherwise.

Statement of compliance with IFRS

The consolidated financial statements have been prepared in line with the International Financial Reporting Standards, International Accounting Standards and their interpretations ("IFRS"), as endorsed by the European Union ("EU"), whereas with regard to issues not regulated by the aforementioned standards and interpretations, the provisions of the Accounting Act of 29 September 1994 (Journal of Laws of 2013, item 330, as amended) ("Accounting Act") and secondary legislation were applied. The consolidated financial statements are compliant with all standards and related interpretations endorsed by the EU, except for standards and interpretations specified below, which are awaiting approval of the EU, or have been approved by the EU, but they have entered into force after the balance sheet date or will enter into force in future. In the period covered by the financial statements, the Group decided not to use the opportunity of earlier application of new standards and interpretations, which were endorsed by the EU, but which have entered into force after the balance sheet date or will enter into force in future.

Standards and interpretations published and endorsed by the EU, applied by the Group for the first time as of 1 January 2013

The following standards, amendments to the existing standards and interpretations published by the International Accounting Standards Board (IASB) and endorsed by the EU are effective as of 2013:

- <u>IFRS 13 "Fair Value Measurement", endorsed by the EU on 11 December 2012 (applicable to annual periods beginning on or after 1 January 2013);</u>

  IFRS 13 sets out a unified framework for measuring fair value and disclosures about fair value measurements. The scope of IFRS 13 is considerably wide. IFRS 13 sets out a framework for measuring fair value of financial instruments and non-financial items, for which fair value measurement or disclosure is required or possible under other IFRSs. It does not apply to share-based payments discussed in IFRS 2, lease transactions regulated by IAS 17 and measurements similar to but not tantamount to fair value measurements (e.g. net selling price for measurement of inventory or value in use for impairment purposes).

  The Group analyzed the requirements of the new standard. Application of the standard has not affected the consolidated financial statements.

- <u>Revised IFRS 1 "First–time Adoption of IFRS" – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, endorsed by the EU on 11 December 2012 (applicable to annual periods beginning on or after 1 January 2013).</u>

  The first modification regards replacement of fixed dates determined by the Standard (1 January 2004) with the words "the date of transition to IFRS". As a result, first-time adopters will not have to restate non-disclosure of transactions performed prior to the transition date.
  The other amendment involves introducing of guidance on how to return to IFRS-based financial statements after a period of being unable to comply for severe hyperinflation of the functional currency.

  The Group analyzed changes introduced by the standard. The change did not have material impact on the consolidated financial statements.

- <u>Revised IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Government Loans endorsed by the EU on 4 March 2013 (applicable to annual periods beginning on or after 1 January 2013).</u>

  The amendment determines the manner of accounting for government loans with interest below the market level by first-time adopters as at the transition date. Also, it introduces an exception for first-time adopters regarding the retrospective application in the same manner as for entities currently preparing their financial statements in accordance with IFRS at the moment of introducing the requirement in 2008 to IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance".

The Group analyzed changes introduced by the standard. The change did not have material impact on the consolidated financial statements

- Revised IFRS 7 "Financial Instruments: Disclosures" – Offsetting Financial Assets and Financial Liabilities, endorsed by the EU on 13 December 2012 (applicable to annual periods beginning on or after 1 January 2013).

  The changes require disclosures regarding all recognized financial instruments offset in accordance with IAS 42.32. Further, they require disclosures regarding recognized financial instruments that give the holder the right to offset, based on a relevant agreement or similar arrangements, even if they were not offset in compliance with IAS 32.

  The Group analyzed changes introduced by the standard. The change did not have material impact on the consolidated financial statements

- Revised IAS 1 "Presentation of Financial Statements" – Presentation of Items of Other Comprehensive Income, endorsed by the EU on 5 June 2012 (applicable to annual periods beginning on or after 1 July 2012).

  Revised IAS 1 introduced new terminology to statements of comprehensive income and income statements. The term "statement of comprehensive income" has been changed to "statement of profit or loss and other comprehensive income" and "statement of financial position" to "statement of profit or loss". The new terminology is not mandatory, though. Revised IAS 1 also allows presentation of profit or loss and other comprehensive income in a single statement or two subsequent statements. In accordance with other standards, items of other comprehensive income are divided into two classes: (a) items which will not be reclassified to profit or loss in subsequent reporting periods and (b) items which may be reclassified to profit or loss in subsequent periods if certain conditions are met.
  Income taxes related to other comprehensive income items are allocated in line with the same principles, still the changes do not exclude the possibility to present other comprehensive income items before and after tax. The changes were applied prospectively, therefore the presentation of other comprehensive income items has been modified in order to reflect the changes.

  Application of amendments to IAS 1 does not result in changes other than presentation changes mentioned above, it does not affect the income statement, other comprehensive income or the total comprehensive income.

- Revised IAS 12 "Income Taxes" – Deferred Tax: Recovery of Underlying Assets, endorsed by the EU on 11 December 2012 (applicable to annual periods beginning on or after 1 January 2013).

  IAS 12 requires preparers to measure deferred tax assets depending on whether an entity plans to recover the asset value through its use or sale. For assets measured in line with IAS 40 "Investment Property", the evaluation whether the asset will be used or sold may be difficult and subjective. The changes solve the problem, introducing an assumption that the value of an asset is usually recovered upon its sale.

  The Group analyzed changes introduced by the standard. The change did not have material impact on the consolidated financial statements.

- Revised IAS 19 "Employee Benefits" – improvements to the accounting for post-employment benefits, endorsed by the EU on 5 June 2012 (applicable to annual periods beginning on or after 1 January 2013).

  IAS 19 (2011) changes the recognition of defined benefit plans and termination benefits. The key change concerns accounting for changes in defined benefit liabilities and assets. The amendments require that changes in defined benefit liabilities and the fair value of plan assets be recognized when occurred. Consequently, the change eliminates the "corridor approach" deemed admissible by the previous version of IAS 19 and introduces earlier recognition of post-employment benefits. Actuarial gains and losses are recognized immediately in other comprehensive income in order to account for net retirement costs in the consolidated statement of financial position in order to recognize the entire deficit or surplus of the plan. Moreover, interest expense and expected return on plan assets discussed in the previous version of IAS 19, have been replaced with "net interest" on the net defined benefit liability or asset, determined using the discount rate in IAS 19 (2011). The changes affected values recognized the income statement and other comprehensive income of prior periods Moreover, IAS 19 (2011) introduces certain changes in presentation of defined service costs and introduces wider disclosure requirements.

  Appropriate transitional provisions apply to first-time adoption of IAS 19 (2011). The Group applies appropriate transitional provisions and it restates the comparable data retrospectively. The impact of changes in the accounting principles (policy) resulting from the amended IAS 19 on the comparable data has been presented in Note 5 b.

- Amendments to various standards "Amendments to IFRS (cycle 2009-2011)" - resulting from the annual quality improvement of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording, endorsed by the EU on 27 March 2013 (to be applied to annual periods beginning on or after 1 January 2013).

The Group analyzed changes introduced to the standards. The changes did not have material impact on the consolidated financial statements

Standards and interpretations published and approved by the EU, but not yet effective

Preparing these consolidated financial statements the Capital Group did not apply the following standards, amendments to standards and interpretations that had been published by the IASB and approved for use in the EU, but which had not yet come into force:

- IFRS 10 "Consolidated Financial Statements", endorsed by the EU on 11 December 2012 (applicable to annual periods beginning on or after 1 January 2014);

  IFRS 10 replaces the consolidation guidance included in IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities" introducing a single control-based consolidation model for all entities, regardless of the investment nature (i.e. whether an entity is controlled through investor's voting rights or through other contractual arrangements commonly used in special purpose entities). According to IFRS 10, an investor controls an investee if and only if the investor has all the following: 1) power over the investee; 2) exposure, or rights, to variable returns from its involvement with the investee (see paragraphs 15 and 16); and 3) the ability to use its power over the investee to affect the amount of the investor's returns.

  The Group analyzed the requirements of the new standard. Application of the standard will not considerably affect the consolidated financial statements.

- IFRS 11 "Joint Arrangements", endorsed by the EU on 11 December 2012 (applicable to annual periods beginning on or after 1 January 2014).

  IFRS 11 introduces new accounting regulations regarding joint arrangements, replacing IAS 31 "Interests in Joint Ventures". The option to use proportional consolidation method for jointly controlled entities has been eliminated. Further, IFRS 11 eliminates jointly controlled assets maintaining the classification into joint operations and joint ventures. Joint operations are joint arrangements under which the parties jointly control the rights to entity's assets and liabilities. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

  The Group analyzed the requirements of the new standard. Application of the standard will not considerably affect the consolidated financial statements.

- IFRS 12 "Disclosure of Interests in Other Entities", endorsed by the EU on 11 December 2012 (applicable to annual periods beginning on or after 1 January 2014).

  It will require enhanced disclosures regarding both consolidated and not consolidated investees. The purpose of IFRS 12 is to provide users of financial statements with information allowing their assessment of the control basis, restrictions on consolidated assets, equity and liabilities, exposure to risk arising from involvement in structured entities not included in consolidation and involvement of NCI in operations of the consolidated entities.

  The Group analyzed the requirements of the new standard. Application of the standard will not considerably affect the consolidated financial statements.

- IAS 27 (2011) "Separate Financial Statements", endorsed by the EU on 11 December 2012 (applicable to annual periods beginning on or after 1 January 2014).

  Requirements regarding separate financial statements have not changed and are included in the amended IAS 27. Other parts of the standard have been replaced by IFRS 10.

  The Group analyzed changes introduced by the standard. The change will not have material impact on the consolidated financial statements.

- IAS 28 (2011) "Investments in Associates and Joint Ventures", endorsed by the EU on 11 December 2012 (applicable to annual periods beginning on or after 1 January 2014).

  The amendments result from publication of IFRS 10, IFRS 11 and IFRS 12.

  The Group analyzed changes introduced by the standard. The change will not have material impact on the consolidated financial statements

- Revised IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities" – Transition Guidance, endorsed by the EU on 4 April 2013 (applicable to annual periods beginning on or after 1 January 2014).

The purpose of the amendments is to provide additional guidance regarding transitional provisions in IFRS 10, IFRS 11 and IFRS 12 in a manner "limiting the restatement of comparative data to the directly preceding reporting period". Amendments to IFRS 11 and IFRS 12 are also to eliminate the requirement to present comparative data for periods earlier than the directly preceding one.

The Group analyzed changes introduced to the standards. The change will not have material impact on the consolidated financial statements

- Revised IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Separate Financial Statements" – investment vehicles, endorsed by the EU on 20 November 2013 (applicable to annual periods beginning on or after 1 January 2014).

  The amendments relieve investment vehicles from the consolidation requirement included in IFRS 10 and require them to recognize their subsidiaries in fair value through profit or loss instead. Further, the amendments clarify disclosure requirements for investment entities.

  The Group analyzed changes introduced to the standards. The change will not have material impact on the consolidated financial statements

- Revised IAS 32 "Financial Instruments: Presentation" – Offsetting Financial Assets and Financial Liabilities, endorsed by the EU on 13 December 2012 (applicable to annual periods beginning on or after 1 January 2014).

  The changes clarify the offsetting principles focusing on four key areas: (a) explaining the meaning of "having a legally enforceable right to set off"; (b) simultaneous offset and settlement; (c) offsetting hedges; (d) unit of account used for offsetting purposes.

  The Group analyzed changes introduced by the standard. The change will not have material impact on the consolidated financial statements.

- Revised IAS 36 "Impairment of Assets" – disclosure of recoverable value of financial assets endorsed by the EU on 19 December 2013 (applicable to annual periods beginning on or after 1 January 2014).

  Small changes to IAS 36 regard disclosures of recoverable value of assets with recognized impairment losses and when the recoverable amount is calculated as fair value less costs of disposal. When preparing IFRS 13 "Fair Value Measurement" IASB decided to amend IAS 36 so as to introduce the requirement to disclose recoverable value of assets for which impairment loss has been recognized. The current amendments clarify the initial intention of IASB to limit the disclosures to the recoverable value of assets for which an impairment loss has been recognized and if the recoverable value is based on fair value less costs of disposal.

  The Group analyzed changes introduced by the standard. The change will not have material impact on the consolidated financial statements

- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – novation of derivatives and continued hedge accounting, approved by the EU on 19 December 2013 (applicable to annual periods starting on or after 1 January 2014).

  Changes allow continuing application of hedge accounting for novation of a derivative (designated as a hedging instrument) when the derivative is novated to a central counterparty and certain conditions are met.

  The Group analyzed changes introduced by the standard. The change will not have material impact on the consolidated financial statements.

Standards and interpretations issued by IASB, but not yet approved by the EU

IFRS in the form approved by the EU do not differ significantly from the regulations adopted by the IASB, except for the following standards, amendments to the standards and interpretations, which as at 31 December 2013 had not yet been adopted for use:

- Revised IFRS 9 "Financial Instruments" and later amendments (the effective date has not been determined yet).

  On 28 October 2010 IASB issued an amended IFRS 9 introducing new requirements regarding settlement of financial liabilities and transferring requirements related to derecognition of financial assets and liabilities from IAS 39. On 19 November 2013 IASB issued another series of changes concerning hedge accounting. The Standard defines a single approach to determine whether financial statements are measured at amortized cost or at fair value, thus replacing a number of principles included in IAS 39. The IFRS 9 approach is based on assessment of the asset management approach adopted by a reporting entity (i.e. of its business model) and evaluation of the nature of contractual cash flows related to financial assets. Further, the new standard requires application of a single impairment evaluation method, replacing a number of methods formerly included in IAS 39. The new requirements regarding settlement of financial liabilities regard the volatility of the financial profit/loss arising from issuer's decision to measure its debt in fair value. IASB has decided to maintain the current measurement at amortized cost for most liabilities, changing only regulations regarding own credit risk. Under the new requirements, an entity that has decided to measure its liabilities at fair value must present changes in fair value arising from changes in own credit risk in other comprehensive income, not in profit or loss. Amendments from November 2013 shall result in material changes in hedge accounting and allow recognizing own credit risk without the necessity to change other financial instrument accounting principles and eliminate the effective date of IFRS 9 (formerly determined for 1 January 2015).

The Group analyzed the requirements of the new standard. Application of the standard to classification and measurement of financial instruments will affect presentation of these instruments in the consolidated financial statements. The actual impact of the application of IFRS 9 may be estimated after publishing the final, complete version of the standard.

- Amendments to IAS 19 "Employee Benefits" – defined benefit plans: employee premiums (applicable to annual periods beginning on or after 1 July 2014);

  The changes regard the scope of applying the standard to employee or third party premiums contributed to defined benefit plans. The purpose of the changes is to simplify the method of accounting for premiums irrespective of the years in service (e.g. calculated as a fixed percentage of remuneration).

  The Group analyzed changes introduced by the standard. The change will not have material impact on the consolidated financial statements

- Amendments to various standards "Amendments to IFRS (cycle 2010-2012)" - resulting from the annual quality improvement of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (to be applied to annual periods starting on or after 1 July 2014).

  The introduced changes have refined the required accounting treatment in cases where previously free choice was allowed. The essential ones include new or amended requirements regarding: (i) defining the "vesting condition", (ii) settlement of the contingent consideration in business combinations; (iii) aggregation of operating segments and reconciliation of the total assets of reporting segments to the entity's assets; (iv) measurement of short-term receivables and liabilities; (v) proportional restatement of accumulated depreciation in the remeasurement model and (vi) defining key management members.

  The Group analyzed changes introduced to the standards. The changes will not have material impact on the consolidated financial statements

- Amendments to various standards "Amendments to IFRS (cycle 2011-2013)" - resulting from the annual quality improvement of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (to be applied to annual periods starting on or after 1 July 2014).

  The introduced changes have refined the required accounting treatment in cases where previously free choice was allowed. The essential ones include new or amended requirements regarding: (i) importance of the applicable IFRS for IFRS 1; (ii) the scope of exemptions regarding joint ventures; (iii) the scope of IFRS 13.52 (portfolio exemption) and (vi) clarification of the relationships between IFRS 3 and IAS 40 with regard to classification of property as investment or used for internal purposes.

  The Group analyzed changes introduced to the standards. The changes will not have material impact on the consolidated financial statements

- IFRIC 21 "Levies" (applicable to annual periods beginning on or after 1 January 2014).

  The interpretation explains that operations subject to levies determined in relevant legal regulations is an event obligating to pay a levy.

  The Group analyzed the requirements of the new interpretation. Application of the interpretation will not considerably affect the consolidated financial statements.

Scope and period of the consolidated financial statements

The consolidated financial statements of the Group cover the period from 1 January 2013 to 31 December 2013 and include comparable data:

- for items of the consolidated statement of financial position as at 31 December 2012 and as at 1 January 2012,

- for items of the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the period from 1 January 2012 to 31 December 2012.

Going concern

The consolidated financial statements of the Group have been prepared on the assumption the Capital Group entities will continue as a going concern for at least 12 months after the end of the reporting period, i.e. 31 December 2013.

According to the Management Board of the Bank, as at the date of approval of these consolidated financial statements for publication no facts and circumstances indicated a risk to the Group entities' ability to continue as a going concern over a 12-month period after the end of the reporting period due to intended or forced discontinuation or material limitation of their activities.

Discontinued operations

In the year ended 31 December 2013 and in comparable periods no operations were discontinued in the Capital Group.

Consolidation principles

The consolidated financial statements cover the financial statements of the Bank and financial statements of its subsidiaries for the period from 1 January 2013 to 31 December 2013.

The financial statements of subsidiaries, following adjustments to ensure compliance with IFRS, are prepared for the same reporting period as the financial statements of the parent, using the same accounting principles, based on the same accounting principles for similar transactions and business events. Adjustments are applied in order to prevent any discrepancies between the adopted accounting principles.

All material balances and transactions between the Group companies, including revenue and expense, unrealized gains and gains and losses on intra-Group transactions, have been eliminated in whole. Unrealized losses are eliminated, unless they are indications of impairment.

The subsidiaries are consolidated using the full method in the period from the date when the parent assumed control to the date when the control is no longer exercised. A parent controls an entity when it holds, directly or indirectly through its subsidiaries, more than a half of the voting rights in the entity, unless it can be evidenced that such interest is not tantamount to exercising control. Control is also exercised when the parent can control the financial and operational policy of the entity.

5 b Changes in comparative data

(i) The change in the method of recognizing revenue due to sale of bancassurance products

Acquisition of a majority of insurance products related to credit facilities offered by the Group is voluntary, hence in previous reporting periods the Group treated such insurance products and credit products independently and the revenue due to sale of bancassurance products were accounted for on a one-off basis as commission income. If an insurance product collateralized a given credit facility, it was treated as facility-related item and the Group recognized a portion of the revenue due to sale of bancassurance products, estimated as the fair value of the agency services on a one-off basis as commission income and the remaining portion was accounted for as a an element of the effective interest rate of the facility under interest income.

With relation to the letter of the Polish Financial Supervision Authority of March 2013 addressed to the entire banking sector and concerning the method of recognizing revenue due to sale of bancassurance products, the Bank changed the method of recognizing the revenue in question in the accounting records for 2013. The change concerned bancassurance services, which were assessed as unrelated to credit facilities, and consisted in:

- deferring a revenue portion corresponding to the fee for time spent by the Bank's staff on post-sales support for insurance services (in accordance with the stage of completion principle);
- recognizing provisions for potential reimbursement of the remuneration by the Bank due to early termination of insurance policies;
- adequate recognition of cost of selling the insurance, in line with the matching principle.

Changes resulting from the implemented methodology were recognized in the accounting records as at 30 June 2013 and covered the period from January to June 2013. As the changes made did not significantly affect the Bank's equity, the Bank did not adjust the opening balance for 2013.

In December 2013, similarly to other banks, the Bank received a letter of the Polish Financial Supervision Authority with detailed guidelines concerning the accounting treatment of the revenue due to sale of bancassurance products. The letter recommended more stringent criteria than those applied by the Group to assessing direct relation of an insurance product and a credit facility and implemented a fair value model to distribution of the agency fee for the sale of insurance. The Group applied changes to the accounting treatment of revenue due to sale of bancassurance products to sales carried out in 2013 and in previous years. Retrospective changes in the accounting principles (policy) resulted in restating the financial data in the approved financial statements for prior years, i.e. the opening balance as at 1 January 2012 and, consequently, as at 1 January 2013 and the financial performance for 2012.

Following the changes in the accounting principles (policy) the Group recognizes the revenue and expense due to sale of bancassurance products related to credit facilities in the following manner:

- cash loans with insurance policy – from 6% to 11% of the revenue due to sale of bancassurance products related to cash loans is recognized on a one-off basis as commission income, while the remaining portion of the income is accounted for as interest income using the effective interest method during the credit financing period;
- mortgage loans with insurance policy – from 0% to 15% of the revenue due to sale of bancassurance products related to mortgage loans is recognized on a one-off basis as commission income, while the remaining portion of the income is accounted for as interest income using the effective interest method during the credit financing period.

The costs of sale of bancassurance products are accounted for proportionally to the method of recognizing the revenue due to sale of bancassurance products related to the facility.

(ii) Change in the method of recognizing actuarial gains and losses on measurement of post-employment defined benefit plans

The change results from the revised IAS 19, introducing the principle of recognizing actuarial gains and losses from measurement of defined post-employment benefits related to changes in actuarial assumptions in other comprehensive income instead of profit or loss, as it was the case so far. In 2013 the Group introduced a change in accounting principles (policy) related to presentation of actuarial gains and losses with relation to the measurement of provisions for retirement and pension benefits. Retrospective changes in the accounting principles (policy) resulted in restating the financial data in the approved consolidated financial statements for prior years, i.e. the opening balance as at 1 January 2012 and, consequently, as at 1 January 2013 and the consolidated financial performance for 2012. The adjustment did not affect the total equity as at 1 January 2012, 31 December 2012 and 31 December 2013.

The impact of the aforementioned changes in accounting principles (policy) on individual items of the consolidated income statement, consolidated statement of other comprehensive income and consolidated statement of financial position in previous years has been presented in tables below.

Impact on consolidated income statement

	period from 1 January 2012 to 31 December 2012			period from 1 January 2012 to 31 December 2012
	before restatement	**Adjustments related to changes in accounting principles**		**restated data**
	PLN '000	**PLN '000**		**PLN '000**
Interest income	445 919	4 871	1)	450 790
Interest expenses	(223 508)	0		(223 508)
Net interest income	**222 411**	**4 871**		**227 282**
Fee and commission income	81 258	(13 217)	2)	68 041
Fee and commission expense	(24 977)	0		(24 977)
Net fee and commission income	**56 281**	**(13 217)**		**43 064**
Gain/loss on financial instruments measured at fair value through profit or loss and gain/loss on foreign exchange transactions	6 678	0		6 678
Realized gain/loss on available-for-sale securities	13 231	0		13 231
General and administrative expenses	(218 283)	(73)	3)	(218 356)
Net impairment losses	(25 571)	472	4)	(25 099)
Other operating revenue	7 601	0		7 601
Other operating expenses	(5 736)	0		(5 736)
Operating profit/loss	**56 612**	**(7 947)**		**48 665**
Gross profit	**56 612**	**(7 947)**		**48 665**
Income tax	(11 226)	1 510	5)	(9 716)
Net profit	**45 386**	**(6 437)**		**38 949**

Impact on consolidated other comprehensive income	period from 1 January 2012 to 31 December 2012			period from 1 January 2012 to 31 December 2012
	before restatement	**Adjustments related to changes in accounting principles**		**restated data**
	PLN '000	**PLN '000**		**PLN '000**
Net profit	**45 386**	**(6 437)**		**38 949**
Items which may be reclassified to the consolidated income statement in future periods				
Gain/loss from measurement of financial assets available for sale, including:	6 343	0		6 343
- deferred tax	*(1 488)*	0		*(1 488)*
Items which will not be reclassified to the consolidated income statement in future				
Actuarial gains and losses on measurement of defined benefit plans, including:	0	59	3)	59
- deferred tax	*0*	*(14)*	5)	*(14)*
Total other comprehensive income	**6 343**	**59**		**6 402**
Total comprehensive income	**51 729**	**(6 378)**		**45 351**

Impact on the consolidated statement of financial position	Balance as at 31 December 2012 before restatement	Adjustments related to changes in accounting principles		Balance as at 31 December 2012 restated data
	PLN '000	PLN '000		PLN '000
Assets				
Cash and balances in the Central Bank	934 743	0		934 743
Receivables from other banks	29 849	0		29 849
Financial assets held for trading	766	0		766
Loans and advances to customers	4 613 933	(14 388)	6)	4 599 545
Investments in financial assets	1 453 987	0		1 453 987
- available for sale	1 061 225	0		1 061 225
- held to maturity	392 762	0		392 762
Property, plant and equipment	44 213	0		44 213
Intangible assets	27 339	0		27 339
Current income tax receivables	61	0		61
Net deferred tax assets	12 137	2 734	7)	14 871
Other assets	15 279	0		15 279
Total assets	**7 132 307**	**(11 654)**		**7 120 653**
Liabilities and equity				
Liabilities to the Central Bank	6	0		6
Lliabilities to other banks	2 824	0		2 824
Financial liabilities held for trading	17	0		17
Liabilities to customers	6 317 949	0		6 317 949
Provisions	3 995	0		3 995
Current income tax liabilities	7 826	0		7 826
Other liabilities	77 393	0		77 393
Liabilities arising from issue of debt securities	206 282	0		206 282
Subordinated liabilities	142 891	0		142 891
Total liabilities	**6 759 183**	**0**		**6 759 183**
Equity				
Share capital	97 290	0		97 290
Supplementary capital	33 761	0		33 761
Revaluation reserve	4 185	196	8)	4 381
Other reserve capitals	195 070	0		195 070
Retained earnings	42 818	(11 850)	9)	30 968
Total equity	**373 124**	**(11 654)**		**361 470**
Total liabilities and equity	**7 132 307**	**(11 654)**		**7 120 653**

Impact on the consolidated statement of financial position	Balance as at 1 January 2012			Balance as at 1 January 2012
	before restatement	Adjustments related to changes in accounting principles		restated data
	PLN '000	PLN '000		PLN '000
Assets				
Cash and balances in the Central Bank	74 043	0		74 043
Receivables from other banks	29 161	0		29 161
Financial assets held for trading	10 014	0		10 014
Loans and advances to customers	3 679 382	(6 513)	6)	3 672 869
Investments in financial assets	1 324 712	0		1 324 712
- available for sale	921 192	0		921 192
- held to maturity	403 520	0		403 520
Property, plant and equipment	47 703	0		47 703
Intangible assets	24 801	0		24 801
Current income tax receivables	2 937	0		2 937
Net deferred tax assets	11 403	1 237	7)	12 640
Other assets	11 645	0		11 645
Total assets	**5 215 801**	**(5 276)**		**5 210 525**

Liabilities and equity				
Liabilities to the Central Bank	10	0		10
Lliabilities to other banks	1 859	0		1 859
Financial liabilities held for trading	307	0		307
Liabilities to customers	4 685 735	0		4 685 735
Provisions	4 827	0		4 827
Other liabilities	109 471	0		109 471
Subordinated liabilities	92 197	0		92 197
Total liabilities	**4 894 406**	**0**		**4 894 406**
Equity				
Share capital	97 290	0		97 290
Supplementary capital	33 301	0		33 301
Revaluation reserve	(2 158)	137	8)	(2 021)
Other reserve capitals	163 944	0		163 944
Retained earnings	29 018	(5 413)	9)	23 605
Total equity	**321 395**	**(5 276)**		**316 119**
Total liabilities and equity	**5 215 801**	**(5 276)**		**5 210 525**

Impact on the consolidated income statement for the financial year

		period from 1 January 2013 to 31 December 2013 PLN '000
Increase in interest income	1)	9 364
Decrease in fee and commission income	2)	(23 408)
Decrease in fee and commission expense	11)	3 453
Increase in general and administrative expenses	3)	(34)
Increase in net impairment losses	4)	598
Decrease in tax charges	5)	1 905
Decrease in consolidated profit for the financial year		**(8 122)**
Decrease in consolidated profit for the financial year distributable to:		
Shareholders of the parent		(8 122)

Impact on consolidated other comprehensive income for the financial year

		period from 1 January 2013 to 31 December 2013 PLN '000
Increase due to measurement of defined benefit plans	3)	34
Increase in income tax related to other comprehensive income	5)	(7)
Increase in other comprehensive income for the financial year		**27**
Decrease in consolidated other comprehensive income for the financial year		**(8 095)**
Decrease in consolidated total income for the financial year distributable to:		
Shareholders of the parent		(8 095)

Impact on consolidated net assets and equity as at 31 December 2013		Adjustments related to changes in accounting principles PLN '000
Increase in revaluation reserve	8)	223
Decrease in retained earnings	9)	(19 971)
Total impact on equity		**(19 748)**
Decrease in originated loans and advances to customers	6)	(31 217)
Increase in net deferred income tax assets	7)	4 634
Decrease in other assets	11)	(219)
Decrease in other liabilities	10)	7 054
Total impact on consolidated net assets		**(19 748)**

Adjustments resulting from changes in the accounting policy:

1) Adjustment of interest income due to change in the recognition principles applied to revenue and related expenses of the Group due to the sale of insurance products, as a result of accounting for a portion of revenue using the effective interest method;
2) Adjustment of fee and commission income due to the change in the recognition principles applied to the Bank's revenue due to the sale of bancassurance products, as a result of accounting for a portion of revenue using the effective interest method;

3) Adjustment of general and administrative expense related to reclassification of actuarial gains (losses) arising from measurement of defined benefit plans to other comprehensive income;
4) Adjustment of net impairment loss due to impairment of originated loans and advances to customers, resulting from a change in the recognition principles applied to revenue of the Group due to the sale of bancassurance products, as a result of deferring recognition of a portion of revenue and accounting for this amount as an integral element of the effective interest rate of loans and advances;
5) Recognition of income tax due to the adjustments in question, related to changes in accounting for revenue of the Group due to sale of bancassurance products and changes in the method of recognizing actuarial gains (losses) due to measurement of defined benefit plans;
6) Adjustment of originated loans and advances to customers related to changes in the recognition principles applied to revenue of the Group due to the sale of bancassurance products, resulting from deferring recognition of a portion of revenue accounted for using the effective interest method;
7) Recognition of deferred tax asset related to a portion of the Group's revenue due to the sale of bancassurance products, which is deferred in time;
8) Adjustment of revaluation reserve related to the change in the method of recognizing actuarial gains and losses on measurement of defined benefit plans;
9) Adjustment of prior years' undistributed profit related to changes in accounting for revenue of the Group due to sale of bancassurance products and changes in the method of recognizing actuarial gains (losses) due to measurement of defined benefit plans and related to retrospective impact of the changes on financial profit or loss of prior periods.
10) Adjustment of other liabilities due to the change in recognition of the provision for risk of potential returns of the Group's fee for the sale of bancassurance products.
11) Adjustment due to the change in recognition of the cost due to the sale of bancassurance products.

Impact of the changes in the accounting principles (policy) on earnings per share

The impact of the changes in accounting principles on the basic and diluted earnings per share has been presented below:

	Increase (decrease) in profit attributable to shareholders		Increase (decrease) in basic earnings per share	
	period from 1 January 2013 to 31 December 2013	period from 1 January 2012 to 31 December 2012 (restated)	period from 1 January 2013 to 31 December 2013	period from 1 January 2012 to 31 December 2012 (restated)
	PLN '000	PLN '000	PLN '000	PLN '000
Changes in accounting principles concerning:				
accounting for revenue due to sale of insurance products	(19 748)	(6 378)	(2,03)	(0,66)
actuarial gains/losses arising from measurement of defined benefit plans	(27)	(59)	0	(0,01)
	(19 775)	**(6 437)**	**(2,03)**	**(0,67)**

5 c Professional judgment

The following issues of the accounting principles (policy) were largely influenced by the accounting estimates and the professional judgment of the management:

Impairment of financial assets

The Group assesses whether there is any objective indication of impairment of a financial asset or a group of financial assets. Indications of impairment are events or groups of events that took place after the initial recognition of an asset or a group of assets and could have adverse effect on the expected future cash flows of the financial asset or group of financial assets. Impairment loss is estimated at the moment of recognition of indications of impairment.

More information on impairment of financial assets has been presented in Notes 5 f (7), 13, 21 and 24.

Deferred tax asset

The Group recognizes the deferred tax asset based on the assumption that it will generate tax profit sufficient to apply the asset. Deterioration of future tax performance could make the assumption groundless.

Details on deferred tax assets have been presented in Note 16.

Classification of leases

The Group classifies leases to operating and finance leases based on the attribution of risks and benefits from the object of lease to the lessor or the lessee. The assessment is based on the economic substance of each transaction. Lease agreements have been presented in detail in Notes 38 and 39.

5 d Estimation uncertainty

Presented below are the main assumptions concerning the future and other key uncertainties as at the end of the reporting period posing the risk of material adjustment of the carrying amount of assets and liabilities in the next financial year.

Estimates and assumptions adopted by the Group are reviewed on a current basis. Estimate adjustments are recognized in the period when they have been changed if the adjustments pertain to that period only. If the adjustments affect both the current and future periods, they are recognized both in the period when introduced and in future periods.

Fair value of financial instruments

Financial assets and liabilities carried at fair value in the balance sheet with no identifiable active market are measured using generally applied measurement models based to the maximum extent possible on variables observable in market environment and professional judgment. Relevant measurement methods and input data are verified on a regular basis.

The manner of determining the fair value of each financial instrument and their carrying amounts has been presented in Note 37.

	Balance as at 31 December 2013		Balance as at 31 December 2012 (restated)	
Effect of market interest rate on changes in fair value of financial instruments recognized in the statement of financial position at fair value for:	-1 b.p.	+1 b.p.	-1 b.p.	+1 b.p.
	PLN'000	**PLN'000**	**PLN'000**	**PLN'000**
Investment financial assets	(91)	91	(60)	60
Financial assets and liabilities held for trading	(7)	7	(7)	7

Impairment of financial assets

At each balance sheet date, the Group assesses whether there is any objective indication of impairment of a financial asset or a group of financial assets. Indications of impairment are events or groups of events that took place after the initial recognition of an asset or a group of assets and could have adverse effect on the expected future cash flows of the financial asset or group of financial assets. Impairment loss is estimated at the moment of recognition of indications of impairment.

Change in the current value of estimated cash flows for loans and credit facilities analyzed on an individual basis	Balance as at 31 December 2013 +10 % scenario	Balance as at 31 December 2013 -10 % scenario	Balance as at 31 December 2012 (restated) +10 % scenario	Balance as at 31 December 2012 (restated) -10 % scenario
	PLN'000	**PLN'000**	**PLN'000**	**PLN'000**
Estimated change in allowances	(3 080)	4 408	(3 075)	3 642

Fair value of collateral provided for exposures granted

Fair value of collateral provided for exposures granted is determined using measurement techniques and real estate market analysis. The list of collateral accepted by the Group with the fair value specification has been presented in Note 47 hereof.

The Group has adopted the following key principles of measurement for most frequent collateral types:

No.	Collateral type	General measurement principles
1	Mortgage on real estate	Measurement of real estate performed by a certified appraiser for collateral-related purposes; or Document confirming the purchase of a real estate, or preliminary sale agreement in case of funding housing for individuals.
2	Ownership transfer, registered pledge, pledge on non-current movable assets	Measurement of movable assets performed by a certified appraiser for collateral-related purposes; or Insurance policy if the movables concerned are commonly traded commodities; Purchase cost if movables concerned are new, purchased on the market and liquid.
3	Ownership transfer, registered pledge, pledge on current movable assets	Purchase price after verification against exchange / market / commision sales prices; or Insirance policy after verification against exchange / market / commision sales prices; or Documented exchange / market / commision sale price of an asset.
4	Endorsements and avals	The endorser's income level must be close to that of the applicant; or If the endorser does not meet the above requirement, the amount adopted to determine the collateral value is the value of a loan the endorser could be granted by the Bank with its current financial standing; or If the endorser is an entity, collateral is accepted only if the total amount of endorsement granted to a single debtor does not exceed 15% of the endorser's net assets reduced by capital contributions due but unpaid to joint stock companies and cooperatives.
5	Transfer of contractual receivables	Net value of goods and services without VAT, including individual contract terms, i.e. payment deadlines, complaint handling, performance bond.

Useful life of property, plant and equipment and intangible assets

Useful life of property, plant and equipment and intangible assets is estimated taking into consideration the following factors:

- the so-far observed average useful lives, reflecting physical wear and tear, intensity of usage, etc.;
- technological obsolescence;
- period of control over the asset, legal and other limitations on period in use;
- co-relation between the useful life of the asset in question and those of other assets;
- other factors that may affect useful life of a given type of non-current assets.

The expected useful life of a given asset is equal to its period in use defined under terms of the appropriate contract. If, however, the expected useful life of an asset is shorter than its contractual period in use, then the asset is depreciated/amortized over its useful life.

Every year the Group verifies the adopted useful lives based on the current estimates.

Detailed information on useful lives of property, plant and equipment and intangible assets has been presented in Note 5 f (9-10).

Had useful lives of two largest property, plant and equipment items subject to depreciation changed by +/- five years, the financial performance of the Group would be affected as follows:

	Balance as at 31 December 2013		**Balance as at 31 December 2012 (restated)**	
Estimated change in provision	+ 5 years scenario	- 5 years scenario	+ 5 years scenario	- 5 years scenario
	PLN'000	**PLN'000**	**PLN'000**	**PLN'000**
Buildings and structures	(85)	135	(71)	106
Plant and equipment	(2 514)	16 686	(2 208)	14 295

Provision for retirement and disability benefits (determined benefit plans)

The provision for retirement and disability benefits is calculated by an independent actuary in line with an actuarial method as the present value of future liabilities of the Group towards employees based on the number of employees and remuneration as at the date of revaluation. Provisions are calculated in accordance with a number of assumptions concerning discount rates, projected remuneration increases, employee turnover, mortality rate and other factors. All assumptions are reviewed at each reporting date. When determining the discount rate the Group takes into consideration the rate of return from “secure” financial instruments not entailing credit risk with maturity dates generally corresponding to maturity dates of calculated liabilities.

Carrying amounts of provisions recognized have been presented in Note 32.

The effects of changes in the discount rate on the provision for pension and disability benefits are presented in the following table.

	Balance as at 31 December 2013		**Balance as at 31 December 2012 (restated)**	
Estimated change in provision	+0.5 p.p. scenario	-0.5 p.p. scenario	+0.5 p.p. scenario	-0.5 p.p. scenario
	PLN'000	**PLN'000**	**PLN'000**	**PLN'000**
Provision for pension and disability benefits	(52)	59	(49)	64

5 e Changes in estimates

Since 1 April 2013 the Group has changed estimated useful lives of amortized assets (property, plant and equipment and intangible assets). This has resulted in a decrease in amortization/depreciation costs by PLN 717 thousand in 2013.

In the reporting period and in comparable periods, apart from the above, the Group has not changed estimates that could significantly affect the current or future periods.

5 f Key accounting principles

(1) Initial recognition of financial assets and liabilities

The Group recognizes a financial asset or liability in the consolidated statement of financial position only when it becomes a party to the contractual provisions of the instrument.

The Group classifies a financial asset at initial recognition.

Financial assets and liabilities included in IAS 39 are classified as follows:

- financial assets measured at fair value through profit or loss (the class contains financial assets and liabilities held for trading, including derivatives, as well as financial assets and liabilities designated as measured at fair value through profit or loss upon initial recognition);
- financial assets available for sale;
- loans and receivables;
- financial assets held to maturity;
- other financial liabilities.

Upon initial recognition, a financial asset or liability is measured at fair value, and in the case of a financial asset or liability which does not qualify for measurement at fair value through profit or loss, the fair value increased by the transaction costs which may be directly attributed to the acquisition or issue of the financial asset or liability.

A regular way purchase or sale of the financial asset is recognized off the statement of financial position at the trade date, i.e. on the day when the Group commits to acquire a financial asset, while it is recognized in the statement of financial position at the settlement date. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

(2) Subsequent measurement of financial assets and liabilities

(i) Financial assets and liabilities held for trading

a) Financial derivatives

Derivative financial instruments are measured at fair value. Derivatives with positive valuation as at the measurement date are disclosed in the consolidated financial statements as assets, while those with negative value from measurement - as liabilities. Fair value changes of derivative financial instruments held for trading, which have not been designated for hedge accounting purposes, are recognized in the consolidated income statement in “Gain/loss on financial instruments measured at fair value through profit or loss and gain/loss on foreign exchange transactions”.

b) Other financial assets and liabilities held for trading

Financial assets and liabilities held for trading include financial instruments acquired or incurred for the purpose of selling them in near term or those being a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Financial assets and liabilities other than derivative instruments classified as held for trading are carried at fair value in the consolidated statement of financial position. Fair value changes are recognized in the consolidated income statement in “Gain/loss on financial instruments measured at fair value through profit or loss and gain/loss on foreign exchange transactions”. Interest income and expense are recognized in “Interest income” or "Interest expense", respectively.

(ii) Financial assets held to maturity

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than:

- financial assets and liabilities designated at fair value through profit or loss at initial recognition;
- financial assets classified as financial assets available for sale; and
- financial assets qualifying as loans and receivables.

Following initial recognition, financial assets held to maturity are measured at amortized cost using the effective interest rate method. The method applies the effective interest rate, precisely discounting projected future cash flows to the net carrying amount of a given financial asset item during the expected life of the financial asset. The computation includes all commissions paid and received by contractual parties that constitute an integral part of the effective interest rate, costs of transaction and any other premiums and discounts.

The settlement of amortized cost using the effective interest method is recognized under “Interest income” in the consolidated income statement. Impairment losses are recognized in the consolidated income statement in “Net impairment losses”.

(iii) Loans and receivables

Loans, advances and receivables are non-derivative financial assets with fixed or determinable payment schedules that are not quoted in an active market, other than:

- financial assets that the Group intends to sell immediately or in the near term, which are classified as held for trading, and those that the Group designated upon initial recognition as measured at fair value through profit or loss;
- financial asses that the Group designated upon initial recognition as available for sale; or
- financial assets for which the Group may not recover substantially all of its initial investment, for reasons other than loan service deterioration, which are classified as available for sale.

Following the initial recognition, loans and receivables are measured at depreciated cost using the effective interest rate method. The amortized cost is computed taking into account discounts and bonuses, fees, commissions and costs of transaction constituting an integral part of the effective interest rate. The settlement of amortized cost using the effective interest method is recognized under “Interest income” in the consolidated income statement. Impairment losses are recognized in the consolidated income statement in “Net impairment losses”.

(iv) Financial assets available for sale

Financial assets available for sale are those not classified as derivatives, designed as available for sale, or not classified as any of the classes mentioned above.

Following initial recognition financial assets available for sale are measured at fair value, whereas any gains and losses resulting from changes in the fair value estimates are recognized in other comprehensive income (other comprehensive income is accumulated in equity in "Revaluation reserve”). Revaluation reserve is accounted for in the consolidated income statement in time of sale of the asset or its impairment, with accumulated gains and losses are recognized under “Profit/loss realized on available-for-sale securities transactions”.

For debt instruments, interest income and discount or bonus are accounted for using the effective interest method and recognized under “Interest revenue” in the consolidated income statement. Dividends on equity instruments are recognized in the consolidated income statement when the entity’s right to receive dividend arises.

If the fair value cannot be determined, the assets are measured at cost including any impairment losses. Impairment losses are recognized in the consolidated income statement in “Net impairment losses”.

(v) Financial liabilities measured at amortized cost

Financial liabilities other than those measured at fair value through profit or loss are measured at amortized using the effective interest method. If a cash flow schedule cannot be determined for a given financial liability and therefore the effective interest rate cannot be reliably estimated, such a liability is measured at amount due.

(vi) Financial guarantee contracts

In line with IAS 39 financial guarantee contract is a contract that requires the Group, i.e. the issuer, to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. At initial recognition, financial guarantee contracts are measured at fair value adjusted by costs of transaction directly attributable to extending the guarantee.

Subsequently, liabilities are measured at the higher of: best estimates of costs necessary to repay current liabilities at the end of the reporting period and the initial value less any depreciation charges in line with IAS 18.

(3) Reclassification of financial assets

The Group may reclassify a non-derivative financial asset from held-for-trading assets to loans and receivables if it is no longer held with the intention to be sold or repurchased in near term. A financial asset can be reclassified if it fulfils the conditions specified in the definition of loans and receivables and if the Group has a positive intention and ability to hold the financial asset item in foreseeable future or until maturity.

Reclassified financial assets are measured at fair value at the date of reclassification. If an item is reclassified from held-for-trading financial assets, any gain or loss recognized in profit or loss is not reversed. The fair value of a financial asset shall become a new amortized cost at the date of reclassification.

For financial assets reclassified from available-for-sale financial assets to held-to-maturity financial assets or loans and receivables (if meeting all classification criteria), any gain or loss related to the asset which was previously charged to equity is accounted for in the following manner:

- for a financial asset with fixed maturity, gain or loss charged to equity by the reclassification date will be amortized and recognized in the consolidated income statement in the term to maturity, using the effective interest method;
- for a financial asset with undetermined maturity, gain or loss is charged to equity until sale or disposal, when it is disclosed in the consolidated income statement.

(4) Derecognition of financial assets and liabilities

(i) Financial assets

A financial asset (or a part of a financial asset or a group of similar financial assets) is derecognized from the consolidated statement of financial position if:

- the contractual rights to the cash flows from the financial asset expire;
- the Group has transferred the rights to receive cash flows from the financial asset or committed to transfer cash received to a third party without undue delay as a transaction intermediary and:
  (a) it has transferred substantially all risks and rewards of ownership of the financial asset; or
  (b) it has neither transferred not retained substantially all the risks and rewards of ownership of the financial asset, but it has transferred control over the financial asset.

If the Group has transferred its title to cash flows from the asset to another entity or committed to intermediate in a transaction but it has neither transferred nor retained substantially all risks and rewards of ownership and the transfer in question has not resulted in the transfer of control, the asset is recognized to an extent the Group holds its exposure in the given asset.

Exposure in a financial asset in the form of a financial guarantee contract is measured at the lower of: initial carrying amount of the asset and the maximum amount the Group may be obliged to pay for the asset.

(ii) Financial liabilities

The Group derecognizes a financial liability from its consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired.

Replacement of an existing debt instrument with an instrument with substantially different terms performed by the same entities is recognized as expiration of the initial financial liability and recognition of a new one. Similarly, significant modification of contractual terms and conditions regarding the existing financial liability is recognized as an expiration of the initial liability and recognition of a new one. The difference of corresponding carrying amounts resulting from the replacement is recognized in the consolidated income statement.

(5) Repurchase/resale and security loan agreements

Securities sold under repurchase agreements (repo, sell buy back transactions) are included in the balance sheet provided that the Group retains substantially all risks and benefits arising from a given asset. Liabilities to counterparties are recognized under liabilities to banks or to clients.

For securities resale agreements (reverse repo, buy sell back) where counterparties retain substantially all risks and benefits regarding these securities, receivables arising from the concluded transactions are recognized as receivables from securities purchased under repurchase agreements.

Transactions of selling securities under repurchase agreements and purchasing them under resale agreements are measured at amortized cost, while the securities subject to repurchase transactions are measured according to principles determined for each security portfolio.

The difference between the sale and repurchase agreement is treated as interest expense/income and settled over the duration of the agreement using the effective interest rate method.

For sales of securities purchased under resale agreements, the liability reflecting the obligation to return the assets is recognized under financial liabilities at fair value through profit or loss.

(6) Fair value of financial instruments

Fair value is a price the Group would receive for sale of an asset or pay for transfer of a liability in a transaction carried out on arms-length terms as at the measurement date.

The fair value of financial instruments quoted in an active organized financial market is determined in relation to the current purchase price (for assets) or the current sales price (for liabilities).

Fair value of financial instruments with no active market available is determined using various valuation methods, with the Group maximizing the use of observable input data, such as estimating the price of a financial instrument based on a publicly announced price quoted in an active regulated market, a price of a similar financial instrument or prices of components of a complex financial instrument or by estimating the price of a financial instrument using generally accepted estimation methods.

The fair value of individual assets and liabilities and methods of its estimation are described in details in Note 37.

(7) Impairment of financial assets

As at each balance sheet date, the Group evaluates whether there is any indication of impairment of a financial asset or a group of financial assets. Impairment loss is identified when there is objective evidence of impairment associated with one or more events that took place after the initial recognition of an asset (”loss generating event”) and the loss generating event affects the expected future cash flows from a financial asset or group of financial assets the value of which can be reliably estimated. Objective evidence of impairment is e.g. considerable financial difficulty of the debtor, default under timely payment of the principal amount or interest, high probability of bankruptcy, other financial reorganization of the debtor or factors indicating a measurable decrease in estimated future cash flows.

Indications of impairment for individually material exposures have been divided into two groups:

1) Quantitative criteria (mandatory):
   a) payment of the principal amount or interest delayed by over 90 days;
   b) for government and self-government sector, payment of the principal amount or interest delayed by over 30 days;
   c) exposure classified as “at risk” (i.e. risk categories “below standard”, “doubtful”, “lost”) according to the “Principles of monitoring and classification of loan exposures to customers and institutional clients";
2) Qualitative criteria:
   a) Hard (mandatory) criteria:
      - termination of a facility agreement;
      - application for instigation of collection, liquidation, bankruptcy or remedial procedures with regard to the debtor;
      - debt restructuring;
      - partial forgiveness of debt, arrangement, composition,
      - debtor’s questioning the credit exposure at court.
   b) Soft criteria (factors analyzed by a professional analyst):
      - default under payment or under timely payment of the principal or interest within last 3 months;
      - obtaining information that a bankruptcy or other reorganization procedures have been instigated with a counterparty;
      - obtaining information about counterparty’s financial problems (e.g. reduced income, increased debt, payment default with other institutions);
      - significant deterioration of rating or scoring analysis (e.g. to a category in which a client would not be granted a loan at all or would receive a lower amount on the terms of the concluded loan agreement);
      - unknown residence or undisclosed assets of a counterparty;
      - a recognized rating institution lowering the creditworthiness rating of a counterparty;

- debtor's accounts being seized;
- deterioration of macroeconomic factors affecting the obligor's industry;
- adverse changes in the internal organizational structure or the management structure of the borrower;
- loss of sales markets or key clients;
- change in regulations adversely affecting the borrower's operations;
- significant drop in market prices of collateral;
- significant court dispute lost, which may lead to considerable costs;
- borrower's failure to provide documents concerning its business and financial position;
- an active market of a given balance sheet credit exposure disappearing due to financial problems;
- default under other material contract terms resulting in a drop in estimated future cash flows;
- other factors which may affect expected future cash flows.

For individually immaterial loans analyzed on a collective basis, the Group identifies the following impairment indications:

1) Quantitative (obligatory):
   a) payment of the principal amount or interest delayed by over 90 days;
   b) termination of a facility agreement;
   c) the exposure bears characteristics of a fraud;
   d) the exposure is restructured;
   e) the exposure is subject to collection procedures;
   f) the Group having obtained information about an event that may impact projected cash flows;
   g) exposure classified as "at risk" (i.e. risk categories "below standard", "doubtful", "lost") according to the "Principles of monitoring and classification of loan exposures to customers and institutional clients".
2) Soft criteria (factors analyzed by an expert):
   a) disappearance of an active market for a selected group of credit exposures due to financial difficulties of counterparties (e.g. significant deterioration of issuers' financial standing resulting in a reduction in trading of selected assets, which in turn disallows their reliable measurement);
   b) observed data indicate a measurable decrease in estimated future cash flows related to a group of credit exposures after their initial recognition, although drops regarding individual assets in the group cannot be measured, to include:
      - adverse changes in counterparties' payment status in the group (e.g. an increased number of delayed payments or an increased number of credit card holders who have reached their credit limit and keep repaying the minimum monthly installments); or

the standing of the domestic or local market related to the default in credit exposure payment in the group (e.g. increased unemployment in the counterparty's location; for mortgage loans, a decrease in real property prices in a given region; adverse changes in the standing of a given industry that impact a group of counterparties).

(i) Receivables from other banks; loans and advances to customers

For receivables from other banks and credit facilities and loans granted to clients, the Group checks if any indication of impairment of individually significant financial assets and aggregate individually insignificant assets have occurred. If the analysis shows that there is no objective indication that an individually evaluated financial asset may be impaired, irrespective of whether it is material or not, the Group includes the asset in the group of financial assets with a similar credit risk and jointly determines their impairment. Assets which are individually tested for impairment and for which an impairment loss has been recognized or it has been determined that the previous one will not change, are not included in the general test of asset impairment.

If there is any evidence of impairment, an impairment loss equals the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future credit losses). The carrying mount of the asset is reduced using a reserve account and the loss amount is recognized in the consolidated income statement under "Net impairment losses". For financial assets for which an impairment loss was recognized, interest income is calculated with the use of the interest rate applied to discount future cash flows for the purpose of estimating the impairment loss amount. Credit facilities with related impairment losses are written off when their recovery is highly improbable and all collateral has been realized and transferred to the Group. If in the subsequent period impairment loss is decreased or increased as a result of an event following impairment recognition, the previously recognized loss is increased or decreased by way of making an adjustment of the reserve account.

The present value of estimated future cash flows is calculated using the original effective interest rate for a given financial instrument. For floating interest loans or receivables, the discount rate used for measuring impairment is the present effective interest rate. Computation of the present value of estimated cash flows related to an asset collateralized with a pledge reflects cash flows which may arise as a result of enforcement of collateral, reduced by costs of establishing or selling the collateral (in portfolio analysis, the costs are not included since there is no possibility to clearly assign each cost to a relevant credit exposure, and the inclusion of the costs is considered immaterial based on analyses carried out), irrespective of enforcement probability.

For purposes of aggregate impairment testing, financial assets are aggregated based on the credit risk factors determining the borrower's ability to repay the entire contractual obligations, e.g. based on credit risk assessment or assessment in line with a given scale considering asset type, industry, location, collateral type, default under timely payments and other significant issues.

Future cash flows in the group of financial assets collectively tested for impairment are estimated based on history of losses for assets of similar credit risk characteristics.

Impairment losses determined for a group of financial assets collectively tested for impairment, including IBNR, are estimated in accordance with the expected loss concept based on risk parameters commonly applied in the sector: PD and LGD. When estimating provisions for off-balance sheet credit exposures, the Group additionally includes the credit conversion factor (CCF). The values of PD, LGD and CCF parameters are estimated with the use of statistical methods based on observation of historical losses for assets with similar credit risk characteristics using the point in time (PIT) principle, through weighting of historical observations and including factors that arise from current market conditions. If necessary, historical data regarding the losses are adjusted based on available current data in order to reflect the impact of present conditions that did not influence the historical period from which the historical loss data are derived and to eliminate factors that affected historical data but do not occur now.

Additionally, in order to ensure adequacy of impairment losses, the Group's calculation model is subject to the model management process (including regular validation) and backtested once a year.

Receivables due to subsidized loans granted under a government program "Family on its own" are recognized in time of availment in the amount of funds disbursed, and receivables from Bank Gospodarstwa Krajowego are recognized in time of interest maturity provided that the borrower has repaid the principal instalment. For the facilities availed under the program in the first eight years a portion of interest due to the Group is paid by the State Treasury via Bank Gospodarstwa Krajowego. Interest income from the facilities received from clients and Bank Gospodarstwa Krajowego is presented in aggregate as interest income from consumer real estate loans.

(ii) Financial assets held to maturity

As at each reporting date, the Group individually evaluates whether there is any indication of impairment of financial assets held to maturity. If there is any evidence of impairment, an impairment loss equals the difference between the carrying amount of a given asset and the present value of estimated future cash flows. The carrying amount of an asset is reduced and an impairment loss is recognized in the consolidated income statement in "Net impairment losses".

If in the subsequent period impairment loss is decreased and the decrease may be objectively linked to the event following impairment recognition, the previously recognized loss is reversed. The reversed impairment loss is recognized in the consolidated income statement in "Net impairment losses".

(iii) Financial assets available for sale

As at each reporting date, the Group evaluates whether there is any indication of impairment of a financial asset or a group of financial assets available for sale.

As regards capital investments available for sale, a decrease in the fair value of the financial assets below the cost for a significant or extended period is objective evidence of impairment.

In case of impairment of financial assets, accumulated losses constituting the difference between the cost and the present fair value, less all impairment losses on the assets recognized in the consolidated income statement are derecognized from equity and recognized in the consolidated income statement in "Net impairment losses".

Impairment losses on equity instruments are not reversed through profit or loss; the increase in their fair value less impairment losses is recognized directly in other comprehensive income.

Debt instruments classified as available for sale are tested for any indication of impairment of a financial asset in line with the same principles as those applied to financial assets measured at amortized cost.

For financial assets for which an impairment loss has been recognized, interest income is calculated with the use of the interest rate applied to discount future cash flows for the purpose of estimating the impairment loss amount.

If in the subsequent period fair value of an available-for-sale debt instrument increases, and the increase may be objectively related to an event occurring after the recognition of the impairment loss in the consolidated income statement, the reversed impairment loss amount is recognized in the consolidated income statement in "Net impairment losses".

(in PLN' 000)

(iv) Financial assets measured at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument which is not measured at fair value (as the fair value may not be determined reliably) has been incurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar financial assets. Impairment losses determined in this manner are not reversed.

(8) Cash and cash equivalents

Cash and cash equivalents include cash in hand and on the nostro (current) account in the National Bank of Poland as well as receivables from other banks on the current account, and other cash with maturity of up to 3 months, disclosed at the nominal value and financial assets with high liquidity, i.e. current financial assets (with the maturity period of up to three months from the acquisition date).

(9) Property, plant and equipment

Property, plant and equipment are recognized at cost, less depreciation charges and impairment losses. The initial amount of fixed assets includes their cost increased by all costs directly related to their purchase and adaptation for use. The cost includes also cost of replacement of parts of plant and machinery when incurred, if the recognition criteria are met. Costs incurred after the date of commissioning, such as costs of maintenance and repair, are charged to profit or loss when incurred. Land is not depreciated. Depreciation of other property, plant and equipment is calculated according to the straight-line method over the estimated useful life of an asset:

Type	Period
Buildings and structures	25, 40 years
Technical equipment and machines	5 - 20 years
Office equipment	5 - 20 years
Vehicles	5 years
Computers	3 - 10 years
Leasehold improvements	3.5 – 10 years (not more than the lease period)

Any gains or losses (calculated as a difference between possible net inflows from sales and the carrying amount of the item) resulting from derecognition of the asset from the balance sheet are charged to profit or loss for the period of the derecognition under other operating revenue or other operating expense, respectively.

Investments in progress are related to fixed assets under construction or assembly and are recognized at cost less impairment losses, if any. Fixed assets under construction are not depreciated until their construction is completed and until they are commissioned.

(10) Intangible assets

Intangible assets acquired in a separate transaction are initially measured at acquisition price or manufacturing cost. After the initial recognition, intangible assets are recognized at cost, less accumulated amortization and impairment loss. Expenditures on internally generated intangible assets, except for capitalized development expenditures, are not capitalized but recognized in expenses of the period in which they were incurred.

Amortization charges on intangible assets whose useful life is limited is recognized in the consolidated income statement in "General and administrative expense".

Gains or losses on derecognition of intangible assets are recognized in the consolidated income statement under other operating revenue or other operating expenses, respectively.

Amortization of intangible assets is calculated using the straight-line method in order to spread out the initial asset value over the useful life, i.e. 50% (2 years) for licenses, and in justified cases for expected useful lives from 3 to 20 years.

R&D expenses are charged to profit/loss when incurred.

Intangible assets arising from R&D work are recognized in the statement of financial position only if the following conditions have been met:

- completion of an intangible asset so that it is fit for sale or use is technically possible;
- the intent to complete the asset, its use and sale can be proven;
- the asset will be fit for use or sale;

- the manner in which the asset will generate future economic benefits is known;
- technical resources and funds necessary to complete R&D work, the use and sale of the asset will be provided;
- outlays incurred in the course of R&D work can be reliably measured.

The initial value of an internally manufactured intangible asset is the total of expenditures incurred from the date when the asset has first met the recognition criteria (see above). If costs of R&D work related to internally produced intangible assets cannot be recognized in the balance sheet, they are recognized in the profit/loss of the period when incurred.

Following initial recognition, intangible assets produced internally in the course of R&D work are recognized at cost less amortization and aggregated impairment, similarly to acquired intangible assets.

(11) Leases: Group as a lessee

Finance leases transferring substantially the entire risks and benefits of holding the lease object to the Capital Group are recognized in the statement of financial position as at the lease commencement date at the lower of the following two amounts: fair value of a leased asset or current value of minimum lease payments. Lease payments are split between financial expenses and decrease in the balance of lease liabilities in order to obtain a fixed interest rate on the outstanding liability. Financial expenses are charged directly to the consolidated income statement.

Fixed assets used based on finance leases are depreciated with the straight line method over the shorter of the following two periods: estimated useful life or lease term.

Leases whereby the lessor retains substantially all the risk and rewards of ownership of an asset are classified as operating leases. Payments arising from operating leases and subsequent lease payments are recognized as expenses in the consolidated income statement.

(12) Impairment of non-financial non-current assets

Once a year the Group evaluates whether any circumstances indicating impairment of non-financial non-current assets have occurred. If there is any indication of impairment or if an annual impairment test is necessary, the Group estimates the recoverable amount of a given asset.

The recoverable amount of an asset corresponds to the fair value of the asset or a cash-generating unit (CGU) less costs to sell or its value in use, whichever is higher. The recoverable amount is determined for individual assets, unless a given asset does not generate cash inflows which are largely independent of those generated by other assets or groups of assets. If the carrying amount of an asset or a CGU is higher that its recoverable amount, the asset has been impaired and is written down to a relevant recoverable amount. At the time of estimation of the value in use, projected cash flows are discounted to their present value using the discount rate before the effects of tax, reflecting the current market valuation of the time value of money and the risk characteristic of a given asset.

An appropriate measurement model is applied to determine the fair value less costs to sell. The computations are confirmed using measurements made based on other sources and other available methods of determining the fair value.

Impairment losses are recognized in the consolidated income statement in “Net impairment losses”, excluding assets already remeasured, if such remeasurement has been charged to equity. In such a case, impairment losses are also recognized in equity up to earlier remeasurement amounts.

Once a year the Group evaluates whether the indications of impairment still occur and whether the impairment losses should be reduced. If there is such indication, the Group estimates the recoverable amount of the asset or a cash-generating unit. Impairment loss is reversed only when the estimations used to determine the recoverable amount of the asset have changed since the last impairment loss recognition. If so, the carrying amount of the asset is increased to its recoverable amount.

The increased amount should not exceed the carrying amount of the asset which would have been determined (including amortization), had the Company not recognized an impairment loss for the asset. A reversal of an impairment loss is recognized immediately in the consolidated income statement, unless the relevant asset is carried at a remeasured amount, in which case the reversal of the impairment loss is treated as a revaluation reserve increase.

The criteria specified above also apply to assessing impairment of intangible assets. The test is performed for individual asset items or cash-generating units and if any indications of impairment occur.

(13) Provisions

Provisions are recognized, if the Group has a present obligation (legal or constructive) as a result of a past event and when it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the Group expects reimbursement of the expenditure required to settle the provision (for example, through insurance contracts), the reimbursement is recognized as a separate asset, but only when it is virtually certain that reimbursement will be received. The expenses relating to the provision less the amount recognized for reimbursement are disclosed in the consolidated income statement.

If the impact of the time value of money is material, the provision is discounted using the current interest rate (tax not included), reflecting possible risk related to a given liability. If the provision has been discounted, the increase in the provision due to the passage of time is recognized as other financial expense.

(14) Prepayments and accruals

(i) Other assets

"Other assets" include in particular: prepaid expenses and accrued revenue, advance payments, payment cards settlements, inventory related to auxiliary activities of the Group and receivables from various contractors.

Accrued revenue recognized in "Other assets" is the revenue pertaining to the profit/loss of a given reporting period, receivable by the Group in the following period, related to bank fees and commissions for keeping accounts and other services.

Prepaid expenses disclosed in "Other assets" are costs incurred in a given reporting period pertaining to the following reporting periods, in particular insurance costs, subscriptions and premiums for Guaranteed Employee Benefit Fund.

Receivables from counterparties are recognized at fair value increased by transaction expenses (if any) in accordance with IAS 39. Acquired or occurred inventory of tangible current assets is recognized in the accounting records at cost as at the date of acquisition or occurrence.

Receivables are revalued based on the probability of their payment with recognition of an impairment loss, which is recognized in other operating expense.

(ii) Other liabilities

Other liabilities include: provisions for administrative costs resulting from performances rendered for the Group by its counterparties, which will be settled in the following reporting periods, liabilities due to unused paid vacations, bonuses, advance payments received and other liabilities from counterparties, inter-bank settlements, settlements under public law and settlements with Poczta Polska due to substitution services. These items are recognized at amounts due.

(15) Revenue recognition

(i) Net interest income

For all financial assets and liabilities measured at amortized cost and interest-bearing financial assets classified as available for sale, interest expense is recognized with the effective interest rate method under "Interest income" or "Interest expense". When calculating an effective interest rate, the Group estimates cash flows including all contractual terms but without potential future losses related to irrecoverability of loans. If the Group changes estimated payments disbursed or received, it also adjusts the carrying amount of a given financial asset or liability. The adjustment is calculated using the original effective interest rate of the financial instrument and recognized as interest income or expense in the consolidated income statement.

Interest income from debt securities classified as held for trading or designated as measured at fair value through profit or loss at initial recognition is recognized in interest income.

Interest income includes interest and commissions (paid or due) included in the calculation of the effective interest rate on amortizing loans, interbank deposits, securities held to maturity and available for sale, securities held for trading and financial instruments designated as measured at fair value through profit or loss at initial recognition.

For financial assets or a group of similar assets for which an impairment loss was recognized, interest income is calculated from the current amount receivable (i.e. their amount reduced by the impairment loss) with the use of the interest rate applied to discount future cash flows for the purpose of estimating the impairment loss amount.

(ii) Net fee and commission income

Fees and commissions, which do not constitute an integral part of the effective interest rate, i.e. those not accounted for using the effective interest method but in accordance with the straight-line method or recognized on a one-off basis in the income statement, are recognized in "Fee and commission income" or "Fee and commission expenses". Commissions on overdrafts are included in deferred revenue and accounted for using the straight-line method.

Commission income recognized on one-off basis includes:

- commission for organizing a consortial loans recognized in the income statement upon establishing a consortium if the Group as an organizer of the consortium does not withhold a portion of the loan;

- commissions for agency services provided to third parties interested in obtaining a loan are recognized in the income statement upon obtaining the loans by these parties;
- commissions for allocating of shares to subscribers are recognized in the income statement upon the allocation;
- fees paid to post offices for concluded term deposit contracts are recognized in the income statement when incurred, provided that the contracts are independent from the (term) deposits;
- fees paid to post offices for conclusion of plenipotentiary agreements, provided they do not regard specific deposits but a variety of deposits, are recognized in the income statement when incurred;
- fees paid to post offices for cancellation of plenipotentiary agreements are recognized in the income statement when incurred;
- fees paid to post offices for disposition of accounts in the case of death are recognized in the income statement when incurred.

(iii) Revenue and expenses related to sales of insurance products

The Bank generates bancassurance revenue on sales of insurance products in the banking channels. At the same time, once the insurance coverage is valid, the Bank may provide additional services to insurance companies, in the form of post-sale service of insurance policies.

The Bank recognizes the fee for the offering of insurance products based on a professional judgment regarding the scope of sale: whether it is limited to the sales agency service, or whether the sales of insurance are linked to sales of credit products. The assessment is based on the economic contents of credit and insurance products offered. The purpose of the judgment is to economically separate revenue that constitutes:

- an integral part of a fee related to a credit product offered;
- a fee for agency services;
- a fee for additional services provided after sale of an insurance product.

Evaluation of a direct relation is based mostly on the following criteria:

- ability to purchase a loan product without an insurance product (a loan agreement unrelated to an insurance agreement);
- the average actual annual interest on each loan in the Bank's portfolio classified as including insurance coverage and constituting an insurance component;
- the voluntary nature of insurance;
- client's ability to provide an insurance policy issued by any insurer without Bank's participation;
- profitability assessment of a loan product based on management reports including the performance as an agent selling insurance products;
- assessment of the sales of combined products, i.e. the percentage share of loan products with insurance coverage in the number of contracts regarding loan products held in the Bank's portfolio;
- Number of resignations and amount of commissions refunded classified as loans offered by the Bank, insurance products and insurance groups; the level of insurance contracts continued after the initial term.

Analysis of the direct link between an insurance product and a loan results in division of combined products, i.e. separation of the fair value of a loan offer and the fair value of an insurance products bundled with the loan. If the Bank acts as an agent, the receivable fee is divided into a portion classified as a component of amortized loan cost and a portion constituting the agent's fee. The fee is divided based on the identifiable portion of the fair value of the loan and the fair value of the agency service referred to the total of both amounts.

Fair value is measured in accordance with the following approach:

- agency service based on the market approach involving the reference to prices and other market data generated by identical or comparable market transactions on insurance products sold separately from loan products;
- fair value of a loan: determining future principal and interest payments including future impairment loss of the fair value and its projected recovery, discounted with the market interest rate curve increased by current margins offered by the Bank for a given loan type;
- in relation to the fee for other activities performed by the Bank for the insurer in the insurance term, estimation of fair value for allocation purposes based on analysis of costs incurred in relation to the service provision.

Additionally, the Bank carries out reliable estimates of provisions for refunds, i.e. the amount that should reduce the Bank's fee for distribution of insurance products. The estimates of provisions for refunds are based on historical data regarding actual refunds of the fee in the past, and on Bank's projections of future trends. The provision for refunds is settled proportionally to the division of the fee between agency services and the integral part of the effective interest rate on a loan.

Insurance selling expenses are recognized proportionally to the recognized fee for the sales of insurance products.

(iv) Gain/loss on financial instruments measured at fair value through profit or loss and gain/loss on foreign exchange transactions

"Gain/loss on financial instruments measured at fair value through profit or loss and gain/loss on foreign exchange transactions" includes all gains and losses resulting from disposal or from fair value measurement of derivatives not designated as effective hedging instruments, financial assets and liabilities classified as held for trading and financial instruments designated as measured at fair value through profit or loss at initial recognition.

The item also includes a gain/loss on foreign exchange transactions, i.e. exchange gains and losses, both realized and unrealized, resulting from everyday measurement of foreign currency assets and liabilities at the average exchange rate of the National Bank of Poland applicable at the end of a reporting period.

(v) Realized gain/loss on available-for-sale securities

Realized gain/loss on transactions on available-for-sale (AVS) securities include gains and losses arising from disposal of financial assets classified as AVS and the effects of settling gains or losses on securities initially classified as AVS financial assets and then reclassified to HTM (held to maturity) investments with the effective interest rate method.

(vi) Employee benefit costs

Payments to defined pension plans, i.e. Social Security Office, pension funds and Employee Pension Scheme are recognized as expenses once employees have performed services qualifying them as plan participants.

Pension and disability provision is determined using the projected unit credit method along with actuarial measurement carried out as at the end of each reporting period by an independent actuary. Revaluation of pension and disability provisions including actuarial gains and losses is recognized in the statement of financial position and charged to other comprehensive income in the period when the changes occur. Subsequently they will not be reclassified to the income statement. Employment costs are recognized in the income statement in the period they pertain to. Net interest is calculated using the opening balance discount rate regarding the net liability or asset arising from the performance. Defined benefit costs are classified as:

- employment costs (including costs of current and past employment);
- net interest income or expense and
- revaluation.

The Bank presents two first components of costs of provisions for retirement benefits in the income statement under general and administrative expenses.

The Bank recognizes a provision for future liabilities arising from unused paid vacations, including all pending days off and provisions for periodic settlements of costs pertaining to the current period to be incurred in the future period, including bonuses. The related expenses are recognized under general and administrative expenses.

(vii) Other operating revenue and expense

Operating revenue and expense include items that are not directly related to the core operating activities of the entity.

Other operating revenue includes in particular gains on sale of fixed assets, damages and fines received, revenue due to collection of overdue and cancelled receivables and bad debts, reimbursement of collection costs, reversal of provision for future liabilities and sundry income of the Group. Other operating expense includes mainly the costs of selling/liquidating fixed assets and intangible assets, costs of damages and fines, costs of receivables written off, impairment losses for receivables from various debtors and other operating expense.

(16) Taxes

(i) Current tax

Current income tax liabilities and receivables for the current and prior periods are measured at projected amounts payable to tax authorities (for tax receivables - reimbursable) using tax rates and regulations valid as at the end of the reporting period, or regulations whose endorsement had been considered completed.

Income tax on items not recognized in profit or loss is recognized in other comprehensive income for items recognized there or directly in equity for items recognized directly in equity.

(ii) Deferred tax

For the purposes of financial reporting, deferred income tax is calculated using the balance sheet liability method based on temporary differences that occur as at the end of the reporting period between the tax value of assets and liabilities and their carrying amount recognized in the consolidated financial statements.

The deferred tax liability is recognized in relation to all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of goodwill or initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred income tax asset is recognized for all deductible temporary differences, carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the above differences, assets and losses can be utilized:

- except where the deferred tax asset relating to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

The carrying amount of the deferred tax asset is verified as at each balance sheet date and is reduced as appropriate, taking into account the reduction of the probability of achieving taxable income sufficient for the realization of the deferred tax asset in part or in whole. An undisclosed deferred tax asset is remeasured as at the end of each financial year and recognized up to the amount reflecting probable taxable income which will facilitate realization of the asset.

Deferred tax asset and liability are measured with the application of tax rates expected to be applicable in the period when the asset is realized or provision released, based on tax rates (tax regulations) applicable as at the end of the reporting period or rates whose endorsement had been considered completed.

Income tax on items not recognized in profit or loss is recognized in other comprehensive income for items recognized there or directly in equity for items recognized directly in equity.

The Group offsets its deferred tax assets and deferred tax liabilities only if it has an enforceable legal title to offset its current tax assets with liabilities and the deferred income tax is related to the same taxpayer and the same tax authority.

(17) Equity

Share capital is recognized in the amount compliant with the Bank's charter and the entry in the court register at the nominal value.

Other items of equity are recognized in the consolidated statement of financial position by type and in accordance with the principles defined in legal regulations and the provisions of the Bank's charter. Such items include:

- supplementary capital created from the share premium and mandatory 8% appropriation of the net profit and reclassification from the revaluation reserve;
- the reserve capital established from profit distribution in accordance with the Banking Law and the Bank's charter;
- the net profit for the reporting period and undistributed profit or uncovered loss for prior periods (presented in "Retained earnings/Uncovered losses");
- revaluation reserve.

(18) Net earnings per share

Net earnings per share for each period are calculated by dividing the net profit for the period by the weighted average number of shares in the period.

The Group does not present diluted earnings per share, because there are no potential ordinary shares which would dilute weighted average number of ordinary shares.

(19) Contingent liabilities

The Bank concludes transactions that are not recognized as assets or liabilities in the statement of financial position when concluded but give rise to contingent liabilities. Contingent liability is:

- a possible obligation arising from past events whose occurrence shall be confirmed only upon occurrence of one or more uncertain future events not fully controlled by the Bank;
- an existing obligation arising from past events, which has not been recognized in the statement of financial position since the need to spend cash or other assets to fulfil the obligation is improbable or its amount cannot be reliably measured.

(in PLN' 000)

Pursuant to IAS 37, provisions are recognized against off-balance sheet liabilities charged with the risk of counterparty's non-performance. The off-balance sheet liabilities include credit facilities and guarantees granted. Upon initial recognition, financial guarantee agreements are measured at fair value. Following the initial recognition, they are measured at the higher of:

- amount determined in line with IAS 37 and

initial value decreased if appropriate by accumulated amortization charges recognized in line with IAS 18.

(20) Company Social Benefits Fund

The Group has established a Social Benefits Fund in accordance with the Act on Social Benefits Funds of 4 March 1994 (Journal of Laws of 2012 item 592 as emended). The purpose of the fund is to finance social benefits for employees. The fund's liabilities comprise accumulated appropriations made by the Group and its entities to the Social Benefits Fund less non-refundable expenses from that fund.

The Group does not recognize Social Benefit Fund assets, as the entire Social Benefits Fund liabilities are expressed in cash accumulated on a separate bank account.

For the purposes of presentation in these consolidated financial statements the Group has set off Social Benefits Fund liabilities against assets, because they do not constitute the Group's assets.

(21) Measurement of items denominated in foreign currencies

The consolidated financial statements have been prepared in the Polish zloty (PLN), which is the functional currency of the Group. It is also the currency of the key business environment of the Group.

Foreign currency transactions are translated into the Polish zloty by reference to the exchange rate effective as at the date of the transaction.

As at the end of the reporting period, monetary assets and liabilities denominated in currencies other than the Polish zloty are translated into PLN at the average exchange rate effective as at the end of the reporting period and determined for the currency by the National Bank of Poland. Forex differences from translation are recognized in the consolidated income statement in "Gain/loss on financial instruments measured at fair value through profit or loss and gain/loss on foreign exchange transactions". Non-monetary assets and liabilities recognized at historical cost in a foreign currency are recognized at the historical exchange rate effective as at the date of the transaction. Non-monetary assets and liabilities recognized at fair value in a foreign currency are translated by reference to the exchange rate effective as at the fair value measurement date.

Exchange rates applied for the purpose of balance sheet measurement:

31 December 2013	31 December 2012
USD 1 = PLN 3.0120	USD 1 = PLN 3.0996
EUR 1 = PLN 4.1472	EUR 1 = PLN 4.0882
CAD 1 = PLN 2.8297	CAD 1 = PLN 3.1172
CHF 1 = PLN 3.3816	CHF 1 = PLN 3.3868
GBP 1 = PLN 4.9828	GBP 1 = PLN 5.0119
DKK 1 = PLN 0.5560	DKK 1 = PLN 0.5480
SEK 1 = PLN 0.4694	SEK 1 = PLN 0.4757

(22) Hedge accounting

The Group does not apply hedge accounting.

6. Segment reporting

As intended by IFRS 8, financial information on segments is reported on the same basis as is used internally in reports presented to the Management Board of the Bank for the purpose to allocate resources to segments and evaluate their performance.

Segments are identified based on the method of carrying out activities and the type and scope of information used by management. This classification is consistent with the sales management and construction of the full offer for Group's clients.

The Group's operations have been divided into segments in accordance with products sold, services provided and types of clients, for management purposes. The following operating segments have been identified: consumer, institution and settlement and treasury departments.

Detailed principles of calculating revenue, expenses, assets and liabilities in each segment are described in internal regulations of the Bank. The performance, assets and liabilities of the consumer and institutional segment include interest income and balance sheet items of the treasury area, respectively.

The operations are focused on the Polish market – the client base is composed mainly of Polish individuals and corporations.

Consumer segment of the Group

From management accounting perspective the consumer segment offers products targeted at individuals. The offer consists of saving and settlement accounts, savings accounts, term deposits, consumer loans (including cash loans and overdrafts), mortgage loans (including housing loans, mortgage loans and consolidation loans), insurance products and investment funds. It is sold through traditional distribution channels in a country-wide network of branches and sales points (including the sales network of Poczta Polska and financial agents), Pocztowy24 Internet banking, PocztowySMS mobile banking and a Call Center.

Institutional segment of the Group

Institutional segment in management accounting includes operating profit/loss from services provided to business entities with legal personality, individuals and entities with no legal personality carrying out business activities under applicable regulations and central and local administration entities.

Loan products (overdraft facilities and revolving loans, working capital loans, investment loans, with thermal improvement and refurbishment premium, as well as mortgage loans), deposits (current accounts, standards and individually negotiated deposits, savings accounts) and settlement services have been extended with a product offered at attractive prices and aimed at facilitating cash management in enterprises. Cash management products are offered through Regional Sales Branches, the network of Poczta Polska and financial agents.

Settlement and treasury segment of the Group

The settlement and treasury segment as determined for management purposes includes performance on settlement services and on treasury operations with regard to non-interest income. The Group offers comprehensive settlement services of unique quality, based on access to Poczta Polska's infrastructure. Key settlement services include payments to Social Security Office, to tax offices, as well and cash payments under interbank settlements. Further, the settlement product offer includes cash payments to third parties available in the network of Poczta Polska and in the Bank's own network, cash payments to accounts in the network of Poczta Polska and in the Bank's own network, mass domestic and international non-cash payment orders in PLN and payments made by clients in ADM's.

Operations of the treasury function include treasury transactions, financial markets, management of liquidity, interest rate and currency risks. It trades on the interbank market, deposits surplus funds in market instruments or obtains funds for the Group, carries out derivative transactions (FRA, IRS and swaps) to hedge risk exposures. It repurchases client funds obtained by operating segments at a transfer rate and sells them funds to finance their credit operations.

Unallocated items, adjustments and exclusions

Unallocated items, adjustments and exclusions include revenue and expenses not classified in the above segments, as well as income tax.

Segment reporting

No material changes occurred in operational segment reporting compared to 31 December 2012.

Balance as at 31 December 2013	Consumer segment	Institution segment	Settlement and treasury	Unallocated items	Adjustments and eliminations	Total
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Net interest income	**204 572**	**38 451**	**0**	**784**	**0**	**243 807**
- sale to external clients	181 967	30 011	0	784	31 045	**243 807**
- sale to other segments	22 605	8 440	0	0	(31 045)	**0**
Net fee and commission income	**6 280**	**10 258**	**21 900**	**3 190**	**0**	**41 628**
Other operating revenue and expenses related to banking operations*)	0	0	8 885	0	0	**8 885**
Operating profit	**210 852**	**48 709**	**30 785**	**3 974**	**0**	**294 320**
Other operating revenue and expense	4 420	783	103	(1 230)	0	**4 076**
General administrative expenses, including	**(164 229)**	**(34 636)**	**(10 079)**	**(3 794)**	**0**	**(212 738)**
- amortization	(17 069)	(3 665)	(677)	(528)	0	**(21 939)**
Profit/loss on impairment allowances	**(32 119)**	**(10 279)**	**0**	**0**	**0**	**(42 398)**
Operating profit/loss	18 924	4 577	20 809	(1 050)	0	**43 260**
Gross profit (loss)	**18 924**	**4 577**	**20 809**	**(1 050)**	**0**	**43 260**
Income tax	0	0	0	(7 233)	0	**(7 233)**
Net profit (loss)	**18 924**	**4 577**	**20 809**	**(8 283)**	**0**	**36 027**

*) Gain/loss on financial instruments measured at fair value through profit or loss and realized gain/loss on transactions on securities available for sale.

Balance as at 31 December 2012 (restated)	Consumer segment	Institution segment	Settlement and treasury	Unallocated items	Adjustments and eliminations	Total
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Net interest income	**179 275**	**47 443**	**0**	**564**	**0**	**227 282**
- sale to external clients	158 246	32 226	0	564	36 246	**227 282**
- sale to other segments	21 029	15 217	0	0	(36 246)	**0**
Net fee and commission income	**450**	**14 684**	**26 356**	**1 574**	**0**	**43 064**
Other operating revenue and expenses related to banking operations*)	0	0	19 909	0	0	**19 909**
Operating profit	**179 725**	**62 127**	**46 265**	**2 138**	**0**	**290 255**
Other operating revenue and expense	3 842	(826)	113	(1 264)	0	**1 865**
General administrative expenses, including	**(158 259)**	**(41 763)**	**(15 342)**	**(2 992)**	**0**	**(218 356)**
- amortization	(15 562)	(3 978)	(847)	(570)	0	**(20 957)**
Profit/loss on impairment allowances	**(20 424)**	**(4 675)**	**0**	**0**	**0**	**(25 099)**
Operating profit/loss	4 884	14 863	31 036	(2 118)	0	**48 665**
Gross profit (loss)	**4 884**	**14 863**	**31 036**	**(2 118)**	**0**	**48 665**
Income tax	0	0	0	(9 716)	0	**(9 716)**
Net profit (loss)	**4 884**	**14 863**	**31 036**	**(11 834)**	**0**	**38 949**

*) Gain/loss on financial instruments measured at fair value through profit or loss and realized gain/loss on transactions on securities available for sale.

Segment assets include items directly allocated to the segment, such as net credit facilities and loans granted to the Bank's clients, and the following items allocated to the segment for management accounting purposes: cash and other assets deposited in the Central Bank, receivables from other banks, investment financial assets, investments in subsidiaries, property, plant and equipment and intangible assets, deferred income tax assets and other assets.

Segment liabilities include directly allocated liabilities to clients, to the Central Bank and other banks and the following items allocated to the segment for management accounting purposes : liabilities held for trading, provisions, current income tax liabilities, other liabilities, subordinated liabilities, liabilities due to issue of debt securities and total equity.

Balance as at 31 December 2013	**Consumer segment**	**Institution segment**	**Settlement and treasury**	**Unallocated items**	**Adjustments and eliminations**	**Total**
	PLN '000	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**
Segment assets	5 746 206	1 646 579	0	(10 040)	0	**7 382 745**
Segment liabilities	4 899 040	2 493 745	0	(10 040)	0	**7 382 745**

Balance as at 31 December 2012 (restated)	**Consumer segment**	**Institution segment**	**Settlement and treasury**	**Unallocated items**	**Adjustments and eliminations**	**Total**
	PLN '000	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**
Segment assets	5 285 150	1 843 257	0	(7 754)	0	**7 120 653**
Segment liabilities	4 552 916	2 575 491	0	(7 754)	0	**7 120 653**

In 2013, revenue generated by the key counterparty of the Group amounted to PLN 22.8 million compared to PLN 29.7 million in 2012.

7. Net interest income

	Period from 1 January 2013 to 31 December 2013	Period from 1 January 2012 to 31 December 2012 (restated)
	PLN '000	**PLN '000**
Income on receivables from banks	**9 607**	**15 747**
Income on receivables from clients, including:	**355 103**	**369 012**
Overdraft facilities	7 480	8 609
Credit facilities and term loans	347 623	360 403
- individuals	294 269	289 803
- institutional clients	37 980	47 030
- local authorities	15 374	23 570
Revenue from investments in financial assets classified as:	**58 541**	**65 735**
available for sale	37 891	43 945
held to maturity	20 650	21 790
Revenue from financial assets held for trading	**149**	**296**
Total	**423 400**	**450 790**

In 2013 interest income on receivables including impairment amounted to PLN 14,224 thousand, while in 2012 it was PLN 12,557 thousand.

	Period from 1 January 2013 to 31 December 2013	Period from 1 January 2012 to 31 December 2012 (restated)
	PLN '000	**PLN '000**
Expense due to liabilities to other banks	**1 729**	**848**
Expense due to liabilities to clients, including:	**156 552**	**207 363**
from current accounts	43 503	71 848
from term deposits	113 049	135 515
- individuals	82 795	75 359
- institutional clients	28 780	55 559
- local authorities	1 474	4 597
Costs of issues of debt securities and subordinated loan	**21 312**	**15 297**
Total	**179 593**	**223 508**

8. Net fee and commission income

	Period from 1 January 2013 to 31 December 2013	Period from 1 January 2012 to 31 December 2012 (restated)
	PLN '000	**PLN '000**
Fee and commission income, including:		
originated credit facilities and loans	747	1 671
settlement and cash transactions	36 742	41 460
payment and credit cards	17 126	13 377
keeping bank accounts	10 568	5 121
sale of insurance products	3 589	3 091
other	4 234	3 321
Total	**73 006**	**68 041**

	Period from 1 January 2013 to 31 December 2013	Period from 1 January 2012 to 31 December 2012 (restated)
	PLN '000	**PLN '000**
Expense due to fees and commissions, including:		
keeping current accounts and term deposits	14 788	11 150
managing payment cards, ATM and POS cash withdrawals	5 944	4 105
cash management services for the Group	5 574	5 189
sale of bank products	1 211	1 045
other services	3 861	3 488
Total	**31 378**	**24 977**

9. Gain/loss on financial instruments measured at fair value through profit or loss and gain/loss on foreign exchange transactions

	Period from 1 January 2013 to 31 December 2013	Period from 1 January 2012 to 31 December 2012 (restated)
	PLN '000	**PLN '000**
Gain/loss on derivatives	(60)	793
- IRS	(35)	766
- FRA	(8)	27
- OIS	(17)	0
Gain/loss on held-for-trading securities	(568)	995
Gain/loss on foreign exchange transactions	3 533	4 890
Total	**2 905**	**6 678**

10. Realized gain/loss on available-for-sale securities

	Period from 01.01.2013 to 31.12.2013	Period from 01.01.2012 to 31.12.2012 (restated)
	PLN '000	**PLN '000**
Financial assets available for sale:	5 980	13 231
- debt instruments	5 980	13 231
Total	**5 980**	**13 231**

11. General administrative expenses

	Period from 1 January 2013 to 31 December 2013	Period from 1 January 2012 to 31 December 2012 (restated)
	PLN '000	**PLN '000**
Employee benefits	**92 372**	**101 147**
Payroll	78 216	85 344
Payroll charges	12 283	13 966
Appropriations to the Company's Social Benefit Fund	1 873	1 837
Administrative costs	**98 427**	**96 252**
Other employee benefits	6 184	5 885
Materials	4 289	4 182
Costs of external services, including:	49 006	47 074
- costs of telecommunication services	13 497	10 798
- costs of services related to bank settlements	5 652	6 431
- costs of transport services	119	2 931
- cost of repair and renovation	1 561	1 373
- costs of advisory, audit and legal services	4 323	3 618
- cost of software maintenance and IT services	15 083	13 212
- costs of outsourcing back-office operations	325	2 051
- costs of public utilities, security and monitoring services	5 274	4 767
- other	3 172	1 893
Costs of insurance, lease payments	19 744	19 050
Costs of promotion and advertising	11 526	13 321
Other non-personnel costs	814	806
Taxes and charges	3 193	3 193
Costs incurred for the benefit of Bank Guarantee Fund	3 671	2 741
Depreciation/amortization, including:	**21 939**	**20 957**
Depreciation of fixed assets, including:	11 986	12 625
- finance leases	583	546
Amortization of intangible assets	9 953	8 332
Total	**212 738**	**218 356**

Compared to 2012 financial statements, the item "Payroll" in these financial statements includes an adjustment resulting from amendment to IAS 19 as described in detail in Note 5b.

12. Employee benefits

	Period from 01.01.2013 to 31.12.2013	Period from 01.01.2012 to 31.12.2012 (restated)
	PLN '000	**PLN '000**
Remuneration, including:	78 216	85 344
- provision for retirement and disability benefits	143	(132)
- provisions for unused paid vacation	38	2
Payroll charges	12 283	13 966
Appropriations to the Company's Social Benefit Fund	1 873	1 837
Total	**92 372**	**101 147**

13. Net impairment losses

	Period from 1 January 2013 to 31 December 2013				Period from 1 January 2012 to 31 December 2012 (restated)			
	Exposures assessed by porfolio	including IBNR	Exposures assessed individually	Total	Exposures assessed by porfolio	including IBNR	Exposures assessed individually	Total
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Overdraft facilities from clients	**(2 789)**	(568)	**(375)**	**(3 164)**	**(1 092)**	196	**(301)**	**(1 393)**
Term loans, including:	**(29 866)**	186	**(9 368)**	**(39 234)**	**(17 395)**	(1 117)	**(6 311)**	**(23 706)**
individuals	**(27 909)**	466	**(2 921)**	**(30 830)**	**(19 837)**	(4 404)	**0**	**(19 837)**
- consumer loans	(16 655)	(2 040)	(2 921)	**(19 576)**	(7 034)	(989)	0	**(7 034)**
- real estate loans	(10 230)	2 597	0	**(10 230)**	(12 308)	(3 346)	0	**(12 308)**
- credit card debt	(1 024)	(91)	0	**(1 024)**	(495)	(69)	0	**(495)**
institutional clients	**(2 348)**	(671)	**(6 447)**	**(8 795)**	**2 540**	3 382	**(6 311)**	**(3 771)**
local authorities	**391**	391	**0**	**391**	**(98)**	(95)	**0**	**(98)**
Total	(32 655)	(382)	(9 743)	(42 398)	(18 487)	(921)	(6 612)	(25 099)

Profit/loss on impairment losses recognized by the Group include impairment of interest accrued from the date of impairment recognition in the amount of PLN 2,373 thousand, whose increase is reflected by the same amount of an increase in interest revenue. The adopted presentation results with impairment losses and interest income increase by the same amount, and it does not impact the financial performance of the Group.

14. Other operating revenue

	Period from 1 January 2013 to 31 December 2013	Period from 1 January 2012 to 31 December 2012 (restated)
	PLN '000	PLN '000
Repayment of cost of collection of receivables, court and bailiff enforcement	2 267	1 752
Sale of balance sheet receivables	626	2 785
Other, due to:	**3 413**	**737**
- reversal of provisions for future liabilities	1 949	23
- overpaid receivables	300	48
- reimbursement of the overpaid premium to the Financial Supervision Authority	344	270
- revenue receivable from Poczta Polska	409	0
- other	411	396
Sundry income of the Group	**2 433**	**2 327**
revenue from sales of goods and services	1 541	1 292
other sundry income	892	1 035
Total	**8 739**	**7 601**

15. Other operating expenses

	Period from 1 January 2013 to 31 December 2013	Period from 1 January 2012 to 31 December 2012 (restated)
	PLN '000	PLN '000
Profit/loss on sale or liquidation of property, plant and equipment	201	200
Costs of damages and fines	12	21
Costs of donations made	372	266
Costs of provisions for future liabilities	823	87
Costs of impairment allowances for receivables and receivables written off	2 943	4 565
Other	312	597
Total	**4 663**	**5 736**

The Group recognized impairment losses for receivables from various debtors, write-downs of inventories and impairment losses for accrued revenue (overdue receivables due to commissions), taking into account probability of payment and number days past due.

16. Income tax

Consolidated income statement

Key items of the tax expense for the years beginning on 1 January and ending on 31 December 2013 and beginning 1 January and ending on 31 December 2012:

	Period from 1 January 2013 to 31 December 2013	Period from 1 January 2012 to 31 December 2012 (restated)
	PLN '000	PLN '000
Current income tax	9 022	13 344
Deferred income tax	(1 789)	(3 628)
Tax expense charged to consolidated income statement	**7 233**	**9 716**

Consolidated statement of other comprehensive income		
Deferred income tax related to items recognized in the comprehensive income	1 344	(1 502)
Tax charge disclosed in the consolidated statement of other comprehensive income	**1 344**	**(1 502)**

Reconciliation of the effective tax rate	Period from 1 January 2013 to 31 December 2013	Period from 1 January 2012 to 31 December 2012 (restated)
	PLN '000	PLN '000
Gross financial profit/loss before tax	**43 260**	**48 665**
Tax at the statutory tax rate applicable in Poland (19%)	8 219	9 246
Items increasing/decreasing the effective tax rate not included in the deffered tax	**(986)**	**470**
- premiums to National Fund for Rehabilitation of the Disabled (PFRON)	290	269
- costs of w riting off overdue receivables and bad debts	224	267
- impairment allow ances for future liabilities and provisions for various debtors	(85)	148
- decrease / increase in impairment allow ances w ith probable lack of realization	(556)	12
- costs related to the share issue scheme	0	247
- investment tax credit	(914)	(665)
- other expenses	55	192
Income tax recognized in the income statement	**7 233**	**9 716**
Total current tax expense charged to consolidated income statement	**7 233**	**9 716**

	Statement of financial position		Statement of comprehensive income	
	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)	Period from 1 January 2013 to 31 December 2013	Period from 1 January 2012 to 31 December 2012 (restated)
Deferred tax assets	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**
Interest due on deposits	(3 740)	(4 236)	496	(3 175)
Cost of debt securities (premium, ESP)	(839)	(566)	(273)	(207)
Interest due on debt securities	(1 289)	(1 830)	541	(1 459)
Negative measurement of derivatives	(165)	(232)	67	(179)
Provisions for due costs by type	(1 953)	(2 645)	692	(25)
Commissions and interest accounted for using the effective interest method	(15 389)	(11 286)	(4 103)	(949)
Impairment losses on receivables from financial entities	(43)	(24)	(19)	22
Impairment losses on receivables from non-financial entities	(11 316)	(8 998)	(2 318)	(2 775)
Allowances for current account commissions	(1 631)	(780)	(851)	734
Difference between balance-sheet amortization and tax amortization	(1 097)	(901)	(196)	(331)
Contribution to non-bank company	(7)	0	(7)	98
Tax loss	0	0	0	83
Other	(82)	(121)	39	(77)
Net deferred income tax assets or asset items charged to profit or loss	**(37 551)**	**(31 619)**	**(5 932)**	**(8 240)**
Net deferred income tax assets or asset items charged to equity	**(529)**	**(17)**	**(512)**	**792**
Total deferred tax assets	**(38 080)**	**(31 636)**	**(6 444)**	**(7 448)**
Deferred tax liability				
Interest receivable accrued on loans	3 968	3 352	616	(29)
Discounting and interest on securities	1 866	2 165	(299)	305
Exchange gains	0	0	0	0
Positive measurement of derivatives	421	374	47	372
Difference between balance-sheet amortization and tax amortization	3 552	3 296	256	354
Commissions with tax withholding paid to credit agents	10 053	6 524	3 529	3 731
Social Benefit Fund	2	8	(6)	8
Value of shares received for a contribution to a non-bank company	0	0	0	(129)
Provision for deferred income tax charged to profit or loss	**19 862**	**15 719**	**4 143**	**4 612**
Deferred tax liability charged to equity	**214**	**1 046**	**(832)**	**710**
Total deferred tax liability	**20 076**	**16 765**	**3 311**	**5 322**
Balance sheet presentation:				
Deferred tax asset	(38 080)	(31 636)	(6 444)	(7 448)
Deferred tax liability – continuing operations	20 076	16 765	3 311	5 322
Net deferred tax asset/liability	**(18 004)**	**(14 871)**	**(3 133)**	**(2 126)**

	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	PLN '000
Current income tax receivables	98	61
Current income tax liabilities	3 138	7 826

17. Dividends paid and proposed

As at the balance sheet date of 31 December 2013 and in the comparable period the Bank did not pay out any dividend.

On 15 March 2013, General Shareholders' Meeting of the Bank decided on the following distribution of the 2012 profit in the amount of PLN 47,136,909.59:

- to the reserve capital – PLN 42,136,909.59;
- to the general banking risk fund - PLN 5,000,000.

18. Earnings per share

Basic earnings per share are calculated by dividing net profit attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the period.

Presented below is information about the earnings and shares which served as the bases for calculation of the basic earnings per share:

	Period from 1 January 2013 to 31 December 2013	Period 1 January 2013 to 31 December 2012 (restated)
Net profit (loss) attributable to equity holders of the parent	36 027	38 949
Weighted average number of ordinary shares	9 729 040	9 729 040
Earnings per share (PLN)	**3.7**	**4.0**

Diluted earnings per share

In the analyzed period the Bank did not issue any convertible bonds or share options. The share capital is composed of ordinary shares only (non-preference shares). Consequently, diluted earnings per share are equal to basic earnings per share. Between the end of the financial period and the date of preparation of these consolidated financial statements, there were no other transactions involving ordinary shares or potential ordinary shares.

19. Proposed profit distribution

The Management Board of the Bank recommended to the General Shareholders' Meeting allocating the entire net profit for 2013 to reserve capital, general risk fund and to cover previous year loss.

20. Cash and balances in the Central Bank

	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	**PLN '000**
Cash in hand	3 576	6 698
Cash in the current account at Central Bank	323 666	928 045
Total	**327 242**	**934 743**

The Group uses cash in the current account at Central Bank to cover the required reserve and carry out current cash settlements during a given day. The Group, however, has to provide an average monthly level of cash in the account in order to satisfy the minimum reserves requirements declared.

Funds taken over from Poczta Polska S.A. and classified as short-term payment transfers constitute a significant portion of the item and include:

- pension-related payments transferred in the form of cash to pensioners by Poczta Polska S.A.;
- mass payments (e.g. related to media) made in the sales network of Poczta Polska S.A.;
- own funds of Poczta Polska, mainly overnight deposits.

The funds are highly volatile (up to several million PLN per month) which results in material changes in the Group's balance sheet total at each balance sheet date.

Additionally, the account balance in the Central Bank as at a given balance sheet date is affected by the daily level of the required reserve the Bank has to maintain during the month.

21. Receivables from other banks

21 a Net receivables from other banks

Structure by type	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	**PLN '000**
Current accounts	4 458	6 602
Other receivables	31 871	23 247
Gross receivables from banks	**36 329**	**29 849**
Net impairment allowances on receivables	0	0
Net receivables from banks	**36 329**	**29 849**

By maturity	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	**PLN '000**
Up to 1 month	6 147	9 609
From 1 to 3 months	0	0
From 3 months to 1 year	181	243
Over 1 year to 5 years	10 000	0
Over 5 years	20 001	19 997
Total	**36 329**	**29 849**

21 b Receivables from other banks by method of estimating the impairment loss and indications of impairment

All receivables from other banks are analyzed individually. As at 31 December 2013 and 31 December 2012 no impairment indications were identified for these receivables.

21 c Change in impairment losses

As at 31 December 2013 and 31 December 2012 receivables from other banks were not impaired.

22. Receivables and liabilities arising from purchased / sold securities with a repurchase arrangement

Receivables and liabilities arising from purchased / sold securities with a repurchase arrangement (by counterparty)

	Balance as at 31 December 2013		Balance as at 31 December 2012 (restated)	
	Receivables	Liabilities	Receivables	Liabilities
	PLN '000	PLN '000	PLN '000	PLN '000
- from banks	0	41 428	0	0
- from customers	0	8 182	0	0
Total	**0**	**49 610**	**0**	**0**

Receivables and liabilities arising from purchased / sold securities with a repurchase arrangement (by type)

	Balance as at 31 December 2013		Balance as at 31 December 2012 (restated)	
	Receivables	Liabilities	Receivables	Liabilities
	PLN '000	PLN '000	PLN '000	PLN '000
Treasury bonds	0	49 610	0	0
Total	**0**	**49 610**	**0**	**0**

Receivables and liabilities arising from purchased / sold securities with a repurchase arrangement (by maturity)

	Balance as at 31 December 2013		Balance as at 31 December 2012 (restated)	
	Receivables	Liabilities	Receivables	Liabilities
	PLN '000	PLN '000	PLN '000	PLN '000
Up to 1 month	0	49 610	0	0
Total	**0**	**49 610**	**0**	**0**

23. Financial assets and liabilities held for trading

Fair values of financial assets and liabilities held for trading as at 31 December 2013 and 31 December 2012 have been presented below:

Financial assets held for trading	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	PLN '000
Derivative instruments	1 369	766
Total	**1 369**	**766**

Financial liabilities held for trading	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	PLN '000
Derivative instruments	17	17
Total	**17**	**17**

Derivatives by type	Assets	Liabilities	Assets	Liabilities
	Balance as at 31 December 2013		Balance as at 31 December 2012 (restated)	
	PLN '000	PLN '000	PLN '000	PLN '000
Currency swap	0	0	0	17
FRA	0	0	0	0
IRS	1 369	0	766	0
OIS	0	17	0	0
Total	**1 369**	**17**	**766**	**17**

The face value of instruments with the term to maturity as at 31 December 2013

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
FX derivatives:						
Currency swap	**0**	**0**	**0**	**0**	**0**	**0**
purchase	0	0	0	0	0	**0**
sale	0	0	0	0	0	**0**
Interest rate derivatives:						
FRA	0	0	0	0	0	**0**
IRS	**0**	**0**	**100 000**	**100 000**	**0**	**200 000**
purchase	0	0	50 000	50 000	0	**100 000**
sale	0	0	50 000	50 000	0	**100 000**
OIS	**200 000**	**0**	**0**	**0**	**0**	**200 000**
purchase	100 000	0	0	0	0	**100 000**
sale	100 000	0	0	0	0	**100 000**
Total derivatives	**200 000**	**0**	**100 000**	**100 000**	**0**	**400 000**

The face value of instruments with the term to maturity as at 31 December 2012 (restated)

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
FX derivatives:						
Currency swap	**9 805**	**82 150**	**0**	**0**	**0**	**91 955**
purchase	4 899	41 268	0	0	0	**46 167**
sale	4 906	40 882	0	0	0	**45 788**
Interest rate derivatives:						
IRS	**0**	**0**	**0**	**100 000**	**0**	**100 000**
purchase	0	0	0	50 000	0	**50 000**
sale	0	0	0	50 000	0	**50 000**
Total derivatives	**9 805**	**82 150**	**0**	**100 000**	**0**	**191 955**

24. Loans and advances granted to customers (net)

24 a Loans and advances granted to clients (by type)

Structure by type	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	PLN '000
Overdraft facilities from clients	79 626	69 379
Term loans, including:	5 100 878	4 625 272
individuals	4 105 692	3 564 369
- consumer loans	1 723 116	1 408 506
- real estate loans	2 367 726	2 145 044
- credit card debt	14 850	10 819
institutional clients	638 572	647 471
- real estate loans	293 502	232 995
- operating loans	96 644	95 638
- investment loans	161 494	246 670
- mortgage loans	58 993	66 864
- other loans (car loans, receivables purchased)	27 939	5 304
local authorities	356 614	413 432
- real estate loans	664	820
- operating loans	2 611	26 991
- investment loans	353 339	385 621
Gross loans and advances	**5 180 504**	**4 694 651**
Net impairment allowances on receivables	124 792	95 106
Net loans and advances	**5 055 712**	**4 599 545**

24 b Loans and advances granted to clients (by maturity)

By maturity	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	PLN '000
Up to 1 month	92 682	75 449
1 to 3 months	96 644	77 542
3 months to 1 year	387 644	456 814
1 to 5 years	1 363 562	1 205 223
Over 5 years	3 023 725	2 707 398
Past due	91 455	77 119
Total	**5 055 712**	**4 599 545**

24 c Loans and advances granted to clients by method of estimating the impairment loss

Balance as at 31 December 2013	Loans and advances granted to customers (gross value)		Impairment loss			Loans and advances granted to customers (net value)		
	assessed invidividually	assessed collectively	assessed invidividually	assessed collectively		assessed invidividually	assessed collectively	Total
				no indications of impairment	indication of impairment			
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Overdraft facilities from clients	5 567	74 059	2 359	837	4 805	3 208	68 417	71 625
Term loans, including:	65 199	5 035 679	23 931	14 014	78 846	41 268	4 942 819	4 984 087
individuals	6 012	4 099 680	2 921	11 306	72 932	3 091	4 015 442	4 018 533
- consumer loans	6 012	1 717 104	2 921	8 386	44 308	3 091	1 664 410	1 667 501
- real estate loans	0	2 367 726	0	2 751	27 347	0	2 337 628	2 337 628
- credit card debt	0	14 850	0	169	1 277	0	13 404	13 404
institutional clients	59 187	579 385	21 010	2 684	5 914	38 177	570 787	608 964
local authorities	0	356 614	0	24	0	0	356 590	356 590
Total	**70 766**	**5 109 738**	**26 290**	**14 851**	**83 651**	**44 476**	**5 011 236**	**5 055 712**

Balance as at 31 December 2012 (restated)	Loans and advances granted to customers (gross value)		Impairment loss			Loans and advances granted to customers (net value)		
	assessed invidividually	assessed collectively	assessed invidividually	assessed collectively		assessed invidividually	assessed collectively	Total
				no indications of impairment	indication of impairment			
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Overdraft facilities from clients	7 867	61 512	1 984	453	2 558	5 883	58 501	64 384
Term loans, including:	42 531	4 582 741	14 563	14 390	61 158	27 968	4 507 193	4 535 161
individuals	0	3 564 369	0	11 792	56 646	0	3 495 931	3 495 931
- consumer loans	0	1 408 506	0	6 353	40 527	0	1 361 626	1 361 626
- real estate loans	0	2 145 044	0	5 316	15 605	0	2 124 123	2 124 123
- credit card debt	0	10 819	0	123	514	0	10 182	10 182
institutional clients	42 531	604 940	14 563	2 186	4 512	27 968	598 242	626 210
local authorities	0	413 432	0	412	0	0	413 020	413 020
Total	**50 398**	**4 644 253**	**16 547**	**14 843**	**63 716**	**33 851**	**4 565 694**	**4 599 545**

Individually significant exposures with indications of impairment, but with but finally no impairment detected are included in collective calculation of impairment losses arising from incurred but unreported losses (IBNR).

24 d Loans and advances granted to customers (by indication of impairment)

Balance as at 31 December 2013	Loans and advances granted to (gross value)		Impairment loss		Loans and advances granted to customers (net value)		
	impaired	not impaired	impaired	not impaired	impaired	not impaired	Total
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Overdraft facilities from clients	16 409	63 217	7 164	837	9 245	62 380	71 625
Term loans, including:	260 832	4 840 046	102 777	14 014	158 055	4 826 032	4 984 087
individuals	189 362	3 916 330	75 853	11 306	113 509	3 905 024	4 018 533
- consumer loans	114 152	1 608 964	47 229	8 386	66 923	1 600 578	1 667 501
- real estate loans	72 761	2 294 965	27 347	2 751	45 414	2 292 214	2 337 628
- credit card debt	2 449	12 401	1 277	169	1 172	12 232	13 404
institutional clients	71 470	567 102	26 924	2 684	44 546	564 418	608 964
local authorities	0	356 614	0	24	0	356 590	356 590
Total	**277 241**	**4 903 263**	**109 941**	**14 851**	**167 300**	**4 888 412**	**5 055 712**

Balance as at 31 December 2012 (restated)	Loans and advances granted to (gross value)		Impairment loss		Loans and advances granted to customers (net value)		
	impaired	not impaired	impaired	not impaired	impaired	not impaired	Total
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Overdraft facilities from clients	14 899	54 480	4 542	453	10 357	54 027	64 384
Term loans, including:	206 878	4 418 394	75 721	14 390	131 157	4 404 004	4 535 161
individuals	154 886	3 409 483	56 646	11 792	98 240	3 397 691	3 495 931
- consumer loans	100 924	1 307 582	40 527	6 353	60 397	1 301 229	1 361 626
- real estate loans	52 870	2 092 174	15 605	5 316	37 265	2 086 858	2 124 123
- credit card debt	1 092	9 727	514	123	578	9 604	10 182
institutional clients	51 992	595 479	19 075	2 186	32 917	593 293	626 210
local authorities	0	413 432	0	412	0	413 020	413 020
Total	**221 777**	**4 472 874**	**80 263**	**14 843**	**141 514**	**4 458 031**	**4 599 545**

24 e Change in impairment losses

Changes in impairment losses on loans and advances granted to clients in individual reporting periods have been presented below:

	Balance of impairment losses as at 1 January 2013	Recognized in the period	Derecognized in the period	Applied	Balance of impairment losses as at 31 December 2013
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Overdraft facilities from clients	4 995	3 858	(852)	0	8 001
Term loans, including:	90 111	48 502	(9 551)	(12 271)	116 791
individuals	68 438	38 329	(7 709)	(11 899)	87 159
- consumer loans	46 880	25 019	(5 452)	(10 832)	55 615
- real estate loans	20 921	12 474	(2 232)	(1 065)	30 098
- credit card debt	637	836	(25)	(2)	1 446
institutional clients	21 261	10 169	(1 450)	(372)	29 608
local authorities	412	4	(392)	0	24
Total	**95 106**	**52 360**	**(10 403)**	**(12 271)**	**124 792**

`	Balance of impairment losses as at 1 January 2012	Recognized in the period	Derecognized in the period	Applied	Balance of impairment losses as at 31 December 2012 (restated)
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Overdraft facilities from clients	3 727	2 298	(965)	(65)	4 995
Term loans, including:	76 290	41 492	(17 126)	(10 545)	90 111
individuals	58 989	30 564	(10 570)	(10 545)	68 438
- consumer loans	50 282	17 402	(10 337)	(10 467)	46 880
- real estate loans	8 574	12 620	(195)	(78)	20 921
- credit card debt	133	542	(38)	0	637
institutional clients	16 984	10 800	(6 523)	0	21 261
local authorities	317	128	(33)	0	412
Total	**80 017**	**43 790**	**(18 091)**	**(10 610)**	**95 106**

25. Investments in financial assets

As at 31 December 2013	Available for sale	Held to maturity	Total
	PLN'000	PLN'000	PLN'000
Quoted	**615 185**	**372 080**	**987 265**
Treasury bonds, including	585 445	372 080	**957 525**
- covering Bank Guarantee Fund	0	37 484	**37 484**
- securities with a repurchase arrangement	49 610	0	**49 610**
Bonds and deposit certificates of banks	29 740	0	**29 740**
Unquoted	**839 833**	**14 938**	**854 771**
Shares	8	0	**8**
Debt instruments issued by the National Bank of Poland	839 825	0	**839 825**
Bonds and deposit certificates of banks	0	14 938	**14 938**
Total investments in financial assets	**1 455 018**	**387 018**	**1 842 036**

As at 31 December 2012 (restated)	Available for sale	Held to maturity	Total
	PLN'000	PLN'000	PLN'000
Quoted	**891 297**	**392 762**	**1 284 059**
Treasury bonds, including	832 374	392 762	**1 225 136**
- covering Bank Guarantee Fund	0	32 362	**32 362**
Treasury bills	49 855	0	**49 855**
Commercial bonds	9 068	0	**9 068**
Unquoted	**169 928**	**0**	**169 928**
Shares	8	0	**8**
Debt instruments issued by the National Bank of Poland	169 920	0	**169 920**
Total investments in financial assets	**1 061 225**	**392 762**	**1 453 987**

Investment securities available for sale by maturity

	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	**PLN '000**
Up to 1 month	839 825	219 775
1 to 3 months	0	0
3 months to 1 year	212 630	655 230
1 to 5 years	327 620	176 711
Over 5 years	74 935	9 501
With unspecified maturity	8	8
Total	**1 455 018**	**1 061 225**

Investment securities held to maturity by maturity

	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	**PLN '000**
Up to 1 month	4 996	0
1 to 3 months	9 942	0
3 months to 1 year	54 153	20 214
1 to 5 years	317 927	372 548
Total	**387 018**	**392 762**

26. Property, plant and equipment

	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN'000	PLN'000
Buildings and structures	13 057	13 198
Land and other	499	499
Leasehold improvements	6 353	6 809
Plant and machinery	14 422	11 980
Fixed assets under construction	3 510	3 104
Vehicles	59	97
Fittings	6 460	7 637
Fixed assets under finance lease	306	889
Total	**44 666**	**44 213**

As at 31 December 2013 the Group was a party to contracts that resulted in contractual liabilities arising from acquisition of property, plant and equipment in the amount of PLN 2.9 million.

Change in property, plant and equipment in the period from 1 January 2013 to 31 December 2013

	Buildings and structures	Land and other	Leasehold improvements	Plant and equipment	Fixed assets under construction	Vehicles	Fittings	Lease	Total fixed assets
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Gross value of fixed assets - at the beginning of the reporting period	**19 046**	**499**	**22 201**	**38 345**	**3 104**	**210**	**27 144**	**2 188**	**112 737**
Increases	**423**	**0**	**2 292**	**7 787**	**6 201**	**44**	**2 296**	**0**	**19 043**
Direct purchases	238	0	323	5 418	6 201	14	505	0	12 699
Other increases	185	0	1 969	2 369	0	30	1 791	0	6 344
Decreases	**0**	**0**	**(1 162)**	**(2 070)**	**(5 795)**	**(24)**	**(1 874)**	**0**	**(10 925)**
Sales, liquidation	0	0	(1 162)	(2 070)	(32)	(24)	(1 293)	0	(4 581)
Other decreases	0	0	0	0	(5 763)	0	(581)	0	(6 344)
Gross value of fixed assets – at the end of the reporting period	**19 469**	**499**	**23 331**	**44 062**	**3 510**	**230**	**27 566**	**2 188**	**120 855**
Accumulated depreciation at the beginning of the reporting period	**5 848**	**0**	**15 392**	**26 365**	**0**	**113**	**19 507**	**1 299**	**68 524**
Increases	**564**	**0**	**2 655**	**5 304**	**0**	**59**	**3 313**	**583**	**12 478**
Depreciation	564	0	2 653	4 817	0	59	3 310	583	11 986
Other increases	0	0	2	487	0	0	3	0	492
Decreases	**0**	**0**	**(1 069)**	**(2 029)**	**0**	**(1)**	**(1 714)**	**0**	**(4 813)**
Sales, liquidation	0	0	(1 069)	(2 029)	0	(1)	(1 229)	0	(4 328)
Other decreases	0	0	0	0	0	0	(485)	0	(485)
Accumulated depreciation – at the end of the reporting period	**6 412**	**0**	**16 978**	**29 640**	**0**	**171**	**21 106**	**1 882**	**76 189**
Net value of fixed assets at the beginning of the reporting period	**13 198**	**499**	**6 809**	**11 980**	**3 104**	**97**	**7 637**	**889**	**44 213**
Net value of fixed assets at the end of the reporting period	**13 057**	**499**	**6 353**	**14 422**	**3 510**	**59**	**6 460**	**306**	**44 666**

Bank Pocztowy

Change in property, plant and equipment in the period from 1 January 2012 to 31 December 2012 (restated)

	Buildings and structures	Land and other	Leasehold improvements	Plant and equipment	Fixed assets under construction	Vehicles	Fittings	Lease	Total fixed assets
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Gross value of fixed assets - at the beginning of the reporting period	**18 279**	**499**	**20 423**	**34 473**	**3 317**	**265**	**25 810**	**2 446**	**105 512**
Increases	**767**	**0**	**1 836**	**4 771**	**4 793**	**36**	**2 290**	**15**	**14 508**
Direct purchases	167	0	743	2 856	4 793	1	809	0	9 369
Other increases	600	0	1 093	1 915	0	35	1 481	15	5 139
Decreases	**0**	**0**	**(58)**	**(899)**	**(5 006)**	**(91)**	**(956)**	**(273)**	**(7 283)**
Sales, liquidation	0	0	(58)	(899)	(10)	(91)	(828)	(273)	(2 159)
Other decreases	0	0	0	0	(4 996)	0	(128)	0	(5 124)
Gross value of fixed assets – at the end of the reporting period	**19 046**	**499**	**22 201**	**38 345**	**3 104**	**210**	**27 144**	**2 188**	**112 737**
Accumulated depreciation at the beginning of the reporting period	**5 325**	**0**	**12 290**	**22 645**	**0**	**74**	**16 449**	**1 026**	**57 809**
Increases	**523**	**0**	**3 163**	**4 461**	**0**	**50**	**3 882**	**546**	**12 625**
Depreciation	523	0	3 163	4 461	0	50	3 882	546	12 625
Decreases	**0**	**0**	**(61)**	**(741)**	**0**	**(11)**	**(824)**	**(273)**	**(1 910)**
Sales, liquidation	0	0	(55)	(771)	0	(11)	(792)	(273)	(1 902)
Other decreases	0	0	(6)	30	0	0	(32)	0	(8)
Accumulated depreciation – at the end of the reporting period	**5 848**	**0**	**15 392**	**26 365**	**0**	**113**	**19 507**	**1 299**	**68 524**
Net value of fixed assets at the beginning of the reporting period	**12 954**	**499**	**8 133**	**11 828**	**3 317**	**191**	**9 361**	**1 420**	**47 703**
Net value of fixed assets at the end of the reporting period	**13 198**	**499**	**6 809**	**11 980**	**3 104**	**97**	**7 637**	**889**	**44 213**

27. Intangible assets

	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	**PLN '000**
R&D expenses	4 012	2 133
Copyrights, licenses, concessions and software	23 840	20 649
Payments to intangible assets	2 363	4 557
Total intangible assets	**30 215**	**27 339**

As at 31 December 2013, the Group was a party to agreements resulting in contractual liabilities due to acquisition of intangible assets of PLN 3.9 million.

Bank Pocztowy

Change in intangible assets in the period from 1 January 2013 to 31 December 2013

	R&D expenses	Copyrights, licenses, concessions and software	Payments to intangible assets	Total intangible assets
	PLN '000	PLN '000	PLN '000	PLN '000
Gross value of intangible assets at the beginning of the reporting period	**2 137**	**67 404**	**4 557**	**74 098**
Increases	**2 345**	**12 678**	**7 554**	**22 577**
Other increases	2 345	7 403	0	**9 748**
Direct purchases	0	5 275	7 554	**12 829**
Decreases	**0**	**(137)**	**(9 748)**	**(9 885)**
Sales, liquidation	0	(137)	0	**(137)**
Other decreases	0	0	(9 748)	**(9 748)**
Gross value of intangible assets at the end of the reporting period	**4 482**	**79 945**	**2 363**	**86 790**
Accumulated amortization at the beginning of the reporting period	**4**	**46 755**	**0**	**46 759**
Increases	**466**	**9 487**	**0**	**9 953**
Amortization	466	9 487	0	**9 953**
Decreases	**0**	**(137)**	**0**	**(137)**
Sales, liquidation	0	(137)	0	**(137)**
Accumulated amortization at the end of the reporting period	**470**	**56 105**	**0**	**56 575**
Net value of intangible assets at the beginning of the reporting period	**2 133**	**20 649**	**4 557**	**27 339**
Net value of intangible assets at the end of the reporting period	**4 012**	**23 840**	**2 363**	**30 215**

Change in intangible assets in the period from 1 January 2012 to 31 December 2012 (restated)

	R&D expenses	Copyrights, licenses, concessions and software	Payments to intangible assets	Total intangible assets
	PLN '000	**PLN '000**	**PLN '000**	**PLN '000**
Gross value of intangible assets at the beginning of the reporting period	**22**	**58 106**	**5 150**	**63 278**
Increases	**2 115**	**9 481**	**6 868**	**18 464**
Reclassification from investments	2 115	5 388	0	**7 503**
Direct purchases	0	4 093	6 868	**10 961**
Decreases	**0**	**(183)**	**(7 461)**	**(7 644)**
Sales, liquidation	0	(141)	0	**(141)**
Expenditure settlement	0	(42)	(7 461)	**(7 503)**
Gross value of intangible assets at the end of the reporting period	**2 137**	**67 404**	**4 557**	**74 098**
Accumulated amortization at the beginning of the reporting period	**0**	**38 477**	**0**	**38 477**
Increases	**4**	**8 328**	**0**	**8 332**
Amortization	4	8 328	0	**8 332**
Decreases	**0**	**(50)**	**0**	**(50)**
Sales, liquidation	0	(50)	0	**(50)**
Accumulated amortization at the end of the reporting period	**4**	**46 755**	**0**	**46 759**
Net value of intangible assets at the beginning of the reporting period	**22**	**19 629**	**5 150**	**24 801**
Net value of intangible assets at the end of the reporting period	**2 133**	**20 649**	**4 557**	**27 339**

28. Other assets

	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	PLN '000
Accrued revenue	17 187	8 606
Various debtors and other assets	14 010	5 632
Accrued expenses	3 484	2 159
Payment card settlements	1 547	1 698
Settlements related to third-party cash processing services	0	0
Inventory related to the Bank's sundry operations	690	1 223
Other assets	366	1 122
Total other gross assets	**37 284**	**20 440**
Impairment losses on other assets	(10 210)	(5 161)
Total other net assets	**27 074**	**15 279**

Impairment of other assets

	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	PLN '000
Impairment losses on other assets at the beginning of the reporting period	5 161	4 945
Recognition/revaluation of provisions	5 182	2 621
Use of provisions	(17)	(2 298)
Derecognition of provisions	(116)	(107)
Impairment losses on other assets at the end of the reporting period	**10 210**	**5 161**

29. Liabilities to the Central Bank

	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	PLN '000
Current loro accounts	11	6
Total liabilities to the Central Bank	**11**	**6**

30. Liabilities to other banks

	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	**PLN '000**
Current accounts	3 719	2 824
Term deposits	38 043	0
Total liabilities to other banks	**41 762**	**2 824**
including:		
Short-term (below 12 months)	41 762	2 824
Long-term (over 12 months)	0	0

As at 31 December 2013, term deposits included mainly O/N and short-term (maturing within 3 months) deposits.

31. Liabilities to clients

	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	**PLN '000**
Institutional clients:		
Current accounts	584 135	482 622
Term deposits	1 386 033	1 539 507
Other liabilities	4 494	6 730
- due to cash collateral	1 977	4 647
- other	2 517	2 083
Total - institutional clients	**1 974 662**	**2 028 859**
Individual clients		
Current accounts	2 209 188	2 001 352
Term deposits	1 899 036	1 986 560
Other liabilities	48 947	75 126
- due to cash collateral	4	4
- other	48 943	75 122
Total - individual clients	**4 157 171**	**4 063 038**
Public sector clients		
Current accounts	84 987	182 535
Term deposits	13 751	43 510
Other liabilities	7	7
- due to cash collateral	7	7
- other	0	0
Total – public sector clients	**98 745**	**226 052**
Total	**6 230 578**	**6 317 949**
including:		
Short-term (below 12 months)	3 039 232	3 290 860
Long-term (over 12 months)	314 385	360 580
With unspecified maturity	2 876 961	2 666 509

32. Provisions

	Provisions for disputes	Provision for retirement and disability benefits	Provisions for termination benefits for members of the Bank's governing bodies	Provisions for off-balance sheet liabilities	Other provisions	Total
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Balance as at 1 January 2013	2 470	675	166	684	0	3 995
Recognition/revaluation of provisions	338	143	0	4 304	0	4 785
Discounted amount increase	569	0	0	0	0	569
Use of provisions	(57)	(27)	0	0	0	(84)
Derecognition of provisions	(1 949)	(34)	0	(3 863)	0	(5 846)
Balance as at 31 December 2013	**1 371**	**757**	**166**	**1 125**	**0**	**3 419**
including:						
Short-term (below 12 months)	1 371	51	166	1 125	0	2 713
Long-term (over 12 months)	0	706	0	0	0	706
Balance as at 31 December 2013	**1 371**	**757**	**166**	**1 125**	**0**	**3 419**

	Provisions for disputes	Provision for retirement and disability benefits	Provisions for termination benefits for members of the Bank's governing bodies	Provisions for off-balance sheet liabilities	Other provisions	Total
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Balance as at 1 January 2012 (restated)	2 469	908	166	1 284	0	4 827
Recognition/revaluation of provisions	111	0	0	2 506	0	2 617
Discounted amount increase	74	0	0	0	0	74
Use of provisions	(148)	(28)	0	0	0	(176)
Derecognition of provisions	(36)	(205)	0	(3 106)	0	(3 347)
Balance as at 31 December 2012 (restated)	**2 470**	**675**	**166**	**684**	**0**	**3 995**
including:						
Short-term (below 12 months)	118	39	166	684	0	1 007
Long-term (over 12 months)	2 352	636	0	0	0	2 988
Balance as at 31 December 2012 (restated)	**2 470**	**675**	**166**	**684**	**0**	**3 995**

Provisions for disputes

Provisions for disputes are recognized for court cases, administrative proceedings and other legal disputes. The Group keeps a detailed record of disputes. Provisions are recognized if the Group is subject to a legal or customary obligation resulting from past events, and if there is a probability that fulfillment of the obligation will result in an outflow of funds. Any future claims are charged to the provisions. The Group has recognized provisions for all estimated losses. As a rule, estimated term of provisions for disputes exceeds one year.

Presented below is a description of the major disputes entered into by the Group.

In 2001, the President of the Office of Competition and Consumer Protection ("OCCP President") initiated anti-monopoly proceedings against card associations (Visa, Europay) and banks (issuers of Visa and Europay/Eurocard/Mastercard cards) concerning anti-competitive practices in the Polish payment card market, which consisted, allegedly, in common determination of the interchange fee for transactions made with Visa and Europay/Eurocard/Mastercard cards.

On 29 December 2006, OCCP President decided that practices consisting in the banks' common determination of the interchange fee reduced competition in the market of acquiring services relating to payment of consumers' liabilities to merchants, arising from payments for goods and services purchased by consumers with the use of payment cards in Poland, and ordered their discontinuation, imposing, at the same time, financial penalties on the banks, including the Bank, equal to PLN 2,895 thousand (participating only in the VISA system) (OCCP President's decision No. DAR 15/2006). The Bank recognized a provision for the full amount of the aforesaid penalty.

An appeal against the abovementioned decision was filed with the Court of Competition and Consumer Protection ("CCCP") by the Bank and other parties to the proceedings. As a result, in its judgment of 12 November 2008 CCCP reversed the decision concluding that no anti-competitive practices had been followed by the banks in the aforesaid case. Following an appeal filed by OCCP President, the Court of Appeals reversed the judgment in whole on 22 April 2010 and remanded the case for further proceedings at CCCP.

In its judgment of 21 November 2013, CCCP:

- reversed the decision appealed against in respect of the amount of financial penalties imposed on the banks specified in the judgment, reducing the penalty levied on the Bank to PLN 25.4 thousand (the court questioned the methodology used by OCCP President for determining individual penalties by reference to a base amount being the PLN equivalent of EUR 5 million, and relied on its own methodology based on the revenue of individual banks as at the end of 2005);
- dismissed the appeals in the remaining scope;
- cancelled the costs of the proceedings.

On 3 February 2014, the Bank appealed against the judgment with respect to dismissal of the appeal. On 12 February 2014, OCCP President filed an appeal against the judgment with respect to the penalties and costs of the proceedings. Considering the appeals filed by OCCP President and some banks, the judgment is not final.

Having considered the assessment of the probability that the lower penalty imposed on the Bank would not be changed and having analyzed the position of OCCP President and CCCP on determination of the amount of the penalties levied, along with the scenarios concerning further course of the proceedings, the Bank estimated the provision for the potential financial penalty assuming that the judgment of the Court of Appeals would be favorable for OCCP President, in the amount of PLN 1,044 thousand as at 31 December 2013.

Provisions for retirement and disability benefits

In accordance with IAS 19, retirement and disability benefits are post-employment defined benefit plans. As the Group estimates its provisions for retirement and disability benefits using actuarial methods, it is exposed to the actuarial risk, including mainly the interest rate, longevity and compensation risk.

Risk	Effect on measurement
Interest rate risk	A drop in interest rates on financial instruments which are not exposed to credit risk results in higher present value of provisions for retirement and disability benefits.
Longevity risk	The present value of liabilities under the defined benefit plan is determined by reference to best estimates of program participants' mortality both during and following the term of service. Any increase in the program participants' life expectancy results in a rise in the value of provisions for retirement and disability benefits.
Compensation risk	The present value of liabilities under the defined benefit plan is determined by reference to the program participants' future compensation level. Therefore, any increase in the program participants' compensation results in a rise in the value of provisions for retirement and disability benefits.

The present value of provisions for retirement and disability benefits and the related current and past service costs have been measured using the projected unit credit method, based on the following actuarial assumptions:

	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
Discount rates	4.0%	from 4.5% to 5.0%
Anticipated pay growth rate	2.5%	2.5%
Mortality tables used for calculation purposes*	100% PTTZ 2012	100% PTTZ 2011
Inflation rate	2.5%	2.5%
Turnover (p.a.)	from 5.0% to 9.0%	from 5.0% to 8.0%

* it is assumed that mortality of those employed is reduced by 10%

The table below presents amounts recognized in profit or loss and in other comprehensive income with respect to the defined benefit plan.

	Period from 1 January 2013 to 31 December 2013	Period from 1 January 2012 to 31 December 2012 (restated)
	PLN'000	PLN'000
Provisions for retirement and disability benefits at the beginning of the reporting period	**675**	**908**
Amounts recognized in the consolidated profit or loss, including:		
- current service cost	111	87
- past service cost	0	(269)
- net interest expense	32	50
Expense recognized in the consolidated profit or loss	**143**	**(132)**
Amounts recognized in the consolidated other comprehensive income, including:		
- actuarial gains and losses due to changes in demographic assumptions	(145)	(80)
- actuarial gains and losses due to changes in financial assumptions	111	7
Expense items recognized in the consolidated other comprehensive income	**(34)**	**(73)**
Benefits paid	(27)	(28)
Provisions for retirement and disability benefits at the beginning of the reporting period	**757**	**675**

Off-balance sheet provisions

Guarantees granted and unconditional financial commitments are treated as an exposure bearing credit risk. While calculating provisions for off-balance sheet liabilities, the Bank uses the credit conversion factor (CCF).

33. Other liabilities

	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	PLN '000
Interbank settlements	3 892	23 765
Trade liabilities	38 656	23 617
Finance lease liabilities	306	889
Settlements under public law	5 022	4 816
Settlements with Poczta Polska due to cash processing services	29 171	9 457
Payment card settlements	251	124
Prepaid expenses	7 312	4 763
Provisions for bonuses and remuneration	847	6 771
Provisions for paid vacation	1 822	1 954
Deferred income	107	1 237
Other	1 435	0
Total	**88 821**	**77 393**
including:		
Short-term (below 12 months)	88 580	76 859
Long-term (over 12 months)	241	534

34. Liabilities arising from issue of debt securities

Classification	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	PLN '000
Financial instruments measured at amortized cost	431 597	206 282
Financial instruments measured at fair value through profit or loss	0	0
Total	**431 597**	**206 282**

By maturity	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	PLN '000
up to 1 month	34 204	6 560
from 1 to 3 months	0	0
from 3 months to 1 year	249 543	0
from 1 year to 5 years	147 850	199 722
Total	**431 597**	**206 282**

Balance as at
31 December 2013

Item	Par value	Interest	Maturity	Balance of liabilities
	PLN '000			**PLN '000**
Bonds				
Quoted	200 000	WIBOR 6M + 1.70pp	10 July 2014	204 127
Unquoted	30 000	zero-coupon bonds	8 January 2014	29 982
Unquoted	50 000	zero-coupon bonds	2 June 2014	49 325
Unquoted	147 850	WIBOR 6M + 1.40pp	13 December 2016	148 163
Total	**427 850**			**431 597**

It is the Bank's intention to trade its B2 series bonds on the Over-The-Counter market of the Warsaw Stock Exchange (Catalyst) within 90 days of their issue. In the year ended 31 December 2013, the Group fulfilled all its obligations arising from the bond issue.

Balance as at 31 December 2012
(restated)

Item	Par value	Interest	Maturity	Balance of liabilities
Bonds	**PLN '000**			**PLN '000**
Quoted	200 000	WIBOR 6M + 1.70pp	10 July 2014	206 282
Total	**200 000**			**206 282**

Quoted bond issues are traded on the Over-The-Counter market of the Warsaw Stock Exchange (Catalyst).

35. Subordinated liabilities

Classification	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	**PLN '000**
Financial instruments measured at amortized cost, including:	142 027	142 891
- loans	43 036	43 030
- bonds	98 991	99 861
Total	**142 027**	**142 891**

Balance as at
31 December 2013

Item	Par value	Interest	Maturity	Balance of subordinated liabilities
	PLN '000			**PLN '000**
Loans				
Poczta Polska	43 000	WIBOR6M+3pp	8 July 2016	43 036
Bonds				
Quoted	47 340	WIBOR6M+3.75pp (by 8 July 2016) WIBOR6M+3.75pp + 1.5pp (between 9 July 2016 and 8 July 2021)	8 July 2021	48 707
Quoted	50 000	WIBOR6M+3.50pp	5 October 2022	50 284
Total	**140 340**			**142 027**

Subordinated bonds are traded on the Over-The-Counter market of the Warsaw Stock Exchange (Catalyst).

Balance as at

31 December 2012 (restated)

Item	**Par value**	**Interest**	**Maturity**	**Balance of subordinated liabilities**
	PLN '000			**PLN '000**
Loans				
Poczta Polska	43 000	WIBOR6M+3pp	8 July 2016	43 030
Bonds				
Quoted	47 340	WIBOR6M+3.75pp (by 8 July 2016) WIBOR6M+3.75pp + 1.5pp (between 9 July 2016 and 8 July 2021)	8 July 2021	49 255
Quoted	50 000	WIBOR6M+3.50pp	5 October 2022	50 606
Total	**140 340**			**142 891**

Following the approval of the Polish Financial Supervision Authority, in October 2012 the Group classified funds raised through the second issue of subordinated bonds to supplementary capital. Subordinated bonds from the first issue are traded on the Warsaw Stock Exchange bond market (Catalyst), while the second issue subordinated bonds were marketed on 20 February 2013.

36. Equity

36 a Share capital

	Balance as at 31 December 2013	
	number of shares	value PLN '000
Registered shares, A series/face value of PLN 10 each	291 300	2 913
Registered shares, B series/face value of PLN 10 each	9 437 740	94 377
Total	**9 729 040**	**97 290**

	Balance as at 31 December 2012 (restated)	
	number of shares	value PLN '000
Registered shares, A series/face value of PLN 10 each	291 300	2 913
Registered shares, B series/face value of PLN 10 each	9 437 740	94 377
Total	**9 729 040**	**97 290**

As at 31 December 2013, the Bank's share capital was divided into 9,729,040 shares with the face value of PLN 10 each. The Bank's shares were fully paid up. General description of shares:

- 291,300 A series shares (held by Poczta Polska S.A.) carrying no voting preference, but carrying preferential rights to asset distribution in case of liquidation of the Bank in proportion of 5 to 1 versus ordinary shares. The preference is lost if a given A series share is sold to an entity not being a founder-shareholder;
- 7,005,470 B series shares (held by Poczta Polska S.A.) and 2,432,270 B series shares (held by Powszechna Kasa Oszczędności Bank Polski S.A.) carrying no preference.

As at 31 December 2013, there were no changes in the share capital of the Bank as compared to 31 December 2012.

36 b Supplementary capital

Supplementary capital is created from the share premium and mandatory 8% appropriation of the net profit.

36 c Revaluation reserve

Revaluation reserve is created upon recognition of the effects of measurement of financial instruments classified as available for sale on a net basis as well as net actuarial gains and losses arising from measurement of post-employment defined benefit plans.

The items in question are derecognized from the revaluation reserve (except for net actuarial gains/losses arising from measurement of post-employment defined benefit plans) when the assets measured are derecognized in whole or in part or when impairment is recognized (at which time the effects of measurement are recognized in profit or loss).
The amount of PLN 366 thousand recognized under the revaluation reserve is a portion of measurement arising from reclassification of securities available for sale to the held-to-maturity category, which has not been settled yet.

	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	PLN '000
Measurement of financial assets available for sale	(2 309)	4 407
Measurement of securities available for sale reclassified to assets held to maturity	366	760
Actuarial gains and losses on measurement of liabilities under the defined benefit plan	277	243
Deferred tax on measurement recognized in the revaluation reserve	369	(982)
Deferred tax on other instruments recognized in the revaluation reserve	(54)	(47)
Total revaluation reserve	**(1 351)**	**4 381**

36 d Other reserve capitals

In line with the Banking Law of 29 August 1997 (Journal of Laws of 2012, item 1376, as amended) (the "Banking Law") and the Bank's charter, the reserve capital is created from net profit distribution and is composed of the general risk fund and other equity.

37. Fair value of financial instruments

Fair value has been defined in Note 5 f (6).

As at 31 December 2013 and 31 December 2012, the Group classified financial assets and liabilities measured at fair value in the statement of financial position as well as financial assets and liabilities which are not measured at fair value on an ongoing basis in the following manner:

- *Level I:* financial assets/liabilities measured based on quoted (unadjusted) prices on active markets for identical assets or liabilities, available to the Group at the measurement date.
- *Level II:* financial assets/liabilities measured based on input data other than quoted prices, as specified for Level I, observable for an asset or liability either indirectly or directly.
- *Level III:* financial assets/liabilities measured based on non-observable input data concerning an asset or liability.

(i) Financial instruments which are not measured at fair value in the statement of financial position

The main classes of financial assets and liabilities which are not measured at fair value in the consolidated statement of financial position are items measured at amortized cost or historical cost, such as:

- originated loans, advances and other receivables not held for trading;
- financial assets held to maturity;
- financial liabilities not held for trading.

Loans and advances granted to clients

"Loans and advances granted to clients" include loans and advances as well as corporate bonds classified as loans and receivables in accordance with IAS 39.

The fair value of loans and advances is determined by calculating the carrying amount - fair value adjustment for each loan. The adjustment was calculated as the difference between the carrying amount of the loan and the total future cash flows related to such loan, discounted using the market interest rate (based on the yield curve) increased by the applicable product markup. The said future cash flows included those related to the principal (as specified in the agreement) and those related to interest, calculated on the basis of the market yield curve increased by the initial markup for each loan. The applicable product markup has been determined as the average markup for a similar group of products extended in the three-month period immediately preceding the end of the reporting period. The carrying amount - fair value adjustment has been determined for loans whose future cash flows are known, while for other exposures, such as overdrafts, the adjustment was assumed at zero.

Fair value of corporate debt securities is measured by discounting future payments from these instruments using spread determined at the transaction date. Securities with embedded call option are measured with the assumption that the call option will be realized in the nearest possible term. Call option embedded in a bond is measured at the end of the reporting period by way of determining the difference between bond measurement assuming the realization of the call option in the nearest possible term and discounted cash flows from the bond held to maturity.

Investment financial assets held to maturity

The fair value of treasury bonds is determined directly based on prices quoted on the active market.

Fair value of debt securities issued by banks, classified as loans and receivables, is measured by discounting future payments from these instruments using spread determined at the transaction date. Securities with embedded call option are measured with the assumption that the call option will be realized in the nearest possible term. Call option embedded in a bond is measured at the end of the reporting period by way of determining the difference between bond measurement assuming the realization of the call option in the nearest possible term and discounted cash flows from the bond held to maturity.

Cash in hand, deposits with the Central Bank and receivables from other banks

This item includes the Group's cash in current accounts with other banks and debt securities classified as loans and receivables.

The fair value of current receivables and term deposits of the Group, maturing within one year, and other receivables is consistent with the carrying amount.

Fair value of debt securities issued by banks, classified as loans and receivables, is measured by discounting future payments from these instruments using spread determined at the transaction date. Securities with embedded call option are measured with the assumption that the call option will be realized in the nearest possible term. Call option embedded in a bond is measured at the end of the reporting period by way of determining the difference between bond measurement assuming the realization of the call option in the nearest possible term and discounted cash flows from the bond held to maturity.

Other financial assets/liabilities which are not measured at fair value in the statement of financial position

For groups of financial assets recognized at the amount due less impairment loss, the Group assumes that the fair value is consistent with the carrying amount due to the nature of such groups of assets, e.g. short term to maturity or unique nature of the instrument. This concerns, in particular, cash and monetary assets, current receivables, investments in subsidiaries and liabilities under finance leases.

Liabilities to clients

The fair value of "Liabilities to clients" was determined by calculating the carrying amount - fair value adjustment for each term deposit. The adjustment was calculated as the difference between the present value of the principal and interest accrued as at the end of the reporting period and the total future cash flows from the principal and interest for the period from the end of the reporting period to the maturity date, discounted using the market interest rate increased by a markup being the difference between the interest on deposit and the base rate as at the deposit date. Each term deposit has been assigned a market interest rate quoted as at the end of the reporting period, corresponding to the number of days from the end of the reporting period to the maturity date. Zero adjustment was assumed for term deposits.

Financial liabilities other than liabilities to clients

The fair value of current liabilities, term deposits of banks, maturing within one year, and other financial liabilities is equal to the carrying amount.

Subordinated liabilities and liabilities arising from issue of debt securities

Fair value of the subordinated loan and liabilities arising from issued debt securities is measured by discounting future payments from these instruments using spread determined at the transaction date.

The tables below present the differences between the carrying amount (carrying amount of loans and liabilities has been presented with interest accrued) and the estimated fair value of financial assets and liabilities of the Group as well as fair value hierarchy classification of financial assets and liabilities which are not measured at fair value in the consolidated statement of financial position of the Group.

	Balance as at 31 December 2013		Balance as at 31 December 2012 (restated)	
	Carrying amount	Fair value	Carrying amount	Fair value
	PLN '000	PLN '000	PLN '000	PLN '000
Cash in hand and deposits with the Central Bank	327 242	327 242	934 743	934 743
Receivables from other banks	36 329	36 327	29 849	29 884
Loans and advances granted to clients, including:	5 055 712	4 911 687	4 599 545	4 765 227
Overdraft facilities	71 625	71 625	64 384	64 384
Term loans, including:	4 984 087	4 840 062	4 535 161	4 700 843
individuals	4 018 533	3 885 619	3 495 931	3 640 481
- consumer loans	1 667 501	1 630 554	1 361 626	1 406 954
- real estate loans	2 337 628	2 241 661	2 124 123	2 223 345
- credit card debt	13 404	13 404	10 182	10 182
institutional clients	608 964	603 406	626 210	633 946
local authorities	356 590	351 037	413 020	426 416
Investment securities held to maturity	387 018	399 701	392 762	411 617
Other assets	27 074	27 074	20 440	20 440
Liabilities to the Central Bank	11	11	6	6
Liabilities to other banks	41 762	41 762	2 824	2 824
Liabilities to clients	6 230 578	6 209 726	6 317 949	6 264 029
Other liabilities	88 821	88 821	77 393	77 393
Liabilities arising from issue of debt securities	431 597	427 256	206 282	206 422
Subordinated liabilities	142 027	140 974	142 891	143 213

Balance as at 31 December 2013	Level I	Level II	Level III	Total
	PLN '000	PLN '000	PLN '000	PLN '000
Cash in hand and deposits with the Central Bank	0	327 242	0	**327 242**
Receivables from other banks	0	6 147	30 180	**36 327**
Loans and advances granted to clients, including:	0	71 625	4 840 062	**4 911 687**
Overdraft facilities	0	71 625	0	**71 625**
Term loans, including:	0	0	4 840 062	**4 840 062**
individuals	0	0	3 885 619	**3 885 619**
- consumer loans	0	0	1 630 554	**1 630 554**
- real estate loans	0	0	2 241 661	**2 241 661**
- credit card debt	0	0	13 404	**13 404**
institutional clients	0	0	603 406	**603 406**
local authorities	0	0	351 037	**351 037**
Investment financial assets held to maturity	384 760	0	14 941	**399 701**
Other assets	0	27 074	0	**27 074**
Liabilities to the Central Bank	0	11	0	**11**
Liabilities to other banks	0	41 762	0	**41 762**
Liabilities to clients	0	2 876 961	3 332 765	**6 209 726**
Other liabilities	0	88 821	0	**88 821**
Liabilities arising from issue of debt securities	0	0	427 256	**427 256**
Subordinated liabilities	0	0	140 974	**140 974**

(ii) Financial instruments which are measured at fair value in the statement of financial position

The table below presents classification of financial assets and liabilities which are measured at fair value based on the fair value hierarchy in the consolidated statement of financial position.

Balance as at 31 December 2013	Level I	Level II	Level III	Total
	PLN '000	PLN '000	PLN '000	PLN '000
Financial assets, including:	**585 445**	**841 194**	**29 740**	**1 456 379**
Financial assets held for trading	0	1 369	0	**1 369**
Investments in financial assets	585 445	839 825	29 740	**1 455 010**
- available for sale	585 445	839 825	29 740	**1 455 010**
Financial liabilities, including:	0	17	0	**17**
Financial liabilities held for trading	0	17	0	**17**

Balance as at 31 December 2012 (restated)	Level I	Level II	Level III	Total
	PLN '000	PLN '000	PLN '000	PLN '000
Financial assets, including:	**882 229**	**170 686**	**9 068**	**1 061 983**
Financial assets held for trading	0	766	0	**766**
Investments in financial assets	882 229	169 920	9 068	**1 061 217**
- available for sale	882 229	169 920	9 068	**1 061 217**
Financial liabilities, including:	0	17	0	**17**
Financial liabilities held for trading	0	17	0	**17**

No reclassifications between Level I and Level II took place in the analyzed period. No items were reclassified from or to Level III, either.

As the scale of derivative transactions, which are entered into with banks only, is inconsiderable, the Group's measurement of derivatives does not take into account the counterparty credit risk or own credit risk, which the Group believes exerts a marginal effect on measurement of its derivatives.

Reconciliation of the change in the balance of Level III financial instruments in 2013 and 2012, whose fair value is determined using measurement methods based on non-observable input data, has been presented below.

Level III	**Investment securities available for sale**
	PLN '000
Balance as at 1 January 2013	**9 068**
Gains or losses	1 024
recognized in profit or loss:	1 056
- interest income	1 404
- profit/loss from investing activities	(348)
recognized in other comprehensive income	(32)
Purchases	21 461
Sales	0
Interest paid	(1 813)
Transfers	0
Balance as at 31 December 2013	**29 740**

Level III	**Investment securities available for sale**
	PLN '000
Balance as at 1 January 2012 (restated)	**192 598**
Gains or losses	15 097
recognized in profit or loss:	14 856
- interest income	9 318
- profit/loss from investing activities	5 538
recognized in other comprehensive income	241
Purchases	9 000
Sales	(198 775)
Interest paid	(8 852)
Transfers	0
Balance as at 31 December 2012 (restated)	**9 068**

Given a rise in the credit spread by 1 b.p., the potential effect on a change in the fair value of Level III financial instruments would be PLN -2 thousand, whereas given a drop in the credit spread by 1 b.p., the potential effect would be PLN 2 thousand.

(in PLN' 000)

Financial assets/liabilities	Fair value as at		Fair value hierarchy	Measurement methods and basic input data	Significant non-observable information	Fair value dependency on observable and non-observable information
	31 December 2013	**31 December 2012 (restated)**				
1) Treasury bills and bonds	Assets: PLN 585,445 thousand	Assets: PLN 882,229 thousand	Level 1	BID price for the long position and ASK price for the short position in the security, quoted on an active interbank market.	n/a	n/a
2) Bills	Assets: PLN 839,825 thousand	Assets: PLN 169,920 thousand	Level 2	Discounted cash flows from the security with discount rate equal to purchased yield.	n/a	n/a
3) IRS	Assets: PLN 1,369 thousand	Assets: PLN 766 thousand	Level 2	Discounted future cash flows. Future cash flows and discounting are calculated on the basis of yield curves built on quoted WIBOR/LIBOR, FRA and IRS rates.	n/a	n/a
	Liabilities: PLN 17 thousand	n/a				
4) FX swap	n/a	Liabilities: PLN 17 thousand	Level 2	Discounted future cash flows. Yield curves used for discounting purposes are built on quoted depo rates and swap points for currency pairs.	n/a	n/a
5) Debt securities (commercial bonds)	Assets: PLN 29,740 thousand	Assets: PLN 9,068 thousand	Level 3	Discounted future cash flows. Future payments from the security are discounted based on yield curves increased by credit spread due to counterparty risk.	Spreads used: BPS bonds: 391pb IPS1014 bonds: 14pb	The higher the spread, the lower the fair value.

"Investment financial assets available for sale" present the Group's equity instruments with the carrying amount of PLN 8 thousand, which are measured at cost as their fair value may not be measured reliably. Such instruments are not subject to the fair value hierarchy analysis performed for investment financial assets available for sale.

38. Operating leases

Group as a lessee

The Group is a party to lease agreements based on which it uses third-party fixed assets and derives economic benefits therefrom for an agreed period of time in return for a payment. In accordance with IAS 17, lease agreements are classified based on the criterion of the scope in which the risks and rewards arising from the holding of the leased asset are distributed between the lessee and the lessor.

In case of operating lease agreements concluded by the Group, where substantially all the risks and rewards related to the leased assets are held by the lessor (mainly lease or rental agreements), lease payments are recognized as costs in the consolidated profit or loss using the straight-line method over the lease term.

Operating lease agreements with the Group as the lessee:

- lease of space – the standard term of these agreements is 5 years with a rollover option;
- lease of cars – the term of these agreements is 48 months (the leased assets may be bought at a price similar to the market price).

Agreements concluded for an indefinite term have been taken into account based on the notice period.

No significant contingent lease payments or non-cancellable sublease agreements occurred.

As at the end of the reporting period, the Bank was a party to two significant operating lease agreements concerning office space in the Bank's head office in Warsaw. One agreement was concluded in February 2007 for a term of 69 months with no extension option. It will be terminated in June 2014.

On 21 May 2013, an agreement providing for the lease of space for the Bank's new head office in Warsaw was concluded. The agreement was concluded for a fixed term (until 14 June 2019) and it may be extended for another five years.

Future minimum lease payments under non-cancellable operating lease as at 31 December 2013 and 31 December 2012:

	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	PLN '000
Up to 1 year	11 701	13 356
From 1 to 5 years	22 350	19 816
Above 5 years	0	0
Total	**34 051**	**33 172**

39. Finance leases

Group as a lessee

In case of leases transferring substantially all the risks and rewards incidental to ownership of the leased assets (finance leases) onto the Group, the leased assets (fixed assets) are recognized in the consolidated statement of financial position in correspondence with lease liabilities and lease payments are recognized in the consolidated profit or loss.

At the inception of the lease, the said fixed assets were recognized in the statement of financial position in amounts equal to the present value of the minimum lease payments determined at the inception of the lease.

Finance leases presented by the Group in this note concern mainly computer hardware. Under the finance lease agreement for computer hardware and the general terms and conditions of the lease, substantially all the risks and rewards are transferred onto the lessee. Additionally, the Group entered into an agreement with the option to purchase the hardware at a price corresponding to its market value, considering the fact that the nature of the leased assets is so unique that only the Group can use them without major modifications.

Future minimum lease payments under the said agreements and the present value of the minimum net lease payments as at 31 December 2013 and 31 December 2012:

	Balance as at 31 December 2013		Balance as at 31 December 2012 (restated)	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
	PLN '000	PLN '000	PLN '000	PLN '000
Up to 1 year	311	306	619	601
From 1 to 5 years	0	0	312	288
Total minimum lease payments	**311**	**306**	**931**	**889**
Less financial expenses	(5)	0	(42)	0
Present value of minimum lease payments, including:	**306**	**306**	**889**	**889**
including:				
Short-term	306	306	601	601
Long-term	0	0	288	288

40. Additional information to the statement of cash flows

Cash and cash equivalents

The balance of cash and cash equivalents recognized in the consolidated statement of cash flows includes the following cash and cash equivalent items maturing within three months.

	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	PLN '000
Cash in hand and deposits with the Central Bank	327 242	934 743
Current accounts	4 458	6 602
Bank deposits up to 3 months	0	0
Total	**331 700**	**941 345**

Differences between balance sheet changes in certain items and changes in the balance of the same items in the consolidated statement of cash flows for the year ended 31 December 2013 and 31 December 2012:

	period from 01.01.2013 to 31.12.2013	period from 01.01.2012 to 31.12.2012 (restated)
	PLN '000	PLN '000
Change in the balance of receivables from other banks		
Balance-sheet change	(6 480)	(688)
Change in nostro accounts balance - cash	(2 143)	797
Change in deposits maturing within up to 3 months - cash	0	0
Change presented in the consolidated statement of cash flows	**(8 623)**	**109**

	period from 01.01.2013 to 31.12.2013	period from 01.01.2012 to 31.12.2012 (restated)
	PLN '000	PLN '000
Change in investment securities available for sale		
Change in financial assets available for sale in operating activities	(393 793)	(140 033)
Measurement of financial assets available for sale, recognized in the revaluation reserve, and effect of reclassification of financial assets between their classes	(7 110)	7 832
Change presented in the consolidated statement of cash flows	**(400 903)**	**(132 201)**

	period from 01.01.2013 to 31.12.2013	period from 01.01.2012 to 31.12.2012 (restated)
	PLN '000	PLN '000
Change in other assets	(11 795)	(3 634)
Liquidation of fixed assets and intangible assets	218	256
Fixed assets received under a finance lease agreement	0	0
Change presented in the consolidated statement of cash flows	**(11 577)**	**(3 378)**

	period from 01.01.2013 to 31.12.2013	period from 01.01.2012 to 31.12.2012 (restated)
	PLN '000	PLN '000
Balance-sheet change in other liabilities	11 428	(32 078)
Payment of finance lease liabilities	583	547
Other changes	0	0
Change presented in the consolidated statement of cash flows	**12 011**	**(31 531)**

41. Contingent assets and off-balance sheet and contingent liabilities

Contingent liabilities by type	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	PLN '000
Financial	**261 402**	**236 149**
- unused credit lines	244 504	221 827
- credit card limits	16 898	14 322
Guarantees	**47 166**	**14 019**
- guarantees granted	47 166	14 019
Total	**308 568**	**250 168**

Contingent liabilities by maturity	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	PLN '000
Financial	**261 402**	**236 149**
Undetermined maturity	131 249	125 964
Up to 1 month	9 548	13 430
1 to 3 months	23 828	26 328
3 months to 1 year	72 709	63 561
1 to 5 years	24 068	6 866
Guarantees	**47 166**	**14 019**
Up to 1 month	34	835
1 to 3 months	22	1933
3 months to 1 year	155	7 494
1 to 5 years	46 955	3 757
Above 5 years	0	0
Total	**308 568**	**250 168**

The majority of contingent liabilities are credit lines. Guarantees granted and unconditional financial commitments are treated as an exposure bearing credit risk. Assessment of risk resulting from guarantees and unconditional financial commitments is a part of the credit risk assessment process related to other credit products held by the clients, i.e. all credit products, including guarantees, granted to specified obligors are reviewed both for indications of impairment and assessment of impairment losses.

Off-balance sheet gross exposures (credit lines and guarantees) to top five clients in a given year have been presented below.

Obligor's name	Balance as at 31 December 2013
	PLN '000
Client 1	73 753
Client 2	20 736
Client 3	8 551
Client 4	6 559
Client 5	4 100

Obligor's name	Balance as at 31 December 2012 (restated)
	PLN '000
Client 1	28 044
Client 2	13 833
Client 3	7 500
Client 4	5 000
Client 5	4 158

As at 31 December 2013, estimated provisions for guarantees and financial commitments amounted to PLN 1,125 thousand (vs. PLN 684 thousand as at 31 December 2012). Provisions for off-balance sheet liabilities are recognized in balance sheet accounts and presented in Note 32 as "Provisions for off-balance sheet liabilities".

Litigation

In 2013, the Group was not a party to any proceedings held before a court or public administration body, whose value would be equal to or higher than 10% percent of the Group's equity. Any risks related to court or public administration proceedings have been adequately secured with relevant provisions.

The total value of claims related to litigation in which the Group is a defendant, where the probability of losing is estimated by the Group below 50%, was PLN 473 thousand as at 31 December 2013 and PLN 464 thousand as at 31 December 2012, respectively.

42. Assets used as collateral for liabilities

Balance as at
31 December 2013

Bank's assets used as collateral	Liability type	Nominal value of collateralized liabilities	Carrying amount of assets used as collateral
		PLN '000	**PLN '000**
Treasury bonds	Capital Guarantee Fund	35 206	37 484
	Pledge under cooperation agreement on payment and credit card services	- *)	9 089
	Liabilities arising from sold securities (repo)	49 599	49 610
Total		**84 805**	**96 183**

*) all liabilities under the cooperation agreement on VISA/MasterCard payment card personalization, handling and clearing transactions made in Poland and abroad with the use of VISA/MasterCard cards of Bank Pocztowy SA and credit card account management are collateralized.

Balance as at

31 December 2012 (restated)

Bank's assets used as collateral	Liability type	Nominal value of collateralized liabilities	Carrying amount of assets used as collateral
		PLN '000	**PLN '000**
Treasury bonds	Capital Guarantee Fund	30 208	32 362
	Pledge under cooperation agreement on payment and credit card services	- *)	10 100
Total		**30 208**	**42 462**

*) all liabilities under the cooperation agreement on VISA/MasterCard payment card personalization, handling and clearing transactions made in Poland and abroad with the use of VISA/MasterCard cards of Bank Pocztowy SA and credit card account management are collateralized.

43. Sale of debt portfolio

On 29 November 2013, the Bank concluded an agreement regarding the sale of 4,232 retail debt items whose substantial portion had been impaired, with the nominal value of the principal of PLN 13.20 million and interest with other expenses amounting to PLN 12.79 million. Following the sale, the Bank reduced its impairment loss on these assets by PLN 11.01 million. The profit on the sale of the debt portfolio was PLN 626 thousand and was recognized under "Other operating revenue" in the consolidated income statement.

44. Related parties

The Group's related parties are:

- Parent: Poczta Polska S.A.;
- entity exercising significant influence on the Group: PKO Bank Polski S.A.;
- other entities in the Poczta Polska S.A. Capital Group: Pocztowa Agencja Usług Finansowych S.A., Post-Tel Sp. z o.o., Postdata S.A., Pocztowe Towarzystwo Ubezpieczeń Wzajemnych, Pocztylion-Arka PTE S.A., Poczta Polska Usługi Cyfrowe Sp. z o.o., Pocztowe Likwidacja Szkód Sp. z o.o., Pocztowe Życie Sp. z o. o. in formation;
- key management personnel: members of the Management and Supervisory Board, directors of the Bank and its subsidiaries;
- key management personnel of Poczta Polska S.A.

In accordance with IAS 24, the Group treats the subsidiaries of the State Treasury of Poland as its related parties, since the State Treasury controls the Bank through its majority shareholder. For the purposes of these consolidated financial statements, subsidiaries of the State Treasury are companies wholly-owned by the State Treasury, state-owned enterprises and entities with the State Treasury as the majority shareholder, whose list is published on the website of the Ministry of State Treasury, as well as local government entities.

In 2013 and 2012, non-standard, significant related-party transactions whose nature and terms were not related to ongoing business operations were not concluded. All transactions were concluded on the arm's length basis.

Presented below is the nature of significant agreements with related parties:

- a set of agreements concerning financial intermediation services provided by Poczta Polska S.A. on behalf of and for the Bank in respect of a wide array of products and services of the Bank, including, in particular, the Agency Agreement of 2 September 2011;
- agreements related to financial intermediation services provided on behalf of and for a related party – Poczta Polska S.A. (including a bank account agreement with additional products);
- a set of agreements related to the Bank's financial services, including, in particular, the cash processing agreement;
- a cooperation agreement concerning the launch and operation of the Bank's Micro-Branches (MB) in the network of Poczta Polska S.A. offices;
- a lease agreement setting out the terms and conditions of leasing/sub-leasing space or premises to be used as the Bank's branches as part of the infrastructure of Poczta Polska S.A.;
- an agreement on the lease of hardware, use of an operating system and databases.

Receivables, liabilities, revenue and expenses arising from related-party transactions have been presented below.

Balance as at 31 December 2013	**Parent**	**Entity exercising significant influence on the Group**	**Key management personnel**	**Other entities in the Poczta Polska S.A. Capital Group**
	PLN '000	**PLN '000**	**PLN '000**	**PLN '000**
Receivables	**43 251**	**25**	**10 535**	**364**
Nostro accounts	0	25	0	0
Originated loans	0	0	10 535	341
Other receivables	43 251	0	0	23
Liabilities	**1 008 516**	**0**	**2 691**	**58 556**
Deposits received	900 085	0	2 691	49 929
Liabilities due to sold securities (repo)	0	0	0	8 182
Other liabilities	108 431	0	0	445
Off-balance sheet transactions	**73 753**	**2 374**	**308**	**205**
Off-balance sheet contingent liabilities	73 753	2 374	308	205
- originated	73 753	0	308	205
- received	0	2 374	0	0

Period from 01.01.2013 to 31.12.2013	**Parent**	**Entity exercising significant influence on the Group**	**Key management personnel**	**Other entities in the Poczta Polska S.A. Capital Group**
	PLN '000	**PLN '000**	**PLN '000**	**PLN '000**
Revenue	**22 785**	**0**	**530**	**28 803**
- interest income	0	0	500	48
- fees	22 360	0	29	28 721
- other revenue	425	0	1	34
Expenses	**(64 310)**	**(619)**	**(20 502)**	**(1 759)**
- interest expense	(17 138)	0	(108)	(968)
- fees	(28 700)	(609)	(49)	0
- non-personnel expenses	(18 472)	(10)	0	(770)
- personnel expenses	0	0	(20 345)	(21)

Balance as at 31 December 2012 (restated)	Parent	Entity exercising significant influence on the Group	Key management personnel	Other entities in the Poczta Polska S.A. Capital Group
	PLN '000	**PLN '000**	**PLN '000**	**PLN '000**
Receivables	**75 497**	**42**	**2 826**	**2 469**
Nostro accounts	0	42	0	0
Originated loans	0	0	2 826	1 160
Other receivables	75 497	0	0	1 309
Liabilities	**1 136 826**	**0**	**1 086**	**27 025**
Deposits received	1 009 974	0	1 078	26 802
Other liabilities	126 852	0	8	223
Off-balance sheet transactions	**28 044**	**1 409**	**81**	**3 170**
Off-balance sheet contingent liabilities	28 044	1 409	81	3 170
- originated	28 044	0	81	3 170
- received	0	1 409	0	0

Period from 01.01.2012 to 31.12.2012 (restated)	Parent	Entity exercising significant influence on the Group	Key management personnel	Other entities in the Poczta Polska S.A. Capital Group
	PLN '000	**PLN '000**	**PLN '000**	**PLN '000**
Revenue	**29 650**	**285**	**193**	**6 665**
- interest income	0	285	185	123
- fees	29 484	0	7	6 487
- other revenue	166	0	1	55
Expenses	**(77 447)**	**(538)**	**(21 888)**	**(1 856)**
- interest expense	(33 607)	(49)	(36)	(1 548)
- fees	(24 189)	(470)	(1)	(18)
- non-personnel expenses	(19 651)	(19)	0	(290)
- personnel expenses	0	0	(21 851)	0

	Balance as at 31 December 2013		Balance as at 31 December 2012 (restated)	
	Companies with interest of the State Treasury	**Local government entities**	**Companies with interest of the State Treasury**	**Local government entities**
	PLN '000	**PLN '000**	**PLN '000**	**PLN '000**
Receivables	**40 899**	**356 680**	**61 213**	**413 558**
Originated loans	14	356 673	40 970	413 535
Other receivables	40 885	7	20 243	23
Liabilities	**36 649**	**98 747**	**1 080**	**226 052**
Deposits received	36 649	98 746	1 046	226 052
Other liabilities	0	1	34	0
Off-balance sheet transactions	**0**	**0**	**67 592**	**6 446**
Off-balance sheet contingent liabilities	0	0	67 592	6 446
- originated	0	0	0	6 446
- received	0	0	67 592	0

	Period from 01.01.2013 to 31.12.2013		Period from 01.01.2012 to 31 December 2012 (restated)	
	Companies with interest of the State Treasury	**Local government entities**	**Companies with interest of the State Treasury**	**Local government entities**
	PLN '000	**PLN '000**	**PLN '000**	**PLN '000**
Revenue	**95**	**386**	**2 143**	**24 816**
- interest income	95	382	490	23 736
- fees	0	4	105	1 080
- other revenue	0	0	1 548	0
Expenses	**(443)**	**(42)**	**(1 147)**	**(7 663)**
- interest expense	(1)	(39)	(735)	(7 662)
- fees	(416)	0	0	(1)
- non-personnel expenses	(26)	(3)	(412)	0
- other expenses	0	0	0	0

Transactions with subsidiaries of the State Treasury other than those from the Poczta Polska S.A. Capital Group are related to banking operations (funding, deposits).

Loans and advances provided to members of the Management and Supervisory Board

Transactions with the management are in line with the standard product offering.

As at 31 December 2013, the Bank did not have any credit exposure to Members of its Management or Supervisory Board, Members of the Supervisory Board of the Bank's subsidiaries or Members of the Supervisory Board of the Bank's Parent.

As at 31 December 2013, the Bank's credit exposure to two Members of the Management Board of its subsidiaries amounted to PLN 851 thousand and to one Member of the Management Board of the Parent amounted to PLN 91 thousand.

As at 31 December 2012, the Bank did not have any credit exposure to Members of its Management or Supervisory Board or Members of the Supervisory Board and Management Board of its subsidiaries, either. The Bank's credit exposure to a Member of the Management Board of its Parent amounted to PLN 29 thousand.

Remuneration paid or due to the Management and Supervisory Boards of the Bank and its subsidiaries

	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	PLN '000
Management Board	**2 650**	**3 018**
Short-term employee benefits (payroll, bonuses and payroll charges)	2 556	2 963
Termination benefits	94	55
Supervisory Board	**2 138**	**1 968**
Short-term employee benefits (payroll, bonuses and payroll charges)	2 138	1 968

Remuneration paid or due to other senior management of the Bank and its subsidiaries

	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	PLN '000
Short-term employee benefits (payroll, bonuses and payroll charges)	15 487	16 706
Termination benefits	70	159
Total	**15 557**	**16 865**

45. Employment structure

The Group's employment structure in the year ended 31 December 2013 and 31 December 2012:

FTEs	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
Group, including:	**1 700**	**1 571**
Head Office of the Bank	727	712
Local offices and branches	244	270
Micro-branches	490	370
Subsidiaries	239	219

46. Events after the end of the reporting period

On 8 January 2014, Bank Pocztowy S.A. entered into a subordinated loan agreement with Poczta Polska S.A. in the amount of PLN 43,000 thousand. The loan was granted for a term of seven years. At the same time, an arrangement concerning early repayment of the subordinated loan granted by Poczta Polska S.A. under the agreement of 8 July 2011 was made.

The subordinated loan will be repaid once the required approval is granted by the Polish Financial Supervision Authority.

47. The Group's risk management objectives and policy

The key objective of risk management in the Group is to ensure security of funds deposited by its clients as well as effective accomplishment of the Group's strategic objectives through decisions focused on maximization of income generated over a longer time horizon, with an acceptable level of accompanying risks.

Risk management in the Group is an integrated process based on supervisory requirements and internal regulations approved by the Supervisory and Management Board of the Bank. Internal regulations in force are reviewed on a periodic basis, taking into account the developments in the Group's external and internal environment. The Bank is the entity that integrates the risk management approach within the Group.

The Group has adopted a three-level system of organizing internal risk management regulations.

The general risk management framework has been determined in the following documents adopted by the Supervisory Board:

- General Risk Management Policy of Bank Pocztowy S.A.;
- General Capital Management Policy of Bank Pocztowy S.A.;
- Growth Strategy of Bank Pocztowy S.A. for 2012-2015;
- Financial Plan of Bank Pocztowy S.A. for 2014;
- Risk Management Strategy of Bank Pocztowy S.A. for 2014.

Individual risk management policies, approved by the Management Board and delegating duties to individual Departments and Offices, including the Bank's subsidiaries, provide detailed guidance in this regard. Based thereon, detailed operating procedures with descriptions of individual activities (including controls) to be performed by the Departments, Teams and Positions, have been developed.

The risk management system includes:

- the Supervisory Board;
- the Management Board;
- risk management committees established by the Management Board pursuant to internal regulations in force;
- organizational units managing individual risk types;
- control units (including the internal audit and compliance unit);
- other organizational units;
- selected organizational units of the subsidiaries.

The Supervisory Board oversees the risk management system and process control, approving its key objectives and guidelines.

The Management Board is in charge of overall risk management in the Bank and in the Capital Group as well as strategic decisions affecting the risk scale and structure. The Management Board approves individual risk management methods, including identification, measurement, monitoring and control, reporting, preventive measures as well as review and verification of selected risk management processes.

Risk management committees in the Bank are established by the Management Board and participate in the risk management process. Their other roles include consulting and making recommendations for the Management Board with regard to risk management strategies, principles and procedures applicable to individual risk management stages as well as making decisions within the scope of authorization delegated by the Management Board. This concerns, in particular, determining limits and monitoring compliance therewith as well as taking credit decisions in accordance with the limit-related decision-making system adopted by the Bank.

Due to a broad scope and interrelations among different risk types, each type has its leading unit in charge of coordination of its management. These units are responsible for identification, measurement, monitoring and coordination of preventive measures regarding each risk type. Their other tasks include development of risk management procedures applicable to individual stages of the process.

The Bank has an internal audit unit in charge of independent and unbiased audit and assessment of adequacy and effectiveness of the internal control system, procedures and controls, as well as consulting the Bank management system to include effectiveness of its operational risk management. Additionally, to ensure compliance with the applicable regulations, laws and standards, the Bank has established a separate compliance unit in charge of compliance risk management.

The target risk structure at the level of the Bank and the Capital Group depends on the defined risk appetite. The risk appetite determines the readiness of the Bank and the Group to assume a specific risk within a determined time horizon and it is subject to acceptance by the Management Board. The risk appetite is a substantial element of the Bank's Strategy and Financial Plan approved by the Supervisory Board.

Identification and measurement of each risk type result in determining those which are material for the Group, classifying them from the permanent materiality assessment perspective (permanently and temporarily material risks) and for the purpose of capital coverage.

The following risk types are classified as permanently material for the Group:
- credit risk;
- operational risk;
- interest rate risk related to the banking book;
- liquidity risk.

Additionally, the Group identifies the following material risk types:
- strategic risk;
- compliance risk;
- business cycle risk;
- outsourcing risk;
- reputational risk;
- Pillar 2 credit risk;
- residual risk;
- concentration risk;
- price risk related to debt instruments in the trading book.

The Bank has undertaken initiatives aimed at bringing its own and the Group's operations in line with regulatory requirements set out in Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 as well as Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

47 a Credit risk

Credit risk is the risk assumed by the Group under credit transactions and resulting in its inability to recover the amounts disbursed, loss of income or a financial loss. It is the outcome of credit product development and launch as well as the lending process on the one hand and measures employed with a view to reducing the probability of losses, on the other. The Group's credit risk includes both counterparty and settlement risk.

While developing its current credit risk management policy, the Group aims to maintain the risk appetite defined in its strategy and measured with the NPL ratio and the specified cost of risk as well as an appropriate level of equity, comply with the credit limits set by the Group, analyze both strengths and weaknesses of the Group's lending process and anticipate the opportunities and threats for its further growth. The Group's acceptable credit risk policy also takes into account cyclicality of economic processes and changes in the credit portfolio itself.

The Group has reviewed methodologies and all parameters in order to adapt them to changing market conditions.

The following principles have been adopted for the credit risk management process:

- analyzing credit risk of individual exposures, the entire portfolio and the capital requirement related to credit risk;
- using internal and external limits determined by the risk appetite in various areas of the credit portfolio, the Banking Law and recommendations of the Polish Financial Supervision Authority, respectively. The types and levels of the limits used by the Group with regard to lending are determined by internal regulations on credit limits related, among other things, to large exposure concentration, industry concentration, exposure concentration based on type of collateral and product;
- functions related to direct analysis of applications, risk assessment and credit decisions are separated from those focused on acquisition of clients (sales of banking products);
- credit capacity and creditworthiness are the main criteria underlying all credit transactions with clients;
- credit decisions are made in the Group in accordance with procedures and competencies determined in internal regulations on credit risk assessment and credit decision making;
- each credit transaction is monitored from its conclusion to full settlement in terms of utilization, timely repayment, legal security, equity and organizational relationships of the obligor and, in the case of institutional clients, also in terms of their current economic and financial position;
- developments in the real estate market as well as the legal and economic assumptions and framework for valuation of property provided as collateral for credit exposures are monitored on a periodic basis.

Credit risk management in the Group is based on written instructions and procedures defining the methods of identification, measurement, monitoring, limiting and reporting of credit risk. At least once a year, the Group reviews and verifies these instructions, procedures and credit risk limits. The regulations determine the scope of competencies assigned to each unit of the Group in the credit risk management process.

In order to determine the credit risk level, the Group uses the following measures:

- probability of default;
- recovery rates;
- share and structure of impaired loans;
- coverage of impaired loans with impairment losses;
- scoring model efficiency measures;
- cost of risk.

The Group prepares the following cyclical reports on its credit risk exposure:

- monthly report for the Management Board and Credit Committee of the Bank;
- quarterly report for the Supervisory and Management Board.

Maximum credit risk exposure, excluding collateral (by classes of financial instruments)

	Net carrying amount	
	Balance as at 31 December 2013	**Balance as at 31 December 2012 (restated)**
	PLN '000	**PLN '000**
Cash in hand and deposits with the Central Bank	327 242	934 743
Receivables from other banks	36 329	29 849
Financial assets held for trading	1 369	766
Loans and advances granted to clients, including:	5 055 712	4 613 934
Overdraft facilities	71 625	64 384
Term loans, including:	4 984 087	4 549 550
- individuals	4 018 533	3 510 320
- institutional clients	608 964	626 210
- local authorities	356 590	413 020
Investment securities available for sale	1 455 018	1 061 225
Quoted	615 185	891 297
Unquoted	839 833	169 928
Investment securities held to maturity	387 018	392 762
Quoted	372 080	392 762
Unquoted	14 938	0
Other assets	37 284	15 279
Total	**7 299 972**	**7 048 558**

Additionally, the Group is exposed to credit risk arising from concluded transactions recognized as off-balance sheet liabilities. The maximum exposure to credit risk related to the said transactions is expressed by their off-balance sheet value presented in Note 41.

Geographical structure of the credit portfolio

Balance as at 31 December 2013	Overdraft facilities	Term loans, including:					Total
		individuals			institutional clients	local authorities	
		consumer loans	real estate loans	credit card debt			
	PLN '000	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**
Dolnośląskie	7 884	149 411	215 008	888	59 507	51 835	**484 533**
Kujawsko-pomorskie	6 980	139 811	309 928	1 112	51 375	32 236	**541 442**
Lubelskie	4 691	67 966	65 649	557	22 030	11 826	**172 719**
Lubuskie	1 681	66 745	77 411	597	23 474	9 756	**179 664**
Łódzkie	8 433	101 319	151 041	723	62 118	19 288	**342 922**
Małopolskie	3 786	110 616	113 127	918	20 003	40 424	**288 874**
Mazowieckie	10 370	155 154	400 893	1 222	84 027	16 358	**668 024**
Opolskie	729	32 535	20 937	262	846	500	**55 809**
Podkarpackie	829	48 349	38 922	413	4 516	31 643	**124 672**
Podlaskie	836	26 356	31 272	306	1 458	0	**60 228**
Pomorskie	2 368	124 415	207 071	955	66 965	8 653	**410 427**
Śląskie	6 215	224 186	136 240	1 497	28 488	28 157	**424 783**
Świętokrzyskie	790	28 829	22 806	358	1 143	1 298	**55 224**
Warmińsko-mazurskie	1 696	76 540	122 882	561	44 458	63 031	**309 168**
Wielkopolskie	8 788	201 417	311 279	1 905	83 516	35 436	**642 341**
Zachodniopomorskie	5 504	106 945	113 162	1 075	55 040	6 149	**287 875**
Not assigned	45	6 907	0	55	0	0	**7 007**
Total	**71 625**	**1 667 501**	**2 337 628**	**13 404**	**608 964**	**356 590**	**5 055 712**

Balance as at 31 December 2012 (restated)	Overdraft facilities	Term loans, including: individuals: consumer loans	real estate loans	credit card debt	institutional clients	local authorities	Total
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Dolnośląskie	4 537	115 304	180 242	642	56 825	64 202	**421 752**
Kujawsko-pomorskie	6 461	130 361	272 991	1 008	52 502	47 098	**510 421**
Lubelskie	5 481	60 527	62 162	444	17 665	22 452	**168 731**
Lubuskie	1 854	59 202	73 486	422	15 833	8 936	**159 733**
Łódzkie	6 983	87 445	127 773	543	67 502	19 201	**309 447**
Małopolskie	3 189	84 152	102 627	725	24 094	48 080	**262 867**
Mazowieckie	8 919	122 686	384 039	857	135 783	21 078	**673 362**
Opolskie	638	23 606	17 550	179	535	0	**42 508**
Podkarpackie	970	35 223	35 232	312	4 782	32 296	**108 815**
Podlaskie	856	21 602	29 698	237	1 530	0	**53 923**
Pomorskie	2 109	107 664	192 416	754	62 179	9 365	**374 487**
Śląskie	5 723	149 976	125 971	1 001	20 613	26 525	**329 809**
Świętokrzyskie	651	21 172	20 989	265	216	3 828	**47 121**
Warmińsko-mazurskie	1 893	67 311	107 703	425	43 568	41 819	**262 719**
Wielkopolskie	8 355	178 802	290 650	1 500	66 293	60 288	**605 888**
Zachodniopomorskie	5 723	89 183	100 594	808	56 274	7 852	**260 434**
Not assigned	42	7 410	0	60	16	0	**7 528**
Total	**64 384**	**1 361 626**	**2 124 123**	**10 182**	**626 210**	**413 020**	**4 599 545**

Industry structure of the credit portfolio

The following table presents the Bank's exposure concentration by industry. Loans granted to individuals represent the major part of the Bank's credit portfolio.

	Gross value	Net value	Gross value	Net value
	Balance as at 31 December 2013		Balance as at 31 December 2012 (restated)	
	PLN '000	PLN '000	PLN '000	PLN '000
Individuals	4 143 382	4 053 386	3 602 473	3 532 413
Property market services on a fee or contract basis	356 408	355 685	335 858	334 988
Public administration, national defense, mandatory social insurance	356 391	356 367	413 499	413 087
Wholesale, excluding motor vehicles	36 006	31 566	20 852	20 072
Other financial services, excluding insurance and pension funds	29 654	29 395	26 641	26 455
Accommodation	26 681	25 181	27 564	25 266
Catering services	18 327	6 824	17 858	7 410
Building construction	17 194	16 007	41 243	40 628
Education	17 030	16 054	22 130	21 984
Retail sale, excluding motor vehicles	17 028	14 402	15 100	14 007
Manufacture of paper and paper products	17 016	16 871	8 060	8 017
Lease and management of own or leased property	15 341	13 399	19 362	17 495
Other activity	130 046	120 575	144 014	137 726
Total	**5 180 504**	**5 055 712**	**4 694 651**	**4 599 545**

The Group's gross exposure to ten largest clients (including capital groups)

		Balance as at 31 December 2013				
No.	**Obligor's name**	**Industry according to Polish Classification of Activity**	**Total exposure**	**Balance sheet exposure (principal)**	**Off-balance sheet exposure**	**Share in the gross credit portfolio**
			PLN '000	**PLN '000**	**PLN '000**	
1.	Client 1	Postal and courier services	73 753	0	73 753	1.42%
2.	Client 2	Public administration, national defense, mandatory social insurance	28 750	28 750	0	0.55%
3.	Client 3	Manufacture of paper and paper products	21 618	15 059	6 559	0.42%
4.	Client 4	Property market services	20 736	0	20 736	0.40%
5.	Client 5	Accommodation	17 521	17 472	49	0.34%
6.	Client 6	Public administration, national defense, mandatory social insurance	16 003	16 003	0	0.31%
7.	Client 7	Public administration, national defense, mandatory social insurance	15 098	15 098	0	0.29%
8.	Client 8	Public administration, national defense, mandatory social insurance	14 281	14 281	0	0.28%
9.	Client 9	Property market services	13 762	13 375	387	0.27%
10.	Client 10	Public administration, national defense, mandatory social insurance	12 930	12 930	0	0.25%
			234 452	**132 968**	**101 484**	**4.53%**

Balance as at 31 December 2012 (restated)

No.	Obligor's name	Industry according to Polish Classification of Activity	Total exposure	Balance sheet exposure (principal)	Off-balance sheet exposure	Share in the gross credit portfolio
			PLN '000	PLN '000	PLN '000	
1.	Client 1	Head office activities; management consulting	40 882	40 882	0	0.90%
2.	Client 2	Public administration, national defense, mandatory social insurance	33 875	33 875	0	0.70%
3.	Client 3	Postal and courier services	28 044	0	28 044	0.60%
4.	Client 4	Public administration, national defense, mandatory social insurance	21 403	21 403	0	0.50%
5.	Client 5	Accommodation	18 161	18 158	3	0.40%
6.	Client 6	Public administration, national defense, mandatory social insurance	18 000	18 000	0	0.40%
7.	Client 7	Public administration, national defense, mandatory social insurance	17 614	17 614	0	0.40%
8.	Client 8	General construction work related to the construction of buildings	17 339	3 506	13 833	0.40%
9.	Client 9	Financial services, excluding insurance and pension funds	16 688	16 688	0	0.40%
10.	Client 10	Lease and rental	14 200	14 164	36	0.30%
			226 206	**184 290**	**41 916**	**4.80%**

Quality structure

Balance as at 31 December 2013	No indications of impairment/loss events identified	Indications of impairment identified but impairment did not occur and impairment loss is not required, including:				Indications of impairment identified, impairment and the related loss recognized		Total
		net carrying amount	exposures where the value of collateral has been taken into account in discounted anticipated future cash flows	financial effect of collateral *)	exposures with principal or interest delinquencies	net carrying amount	financial effect of collateral *)	
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Receivables from other banks	36 329	0	0	0	0	0	0	**36 329**
Overdraft facilities	57 935	4 445	4 467	2 270	0	9 245	2 995	**71 625**
Term loans, including:	4 793 188	32 844	32 869	15 531	5 788	158 055	32 493	**4 984 087**
Individuals	3 905 024	0	0	0	0	113 509	3 091	**4 018 533**
- consumer loans	1 600 578	0	0	0	0	66 923	3 091	**1 667 501**
- real estate loans	2 292 214	0	0	0	0	45 414	0	**2 337 628**
- credit card debt	12 232	0	0	0	0	1 172	0	**13 404**
institutional clients	531 574	32 844	32 869	15 531	5 788	44 546	29 402	**608 964**
local authorities	356 590	0	0	0	0	0	0	**356 590**
Investment securities available for sale	1 455 018	0	0	0	0	0	0	**1 455 018**
Quoted	615 185	0	0	0	0	0	0	**615 185**
Unquoted	839 833	0	0	0	0	0	0	**839 833**
Investment securities held to maturity	387 018	0	0	0	0	0	0	**387 018**
Quoted	372 080	0	0	0	0	0	0	**372 080**
Unquoted	14 938	0	0	0	0	0	0	**14 938**
Total	**6 729 488**	**37 289**	**37 336**	**17 801**	**5 788**	**167 300**	**35 488**	**6 934 077**

*) the financial effect of collateral takes into account impairment losses on on-balance sheet items and provisions for off-balance sheet liabilities

Balance as at 31 December 2012 (restated)	No indications of impairment/loss events identified	Indications of impairment identified but impairment did not occur and impairment loss is not required, including:				Indications of impairment identified, impairment and the related loss recognized		Total
		net carrying amount	exposures where the value of collateral has been taken into account in discounted anticipated future cash flows	financial effect of collateral *)	exposures with principal or interest delinquencies	net carrying amount	financial effect of collateral *)	
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Receivables from other banks	29 849	0	0	0	0	0	0	**29 849**
Overdraft facilities	53 514	513	513	964	0	10 357	3 259	**64 384**
Term loans, including:	4 367 142	36 862	36 866	20 036	13 698	131 157	19 134	**4 535 161**
Individuals	3 392 894	4 797	4 800	3 332	4 797	98 240	0	**3 495 931**
- consumer loans	1 296 432	4 797	4 800	3 332	4 797	60 397	0	**1 361 626**
- real estate loans	2 086 858	0	0	0	0	37 265	0	**2 124 123**
- credit card debt	9 604	0	0	0	0	578	0	**10 182**
institutional clients	561 228	32 065	32 066	16 704	8 901	32 917	19 134	**626 210**
local authorities	413 020	0	0	0	0	0	0	**413 020**
Investment securities available for sale	1 061 225	0	0	0	0	0	0	**1 061 225**
Quoted	891 297	0	0	0	0	0	0	**891 297**
Unquoted	169 928	0	0	0	0	0	0	**169 928**
Investment securities held to maturity	392 762	0	0	0	0	0	0	**392 762**
Quoted	392 762	0	0	0	0	0	0	**392 762**
Unquoted	0	0	0	0	0	0	0	**0**
Total	**5 904 492**	**37 375**	**37 379**	**21 000**	**13 698**	**141 514**	**22 393**	**6 083 381**

*) the financial effect of collateral takes into account impairment losses on on-balance sheet items and provisions for off-balance sheet liabilities

Collateral and other credit risk mitigation forms

Collateral and other items improving the loan terms:

- mortgage placed in the land and mortgage register as a senior lien or junior lien (if the total value of all liens does not exceed 50% of the market value of the property). Liens representing 100% of the transaction value are recorded to collateralize principal increased by at least 60% of the transaction value to secure payment of interest, fees and charges as well as the Bank's costs related to the obligor's delinquencies;
- assignment of rights under property insurance policies covering fire and other accidents;
- statement of submission to enforcement proceedings by the obligor (and/or guarantor) up to 150% of the gross loan amount, with the date by which the Bank may apply for a writ of execution;
- statement of submission to enforcement proceedings by the property owner up to the amount of the mortgage lien(s) created on the owned property (properties), with the date by which the Bank may apply for a writ of execution based thereon. The aforesaid date may not be earlier that three years of the last day of the calendar month of the loan term;
- blank promissory note with a promissory note agreement for the Bank;
- for construction of a house/premises – assignment of receivables under the construction contract concluded with the property developer/housing cooperative;
- transfer of the obligor's cash to the Bank's account pursuant to Article 102 of the Banking Law (deposits);
- registered pledge blocking the rights attached to securities issued by the State Treasury and the National Bank of Poland (treasury bills and bonds);
- assignment of units in an investment fund management company accepted by the Bank;
- assignment of rights under an insurance policy taken out from an insurance undertaking accepted by the Bank;
- financial pledge, registered pledge, assignment, deposit or blocking of other investment products approved on a case-by-case basis when making the loan decision.

As at 31 December 2013, the fair value of mortgage set up as collateral for the related exposures was to PLN 4,639.5 million compared to PLN 4,469.3 million as at 31 December 2012. The financial effect of recovery based on collateral for receivables analyzed on a case-by-case basis amounted to PLN 53.3 million as at 31 December 2013 and PLN 43.4 million as at 31 December 2012. This amount would increase the required impairment losses if cash flows related to the collateral were not included in the calculation. For receivables analyzed on a case-by-case basis, impairment losses not including the financial effect of recovery based on collateral would be PLN 77.0 million as at 31 December 2013 vs. PLN 60.2 million as at 31 December 2012.

Ageing analysis of past-due financial assets with no impairment losses recognized (by classes of financial instruments)

31 December 2013	up to 30 days	31–60 days	61–90 days	over 90 days	Total
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Overdraft facilities	2 318	389	82	0	**2 789**
Term loans, including:	337 100	25 022	6 603	0	**368 725**
individuals	312 475	25 017	6 603	0	**344 095**
- consumer loans	199 787	18 960	5 507	0	**224 254**
- real estate loans	111 926	5 730	962	0	**118 618**
- credit card debt	762	327	134	0	**1 223**
institutional clients	18 292	5	0	0	**18 297**
local authorities	6 333	0	0	0	**6 333**
Total	**339 418**	**25 411**	**6 685**	**0**	**371 514**

31 December 2012 (restated)	up to 30 days	31–60 days	61–90 days	over 90 days	Total
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Overdraft facilities	2 044	313	160	0	**2 517**
Term loans, including:	310 620	28 727	8 399	7 242	**354 988**
individuals	247 393	28 402	8 399	4 703	**288 897**
- consumer loans	141 878	17 285	4 972	4 703	**168 838**
- real estate loans	104 977	10 921	3 308	0	**119 206**
- credit card debt	538	196	119	0	**853**
institutional clients	30 661	325	0	2 539	**33 525**
local authorities	32 566	0	0	0	**32 566**
Total	**312 664**	**29 040**	**8 559**	**7 242**	**357 505**

47 b Liquidity risk

Liquidity risk is the risk of the Group's losing the capacity to pay its liabilities on a timely basis due to an unfavorable structure of its assets and liabilities. Liquidity risk may arise from a cash flow mismatch, sudden withdrawal of deposits, concentration of funding sources and the credit portfolio, inadequate level of liquid assets, limited liquidity of assets, the Bank and the Group's clients' default on their obligations or other unexpected developments in the financial market.

The Group's liquidity risk is managed at the level of the Bank as the liquidity risk assumed by the subsidiaries is immaterial considering the nature of their business.

The objective of liquidity risk management is to balance proceeds and payments of funds under on- and off-balance sheet transactions in order to ensure cost-effective funding sources, generating of cash surpluses and their appropriate use. The Bank builds the structure of its assets and liabilities so as to ensure the achievement of defined financial ratios with the liquidity risk level accepted by the Bank and in accordance with the risk appetite defined by the Supervisory Board.

The following principles are followed by the Bank in the liquidity risk management process:

- maintaining an acceptable liquidity level based on an appropriate portfolio of liquid assets;
- stable funds are the key source of funding for the Bank's assets;
- undertaking initiatives aimed at maintaining the liquidity risk level within the accepted risk profile;
- supervisory liquidity measures are maintained above the defined limits.

Liquidity risk management in the Bank is based on written policies and procedures defining the methods of identification, measurement, monitoring, limiting and reporting of liquidity risk. The regulations determine also the scope of competencies assigned to each unit of the Bank in the liquidity risk management process.

In order to ensure high standards of liquidity risk management, compliant with best banking practices, at least once a year the Bank reviews and verifies the policies and procedures, including internal liquidity limits.

In order to determine the liquidity risk level, the Bank uses a number of measurement and assessment methods, such as:

- contractual and actual liquidity gap method;
- deposit base stability and concentration check;
- surplus of liquid assets over unstable liabilities;
- stress analyses.

With a view to mitigating the liquidity risk, the Bank uses liquidity limits and thresholds for selected measures, including liquidity ratios or the mismatch between accumulated actual cash flows generated by assets and liabilities in individual time ranges.

(in PLN' 000)

Pursuant to Resolution No. 386/2008 of the Polish Financial Supervision Authority of 17 December 2008 on liquidity requirements for banks (as amended), the Bank monitors and complies with requirements concerning supervisory liquidity ratios. In 2013, the Bank fulfilled the requirements concerning the minimum supervisory liquidity ratios as specified in the aforesaid Resolution.

As at 31 December 2013, liquidity ratios remained within the applicable liquidity risk limits. The following table presents supervisory liquidity measures as at 31 December 2013 and 31 December 2012.

	Balance as at 31 December 2013	**Balance as at 31 December 2012 (restated)**	**Limit**
M1	447 457	702 417	0
M2	1.31	1.48	1.00
M3	2.88	4.17	1.00
M4	1.13	1.19	1.00

The Bank prepares the following cyclical reports on its exposure to liquidity risk:

- daily report for the ALCO, Management Board and Treasury Department;
- monthly report for the ALCO and the Management Board;
- quarterly report for the Supervisory and Management Board.

The Bank has defined contingency plans to address sudden changes in the deposit base. An analysis of immediately available funding sources shows that in case of a sudden liquidity drop, the Bank is able to obtain sufficient funds without the need to implement its contingency plans. As at 31 December 2013, the Bank's portfolio of liquid assets was sufficient to deal with an actual crisis.

The following table presents actual liquidity gaps for the Group as at 31 December 2013 and 31 December 2012.

Balance as at 31 December 2013	**Up to 1 month, inclusive**	**Above 1 month and up to 3 months, inclusive**	**Above 3 months and up to 6 months, inclusive**	**Above 6 months to and up to 1 year, inclusive**	**Above one year and up to 5 years, inclusive**	**Above 5 years**
	PLN '000	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**
Total on-balance sheet assets	1 934 268	235 420	325 237	579 081	2 748 359	3 524 105
Total on-balance sheet liabilities	1 255 727	374 258	407 852	771 628	3 456 149	1 403 468
Actual balance sheet gap	**678 541**	**(138 838)**	**(82 615)**	**(192 547)**	**(707 790)**	**2 120 637**
Accumulated balance sheet gap	**678 541**	**539 703**	**457 088**	**264 541**	**(443 249)**	**1 677 388**
Off-balance sheet liabilities	30 629	27 933	12 197	17 190	23 399	0
Total actual gap	**647 912**	**(166 771)**	**(94 812)**	**(209 737)**	**(731 189)**	**2 120 637**
Total accumulated gap	**647 912**	**481 141**	**386 329**	**176 592**	**(554 597)**	**1 566 040**

Balance as at 31 December 2012 (restated)	**Up to 1 month, inclusive**	**Above 1 month and up to 3 months, inclusive**	**Above 3 months and up to 6 months, inclusive**	**Above 6 months to and up to 1 year, inclusive**	**Above one year and up to 5 years, inclusive**	**Above 5 years**
	PLN '000	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**
Total on-balance sheet assets	2 331 955	209 453	269 531	508 343	2 248 010	3 175 923
Total on-balance sheet liabilities	1 384 221	377 181	370 030	548 966	3 696 633	1 467 006
Actual balance sheet gap	**947 734**	**(167 728)**	**(100 499)**	**(40 623)**	**(1 448 623)**	**1 708 917**
Accumulated balance sheet gap	**947 734**	**780 006**	**679 507**	**638 884**	**(809 739)**	**899 178**
Off-balance sheet liabilities	27 897	3 684	7 080	15 625	3 652	0
Total actual gap	**919 837**	**(171 412)**	**(107 579)**	**(56 248)**	**(1 452 275)**	**1 708 917**
Total accumulated gap	**919 837**	**748 425**	**640 846**	**584 598**	**(867 677)**	**841 240**

The Group's financial assets and liabilities by maturity based on contractual non-discounted payments, as at 31 December 2013 and 31 December 2012:

Balance as at 31 December 2013	**Up to 1 month, inclusive**	**Above 1 month and up to 3 months, inclusive**	**Above 3 months to and up to 1 year, inclusive**	**Below 12 months, total**	**Above 1 year and up to 5 years, inclusive**	**Above 5 years**	**Above 12 months, total**	**With unspecified maturity**	**Total**
Assets	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**
Cash in hand and deposits with the Central Bank	327 242	0	0	**327 242**	0	0	**0**	0	**327 242**
Receivables from other banks	6 147	0	181	**6 328**	10 000	20 001	**30 001**	0	**36 329**
Financial assets held for trading	1 369	0	0	**1 369**	0	0	**0**	0	**1 369**
Loans and advances granted to clients	92 682	96 644	387 644	**576 970**	1 363 562	3 023 725	**4 387 287**	91 455	**5 055 712**
Investment securities available for sale	839 825	0	212 630	**1 052 455**	327 620	74 935	**402 555**	8	**1 455 018**
Investment securities held to maturity	4 996	9 942	54 153	**69 091**	317 927	0	**317 927**	0	**387 018**
Property, plant and equipment	0	0	0	**0**	0	0	**0**	44 666	**44 666**
Intangible assets	0	0	0	**0**	0	0	**0**	30 215	**30 215**
Current income tax receivables	0	0	0	**0**	0	0	**0**	98	**98**
Net deferred tax asset	0	0	0	**0**	0	0	**0**	18 004	**18 004**
Other assets	22 190	193	4 613	**26 996**	5	0	**5**	73	**27 074**
Total assets	**1 294 451**	**106 779**	**659 221**	**2 060 451**	**2 019 114**	**3 118 661**	**5 137 775**	**184 519**	**7 382 745**
Received off-balance sheet liabilities	1 653	0	53 600	**55 253**	51 265	0	**51 265**	0	**106 518**

Balance as at 31 December 2013	**Up to 1 month, inclusive**	**Above 1 month and up to 3 months, inclusive**	**Above 3 months to and up to 1 year, inclusive**	**Below 12 months, total**	**Above 1 year and up to 5 years, inclusive**	**Above 5 years**	**Above 12 months, total**	**With unspecified maturity**	**Total**
Liabilities	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**
Liabilities to the Central Bank	11	0	0	**11**	0	0	**0**	0	**11**
Liabilities to other banks	21 673	20 089	0	**41 762**	0	0	**0**	0	**41 762**
Liabilities arising from sold securities (repo)	49 610	0	0	**49 610**	0	0	**0**	0	**49 610**
Financial liabilities held for trading	17	0	0	**17**	0	0	**0**	0	**17**
Liabilities to clients	1 662 387	650 141	726 704	**3 039 232**	313 948	437	**314 385**	2 876 961	**6 230 578**
Provisions	0	1 371	1 342	**2 713**	235	471	**706**		**3 419**
Income tax liabilities	0	0	0	**0**	0	0	**0**	3 138	**3 138**
Other liabilities	79 078	7 557	1 490	**88 125**	73	168	**241**	455	**88 821**
Liabilities arising from issue of debt securities	34 204	0	249 543	**283 747**	147 850	0	**147 850**	0	**431 597**
Subordinated liabilities	0	0	0	**0**	43 036	98 991	**142 027**	0	**142 027**
Total liabilities	**1 846 980**	**679 158**	**979 079**	**3 505 217**	**505 142**	**100 067**	**605 209**	**2 880 554**	**6 990 980**
Originated off-balance sheet liabilities	11 913	23 850	124 893	**160 656**	121 765	0	**121 765**	131 249	**413 670**

Balance as at 31 December 2012 (restated)	Up to 1 month, inclusive	Above 1 month and up to 3 months, inclusive	Above 3 months to and up to 1 year, inclusive	Below 12 months, total	Above 1 year and up to 5 years, inclusive	Above 5 years	Above 12 months, total	With unspecified maturity	Total
	PLN '000	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**
Assets									
Cash in hand and deposits with the Central Bank	934 743	0	0	**934 743**	0	0	**0**	0	**934 743**
Receivables from other banks	9 610	0	0	**9 610**	0	20 239	**20 239**	0	**29 849**
Financial assets held for trading	766	0	0	**766**	0	0	**0**	0	**766**
Loans and advances granted to clients	75 449	77 542	456 814	**609 805**	1 205 223	2 707 398	**3 912 621**	77 119	**4 599 545**
Investment securities available for sale	219 775	0	655 230	**875 005**	176 711	9 501	**186 212**	8	**1 061 225**
Investment securities held to maturity	0	0	20 214	**20 214**	372 548	0	**372 548**	0	**392 762**
Property, plant and equipment	0	0	0	**0**	0	0	**0**	44 213	**44 213**
Intangible assets	0	0	0	**0**	0	0	**0**	27 339	**27 339**
Current income tax receivables	0	0	0	**0**	0	0	**0**	61	**61**
Deferred tax asset	0	0	0	**0**	0	0	**0**	14 871	**14 871**
Other assets	11 723	0	3 552	**15 275**	4	0	**4**	0	**15 279**
Total assets	**1 252 066**	**77 542**	**1 135 810**	**2 465 418**	**1 754 486**	**2 737 138**	**4 491 624**	**163 611**	**7 120 653**
Received off-balance sheet liabilities	4 888	40 886	0	**45 774**	50 000	0	**50 000**	0	**95 774**

Balance as at 31 December 2012 (restated)	Up to 1 month, inclusive	Above 1 month and up to 3 months, inclusive	Above 3 months to and up to 1 year, inclusive	Below 12 months, total	Above 1 year and up to 5 years, inclusive	Above 5 years	Above 12 months, total	With unspecified maturity	Total
	PLN '000	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN'000**
Liabilities									
Liabilities to the Central Bank	6	0	0	**6**	0	0	**0**	0	**6**
Liabilities to other banks	2 824	0	0	**2 824**	0	0	**0**	0	**2 824**
Financial liabilities held for trading	14	3	0	**17**	0	0	**0**	0	**17**
Liabilities to clients	1 642 968	409 580	1 238 312	**3 290 860**	360 160	420	**360 580**	2 666 509	**6 317 949**
Provisions	0	0	1 007	**1 007**	2 564	424	**2 988**	0	**3 995**
Income tax liabilities	7 826	0	0	**7 826**	0	0	**0**	0	**7 826**
Other liabilities	71 855	3 205	1 799	**76 859**	375	159	**534**	0	**77 393**
Liabilities arising from issue of debt securities	6 560	0	0	**6 560**	199 722	0	**199 722**	0	**206 282**
Subordinated liabilities	0	0	0	**0**	43 030	99 861	**142 891**	0	**142 891**
Total liabilities	**1 732 053**	**412 788**	**1 241 118**	**3 385 959**	**605 851**	**100 864**	**706 715**	**2 666 509**	**6 759 183**
Originated off-balance sheet liabilities	14 265	28 261	71 055	**113 581**	10 623	0	**10 623**	125 964	**250 168**

47 c Market risk

Market risk arises from the current and future performance of the Bank and the Capital Group as well as their equity being exposed to unfavorable changes in on- and off-balance sheet items due to changes in interest rates and foreign exchange rates.

The primary objective of market risk management in the Bank and in the Group is to optimize the exposure management process and protect the financial performance at the same time.

The Group's market risk is managed at the level of the Bank as the market risk assumed by the subsidiaries is immaterial considering the nature of their business.

Market risk management in the Bank is based on written policies and procedures defining the objectives of market risk management as well as the methods of identification, measurement, monitoring, limiting and reporting of market risk. The regulations determine also the scope of competencies assigned to each unit of the Bank in the market risk management process.

In order to ensure high standards of market risk management, compliant with best banking practices, once a year the Bank reviews the applicable policies and procedures.

The Bank has separate organizational units in charge of market risk control, monitoring and management.

Market risk reports present separately the interest rate risk related to the banking book, the trading book and the currency risk. Daily reports are used for operational market risk management purposes, while periodic reports are prepared for management purposes.

The Capital Group does not use hedge accounting for market risk management.

Interest rate risk

Interest rate risk results from the exposure of the Bank and the Group's financial performance and equity to adverse changes in interest rates.

The interest rate risk arises from:

- the risk of a mismatch of revaluation dates – a mismatch between the amount of assets, liabilities and off-balance sheet items revalued at a certain time; the risk represents a threat to the Bank's revenue, mostly interest income, in case of adverse changes in market interest rates or significant changes in the on-balance sheet items revaluation structure resulting in changes in the net interest income;
- basis risk arising from imperfect correlation between interest rates on products that generate interest income and expense and have the same revaluation dates;
- yield curve risk, where the relationship between interest rates for different periods but the same index or market changes;
- option risk arising when clients change the amount and time schedule of cash flows related to assets, liabilities and off-balance sheet items, to which they are entitled under the loan or deposit agreement at no additional cost, and various types of debt instruments with embedded call or put option, which enables them to redeem the instrument early.

The Bank adapts its interest rate risk management to the type and scale of its business. Interest rate risk in the Bank may be related to the banking book and to the trading book.

The objective of interest rate risk management is to build a structure of assets and liabilities ensuring protection of the present value and the net interest income of the Bank for the banking book and to obtain financial benefits through transactions on interest rate instruments concluded on own account in the trading book, with the accepted interest rate risk level.

Interest rate risk management in the Bank is based on written policies and procedures, which define the methods of:

- risk identification;
- risk measure calculation (risk measurement);
- risk exposure limiting – determining the acceptable risk level;
- monitoring items and changes in each book, portfolio, and the limit use levels;
- risk exposure reporting;
- hedging exposures against interest rate risk.

Interest rate risk related to the banking book is measured and monitored with the use of such risk measures as:

- BPV (Basis Point Value) – interest rate risk expressed as a monetary value, related to maintaining a given position when interest rates change by one basis point;
- NII (net interest income) – a change in the net interest income representing the difference between interest income and expense with an interest rate change at a specified level;
- BPV gap value in each revaluation range;
- duration – a measure of interest rate risk interpreted as the average duration of an instrument or portfolio;
- early repayment of loans and withdrawal of deposits ratios for each type of products and entities.

Interest rate risk related to the trading book is measured and monitored with the use of such risk measures as:

- BPV and BPV gap value in each revaluation range;
- Value at Risk (VaR).

Additionally, the Bank performs stress tests involving sensitivity analysis and examining the effects of interest rate changes on the present value of risk-exposed items based on specified changes in the yield curve, and the effects of changes in interest rates on the net interest income of the Bank.

The Bank prepares the following cyclical reports on interest rate risk exposure related to the banking and trading book:

- daily report for the ALCO, Management Board and Treasury Department;
- monthly report for the ALCO and the Management Board;
- quarterly report for the Supervisory and Management Board.

The following tables present the interest rate risk level for the banking book (BPV and stress tests) as at 31 December 2013 and 31 December 2012.

BPV for the banking book

	BPV (1 b.p.)	
	Balance as at 31 December 2013	**Balance as at 31 December 2012 (restated)**
	PLN '000	**PLN '000**
banking book	40	61

Stress test results for +/- 200 b.p.

Change in the present value of the banking book

	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	PLN '000
200 b.p. down	(7 837)	(11 802)
200 b.p. up	8 374	13 052

The following table presents the interest rate risk level for the trading book (BPV) as at 31 December 2013 and 31 December 2012.

BPV for the trading book

BPV (1 b.p.)

	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN '000	PLN '000
trading book	0	0

Presented below are the Group's assets, liabilities and off-balance sheet items classified based on the interest rate risk criterion – revaluation date for floating rate items or maturity for fixed rate items – as at 31 December 2013 and 31 December 2012.

Balance as at 31 December 2013	**Up to 1 month, inclusive**	**Above 1 month and up to 3 months, inclusive**	**Above 3 months to and up to 1 year, inclusive**	**Above 1 year and up to 5 years, inclusive**	**Above 5 years**	**Assets/ liabilities (non-interest bearing)**	**Total**
Assets	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**
Cash in hand and deposits with the Central Bank	321 958	0	0	0	0	5 284	**327 242**
Receivables from other banks	0	0	30 000	0	0	6 329	**36 329**
Financial assets held for trading	0	0	0	0	0	1 369	**1 369**
Loans and advances granted to clients	2 614 914	1 826 064	611 496	3 229	9	0	**5 055 712**
Investment securities available for sale	895 000	0	219 000	318 364	10 000	12 654	**1 455 018**
Investment securities held to maturity	5 000	10 000	52 000	307 271	0	12 747	**387 018**
Property, plant and equipment	0	0	0	0	0	44 666	**44 666**
Intangible assets	0	0	0	0	0	30 215	**30 215**
Current income tax receivables	0	0	0	0	0	98	**98**
Net deferred tax asset (asset items)	0	0	0	0	0	18 004	**18 004**
Other assets	0	0	0	0	0	27 074	**27 074**
Total assets	**3 836 872**	**1 836 064**	**912 496**	**628 864**	**10 009**	**158 440**	**7 382 745**

Balance as at 31 December 2013	Up to 1 month, inclusive	Above 1 month and up to 3 months, inclusive	Above 3 months to and up to 1 year, inclusive	Above 1 year and up to 5 years, inclusive	Above 5 years	Assets/ liabilities (non-interest bearing)	Total
Liabilities	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**
Liabilities to the Central Bank	0	0	0	0	0	11	**11**
Liabilities to other banks	18 000	20 000	0	0	0	3 762	**41 762**
Liabilities arising from sold securities (repo)	49 599	0	0	0	0	11	**49 610**
Financial liabilities held for trading	0	0	0	0	0	17	**17**
Liabilities to clients	4 573 462	625 067	688 607	324 451	237	18 754	**6 230 578**
Provisions	0	0	0	0	0	3 419	**3 419**
Current income tax liabilities	0	0	0	0	0	3 138	**3 138**
Other liabilities	0	0	0	0	0	88 821	**88 821**
Liabilities arising from issue of debt securities	230 000	0	197 850	0	0	3 747	**431 597**
Subordinated liabilities	90 340	0	50 000	0	0	1 687	**142 027**
Equity	0	0	0	0	0	391 765	**391 765**
Total liabilities and equity	**4 961 401**	**645 067**	**936 457**	**324 451**	**237**	**515 132**	**7 382 745**
Gap	**(1 124 529)**	**1 190 997**	**(23 961)**	**304 413**	**9 772**	**(356 692)**	**0**
Off-balance sheet items							
Interest rate transactions:							
Assets	0	0	50 000	50 000	0	0	**100 000**
Liabilities	50 000	0	50 000	0	0	0	**100 000**
Gap	**(50 000)**	**0**	**0**	**50 000**	**0**	**0**	**0**
Total gap	**(1 174 529)**	**1 190 997**	**(23 961)**	**354 413**	**9 772**	**(356 692)**	**0**

Balance as at 31 December 2012 (restated)	Up to 1 month, inclusive	Above 1 month and up to 3 months, inclusive	Above 3 months to and up to 1 year, inclusive	Above 1 year and up to 5 years, inclusive	Above 5 years	Assets/ liabilities (non-interest bearing)	Total
Assets	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**
Cash in hand and deposits with the Central Bank	926 904	0	0	0	0	7 839	**934 743**
Receivables from other banks	0	0	20 000	0	0	9 849	**29 849**
Financial assets held for trading	0	0	0	0	0	766	**766**
Loans and advances granted to clients	2 940 196	1 410 678	246 945	1 282	19	425	**4 599 545**
Investment securities available for sale	220 000	0	654 000	175 000	371	11 854	**1 061 225**
Investment securities held to maturity	0	0	20 000	359 271	0	13 491	**392 762**
Property, plant and equipment	0	0	0	0	0	44 213	**44 213**
Intangible assets	0	0	0	0	0	27 339	**27 339**
Current income tax receivables	0	0	0	0	0	61	**61**
Net deferred tax asset (asset items)	0	0	0	0	0	14 871	**14 871**
Other assets	0	0	0	0	0	15 279	**15 279**
Total assets	**4 087 100**	**1 410 678**	**940 945**	**535 553**	**390**	**145 987**	**7 120 653**

Balance as at 31 December 2012 (restated)	Up to 1 month, inclusive	Above 1 month and up to 3 months, inclusive	Above 3 months to and up to 1 year, inclusive	Above 1 year and up to 5 years, inclusive	Above 5 years	Assets/ liabilities (non-interest bearing)	Total
Liabilities	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**	**PLN '000**
Liabilities to the Central Bank	0	0	0	0	0	6	**6**
Liabilities to other banks	0	0	0	0	0	2 824	**2 824**
Financial liabilities held for trading	0	0	0	0	0	17	**17**
Liabilities to clients	4 362 162	376 916	1 183 741	376 108	107	18 915	**6 317 949**
Provisions	0	0	0	0	0	3 995	**3 995**
Current income tax liabilities	0	0	0	0	0	7 826	**7 826**
Other liabilities	0	0	0	0	0	77 393	**77 393**
Liabilities arising from issue of debt securities	0	0	200 000	0	0	6 282	**206 282**
Subordinated liabilities	43 000	50 000	47 340	0	0	2 551	**142 891**
Equity	0	0	0	0	0	361 470	**361 470**
Total liabilities and equity	**4 405 162**	**426 916**	**1 431 081**	**376 108**	**107**	**481 279**	**7 120 653**
Gap	**(318 062)**	**983 762**	**(490 136)**	**159 445**	**283**	**(335 292)**	**0**
Off-balance sheet items							
Interest rate transactions:							
Assets	0	0	0	50 000	0	0	**50 000**
Liabilities	0	50 000	0	0	0	0	**50 000**
Gap	**0**	**(50 000)**	**0**	**50 000**	**0**	**0**	**0**
Total gap	**(318 062)**	**1 033 762**	**(490 136)**	**109 445**	**283**	**(335 292)**	**0**

Currency risk

Currency risk arises from the current and future performance of the Bank and the Capital Group as well as their equity being exposed to adverse changes in foreign exchange rates.

The objective of currency risk management is to protect the exchange gain and obtain financial benefits through transactions concluded in FX instruments on own account, with the accepted risk level.

In the process of currency risk management, the said risk in the Bank is measured through:

- calculation of the total position of the Bank;
- calculation of the position in each currency;
- calculation of Value at Risk (VaR);
- stress tests.

Value at Risk (VaR) is defined as the maximum loss which may be incurred by the Bank within a specified time horizon and with a specified probability. The Bank calculates VaR using the historical simulation method assuming a 99.2% confidentiality range and a 10-day position maintenance period.

Stress tests are complementary to VaR for the currency risk and they are performed to estimate the loss which may be incurred by the Bank in case of extremely adverse (stress) changes in foreign exchange rates.

The currency risk management process includes daily monitoring of:

- the value of positions in each currency;
- VaR and total currency position limits;

daily, weekly and monthly stop-loss limits.

VaR statistics for currency risk in 2013 and as at 31 December 2013 and 31 December 2012

	Minimum value	Maximum value	Average value	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	PLN'000	**PLN'000**	**PLN'000**	**PLN'000**	**PLN'000**
VaR	7	322	34	28	13

The Bank prepares the following cyclical reports on its currency risk exposure:

- daily report for the ALCO, Management Board and Treasury Department;
- monthly report for the ALCO and the Management Board;
- quarterly report for the Supervisory and Management Board.

The table below presents the values of currency positions for USD, EUR, GBP and CHF in 2013 and as at 31 December 2013 and 31 December 2012. The maximum and average values have been presented for absolute position values (in thousands).

	Minimum value	Maximum value	Average value	Balance as at 31 December 2013	Balance as at 31 December 2012 (restated)
	'000	**'000**	**'000**	**'000**	**'000**
USD	0	1 073	91	(12)	8
EUR	19	1 402	315	(445)	(247)
GBP	0	612	34	36	12
CHF	0	511	91	128	64

In 2013 and 2012, the Group's currency risk was very low due to an insignificant share of foreign currency assets and liabilities in the balance sheet total (below 2%). The value of the total currency position did not exceed 2% of equity, which did not generate a capital requirement with respect to this risk type. In 2013, the Group started trading in JPY, NOK and CZK.

The following table presents assets, liabilities and off-balance sheet items of the Group as at 31 December 2013 and 31 December 2012 by currency.

Balance as at 31 December 2013	PLN	EUR		USD		CHF		Other currencies	Total
		translated into PLN	in foreign currency	translated into PLN	in foreign currency	translated into PLN	in foreign currency	translated into PLN	
Assets	**PLN'000**	**PLN'000**	**'000**	**PLN'000**	**'000**	**PLN'000**	**'000**	**PLN'000**	**PLN'000**
Cash in hand and deposits with the Central Bank	324 928	2 125	512	152	50	0	0	37	**327 242**
Receivables from other banks	32 270	762	184	1 858	617	264	78	1 175	**36 329**
Financial assets held for trading	1 369	0	0	0	0	0	0	0	**1 369**
Loans and advances granted to clients	5 049 486	6 058	1 461	0	0	168	50	0	**5 055 712**
Investments in financial assets	1 842 028	8	0	0	0	0	0	0	**1 842 036**
- available for sale	1 455 010	8	2	0	0	0	0	0	**1 455 018**
- held to maturity	387 018	0	0	0	0	0	0	0	**387 018**
Property, plant and equipment	44 666	0	0	0	0	0	0	0	**44 666**
Intangible assets	30 215	0	0	0	0	0	0	0	**30 215**
Current income tax receivables	98	0	0	0	0	0	0	0	**98**
Net deferred tax asset (asset items)	18 004	0	0	0	0	0	0	0	**18 004**
Other assets	26 966	108	26	0	0	0	0	0	**27 074**
Total assets	**7 370 030**	**9 061**	**2 183**	**2 010**	**667**	**432**	**128**	**1 212**	**7 382 745**

Balance as at 31 December 2013	Currency								
	PLN	EUR		USD		CHF		Other currencies	Total
		translated into PLN	in foreign currency	translated into PLN	in foreign currency	translated into PLN	in foreign currency	translated into PLN	
Liabilities	**PLN'000**	**PLN'000**	**'000**	**PLN'000**	**'000**	**PLN'000**	**'000**	**PLN'000**	**PLN'000**
Liabilities to the Central Bank	11	0	0	0	0	0	0	0	**11**
Liabilities to other banks	41 762	0	0	0	0	0	0	0	**41 762**
Financial liabilities held for trading	17	0	0	0	0	0	0	0	**17**
Liabilities arising from sold securities (repo)	49 610	0	0	0	0	0	0	0	**49 610**
Liabilities to clients	6 220 432	7 945	1 916	1 798	597	0	0	403	**6 230 578**
Provisions	3 419	0	0	0	0	0	0	0	**3 419**
Current income tax liabilities	3 138	0	0	0	0	0	0	0	**3 138**
Other liabilities	87 009	1 721	415	91	30	0	0	0	**88 821**
Liabilities arising from issue of debt securities	431 597	0	0	0	0	0	0	0	**431 597**
Subordinated liabilities	142 027	0		0		0			**142 027**
Total liabilities	**6 979 022**	**9 666**	**2 331**	**1 889**	**627**	**0**	**0**	**403**	**6 990 980**
Equity	391 765	0	0	0	0	0	0	0	**391 765**
Total equity and liabilities	**7 370 787**	**9 666**	**2 331**	**1 889**	**627**	**0**	**0**	**403**	**7 382 745**
Net exposure	**(757)**	**(605)**	**(148)**	**121**	**40**	**432**	**128**	**809**	**0**
Off-balance sheet items	**287 627**	**20 941**	**5 050**	**0**	**0**	**0**	**0**	**0**	**308 568**
Assets	287 627	20 941	5 050	0	0	0	0	0	**308 568**
Equity and liabilities	0	0	0	0	0	0	0	0	**0**
Gap	**286 870**	**20 336**	**4 902**	**121**	**40**	**432**	**128**	**809**	**308 568**

	Currency								
	PLN	EUR		USD		CHF		Other currencies	Total
Balance as at 31 December 2012 (restated)		translated into PLN	in foreign currency	translated into PLN	in foreign currency	translated into PLN	in foreign currency	translated into PLN	
Assets	**PLN'000**	**PLN'000**	**'000**	**PLN'000**	**'000**	**PLN'000**	**'000**	**PLN'000**	**PLN'000**
Cash in hand and deposits with the Central Bank	932 961	1 576	385	169	55	0	0	37	**934 743**
Receivables from other banks	23 668	3 027	740	1 503	485	45	13	1 606	**29 849**
Financial assets held for trading	766	0	0	0	0	0	0	0	**766**
Loans and advances granted to clients	4 550 908	48 465	11 855	0	0	172	51	0	**4 599 545**
Investments in financial assets	1 453 979	8	2	0	0	0	0	0	**1 453 987**
- available for sale	1 061 217	8	2	0	0	0	0	0	**1 061 225**
- held to maturity	392 762	0	0	0	0	0	0	0	**392 762**
Investments in subsidiaries and jointly controlled entities	44 213	0	0	0	0	0	0	0	**44 213**
Intangible assets	27 339	0	0	0	0	0	0	0	**27 339**
Current income tax receivables	61	0	0	0	0	0	0	0	**61**
Net deferred tax asset (asset items)	14 871	0	0	0	0	0	0	0	**14 871**
Other assets	15 275	4	1	0	0	0	0	0	**15 279**
Total assets	**7 064 041**	**53 080**	**12 983**	**1 672**	**540**	**217**	**64**	**1 643**	**7 120 653**

	Currency								
	PLN	EUR		USD		CHF		Other currencies	Total
Balance as at 31 December 2012 (restated)		translated into PLN	in foreign currency	translated into PLN	in foreign currency	translated into PLN	in foreign currency	translated into PLN	
Liabilities	**PLN'000**	**PLN'000**	**'000**	**PLN'000**	**'000**	**PLN'000**	**'000**	**PLN'000**	**PLN'000**
Liabilities to the Central Bank	6	0	0	0	0	0	0	0	**6**
Liabilities to other banks	2 824	0	0	0	0	0	0	0	**2 824**
Financial liabilities held for trading	17	0	0	0	0	0	0	0	**17**
Liabilities arising from issue of debt securities	206 282	0	0	0	0	0	0	0	**206 282**
Liabilities to clients	6 310 813	5 098	1 247	1 285	415	0	0	753	**6 317 949**
Provisions	3 995	0	0	0	0	0	0	0	**3 995**
Current income tax liabilities	7 826	0	0	0	0	0	0	0	**7 826**
Other liabilities	75 066	2 230	545	97	31	0	0	0	**77 393**
Subordinated liabilities	142 891	0	0	0	0	0	0	0	**142 891**
Total liabilities	**6 749 720**	**7 328**	**1 792**	**1 382**	**446**	**0**	**0**	**753**	**6 759 183**
Equity	361 470	0	0	0	0	0	0	0	**361 470**
Total equity and liabilities	**7 111 190**	**7 328**	**1 792**	**1 382**	**446**	**0**	**0**	**753**	**7 120 653**
Net exposure	**(47 149)**	**45 752**	**11 191**	**290**	**94**	**217**	**64**	**890**	**0**
Off-balance sheet items	**296 133**	**(45 586)**	**(11 450)**	**0**	**0**	**0**	**0**	**0**	**250 547**
Assets	296 133	202	50	0	0	0	0	0	**296 335**
Equity and liabilities	0	45 788	11 500	0	0	0	0	0	**45 788**
Gap	**248 984**	**166**	**(259)**	**290**	**94**	**217**	**64**	**890**	**250 547**

Financial derivatives

Although its offering includes derivatives, the Group has not actively participated in the market of derivative instruments. The Group's transactions include those on derivatives concluded for currency and interest rate risk management purposes.

Derivatives are measured on a daily basis using the discounted cash flow model. The measurement is based on commonly available rates and market quotations recorded in the Reuters system. As the scale of derivative transactions, which are entered into with banks only, is inconsiderable, the Group's measurement of derivatives does not take into account the counterparty credit risk or own credit risk, which the Group believes exerts a marginal effect on measurement of its derivatives.

47 d Operational risk

The Group defines operational risk as the risk of a loss arising from inadequacy or unreliability of internal processes, people, systems or from external events. The definition does not include strategic and reputational risks, which are managed separately, but it does include legal risk.

Based on assumptions adopted by the Bank and by the Group, the operational risk management structure includes all organizational units, branches and subsidiaries. All directors manage operational risk in their organizational units and branches on an ongoing basis. Ongoing management includes employment of measures aimed at evaluating the risk scale, mitigating the effects of risk events and reducing the probability that the risk will be assumed in the future. The Management Board of the Bank supervises the overall operational risk management process. The Operational Risk Committee is a body consulting the measures employed to change the operational risk level. Coordination of the operational risk management process is the responsibility of the Risk Division.

Each employee assumes responsibility for identification of operational risk events related to his/her position, which are subsequently recorded in a dedicated database. The events are verified by operational risk coordinators on an ongoing basis and monitored by a coordinating unit for the number of events and loss value. Risk monitoring enables employment of measures that reduce the effects of events and implementation of instruments mitigating future risk.

The Supervisory Board, Management Board and Operational Risk Committee receive cyclical reports on operational risk.

The Group improves its operational risk management processes in the Bank structures and in cooperation with other Group companies, including Poczta Polska, on an ongoing basis. According to the Bank, research regarding operational risk exerts a positive effect on the operational risk level, both currently and in the future. In 2013, initiatives were undertaken with the objective to bring the Bank's operations in line with the requirements of Recommendation M.

Additionally, operational risk in the Bank is mitigated based on procedures related to implementation of the "General Security Policy of Bank Pocztowy S.A." governing such issues as anti-money laundering, fraud prevention, protection of the Bank's resources, continuity of business, protection of personal data, confidential information and business secret as well as security of information in IT systems.

47 e Other risks

In addition to the above risks described in detail, the Group identifies and assesses the following risk types:

- compliance risk;
- strategic risk;
- business cycle risk;
- outsourcing risk.

Compliance risk

Compliance risk is the risk that the effects of the Group's non-compliance with the law, internal regulations and codes of conduct will occur. The Group also takes into account compliance risk generated both by the Bank and its subsidiaries, and manages the said risk arising from cooperation between the Bank and Poczta Polska S.A.

The compliance risk management process is based on written policies and procedures that define the key principles to be followed by the Bank's employees and explain the key processes that identify the said risk, enabling its management at all organizational levels of the Group.

The scope of compliance risk management includes:

- the Group's compliance with the law and requirements imposed on banks;
- compliance with appropriate market standards, good practices and codes of conduct adopted by the banking sector;
- preventing money laundering and the funding of terrorism;
- preventing fraud detrimental to the Group.

The compliance risk management process includes risk identification, measurement, monitoring, mitigating and reporting.

Compliance risk identification is a continuous process which is carried out:

- when internal regulations are consulted by the compliance unit for their conformity with the law and requirements imposed on banks;
- based on the outcome of compliance tests and internal regulations compliance self-assessment;
- based on ongoing analyses, including operational risk events base, follow-up functional control and internal audit reports, record of court cases, information on customer complaints related to compliance risk, information from organizational unit heads regarding compliance risks, and fraud reports.

Identified compliance risk events are recorded by the compliance unit in the compliance risk events database.

Compliance risk measurement is performed on a quarterly basis by the compliance unit using a risk scoring model that takes into account the anticipated effects of compliance risk on the organization and its clients, including the probability of its occurrence, and other criteria, such as:

- the number of compliance risk events or actual losses arising from such risk;
- the number of negative press publications and accusations regarding compliance risk in the Bank.

As a result of measurement, risk is scored using a 3-level scale (low, medium or high).

As far as compliance risk arising from cooperation between the Bank and Poczta Polska S.A. is concerned, the compliance unit records compliance risk events and monitors measures aimed at explanation and mitigation of the said risk.

Strategic risk

Strategic risk is the risk to which the Group is directly, and its financial performance and equity indirectly, exposed due to unfavorable or incorrect strategic decisions, failure to implement or improper implementation of the strategy and developments in the business environment or incorrect response to such changes.

In November 2012, the Supervisory Board of the Bank approved the "Strategy of Bank Pocztowy S.A. for 2012-2015" which modified the previous direction and pace of development and defined five strategic objectives for the Bank. The key strategic assumption is to concentrate on acquisition of products which are considered the most profitable from the perspective of capital employed, while maintaining the cost discipline with regard to operating and personnel expenses.

Strategy implementation monitoring, taking into account the (direct or potential) effect of external factors, is aimed at examining the effectiveness of initiatives undertaken with a view to accomplishing the Bank's objectives defined in the Strategy.

Business cycle risk

The business cycle risk is the risk of long-term negative effects of an unfavorable stage of the business cycle (e.g. economic slowdown or recession) on the financial performance or equity of the Group.

As the economic situation affects the banking sector, an analysis of the macro-economic conditions should be part of the decision-making process at banks. The Bank monitors the macro-economic ratios presenting the situation of the Polish economy on a continuous basis and once a month prepares detailed macro-economic reports that underlie the decision-making process in the Group.

The business cycle risk occurs when the overall economic situation deteriorates. In the case of growing unemployment, taxes, inflation, or interest rates or when significant changes in foreign exchange rates occur, the financial standing of customers may deteriorate (including that of the Seniors as target clients), which may translate into a limited capacity to pay their liabilities at their due dates and a reduced demand for the products offered by the Bank (loans, deposits). A slowdown may also result in increased impairment losses on loans and advances or a slower rise in the value of the Bank's credit portfolio due to a drop in demand for loans and in the number of clients that meet the loan granting criteria. Market volatility, economic slowdown and growing unemployment may also result in a significant decrease in the value of the clients' assets, such as real property securing payment of loans originated by the Bank.

Considering the moderate level of economic activity in Poland and adverse conditions in the labor market in 2013, the business cycle risk at the Bank continues to be material. Although activity ratios improved gradually in the second half of the year, the economic recovery is only on the way and the effects of deterioration in the labor market and adverse conditions in the enterprise sector may be felt by the banking sector at a later time.

Outsourcing risk

Outsourcing risk is the risk of a third party's negative effect on continuity, integrity or quality of the Bank's operations, its assets or employees.

Outsourcing banking activities and the related banking business processes to third parties necessitates the Bank's performance of numerous analyses, both before establishing a relationship and in the course of cooperation with the insourcer. Outsourcing risk materiality assessment depends on the scope of outsourced activities and the number of entities that perform them for and on behalf of the Bank. Outsourcing a broad range of activities to a small number of third parties creates concentration risk and potential problems with timely performance of the activities if the said entities discontinue their services. On the other hand, too large a number of insourcers gives rise to a risk that the Bank may lose control over the performance of the outsourced activities.

As the Bank is a party to an agency agreement with Poczta Polska S.A. and a number of outsourcing agreements with its own subsidiaries, i.e. Centrum Operacyjne Sp. z o.o. and Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o., at present it faces the risk of concentration of the outsources activities, including the risk that the above entities may discontinue performance of the outsourced tasks.

Outsourcing risk management in the Bank is based on written policies and procedures defining the methods of identification, measurement and monitoring of outsourcing risk. The regulations determine also the scope of competencies assigned to each unit of the Bank in outsourcing banking activities and the related banking business processes.

48. Capital management

Capital adequacy management is aimed to ensure that the Group's equity level is not lower than the one required by internal and external regulations. The regulations link the required capital level with the scale of operations and risks assumed by the Group.

Considering the above, the Group regularly:

- identifies risks material for its business;
- manages material risks;
- determines internal capital to be maintained should the risk materialize;
- calculates and reports capital adequacy measures;
- allocates internal capital to individual business areas;
- performs stress tests;
- compares its capital needs with the level of equity held;
- integrates the capital adequacy assessment with development of the Bank's Strategy, financial and sales plans.

In 2013, the supervisory solvency ratio and internal solvency ratio of the Group was above the required regulatory minimum.

Equity and solvency ratio

The Group's equity consists of Tier 1 and Tier 2 capital. In 2013, Tier 1 capital included:

- core capital: share capital, supplementary capital and reserve capital;
- general risk reserve;

and was reduced by:

- the carrying amount of intangible assets;
- loss on measurement of financial instruments classified as available for sale;
- other items, as specified in supervisory regulations.

Tier 2 capital of the Group in 2013 included:

- a portion of gains on measurement of debt instruments classified as available for sale, as determined by the applicable regulations;
- cash obtained from a subordinate loan received in 2011 and two issues of subordinate bonds (carried out in 2011 and 2012, respectively);
- other items, as specified in supervisory regulations.

The table below presents the equity, solvency ratio and Tier 1 capital as at 31 December 2013 and 31 December 2012.

Equity (PLN'000)	**Balance as at 31 December 2013**	**Balance as at 31 December 2012 (restated)**
I. Tier 1 capital	360 121	329 660
1. Core capital	267 220	224 776
a) Share capital	97 290	97 290
b) Supplementary capital	34 068	33 761
c) Reserve capital	135 862	93 725
2. Additional items of Tier 1 capital	142 372	140 294
a) General risk reserve	106 345	101 345
b) Net profit for the period	36 027	38 949
3. Items reducing Tier 1 capital, including:	(49 471)	(35 410)
a) Carrying amount of intangible assets	(30 215)	(27 339)
b) Prior year loss	(16 476)	(7 981)
c) Other	(2 780)	(90)
II. Tier 2 capital, including:	123 810	135 946
1. Subordinated liabilities classified as Tier 2 capital	123 140	131 740
2. Other	670	4 206
Equity	**483 931**	**465 606**

Equity (PLN'000)	**Balance as at 31 December 2013**	**Balance as at 31 December 2012 (restated)**
Capital requirements for credit, counterparty credit, dilution and settlement risk, including for exposures	267 672	233 697
with 0% risk weight	0	0
with 20% risk weight	5 884	6 800
with 35% risk weight	45 440	42 305
with 50% risk weight	1 091	737
with 75% risk weight	145 771	121 279
with 100% risk weight	69 086	61 232
with 150% risk weight	400	1 344
other risk weights	0	0
Capital requirement for operational risk	35 390	33 179
Total capital requirement	**303 062**	**266 876**
Solvency ratio	**12.8%**	**14.0%**
Tier 1	**9.5%**	**9.9%**

(in PLN' 000)

Signatures of all Members of the Management Board

19 marca 2014 roku	Tomasz Bogus	Prezes Zarządu	....
19 marca 2014 roku	Szymon Midera	Wiceprezes Zarządu	....
19 marca 2014 roku	Radosław Sałata	Członek Zarządu	....
19 marca 2014 roku	Michał Sobiech	Członek Zarządu	....

Signature of the person responsible for keeping the accounting records

19 marca 2014 roku	Michał Sasim	Dyrektor Departamentu Rachunkowości	....