Report

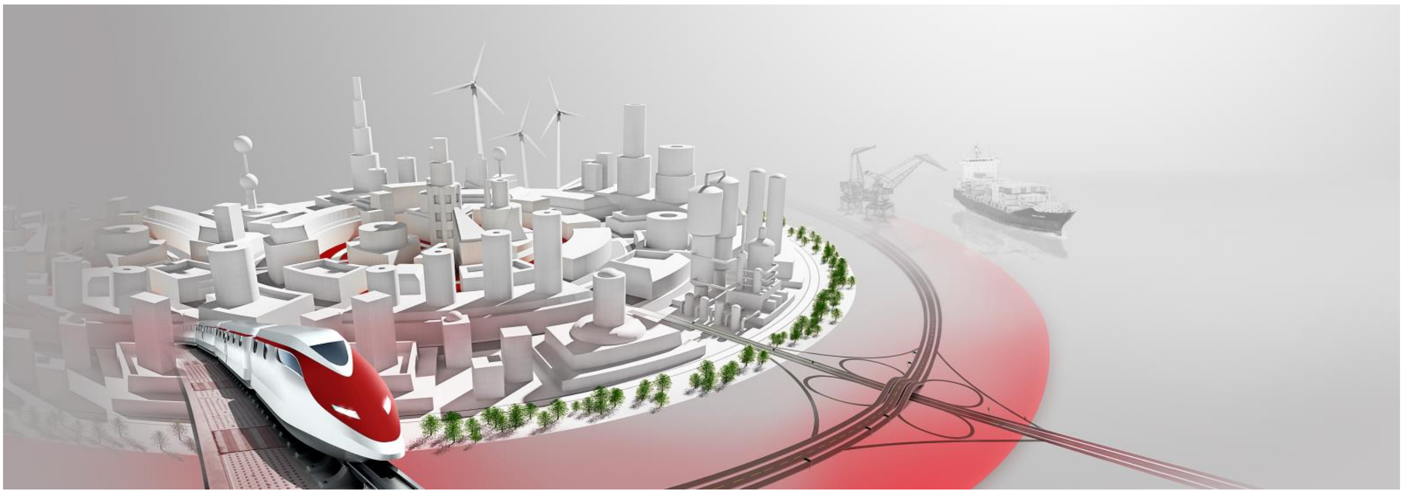
on Risk Management

and Capital Adequacy

of Bank Gospodarstwa Krajowego

as at 31 December 2013

(Pillar III)



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Introduction

This document implements the provisions of Resolution No. 385/2008 of the Polish Financial Supervision Authority of 17 December 2008 on detailed rules and methods of publication of qualitative and quantitative information on capital adequacy by banks and the scope of published information (Official Journal of the PFSA, No. 8, item 39, as amended).

The report has been drafted in accordance with "The Principles of Information Policy of Bank Gospodarstwa Krajowego in the scope of publication of qualitative and quantitative information on capital adequacy"[1], approved by the Management Board and the Supervisory Board of the Bank.

Unless stated otherwise, the report was prepared as at 31 December 2013 based on data from the Bank's stand-alone financial statements.

[1] the document is available on the Bank's website: www.bgk.com.pl

Glossary

PFSA Resolution 76/2010 – resolution no. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 on the scope and detailed procedures for determining capital requirements for particular risks (Official Journal of the PFSA, No. 2, item 11, as amended)

PFSA Resolution 325/2011 – resolution no. 325/2011 of the Polish Financial Supervision Authority of 20 December 2011 on other deductions from own funds, their amount, their scope and conditions of their deduction from a bank's funds, other balance sheet items included in supplementary capital, their amount, scope and the conditions of their inclusion in supplementary capital, deductions from supplementary capital, their amount, scope and conditions of their deduction from supplementary capital and the scope and manner of treating the activity of banks that are members of capital groups in calculating own funds (Official Journal of the PFSA, No. 13, item 49)

PFSA Resolution 387/2008 – resolution no. 387/2008 of the Polish Financial Supervision Authority of 17 December 2008 on determining the credit ratings assigned by external credit ratings agencies, which can be used by a bank in order to determine capital requirements and on the scope of use of these ratings and their correspondence to credit quality levels (Official Journal of the PFSA, No. 8, item 41, as amended).

Regulation of the Minister of Finance on the principles of provisioning – Regulation of the Minister of Finance of 16 December 2008 on the principles of provisioning for risks underlying banks' activity (Journal of Laws, No. 235, item 1589, as amended)

BGK, Bank – Bank Gospodarstwa Krajowego

BPV – Basis Point Value

CD – Collection Department

FRD – Financial Risk Department

FMSD – Financial Markets And Sales Department

CRD – Credit Risk Department

TD – Treasury Department

CRMD – Credit Risk Management Department

WSE – Warsaw Stock Exchange

ICAAP – Internal Capital Adequacy Assessment Process

ALCO – Asset and Liability Committee

NHF – National Housing Fund – NHF was liquidated as at 31 May 2009 and its net assets were transferred to the Bank's statutory fund – in line with the Act of 2 April 2009 amending the Act on Sureties and Guarantees Granted by the State Treasury and Certain Legal Persons, the Act on Bank Gospodarstwa Krajowego and Certain Other Acts (Journal of Laws, No. 65, item 545)

CC – Credit Committee

PC – Product Committee

PFSA – Polish Financial Supervision Authority

ORC – Operational Risk Committee

VaR – Value at Risk

1. General information about the Bank

As a highly reliable state financial institution, Bank Gospodarstwa Krajowego specialises in services for the public sector. The Bank ensures economically efficient and operationally effective support for the government's social and economic programmes as well as local governance and regional development programmes.

The volume of support from the State Treasury is determined by the provisions of the Act of 5 January 2011 amending the Act on Bank Gospodarstwa Krajowego (Journal of Laws 2011, No. 28, item 143) that oblige the Minister responsible for public finance to provide BGK with own funds at a level guaranteeing the fulfilment of the Bank's tasks and compliance with liquidity limits.

Moreover, credit rating agency Fitch Ratings has confirmed the high reliability of Bank Gospodarstwa Krajowego by assigning it a credit rating of "A-", a level equal to Poland's rating.

2. Risk management principles at the Bank

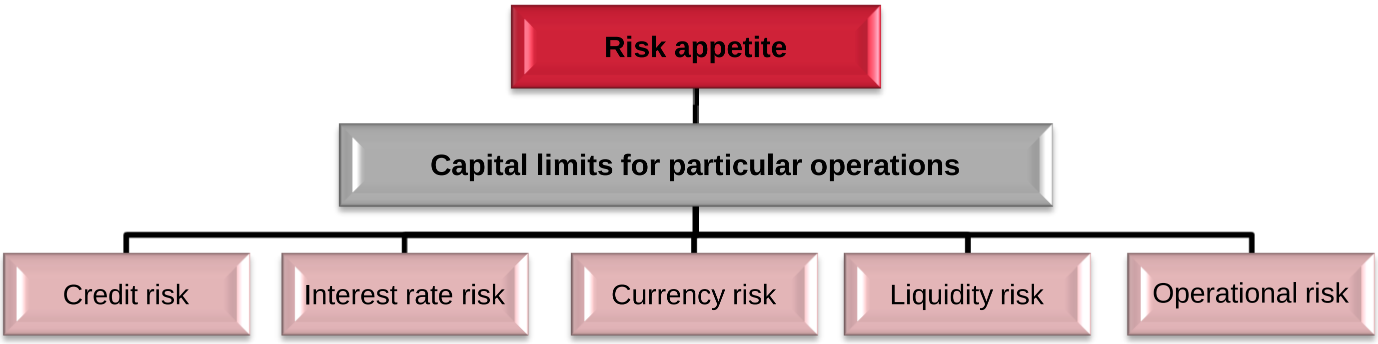
2.1. General risk management principles

The internal objective of risk management at the Bank is to maintain high quality of assets within an acceptable risk level.

The main risk management guidelines at BGK are defined in the Bank's Strategy and policies for managing particular types of risks. The risk appetite is determined by the acceptable levels of the capital adequacy ratio and internal capital ratio. In the allocation process, the required capital is distributed among particular risk types, determining limits levels for particular risks at BGK.

A general chart of BGK limits is presented below.

Diagram 1. BGK limits



The Bank's risk management is based on:

- BGK's Capital Management Policy and BGK Internal Capital Adequacy Assessment Process Principles approved by the Supervisory Board,
- risk management policies, principles and procedures related to identification, measurement/assessment, monitoring, reporting and risk control, developed in written form and approved by the Supervisory Board or the Management Board,
- corporate governance principles, principles of selection, remuneration and monitoring of employees performing crucial functions for the Bank and Policies of variable pay of persons holding managerial positions.

Internal regulations are subject to regular review to adjust them to changes in the Bank's risk profile, the Bank's economic environment and prudent banking practices.

The risk management system is designed to ensure a uniform and efficient process of identification, measurement/assessment, monitoring, reporting and controlling of risks and to take safety measures.

The risk identification process includes determination of risk types, their sources (factors), significance and relationships between individual types of risk.

The risk measurement/assessment process includes methods of risk quantification, determination of the acceptable risk level, identification of relationships, rules and trends as well as estimation of the costs of the risk borne and performing stress tests.

The risk monitoring process includes supervision of the level of risk taken, reviews of relevance and accuracy of the applied methods of risk assessment and evaluation of efficiency of the tools used.

The risk reporting process includes information on the risk profile, identification of possible threats and information on the measures adopted.

The safety measures include regulations (policies, principles, instructions, methodologies, procedures, by-laws and emergency plans), internal limits, risk control, recommendations for organisational units of the Bank's headquarters and branches, as well as insurance and risk transfer.

The organisation of risk management at the Bank is shown in Chart 2.

Diagram 2. Risk management organisation at the Bank

	Risk management supervision	Risk appetite	Strategic risk management	Tactical risk management	Risk monitoring
Credit Risk	Supervisory Board	Supervisory Board Management Board	Management Board CC	CC	CRD CRMD CD
Market Risk	Supervisory Board	Supervisory Board Management Board	Management Board ALCO	TD FMSD	FRD
Liquidity Risk	Supervisory Board	Supervisory Board Management Board	Management Board ALCO	TD	FRD
Operational Risk	Supervisory Board	Supervisory Board Management Board	Management Board ORC	Each internal unit	FRD
Capital adequacy	Supervisory Board	Supervisory Board Management Board	Management Board ALCO	Each business unit	FRD

2.2. Risk management organisational structure

The composition, scope of activity and competences of the Bank's bodies and the corporate object of the Bank are defined in the BGK Act, the Bank's statutes and these bodies' by-laws.

Presented below are the Bank's bodies and leading organisational units of the Bank's headquarters that participate in the risk management process.

Supervisory Board

The Supervisory Board supervises the compliance of the Bank's policy on risk-taking with the strategy and financial plan of the Bank.

Audit Committee

The Audit Committee supports the Bank's Supervisory Board, in particular through oversight over risk management as it assesses the adequacy of the management strategy for the risks that the bank considers relevant.

Management Board

The Management Board of the Bank is responsible for organising and administering the risk management process and ensuring the efficiency of the risk management system. One of the Management Board members supervises the banking risk area that covers organisational units managing among others credit, financial, operational and other risks.

Asset and Liability Committee

The primary objective of the Committee is to define the short-, mid- and long-term management policy for the Bank's assets and liabilities. The aim of the policy is to optimise results and allocate the Bank's capital efficiently. It takes into account the relevant level of exposure to the Bank's own risk and the nature of public tasks commissioned to the Bank. These include tasks fulfilled by the Bank as part of the management of funds created, entrusted or transferred to the Bank under separate regulations or other legal acts.

Operational Risk Committee

The main objective of the Committee is to ensure efficient management of the operational and compliance risks. The Committee offers opinions and decisions. The Committee is responsible for reducing the operational and compliance risks, in particular through: initiation and coordination of activities aimed to identify, measure and monitor the operational and compliance risks; providing opinions on the level of limits reducing the operational risk and assessment of the risk reduction techniques applied for such risks. The Committee coordinates the activities aimed to identify, measure and monitor the reputation risk and the related reporting.

Credit Committee

The primary tasks of the Committee include: deciding on loan applications and applications for restructuring or debt collecting. It also provides recommendations to the Bank's Management Board on matters reserved for the competence of the Board, including the Bank's credit policy and exposure limits, performing quarterly reviews of the credit portfolio and deciding on the classification and the level of specific provisions, annual reviews of industry sectors and deciding on their classification to relevant investment risk categories. In its decisions, the CC accounts for the credit risk, protects the Bank's operations and strives to ensure the efficiency of the recommended transactions.

Product Committee

The main tasks of the Committee include: providing opinions with regard to the implementation plans for new and modifications of the existing bank products and setting such plans, opinions on the financial parameters of bank products, monitoring and discussion of financial results and the degree of implementation of the Bank's financial plans in terms of products, opinions on the marketing and promotional activities in the product area and also opinions with regard to development directions for the Bank's IT architecture connected with products and services offered by the Bank and setting these directions.

Internal Audit Department

The Internal Audit Department reports directly to the President of the Management Board and is responsible for the independent assessment of the internal control system and risk management processes at the Bank and its subsidiaries, including the relevance and effectiveness of the existing control mechanisms. It is also responsible for consulting in the form of recommendations on improvements in the control mechanisms, or implementation of new solutions increasing the efficiency of the internal control system.

Financial Risk Department

The Financial Risk Department is responsible for creation and development of the efficient management system for the financial risks (capital adequacy, financial liquidity, interest rate, currency, counterparty - bank and the country) and non-financial risks (operational, model, compliance and reputation), supervising transactions on financial markets, calculating capital requirements for market and operational risks and short-term capital, estimating the internal capital and coordinating the ICAAP process.

Credit Risk Department

The Credit Risk Department is responsible for the individual credit risk management and the correct classification of:

- a client or a group of the entities associated with the client which is not a financial institution and is not included in the portfolio managed by the Collection Department,
- a credit transaction

and the correctness of collaterals established for individual credit transactions, exclusive of collaterals provided by financial institutions as part of the exposure limits for banks established by the Bank.

Credit Risk Management Department

The Credit Risk Management Department is in charge of designing the directions and principles of the Bank's credit policy, credit risk management for the credit portfolio of the Bank, developing principles of credit risk assessment and methods of its mitigation, preparation of data concerning credit risk-bearing assets, as well as calculation of the capital requirement for credit risk, coordination of the budgeting process for specific provisions and monitoring of the processes of provisioning and reversals of provisions.

Credit Process Optimisation Bureau[2]

The Credit Process Optimisation Bureau is responsible for the implementation of projects in the scope of credit processes at the Bank and for the analysis, measurement and facilitation of credit processes, design and modification of tools used in credit processes, development and ongoing changes in draft procedures

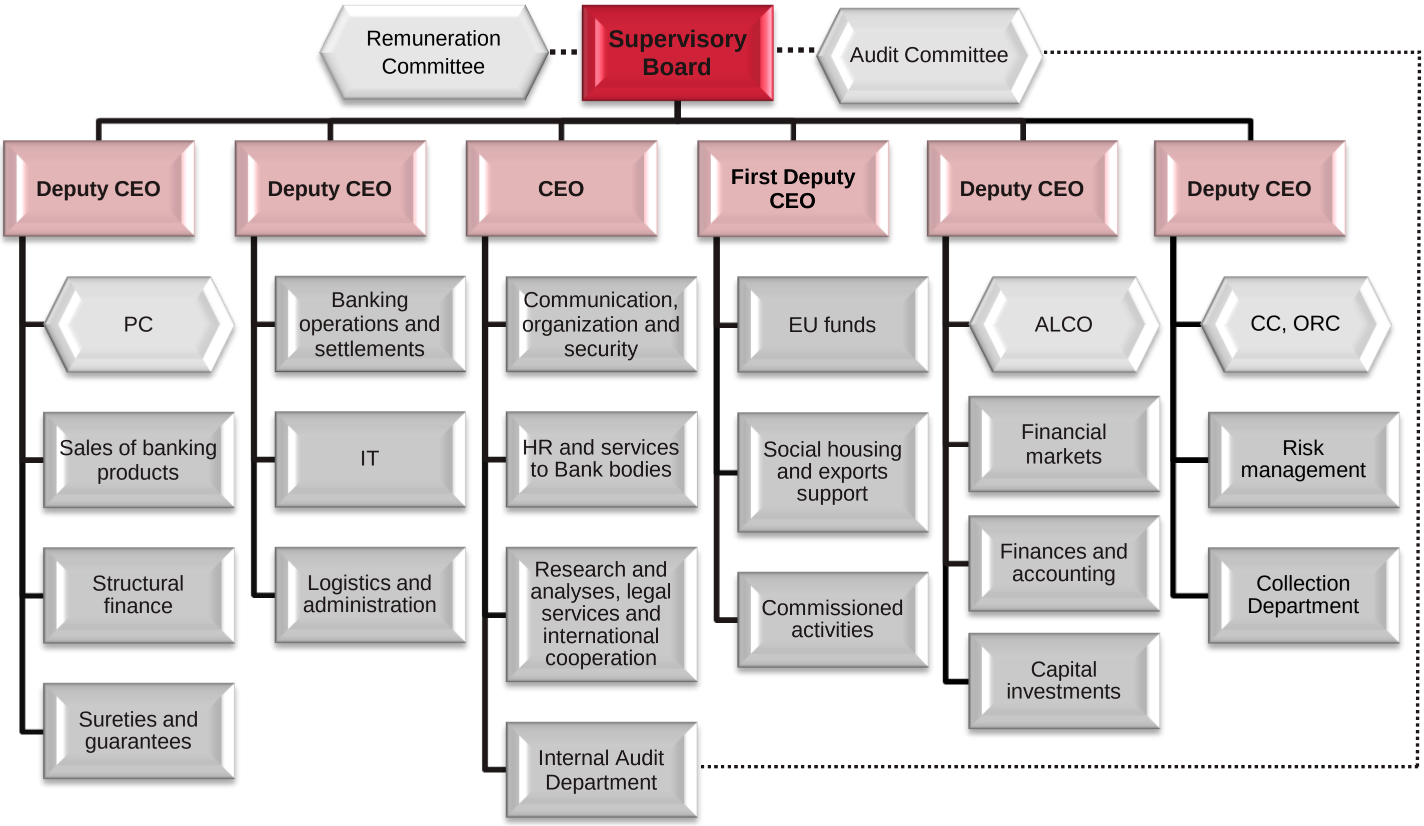
[2] as of 1 January 2014, due to a change in the Bank's organisational structure, the Credit Process Optimisation Bureau was included in the Credit Risk Management Department

related to credit processes and decision-making competences in credit processes and operation of credit committees.

Collection Department

The Collection Department is in charge of restructuring activities and debt recovery, collection of receivables under credit agreements and collection of other receivables that require restructuring or recovery.

Diagram 3. General outline of the Bank's organisational structure as at 31 December 2013.



2.3. Credit risk and counterparty credit risk

2.3.1. Credit Risk

Credit risk constitutes one of the most important risk types which the Bank is exposed to in its operations and which is defined as a threat of a borrower's default on the payment of liability under an agreement, i.e. failure to repay receivables under credit exposure along with the Bank's remuneration within time limits defined in the agreement.

The main purposes of credit risk management are as follows:

- identification of credit risk areas and its mitigation to a level accepted by the Bank,
- regular review of actions adopted in this risk area,
- shaping balance-sheet and off-balance-sheet items of the Bank to minimise the risk of negative deviation of the financial result from the Bank's financial plan.

The credit risk management process is carried out at the level of customer risk with individual credit exposure and credit portfolio risk taken into account, on the basis of:

- planned, targeted actions defined in the credit policy,
- internal regulations,

- available support systems and tools,
- recommendations for branches and other units of the Bank.

The Bank formalised its credit risk management approach in the Credit Risk Management Policy of Bank Gospodarstwa Krajowego and the Credit Risk Management Principles of BGK procedure. The Principles define the manner of credit risk assessment and measurement as at the conclusion of the transactions bearing the risk and during the transaction's life. The Principles also describe controls for the level of this risk in relation to individual transactions and the whole credit portfolio, including controls for the level of concentration risk.

The concentration risk is an important credit risk factor. The Bank has introduced relevant internal principles and procedures applied to concentration with particular emphasis on large exposures to singular customers and customer groups of the Bank. Concentration is monitored for individual borrowers, entities associated by capital or management, industries etc. Concentration principles concern various activities of the Bank (not only lending activity, but also investment activity or money market transactions).

The Bank applies methodologies of creditworthiness assessment for individual entities, taking into account the nature of their operation and uses defined principles of acceptance and evaluation of legal collaterals.

The Bank monitors timeliness of repayment of liabilities under credit risk-bearing exposures and performs regular reviews of economic and financial standing of the borrowers. It classifies exposures and creates relevant specific provisions. It also maintains an adequate level of capital ensuring solvency in case of default on part of the debtors.

The Bank controls the credit risk exposure level:

- in aggregate and for its own activities, as well as activities connected with the administration of funds established, entrusted, or transferred on the basis of separate acts,
- for concentration to one entity and/or associated by capital or management entities,
- for large exposures,
- in relation to particular economic sectors,
- separately under real estate market financing and mortgage-backed exposures,
- in relation to selected segments and products,
- under currency or currency-indexed transactions,
- under off-balance sheet liabilities granted by the Bank (guarantees, sureties and letters of credit).

In May 2009, the Bank withdrew the offer of loan products for individuals. The only loans granted to individuals by the Bank as part of the implementation of the government programme are loans with interest subsidies for removal of flood disasters, landslides and hurricanes consequences (pursuant to the Act of 8 July 1999 on the interest subsidies for bank loans granted for removal of flood disaster consequences (Journal of Laws, No. 62, item 690, as amended), among others.

The Management Board of the Bank defines the credit policy taking into account the Bank's risk appetite and strategy as well as the existing level of credit risk borne by the Bank, the structure of credit portfolio, the structure of legal collaterals, repayments of the credit risk-bearing transactions and external macroeconomic factors. Among other elements, the credit policy indicates the acceptable level of risk for the credit portfolio, credit purposes and recommendations, credit profiles for particular customer segments and products, risk management process and the related prudent practices.

Pursuant to applicable regulations, the Bank performs - at least once a year - stress tests of credit exposure sensitivity to changes in the exchange rates, interest rate and the value of the existing collaterals.

The main instrument used to reduce the credit risk is legal collateralisation of the Bank's receivables. The Bank applies an internal procedure for the establishment and evaluation of legal collaterals for receivables as at the conclusion of the credit risk-bearing transactions and for monitoring the collateral during the transaction's life.

The basis for the value of real (in-kind) collaterals calculation is the value verified by the Bank using a ratio for adjusting the value of a collateral. In the case of unfunded credit protection, the economic and financial standing of the protection is examined. Moreover, the fulfilment of formal and legal conditions for collateral acceptance is verified each time, as well as whether it is funded and liquid and also its correlation with the economic and financial standing of the debtor.

In the life period of a credit risk-bearing transaction, the legal collateral is periodically monitored. The condition and value of the collateral is examined along with the possibility of satisfying the Bank's receivables from the collateral and the proportion of the current collateral value to the actual amount of receivables. The frequency of collateral monitoring depends on the form of collateral, the amount of credit exposure and risk assessment of the credit transaction.

Within the credit risk, BGK uses a system of limits as one of its credit risk management tools. The limits are applied both on the operational as well as strategic levels, in accordance with relevant competences. Depending on the risk profile of the exposure, the Bank applies the following limits:

- industry limits that reflect the risk stemming from the type of activity of the customer,
- objective limits, resulting from the risk borne by the purpose of the loan,
- subjective limits, defined depending on the customer type,
- product limits.

The internal limit types and amounts are approved by the Bank's Management Board or a relevant committee appointed by the Board. In internal procedures, the Bank defines the principles for setting and updating internal limit amounts as well as the frequency of monitoring their observance and reporting the monitoring results.

The portfolio credit risk monitoring process consists in a cyclical review of the values of limited parameters and analysis of the limit usage. In 2013, the Bank did not record any cases of exceeding internal or external limits.

The current monitoring and reporting are of key importance to the credit risk management process. The risk profile information, as well as information on the possible threats and actions undertaken, is regularly prepared and communicated.

The distribution of credit decision competences at the Bank is an additional credit risk reducing factor.

2.3.2. Counterparty Credit Risk

The following methodologies are applicable at the Bank to define the principles for:

- assessment of the financial standing of the counterparty - bank,
- setting and monitoring of exposure limits granted for the counterparty - bank and the country,
- monitoring, classification and reporting of the current exposure to the counterparty - bank and the country.

The exposure limits are set to limit the risk and should be understood as:

- in relation to counterparty - banks:
    - settlement risk connected with a possible default on BGK receivable by the counterparty - bank on the settlement date, when the total amount of a contract (agreement) is at risk,

whereby the risk covers all cash flows taking place between the BGK and the counterparty - bank,
- ○ pre-settlement risk, connected with a possible counterparty - bank's partial or full default on a payment obligation within a given lifetime, as a result of which the Bank can incur losses.

- in relation to countries:
  - ○ political risk – risk connected with a possible negative impact of political decisions, conditions or events in a given country on the financial sector as a result of which investors will incur losses or lose profits,
  - ○ economic risk – risk that the receivables will not be recovered as a result of a deteriorated economic situation in a given country.

This risk is reduced with the use of relevant limits:

- in the case of banks, these are:
  - ○ settlement limit for interbank market transactions,
  - ○ pre-settlement limit for interbank market transactions,
  - ○ limit for trade finance transaction,
  - ○ banking group limit,
- in the case of countries:
  - ○ country exposure limit.

The current exposure affecting the limits for banks and other counterparties includes the positive valuation and volatility of market parameters.

Table 1 shows the credit quality distribution of BGK's existing banks exposures on the basis of external rating.

Table 1. Credit quality of counterparty - banks[3]	**structure in %**
AA and higher	0.1%
A	46.7%
BBB	48.6%
BB and lower	0.0%
no external rating assigned by ratings agencies	4.6%
TOTAL	**100.0%**

Table 2 shows data of the positive gross fair value of derivatives.

Table 2. Positive gross fair value of derivatives as at 31 December 2013.[4]

Instrument type	**positive gross fair value total (in thousands of PLN)**
IRS	16,045
FX Forward	4
FX Swap	4,108
Total	**20,157**

[3] this account is based on external ratings by Moody's, Standard&Poor's and Fitch Ratings, mapped onto a uniform AAA-B scale

[4] since the figures in the tables are rounded, differences in totals and percentages may occur in the document

In order to reduce counterparty credit risk, the Bank concludes Framework Agreements which make it possible to offset mutual receivables in justified events (“default event" and "termination event").

2.3.3. Credit risk reduction techniques

The Bank uses the following instruments and methods to limit or reduce the credit risk:

- risk diversification,
- risk hedging,
- risk insurance,
- risk distribution,
- risk compensation.

The Bank applies the Financial Collateral Comprehensive Method.

The value of a collateral is periodically monitored during the lifetime of a credit risk-bearing transaction. Should an unfavourable change occur in value of the collateral, the Bank implements adequate procedures.

The Bank accepts the following main types of collaterals:

- real property mortgage,
- promissory notes,
- bank guarantees and State Treasury guarantees,
- surety of a local government unit,
- registered pledge on movables.

Specific types of collaterals are established depending on the total Bank's exposure to the customer, economic and financial standing of the customer, customer and product type and other factors.

The main guarantors in the Bank's lending activity include local governments offering loan sureties. Each time before a collateral is established in the form of a local government’s surety, the economic and financial standing of the entity is examined in accordance with the rating and creditworthiness methodology for local governments applicable at the Bank. As a rule, only those local governments may be guarantors which are deemed creditworthy and have been positively assessed by the Regional Audit Chamber in terms of budget implementation and accuracy of the total debt.

Export credit transactions with counterparty – banks as part of the Government Programme for Exports Support are fully protected under insurance agreements concluded by the Bank with Korporacja Ubezpieczeń Kredytów Eksportowych S.A. (Export Credit Insurance Corporation (KUKE S.A.)). The credit protection of KUKE S.A. is carried out in line with the general conditions of export credit insurance guaranteed by the State Treasury.

Table 3 shows credit protection forms for individual exposure types.

Table 3. Exposures with credit protection under the Standardised Approach of capital requirements calculation as at 31 December 2013 (in thousands of PLN)

Exposure class	Exposure amount	Credit protection			
		Guarantees	Financial collaterals	Total	%
Central governments and central banks	38,239,274	0	0	**0**	**0.00%**
Regional governments and local authorities	5,636,361	0	0	**0**	**0.00%**
Administrative bodies and non-commercial undertakings	356,952	146,998	375	**147,373**	**41.29%**
Institutions - banks	8,622,304	566,793	2,700,103	**3,266,896**	**37.89%**
Corporates	6,395,214	2,109,783	209,679	**2,319,462**	**36.27%**
Retail	765,887	0	1,427	**1,427**	**0.19%**
Secured on real estate property	7,380,671	383,933	36,415	**420,348**	**5.70%**
Past due items	687,906	0	12,292	**12,292**	**1.79%**
Exposures under regulatory high-risk categories	366,574	111,946	0	**111,946**	**30.54%**
Other	4,440,620	0	0	0	**0.00%**
TOTAL	**72,891,764**	**3,319,453**	**2,960,291**	**6,279,744**	**8.62%**

A predominant credit protection that ensures maximum risk reduction applies to transactions with other banks, secured with Treasury securities. Other risk reductions are possible due to guarantees accepted by the Bank, whose main issuers are local governments and the State Treasury. Primarily, local governments offer sureties for exposures of affiliated Social Housing Associations and municipal companies. Healthcare entities constitute a significant share of local government's sureties as well.

2.3.4. Reduction of a customer's credit rating

If the credit rating of a customer is reduced, or the value of their collateral decreases, the Bank may demand from the debtor, during the lifetime of the credit risk-bearing transaction, to provide an additional collateral or to replace the existing collateral, depending on the individual risk rating. Such actions are provided for in debtor agreement templates.

2.3.5. Netting

As at 31 December 2013, the Bank did not use netting of transactions to estimate the capital requirement for credit risk and counterparty credit risk.

2.3.6. Tabulated data of credit risk and counterparty credit risk

Definitions

Definition of past due receivables

In its lending activities, the Bank defines past due receivables in line with the regulation of the Minister of Finance on provisioning principles and acts in accordance with the regulation.

Definition of impaired receivables

In its lending activities, the Bank defines at-risk receivables and proceeds in line with the approach defined in the regulation of the Minister of Finance on provisioning principles. At-risk receivables are exposures classified under "substandard", "doubtful" and "lost" categories. Exposures are classified under particular categories on the basis of the assessment of the economic and financial standing of the customer and timeliness of repayment.

Definition of value and provision adjustments

The Bank applies the special provisioning principles for banking book defined in the regulation of the Minister of Finance on provisioning principles. There is also an internal instruction applicable at the Bank to regulate credit exposure classification principles and special provisions that defines the rules and procedures for decisions taken in this field. The decisions under consideration are taken on a quarterly basis, by way of a detailed credit portfolio review taking account of repayment timeliness, economic and financial standing of the entities and the condition of legal collaterals taken into account in reduction of the basis of special provisioning. In the case of negative phenomena, the Bank reclassifies the receivables and special provisioning also in periods between the quarterly portfolio reviews.

In the case of counterparty – banks, the Banks ascribes categories to the exposures (pursuant to the regulation of the Minister of Finance on provisioning principles) on the basis of the economic and financial standing of the banks and repayment timeliness analysis. The Bank sets economic and financial standing categories for banks on the basis of two criteria: rating and the amount of the banks' own funds.

In addition, the Bank creates a general risk provision and a general risk fund.

General information

The total amount of exposure under credit risk as per balance-sheet valuation (after accounting adjustments), excluding the results of credit risk and counterparty credit risk reduction, totalled PLN 72,891,764 thousands as at 31 December 2013.

The average amount of exposure by classes is shown in Table 4.

Table 4. Average exposure amount in 2013 by classes (in thousands of PLN)[5]

Central governments and central banks	5,245,851
Regional governments and local authorities	5,891
Administrative bodies and non-commercial undertakings	3,556
Institutions - banks	177,632
Corporates	28,293
Retail	492
Secured on real estate property	5,396
Past due items	2,063
Exposures under regulatory high-risk categories	19,891
Other	348,310

The Bank's financial administration of government institutions' ventures results in very high exposures both in the class of "Central governments and central banks" and the class of "institutions - banks."

Table 5 shows geographic structure of credit exposures by countries, while Table 6 shows geographic structure of domestic exposures by regions.

[5] the average calculated on the basis of quarterly data of exposures to individual customers of the Bank under a given class

Table 5. Structure of BGK exposures by geographic segments as at 31 December 2013 (in thousands of PLN)

Country	Central governments and central banks	Institutions - banks	Corporates	Secured on real estate property	Past due items	Other	TOTAL
Belarus	0	499,378	0	0	0	111,961	**611,339**
Denmark	0	332,247	0	0	0	0	**332,247**
France	414,392	4,616	0	0	0	0	**419,008**
Luxemburg	0	0	0	0	0	251,935	**251,935**
Germany	828,652	28,140	0	0	0	0	**856,792**
Poland	36,996,230	7,374,382	6,166,530	7,380,671	687,906	11,202,499	**69,808,218**
United Kingdom	0	206,208	0	0	0	0	**206,208**
Other	0	177,332	228,684	0	0	0	**406,016**
TOTAL	**38,239,274**	**8,622,304**	**6,395,214**	**7,380,671**	**687,906**	**11,566,395**	**72,891,764**

Exposures to foreign entities result first of all from transactions with foreign banks as well as implementation of the Government Programme for Exports Support.

Table 6. Structure of BGK exposures by regions as at 31 December 2013 (in thousands of PLN)

Province	Regional governments and local authorities	Corporates	Retail	Secured on real estate property	Past due items	Other	TOTAL
Dolnośląskie	633,363	170,924	10,484	945,481	16,198	802,094	**2,578,544**
Kujawsko-Pomorskie	347,631	69,909	8,544	475,022	3,239	48,617	**952,962**
Lubelskie	222,350	228,122	8,641	202,960	6,011	19,325	**687,410**
Lubuskie	292,442	2,195	4,265	189,391	1,445	109	**489,846**
Łódzkie	265,078	31,311	18,650	246,203	34,088	67,552	**662,883**
Małopolskie	566,222	55,857	8,960	668,260	154,464	10,159	**1,463,922**
Mazowieckie	470,944	4,084,297	624,157	1,320,773	179,654	48,125,645	**54,805,471**
Opolskie	263,139	40	3,720	46,604	24,114	404	**338,021**
Podkarpackie	150,131	5,647	4,955	157,267	46,948	8,263	**373,210**
Podlaskie	231,854	182,129	5,574	235,637	17,694	7,656	**680,544**
Pomorskie	541,503	215,606	10,048	614,877	69,895	6,520	**1,458,450**
Śląskie	196,434	822,105	8,869	672,007	21,204	3,201	**1,723,820**
Świętokrzyskie	173,242	23,427	1,120	77,412	20,501	1,500	**297,201**
Warmińsko-Mazurskie	347,857	14,700	16,002	153,797	9,188	18,679	**560,223**
Wielkopolskie	554,853	167,521	17,838	721,908	72,548	43,932	**1,578,599**
Zachodniopomorskie	379,319	92,741	14,058	653,071	10,716	7,208	**1,157,113**
TOTAL	**5,636,361**	**6,166,530**	**765,887**	**7,380,671**	**687,906**	**49,170,863**	**69,808,218**

Approximately 79% of the exposures are for the Mazowieckie province because of the concentration of central government bodies in this province, where the exposures constitute the greatest part of the Bank's portfolio.

Table 7 shows the structure of BGK impaired exposures by regions.

Table 7. Structure of BGK impaired exposures and established specific provisions by regions as at 31 December 2013 (in thousands of PLN)

Province	Impaired exposures	Structure in %	Established special provisions
Dolnośląskie	189,882	7.06%	22,305
Kujawsko-Pomorskie	121,580	4.52%	8,798
Lubelskie	88,556	3.29%	21,475
Lubuskie	85,103	3.16%	10,867
Łódzkie	129,240	4.80%	32,917
Małopolskie	175,837	6.54%	84,324
Mazowieckie	494,094	18.37%	168,781
Opolskie	18,687	0.69%	13,008
Podkarpackie	141,985	5.28%	50,787
Podlaskie	58,264	2.17%	23,957
Pomorskie	210,920	7.84%	55,527
Śląskie	504,213	18.75%	60,491
Świętokrzyskie	33,411	1.24%	11,834
Warmińsko-Mazurskie	54,541	2.03%	13,787
Wielkopolskie	232,830	8.66%	51,756
Zachodniopomorskie	150,642	5.60%	25,805
TOTAL	**2,689,785**	**100.00%**	**656,419**

The biggest number of at-risk exposures is present in Śląskie, Mazowieckie and Wielkopolskie provinces. In the case of Mazowieckie, to a large extent this results from a substantial share of historic developer exposures of 2006-2009 and then from exposures of the former National Housing Fund (NHF). In the case of Wielkopolskie and Śląskie, the main reason for the substantial level of credit impaired is the exposures of the former NHF and transactions with corporates.

Tables 8 and 9 show BGK exposure structure by industries and exposure quality.

Table 8. Structure of BGK exposures by industries as at 31 December 2013 (in thousands of PLN)

	Regional governments and local authorities	Corporates	Retail	Secured on real estate property	Past due items	Other	TOTAL	Structure (%)
Public administration, national defence, compulsory social security	5,636,321	0	0	31,456	0	36,870,446	**42,538,224**	**58.36%**
Construction	0	297,305	6,918	6,204,035	379,325	6,221	**6,893,804**	**9.46%**
Finance	0	471,323	298,834	49,138	45	11,912,781	**12,732,122**	**17.47%**
Scientific, professional, technical and educational activities	0	21,733	2,713	37,694	16,582	35,116	**113,839**	**0.16%**
Mining and extraction	0	288,078	688	566	55,956	0	**345,287**	**0.47%**
Wholesale trade	0	51,427	25,835	66,619	73,574	355	**217,809**	**0.30%**
Hotels and restaurants	0	4,946	11,545	30,175	31,745	0	**78,412**	**0.11%**
Real estate market, management	0	172,750	6,913	124,737	19,095	938	**324,433**	**0.45%**
Health care and social assistance	0	15,711	5,837	101,645	0	311,284	**434,477**	**0.60%**
Other services, sports, entertainment and recreation	40	2,133	894	42,163	24	12,656	**57,910**	**0.08%**
Industrial processing	0	1,722,285	25,329	308,850	52,969	20,758	**2,130,191**	**2.92%**
Transport, storage and communication	0	1,825,163	10,326	56,261	21,694	307	**1,913,751**	**2.63%**
Electricity, gas and water supply	0	1,290,191	5,929	242,610	6,689	0	**1,545,420**	**2.12%**
Other (individuals, no Polish Classification of Activity (PKD) number)	0	232,167	364,127	84,722	30,209	2,854,862	**3,566,086**	**4.89%**
TOTAL	**5,636,361**	**6,395,214**	**765,887**	**7,380,671**	**687,906**	**52,025,725**	**72,891,764**	**100%**

The noticeable share of exposures without PKD classification is a result of transactions with entities located outside Poland, therefore without activity classification. The portfolio structure is dominated by public administration and finance as a result of well-developed cooperation of BGK with central and local governments, which triggers the need to cooperate with financial entities to ensure funding and liquidity. A relatively large group of exposures is also constituted by the construction industry, mainly because of loans granted as part of the former NHF.

Table 9. BGK exposure quality by industries as at 31 December 2013 (in thousands of PLN)

INDUSTRY	Impaired exposures	Structure (%)	Established special provisions
Public administration, national defence, compulsory social security	223,859	8.32%	43,576
Construction	1,644,419	61.14%	321,652
Finance	1,105	0.04%	1,206
Scientific, professional, technical and educational activities	14,503	0.54%	10,590
Mining and extraction	338,843	12.60%	73,348
Wholesale trade	75,422	2.80%	57,665
Hotels and restaurants	38,185	1.42%	21,781
Real estate market, management	35,993	1.34%	10,478
Health care and social assistance	60,909	2.26%	4,993
Other services, sports, entertainment and recreation	5,604	0.21%	497
Industrial processing	195,650	7.27%	60,173
Transport, storage and communication	14,797	0.55%	12,295
Electricity, gas and water supply	8,853	0.33%	10,682
Other (individuals, no Polish Classification of Activity (PKD) number)	31,641	1.18%	27,484
TOTAL	**2,689,785**	**100%**	**656,419**

The construction industry has the worst quality structure in the BGK portfolio, which results from the make-up of the industry, comprising mostly loans granted to developers (in a substantial part at risk), as well as loans granted to the former NHF with a large share of at-risk exposures – reclassified as a result of the financial assessment of the customers.

Table 10 shows BGK exposure structure by maturity.

Table 10. Structure of BGK exposures by maturity as at 31 December 2013 (in thousands of PLN)

Original maturity	Exposures								TOTAL
	up to 1 month	between 1 and 3 months	between 3 months and 6 months	between 6 months and 1 year	between 1 year and 3 years	between 3 years and 5 years	more than 5 years	past due	
Central governments and central banks	30,438,809	170,721	0	1,065,000	5,870,666	380,872	313,207	0	**38,239,274**
Regional governments and local authorities	0	0	0	34,775	65,085	316,379	5,219,945	178	**5,636,361**
Administrative bodies and non-commercial undertakings	0	1,207	0	5,873	40,552	83,052	224,435	1,833	**356,952**
Institutions - banks	4,421,082	851,782	617,228	2,097,719	150,195	45,290	439,008	0	**8,622,304**
Corporates	200,576	17,945	105,881	284,576	658,648	314,447	4,714,564	98,578	**6,395,214**
Retail	0	596,544	0	2,218	5,389	4,961	116,922	39,852	**765,887**
Secured on real estate property	0	0	0	21,286	95,675	159,641	7,104,069	0	**7,380,671**
Past due items	0	0	0	0	0	7	188,111	499,789	**687,906**
Exposures under regulatory high-risk categories	0	7,405	0	166	273,621	0	85,382	0	**366,574**
Other	0	4,440,620	0	0	0	0	0	0	4,440,620
TOTAL	**35,060,467**	**6,086,224**	**723,109**	**3,511,613**	**7,159,831**	**1,304,648**	**18,405,642**	**640,230**	**72,891,764**
Structure (%)	**48.10%**	**8.35%**	**0.99%**	**4.82%**	**9.82%**	**1.79%**	**25.25%**	**0.88%**	**100%**

Since the Bank performs a leading role in public finance consolidation, the exposures to government institutions and also to banks on the money market, maturing within 1 month, constitute the biggest group of exposures. The second largest group are loans whose original maturity exceeds 5 years and which were granted to Social Housing Associations and housing cooperatives as part of the former NHF as well as loans to local governments.

Provisions

Tables 11 and 12 present the balance of provisions and adjustments and related changes in 2013.

Table 11. Reconciliation of adjustments and special provisions of BGK for 2013 (in thousands of PLN)

Item	As at 01.01.2013	Write-offs created	Write-offs released	Charged to write-offs	Other adjustments	As at 31.12.2013
Special provisions	693,767	297,295	-319,165	-15,293	-185	656,419
regular	21	0	-10	0	0	11
monitored	10,472	18,926	-67,614	0	43,387	5,171
substandard	109,836	105,444	-112,913	0	-7,144	95,223
doubtful	129,115	67,379	-63,223	0	-57,386	75,885
lost	444,323	105,546	-75,405	-15,293	20,958	480,129

Provisioning for loan receivables is conducted in accordance with the regulation of the Minister of Finance on provisioning principles. The level of provisions is influenced by the deferred revaluation of receivables of the former NHF performed on the date of liquidation of the fund, i.e. 31 May 2009.

Table 12. Reconciliation of adjustments and provisions of BGK for 2013 (in thousands of PLN)

Item	Deferred income tax provision	Provisions for litigation	Provisions for pensions and other employee benefits (also for former employees)	Provisions for off-balance sheet (financial and guarantee) liabilities	General risk provisions	TOTAL
Opening balance	**51,413**	**35,110**	**16,493**	**182,700**	**211,766**	**497,482**
1. Provisions established	0	2,883	1,413	90,622	183,862	**278,780**
2. Provisions released	0	-3,145	0	-89,103	-98,570	**-190,818**
3. Other value changes, of which:	-8,393	0	-3,055	-19,534	0	**-30,982**
- change in the deferred income tax provision	-8,393	0	0	0	0	**-8,393**
- adjustment of fair value measurement of foregone loans of the former NHF	0	0	0	-19,534	0	**-19,534**
Closing balance	**43,020**	**34,848**	**14,851**	**164,685**	**297,058**	**554,462**

The Bank records each provision established and released on the basis of the purposes underlying their establishment or release – without compensation of the related costs and incomes, by individual events.

An important factor that raised the value of provisions in this period was the establishment of a general risk provision.

2.4. Liquidity Risk

Definition

The liquidity risk is a threat of losing the ability to pay liabilities in a timely fashion as a result of unfavourable changes in assets and liabilities, off-balance-sheet transactions, improper timing of current cash flows and the possible losses resulting from the foregoing.

The Bank applies liquidity risk management procedures which define how the risk is monitored and managed.

Liquidity risk management aims to:

- ensure and maintain the Bank's ability to meet its current and future liabilities, taking account of liquidity costs and return on equity,
- prevent liquidity crises,
- define solutions which will enable the Bank to survive a potential crisis (emergency plan).

Measurement

The Bank’s liquidity risk measurement system comprises the following methods:

- liquidity ratios, liquidity gap analysis, fund stability analyses, daily monitoring of the deposit base – applied for liquidity risk both at the operational and strategic levels,
- stress tests applied both at the operational and strategic levels – are used, among other purposes, to estimate the internal capital required to cover the liquidity risk under Pillar II.

Limits

A system of limits is an important liquidity risk management tool at BGK. Both limits and threshold values for specific liquidity ratios are applied.

The risk monitoring process consists in a cyclical review of the values of limited parameters and analysis of the limits usage.

In 2013, the Bank did not exceed the regulatory liquidity limits defined in PFSA resolution no. 386/2008 of 17 December 2008 on the establishment of liquidity standards binding for banks (Official Journal of the PFSA, No. 8, item 40, as amended) or its internal limits of liquidity ratios.

Regulatory liquidity ratios are shown in Table 13.

Table 13. Regulatory liquidity ratios	**limit**	**31.12.2013**
M1 – short-term liquidity gap (in thousands of PLN)	0.00	12,322,495
M2 – short-term liquidity ratio	1.00	1.42
M3 – own funds to non-liquid assets ratio	1.00	73.38
M4 – own funds and stable external funds to non-liquid and limited-liquidity assets ratio	1.00	2.24

Risk reduction methods

In order to reduce risk and secure liquidity, the Bank applies the following measures:

- transactions on the money market, including deposit transactions, reverse repo, repo, NBP (National Bank of Poland) money market bills, Treasury bills and bonds,
- maintaining a portfolio of liquid securities,
- daily monitoring of the money balance and financing possibilities from NBP,
- facilities securing liquidity of the Bank,
- own bond issuances and deposit level management to optimise the structure of the sources of funding,
- emergency plans in case of emergency situations of reduced or endangered liquidity.

2.5. Market Risk

Definition

Market risk is understood as a threat of possible drop in the value of the Bank's financial instruments portfolio or Bank's results as a consequence of unfavourable changes in market parameters (exchange rates, interest rates and prices of capital instruments).

The Bank applies market risk management procedures which define how specific risk types are monitored and managed.

The management of specific market risk types focuses on:

- for interest rate risk (including the securities price risk) – reducing the risk of losing a part of the interest income as a result of a change in market interest rates and the risk of an unfavourable change in the market value of the interest-bearing financial instruments held by the Bank,
- for currency risk – reducing the risk of losses as a result of changes in market exchange rates,
- for the equity securities price risk – reducing the risk of losses as a result of changes in equity prices.

Measurement

The Bank's market risk measurement system comprises the following methods:

- measures of position volumes – applied both at the operational and strategic levels, relating to the currency risk and the interest rate risk (including price risk),
- sensitivity measures for the purposes of detailed analyses (BPV, Duration, interest result sensitivity to change in interest rates) – used at the operational and strategic levels and relating to the interest rate risk and the price risk,
- value at risk (VaR) – measure used at the operational and strategic levels in relation to the market risk,
- stress tests applied at the operational and strategic levels – used to estimate the internal capital required under Pillar II to cover the interest rate risk of the banking book, among other purposes.

Risk reduction methods

An important market risk management tool in BGK is the system of limits and hedging selected customer derivative transactions on the interbank market.

The Bank applies the following limits:

- for the interest rate risk both limits and threshold values of sensitivity measures (such as BPV) and loss limits are applied,
- for the currency risk, the position volume limits and loss limits are applied.

The risk monitoring process consists in a cyclical review of the risk measures and analysis of the limit usage.

The risk parameters for the currency risk are shown in Table 14.

Table 14. Total currency position and VaR for the currency risk as at 31.12.2013 in thousands of PLN

Total position of the Bank	36,347
VaR for the currency position of the Bank	567

BPV for trading book as at 31.12.2013 totalled PLN 0.53 thousand.

2.6. Interest rate risk for the banking book

2.6.1 Type of interest rate risk for the banking book

The aim of interest rate risk management is to reduce the risk of losing a part of interest income as a result of a change in market interest rates and the risk of a decrease in market value of the interest-bearing assets held by the Bank.

To a large extent, the interest rate risk is determined by the long-term loan portfolio (of the former NHF), financed with funds leveraged from international institutions as part of long-term financing with the nearest repricing date of up to 3 months. Moreover, the interest rate risk in own activities is determined to a large extend by deposits at the Bank and the debt securities portfolio. Deposits with undetermined maturity are accounted for in interest rate risk analyses by customer group with the nearest repricing date of up to 1 month.

The customer option risk is managed in particular by the price policy applied at the Bank. It is a general rule to limit the customer options with the use of zero or reduced interest rates when compared to the original arrangements in the case of early withdrawal of a deposit and a compensation commission at early loan repayment.

The interest rate risk at the Bank is managed in two fields:

- income risk understood as the risk of losing a part of interest income as a result of an unfavourable changes in market interest rates,
- price risk understood as the risk of a decrease in market value of the financial instruments portfolio held by the Bank due to an unfavourable change in interest rates.

The income risk is managed by matching repricing dates of assets and liabilities.

The price risk is managed by relevant changes in the structure of the financial instruments portfolio, whose valuation depends on the level of market interest rates.

2.6.2 Financial result sensitivity to changes in interest rates

The Bank examines the interest rate risk in the scope of:

- income risk,
- price risk divided into banking book and trading book,
- stress tests and capital needs tests for the banking book.

The income risk is analysed on the basis of:

- analysis of gaps in interest fixing periods,
- simulation of interest result sensitivity – a method forecasting the impact of changes in interest rates on the interest result of the Bank (including various scenarios of changes in interest rates).

The Bank uses the following measures to assess its exposure to the income risk:

- interest rate gap ratio,
- aggregate interest rate gap ratio,
- anticipated amount by which the Bank's interest result can be decreased or increased at a given point in the future given an assumed change in market interest rates.

The Bank's income risk is analysed monthly based on balance-sheet and off-balance-sheet data as at the end of the last day of each month.

Table 15 shows the calculation of the interest rate gap in the banking book.

Table 15. Interest rate gap in thousands of PLN in the banking book as at 31 December 2013

Balance sheet items	Interest fixing periods						
	up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	more than 5 years
Gap in interest fixing brackets	**4,752,525**	**184,134**	**-163,153**	**1,218,596**	**3,726,107**	**310,932**	**290,375**
Aggregate gap	**4,752,525**	**4,936,659**	**4,773,506**	**5,992,101**	**9,718,208**	**10,029,140**	**10,319,515**

The change in the interest result given a ±2 p.p. change in interest rates is shown in Table 16.

Table 16. The change in the interest result given a ±2 p.p. change in interest rates as at 31 December 2013 (in thousands of PLN)

Book:	change in rates by - 2 p.p.	change in rates by +2 p.p.
Banking	-246,205	39,489
PLN	-227,379	101,375
EUR	-15,258	-53,552
USD	-3,888	-8,233
other currencies	320	-101
Trading	-963	963
Total banking and trading book	**-247,167**	**40,452**

The stress testing methodology for the interest rate risk consists in determining the change in the Bank's interest result assuming that the market interest rate curve shifts by 200 basis points. The interest risk estimated in this way determines the level of additional capital needs under the interest rate risk for the banking book.

For banking book instruments that are sensitive to the price risk, the risk is additionally measured on a daily basis with the use of BPV and VaR methods.

2.7. Operational Risk

Qualitative information

The operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems or as a result of external events. This definition includes the legal risk, but excludes the reputation risk and the strategic risk. The operational risk management is aimed to maintain an acceptable level of operational risk that does not pose a threat to the business operation.

The operational risk includes all important areas of the Bank's activities and all new, existing and modified products, processes and systems. It also takes account of internal factors (such as organisational structure, the nature of operation, IT systems used, customer characteristics, customer complaints, quality of staff, organisational changes and staff turnover) as well as external factors (the Bank's operational environment).

The process of operational risk management covers all branches/organisational units of the Bank's head office and subsidiaries and is supervised by relevant organisational units of the Bank's head office in line with Organisational Regulations for BGK Head Office and their scopes of responsibility.

The operational risk is identified on the basis of:

- internal sources, including:
  - internal loss data,
  - self-assessment of the own risk of organisational units and branches,
  - assessment of processes within business lines,
  - assessment of high-risk products,
- external sources, including:
  - external loss data in the field of operational risk,
  - external studies.

The Bank assesses the actual threats under operational risk on the basis of:

- dynamics of key risk indicators,

- analysis of operational events.

In the field of operational risk, organisational units of the Bank's head office undertake, within the scope of their responsibility, relevant actions aimed to select and propose a method of protecting against and limiting the operational risk relevant for a given area.

Within the scope of their responsibilities, the organisational units of the Bank secure operational areas at risk with the following security measures:

- emergency plans – to counteract and minimise negative impacts of unexpected events, including internal and external attacks which can negatively affect the organisation and its operation,
- insurance protection – insurance of assets against accidents and failures of electronic equipment, hardware and computer network losses resulting from forgery or fraud and civil liability,
- outsourcing selected IT, transport and or debt recovery services to external specialised companies,
- other security measures (legal, organisational, technical) such as procedures for recruitment, employee assessment and IT system access-granting, relevant contractual clauses, competence systems, training and inspections.

Should an elevated exposure level to the operational risk be recorded at the Bank, a relevant organisational unit of the Bank presents an action plan to improve the existing state of affairs (taking account of individual risk operational categories), agrees it upon with the units that will implement it and submits it to the Operational Risk Committee for endorsement and then to the Bank's Management Board for approval. The Management Board of the Bank decides whether to implement, amend, or reject the plan.

Quantitative information

Table 17 shows information on operational loss events reported to the internal database in 2013.

Table 17. Operational loss events reported to the internal database in 2013 (cut-off threshold: PLN 5 thousands) (in thousands of PLN)

Event type	Number of loss events	Gross loss	Net loss
Employment rules and workplace safety	2	82	82
Customers, products and business practice	1	213	213
Losses related to fixed assets	2	25	11
Transactions, delivery and operational processes management	7	1,531	1,026
Total	**12**	**1,851**	**1,332**

In 2013, the gross loss was generated in 83% by operational events belonging to the category of "Transactions, deliveries and operational processes management", in 11% by the events belonging to the category of "Customers, products and business practice".

Within "Transactions, delivery and operational processes management", more than 33% of losses were recovered as a result of activities undertaken by the Bank, i.e. contact with the customer to recover funds transferred by the Bank by mistake. Within "Losses related to fixed assets" – events concerned transport losses, mostly recovered from the insurance.

The Bank did not record significant individual losses (the highest individual loss of PLN 1,026 thousands gross constituted 0.14% of the Bank's net profit for 2013).

2.8. Compliance Risk

The compliance risk includes the risk of legal or regulatory sanctions, financial losses and loss of reputation the Bank can incur as a result of lack of compliance with legal regulations, regulatory guidelines or generally accepted business practices and ethical standards, as well as internal policies and procedures applicable to the Bank's operations.

The compliance risk is connected with the operation of each organisational unit of the head office/branches of the Bank and the employees of the organisational units of the head office/branches are obliged to undertake steps to eliminate or minimise the compliance risk. The compliance risk management process also includes the Bank's subsidiaries.

The unit responsible for coordination of the compliance risk management process is the compliance unit which develops and implements compliance risk management principles and methods for investigation procedures and compliance tests.

2.9. Other risks

Apart from the risks referred to in items 2.3 to 2.8, the ICAAP process has revealed the following risks as significant: settlement risk, reputation risk, business risk, risk of changes in macroeconomic conditions and model risk.

The Bank manages the risks which have been identified as significant by developing management procedures and estimating the internal capital in relation to these risks.

2.10. Risk reporting

Risk reporting takes place in strict accordance with internal regulations, in line with the competence principles adopted at the Bank. The procedures also include principles of conduct in the event of an elevated financial risk.

Table 18. Types and scope of reports

Risk type	Report types	Scope of reports
Credit Risk	on-going	use of internal exposure limits in accordance with regulations on maintenance and monitoring of internal limits of BGK's maximum credit exposure
		current balance of loan receivables in the scope of own activities of individual organisational units of the Bank
		use of concentration limits defined in the Banking Act (Art. 71)
		information on the type of exposures, risk structure for the entire credit portfolio and usage of external and internal exposure limits
	periodic	extended information on the type of exposures, risk structure for the entire credit portfolio and usage of external and internal exposure limits
		information about stress tests for concentration risk
		report on lending activity based on the own and entrusted funds in the credit portfolio, taking account of real property financing and mortgage-backed exposures
Counterparty - bank credit risk	on-going	usage of settlement and credit limits (limits for banks and exposure limits for countries), unsettled transactions on the interbank market; banks for which BGK suspended settlement of transactions, banks which were placed on a watch-list due to increased settlement risk on a given day
	periodic	usage of limits for countries and exposure limits for foreign and domestic banks

Liquidity risk	on-going	dynamics of liquidity gaps, usage of regulatory and internal liquidity limits, balance of the Bank's deposits, stability analysis for external funds and stress tests results
	periodic	dynamics of liquidity gaps, usage of regulatory and internal liquidity limits, stability analysis for external funds and stress tests results, simulations of liquidity ratios and long-term liquidity analyses
Interest rate risk	on-going	information on the usage of internal interest rate risk limits, BPV, Duration, Modified Duration, VaR, results due to changes in interest rates for debt securities portfolios, interest rate gaps in individual interest fixing periods, sensitivity of interest income, results of stress tests
	periodic	sensitivity of interest result, usage of internal interest rate risk limits, measures: VaR, BPV and results of stress tests
Equity securities price risk	on-going	information on equity securities, exclusive of structured positions in equities (i.e. positions that are not deducted from the Bank's own funds or are classified as the Bank's fixed assets, or do not have an impact on the capital requirement level under credit risk), including VaR
	periodic	information on equity securities, exclusive of structured positions in equities, including VaR
Currency risk	on-going	information about the usage of internal currency risk limits, open currency positions, VaR, results due to changes in exchange rates, results of stress tests and the Bank's exposure level to the currency risk
	periodic	usage of internal interest rate risk limits, VaR, results of stress tests
Capital adequacy	on-going	dynamics of capital adequacy ratios, amount of the total capital requirement, internal capital and own funds, usage of capital limits and results of stress tests
	periodic	analysis of dynamics of capital adequacy indicators, amount of the total capital requirement, internal capital and own funds, usage of capital limits and results of stress tests
Operational risk	periodic	information on individual methods of operational risk measurement, i.e. analysis of the event database in the Operational Risk Registry, analysis of losses in the external database, key operational risk indicators; information resulting from the self-assessment of processes as part of active business lines at the Bank; analysis of the level of operational risk provisions; information on the measurement of operational risk in a subsidiary
Compliance risk	periodic	information about the fulfilment of specific tasks of the compliance unit in a given period, taking account of the compliance risk assessment and information about all incidents identified in a given period, complaints and stress tests

2.11. Equity exposures – not taken into account in the trading book

Table 19 shows equity exposures outside the trading book.

Table 19. Equity exposures – not taken into account in the trading book

1. Equity exposures not taken into account in the trading book as at 31.12.2013 in thousands of PLN

	Exposure type	Amount of the Bank's exposure	Balance-sheet valuation	Fair value	Purpose of acquisition	Valuation method
A.	Strategic own investments,	130,233	124,785	124,785	strategic	Valuated at cost and decreased by potential impairment.
	including surety funds	67,067	64,558	64,558		
B.	Other own investments – mainly classified as available for sale,	54,209	90,345	90,345	capital gain	1) For the companies listed on the WSE, the valuation is based on the fair value determined on the basis of the closing price of the last day of the reporting month (monthly), 2) For other companies, the valuation is at cost (contribution) and is decreased by potential revaluation or impairment allowance.
	including Companies listed on the WSE	52,316	89,697	89,697		
Total equity exposures not included in the trading book (A+B)		**184,442**	**215,130**	**215,130**		

2. Realised gains on sales, cumulated (for companies listed on the regulated market) – as at 31.12.2013, in thousands of PLN (cumulatively from the beginning of the year)	**352,922**
3. Total unrealised gains (losses) on sales (for companies listed on the regulated market) total unrealised gains (losses) on revaluation – as at 31.12.2013, in thousands of PLN	**37,382**

In 2013, the Bank did not have any equity exposures in the trading book.

3. Own funds

Own funds required to calculate the capital adequacy ratio are determined pursuant to art. 127 of the Banking Act and PFSA resolution 325/2011.

Own funds of the Bank include Tier 1 capital and Tier 2 capital, decreased by the positions defined in the Banking Act and the said PFSA resolution.

In accordance with its statutes, the Bank holds the following Tier 1 capital items:

- principal funds (statutory fund, surplus fund and reserve fund),
- additional items of Tier 1 capital (fund for general banking risks, prior period undistributed profit, profit under approval and net profit for the current reporting period, calculated in accordance with the applicable accounting principles, decreased by all expected charges and dividends in amounts not higher than the amounts of profit verified by a certified auditor),
- deductions from Tier 1 capital, defined in the Banking Act and comprising:
  - intangible assets measured at the carrying value,
  - accumulated loss,
  - loss under approval,
  - net loss for the current period,
  - other deductions of the Bank's Tier 1 capital – defined by the PFSA, including capital exposures to financial institutions, credit institutions, domestic and foreign banks, when the exposure exceeds 10% of the capital (own funds) of the entity – deduction is equal to 50% of the exposure value.

Tier 2 capital of the Bank includes:

- revaluation of tangible fixed assets,
- other items approved by the PFSA,
- other items defined by the PFSA, including: 80% of the amount of unrealised profits on debt and equity instruments classified as available for sale,
- deductions from Tier 2 capital – defined by the PFSA, including capital exposures to financial institutions, credit institutions, domestic and foreign banks, when the exposure exceeds 10% of the capital (own funds) of the entity – deduction is equal to 50% of the exposure value[6].

Due to its significant trading activity, in the calculation of the capital adequacy ratio the Bank takes into account its short-term capital, if positive.

Short-term capital is determined as the market profit calculated cumulatively until the reporting day, decreased by known charges, including dividends, to the extent in which it was not included in own funds or distributed in another way, as an amount not exceeding the sum of capital requirements for market risk, counterparty credit risk, settlement and delivery risk and the exposure concentration limit in the trading book.

A detailed structure of own funds is shown in Table 20.

[6] when 50% of the exposure value is higher than the amount of Tier 2 capital, the difference shall increase the reduction of the Bank's Tier 1 capital

Table 20. Own funds structure (in thousands of PLN)	31.12.2013	31.12.2012
I. Tier 1 capital	**7,253,547**	**5,921,584**
1. Principal funds of the bank	**7,037,483**	**5,729,864**
– Statutory fund	6,517,031	5,247 911
– Surplus fund	520,452	481,953
2. Reserve fund	**76,831**	**76,831**
– Reserves fund plus prior period undistributed profit	76,831	76,831
– Net profit for the current period and profit under approval	740,306	479,220
– Adjustments of net profit for the current period and profit under approval	-740,306	-479,220
– Accumulated loss	0	0
– Tier 1 capital from revaluation	0	0
3. General risk fund	**155,500**	**135,500**
4. Deductions from Tier 1 capital	**-16,267**	**-20,611**
– Intangible assets	-16,267	-20,611
II. Tier 2 capital	**67,999**	**81,420**
– Revaluation adjustment of debt and equity instruments classified as available for sales, transferred from Tier 1 capital to Tier 2 capital	59,022	72,442
– Revaluation of tangible fixed assets capital (fund) created on the basis of separate regulations	8,977	8,978
III. Deductions from Tier 1 capital and Tier 2 capital	**-116,034**	**-4,112,725**
– **Deductions from Tier 1 capital**	-58,017	-4,031,305
– **Deductions from Tier 2 capital**	-58,017	-81,420
Total own funds	**7,205,512**	**1,890,279**
Short-term capital	**4,022**	**6,677**
Own funds plus short-term capital	**7,209,534**	**1,896,956**

Changes in own funds resulted from:

- increase in own funds in January 2013 in relation to disposal of shares in PKO BP S.A. due to which the Bank had deducted its own funds by PLN 4.01 billion,
- inclusion of the 2012 net result of PLN 0.48 billion in own funds,
- increase of own funds by the state budget by PLN 0.85 billion net.

The Bank deducts Tier 1 capital and Tier 2 capital by significant capital exposure to entities defined in Table 21.

Table 21. Shares deducted from own funds as at 31 December 2013 (in thousands of PLN)

Entity	Core corporate object	Share in capital (%)	Carrying value of shares
Krajowy Fundusz Kapitałowy S.A. (National Capital Fund)	Supporting activities for financial services	100.00%	33,800
Korporacja Ubezpieczeń Kredytów Eksportowych S.A. (Export Credit Insurance Corporation)	Insurance activity	12.15%	13,025
Polskie Inwestycje Rozwojowe S.A. (Polish Investments for Development, PIR S.A.)	Supporting activities for financial services	96.15%[7]	6,054
Towarzystwo Funduszy Inwestycyjnych BGK S.A.	Establishment and management of investment funds	100.00%	2,016
Lubuski Fundusz Poręczeń Kredytowych Sp. z o.o.	Surety activities	37.97%	3,000
Śląski Regionalny Fundusz Poręczeniowy Sp. z o.o.	Surety activities	46.08%	3,000
Fundusz Rozwoju i Promocji Województwa Wielkopolskiego S.A.	Surety activities	22.47%	3,000
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Surety activities	44.44%	2,000
Kujawsko-Pomorski Fundusz Poręczeń Kredytowych Sp. z o.o.	Surety activities	49.38%	2,950
Dolnośląski Fundusz Gospodarczy Sp. z o.o.	Surety activities	42.62%	7,800
Opolski Regionalny Fundusz Poręczeń Kredytowych Sp. z o.o.	Surety activities	48.27%	2,300
Bydgoski Fundusz Poręczeń Kredytowych Sp. z o.o.	Surety activities	41.33%	604
Fundusz Poręczeń Kredytowych Sp. z o.o. in Jelenia Góra	Surety activities	44.60%	640
Samorządowy Fundusz Poręczeń Kredytowych Sp. z o.o. in Gostyń	Surety activities	49.89%	6,730
Fundusz Poręczeń Kredytowych Sp. z o.o. in Jastrzębie Zdrój	Surety activities	33.00%	853
Podkarpacki Fundusz Poręczeń Kredytowych Sp. z o.o.	Surety activities	49.99%	2,499
Zachodniopomorski Regionalny Fundusz Poręczeń Kredytowych Sp. z o.o.	Surety activities	48.08%	5,000
Toruński Fundusz Poręczeń Kredytowych Sp. z o.o.	Surety activities	35.56%	1,490
Bielski Fundusz Poręczeń Kredytowych Sp. z o.o.	Surety activities	24.24%	960
Warmińsko - Mazurski Fundusz „Poręczenia Kredytowe" Sp. z o.o.	Surety activities	36.19%	2,490
Małopolski Fundusz Poręczeń Kredytowych Sp. z o.o.	Surety activities	32.86%	783
Świętokrzyski Fundusz Poręczeniowy Sp. z o.o.	Surety activities	49.99%	4,999
Małopolski Regionalny Fundusz Poręczeniowy Sp. z o.o.	Surety activities	36.87%	8,000
Pomorski Regionalny Fundusz Poręczeń Kredytowych Sp. z o.o.	Surety activities	10.06%	2,000
TOTAL[8]			**115,993**

[7] until the complete paying-up of the capital, BGK does not exercise voting rights from shares in PIR S.A.

[8] the difference between the specification of shares defined in Table 21 and decreases of own funds indicated in Table 20 results from the costs incurred in 2013 in relation of the incorporation of BGK Nieruchomości S.A., which came under the Bank's control on 17 January 2014. Charges incurred by the Bank as a result of the purchase of shares (notary fees, court charges, civil-law transactions tax) increase their purchase price

Moreover, the Bank holds shares shown in Table 22 which do not require a deduction from own funds.

Table 22. Shares which do not require a deduction from own funds as at 31 December 2013 (in thousands of PLN)

Entity	Core corporate object	Share in capital (%)	Carrying value of shares
Mazowiecki Fundusz Poręczeń Kredytowych Sp. z o.o.	Surety activities	8.70%	3,460
European Investment Fund	Provision of guarantees, trading, holding and management of shares	0.10%	4,628
PZU S.A.	Insurance activity	0.18%	69,258
S.W.I.F.T	IT services	0.00%	3
Huta Jedność in liquidation	Metallurgy	0.59%	0
POLIMEX-MOSTOSTAL S.A.	Construction	2.02%	2,861
Elektrociepłownia BĘDZIN	Power industry	9.89%	6,221
PEKAES S.A.	Transport, forwarding	3.71%	11,358
METANEL S.A.	Mining industry	5.97%	0
Wałbrzyski Rynek Hurtowy S.A.	Wholesale trade	10.74%	307
Fabryka Dywanów KOWARY S.A.	Light industry	7.91%	0
Zakłady Sprzętu Instalacyjnego POLAM-NAKŁO S.A.	Electrical industry	19.92%	341
Krajowa Grupa Poręczeniowa Sp. z o.o.	Advertising	42.31%	660
TOTAL			**99,097**

4. Capital adequacy

Capital adequacy of the Bank is monitored with the use of the capital adequacy ratio and the internal capital ratio understood as the proportion of internal capital to own funds increased by short-term capital.

In 2013, the Bank fulfilled capital adequacy limits defined in Art. 128 section 1 items 2 and 3 of the Banking Act (capital adequacy ratio at a level of at least 8% and internal capital ratio at a level of 100% at most).

Changes in values of the capital adequacy ratio and the internal capital ratio resulted mainly from changes in the value of own funds referred to in part 3. Dynamics of capital adequacy ratios and their components is presented in Charts 1 and 2.

Chart 1. Capital adequacy ratios

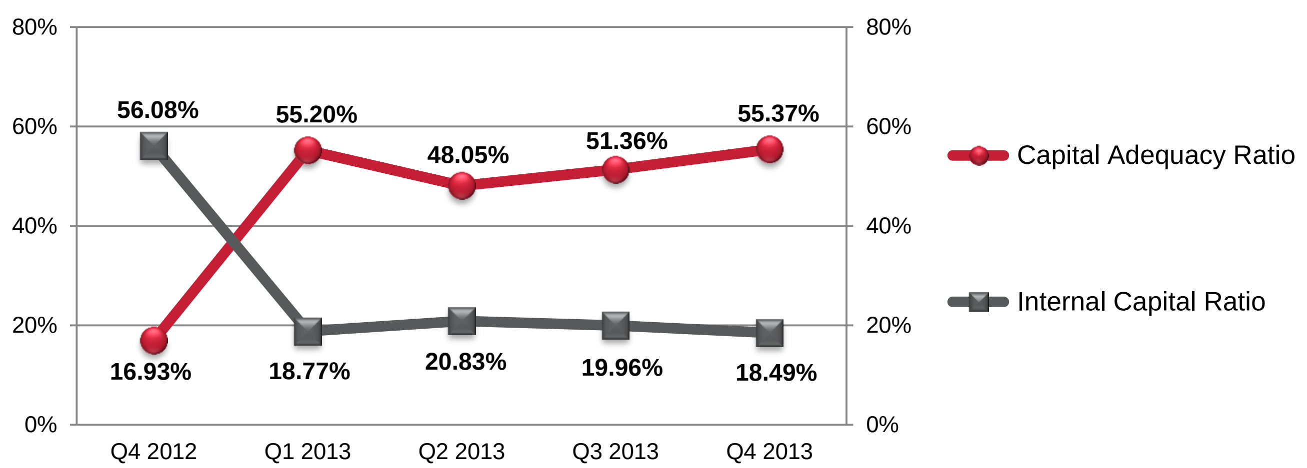
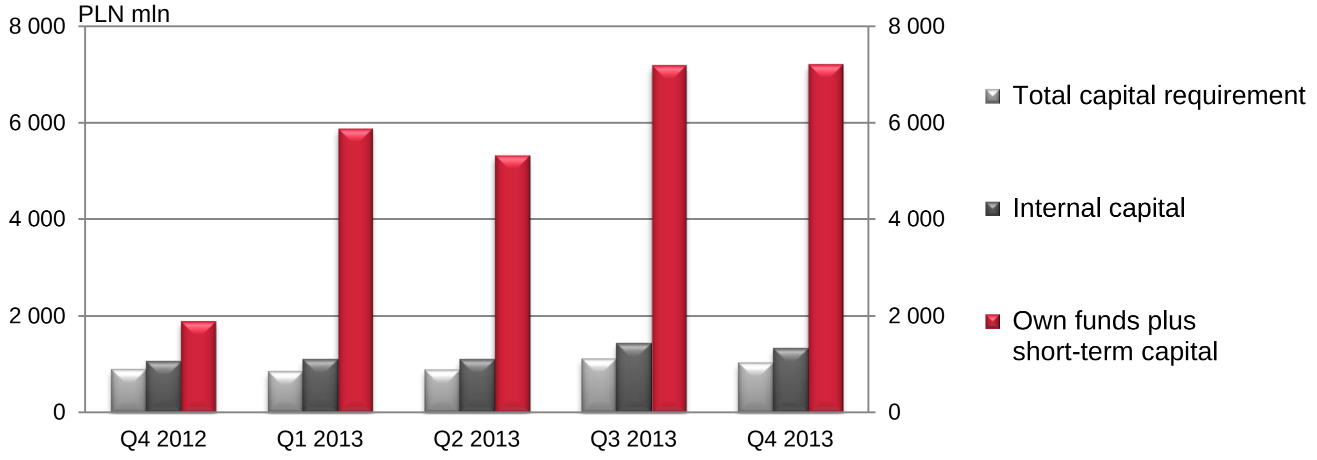


Chart 2. Components of capital adequacy ratios



4.1. Capital requirements

In order to define minimum capital requirements for individual risk types (Pillar I), the Bank applies methods described in Table 23.

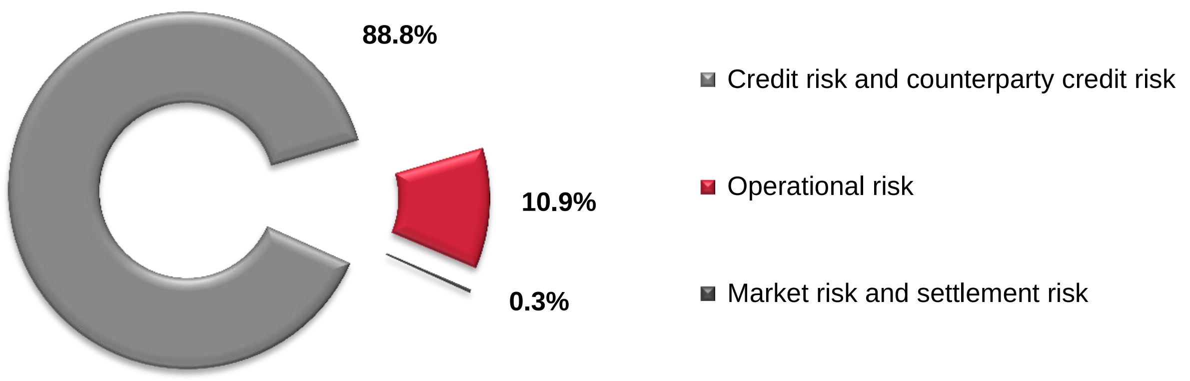
Table 23. Methods applied to define capital requirements

Capital requirement for	Method
credit risk in banking book	standardised (part II of Appendix 4 to PFSA resolution 76/2010) and financial collateral comprehensive method (Articles 67-78 of Appendix 17 to PFSA resolution 76/2010)
currency risk in trading book and banking book combined	basic (part II Article 15 of Appendix 6 to PFSA resolution 76/2010)
commodity price risk in trading book and banking book combined	simplified (part II Article 13 of Appendix 7 to PFSA resolution 76/2010)
equity securities price risk in trading book	simplified (part III Article 10 of Appendix 8 to PFSA resolution 76/2010) and in accordance with parts II and V of Appendix 8 to PFSA resolution 76/2010
specific risk of debt instruments prices in trading book	basic (part II Article 14 of Appendix 9 to PFSA resolution 76/2010)
general interest rate risk in trading book	maturity-based (part II Article 6 of Appendix 10 to PFSA resolution 76/2010)
settlement risk and delivery risk in trading book and banking book combined and counterparty credit risk in trading book	in accordance with Appendix 11 to PFSA resolution 76/2010, balance-sheet equivalent of derivative transactions with the use of MtM method (part III Article 10 of Appendix 16 to PFSA resolution 76/2010)
exceeding the exposure concentration limit	in accordance with Appendix 12 to PFSA resolution 76/2010
exceeding the capital concentration threshold	in accordance with Appendix 13 to PFSA resolution 76/2010
operational risk	basic indicator (part II of Appendix 14 to PFSA resolution 76/2010)

The amounts of capital requirements for individual risk types are shown in Table 24 and graphically – in Chart 3.

Table 24. Structure of BGK capital requirements (in thousands of PLN)	31.12.2013
Capital requirement for credit risk	923,984
Capital requirement for market, settlement, delivery and counterparty credit risk, exceeding the exposure concentration limit and capital concentration threshold	4,022
Capital requirement for market risk	2,974
Capital requirement for counterparty credit risk	910
Capital requirement for settlement and delivery risk	138
Capital requirement for exceeding the exposure concentration limit	0
Capital requirement for exceeding the capital concentration threshold	0
Capital requirement for operational risk	113,687
TOTAL	**1,041,693**

Chart 3. Structure of BGK capital requirements as at 31 December 2013



4.1.1. Capital requirements – credit risk and counterparty credit risk

In order to assign risk weights to exposures, the Bank combines credit ratings with credit quality degrees, in accordance with PFSA resolution 76/2010 and PFSA resolution 387/2008. The bank uses credit ratings assigned by the following external ratings agencies:

- Fitch Ratings,
- Moody's Investors Service,
- Standard and Poor's Ratings Services.

The bank applies credit ratings assigned by external ratings agencies to the following exposure classes:

- Central governments and central banks,
- Institutions - banks

Table 25 shows the value of exposures before and after application of credit risk reduction techniques for individual risk weights with the use of Standardised Approach of capital requirement calculation for credit risk.

Table 25. Exposures covered with credit protection under the Standardised Approach of capital requirements calculation as at 31 December 2013 (in thousands of PLN)

Risk weight	Exposure amount	Credit protection				Exposure after deductions
		Guarantees	Financial collaterals	Total	%	
0%	41,996,988	0	0	0	0.00%	41,996,988
20%	12,936,483	0	2,700,103	2,700,103	20.87%	10,236,380
35%	17,322	0	0	0	0.00%	17,322
50%	982,614	190,899	10,375	201,274	20.48%	781,340
75%	1,614,032	0	1,408	1,408	0.09%	1,612,624
100%	14,954,488	3,016,607	248,405	3,265,013	21.83%	11,689,476
150%	389,838	111,946	0	111,946	28.72%	277,892
Total	**72,891,764**	**3,319,453**	**2,960,291**	**6,279,744**	**8.62%**	**66,612,020**

Tables 26 and 27 show detailed information on capital requirements for credit risk and counterparty credit risk.

Table 26. Capital requirement for credit risk and counterparty credit risk by risk weights (in thousands of PLN) **31.12.2013**

risk weight	capital requirement	Structure (%)
0%	0	0.0%
20%	171,699	18.6%
35%	485	0.1%
50%	29,404	3.2%
75%	56,103	6.1%
100%	633,897	68.5%
150%	33,306	3.6%
TOTAL	**924,894**	**100.0%**

Table 27. Capital requirement for credit risk and counterparty credit risk by exposure classes (in thousands of PLN) **31.12.2013**

Exposure class	capital requirement
Central governments and central banks	8,267
Regional governments and local authorities	97,823
Administrative bodies and non-commercial undertakings	6,887
Institutions - banks	93,437
Corporates	216,344
Retail	42,797
Secured on real estate property	405,643
Past due items	5,639
Exposures under regulatory high-risk categories	30,225
Other	17,831
TOTAL	**924,894**

The structure of capital requirements both in terms of risk weights as well as exposure class types reflects two main segments of the Bank's activity: loans for Social Housing Associations and housing cooperatives, granted from the funds of the former NHF – the exposure class: "secured on real estate property" (dominant risk weight of 100%) and loans and issues of corporate bonds – the exposure class: "Corporates" (dominant risk weight 100%)

4.1.2. Capital requirements – market risk

Table 28 shows the structure of capital requirements for market risk.

Table 28. Structure of capital requirements for market risk (in thousands of PLN)	31.12.2013
Capital requirement for currency risk	0
Capital requirement for commodity price risk	0
Capital requirement for equity securities price risk	0
Capital requirement for specific risk of debt instruments prices	0
Capital requirement for general interest rate risk	2,974
TOTAL	**2,974**

Due to limited activity of the Bank in this scope, the capital requirement for market risk was low and limited to the general interest rate risk in trading book.

4.2. Internal capital

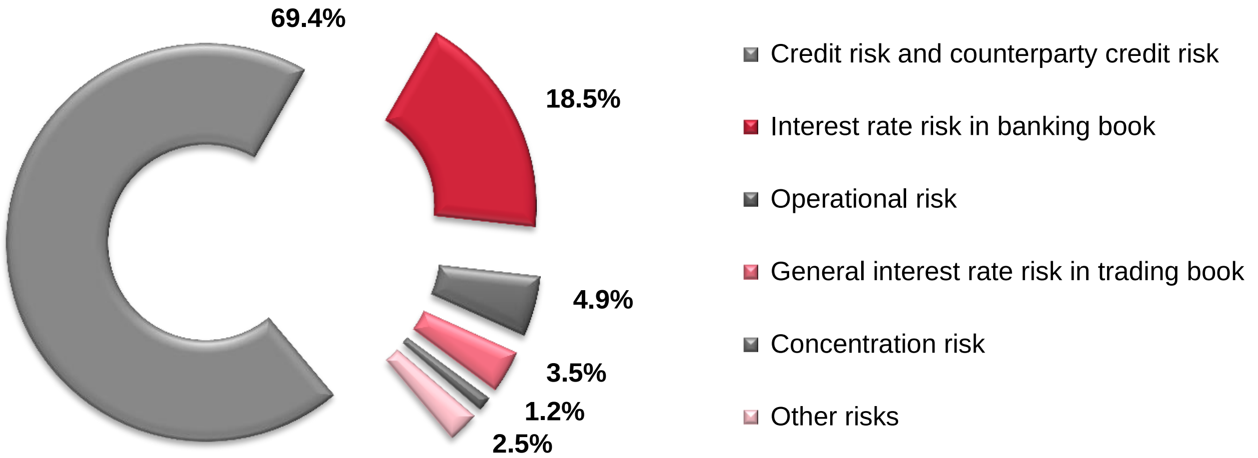
Internal capital (Pillar II) is an amount estimated by the Bank which is necessary to cover all identified significant risk types occurring in the Bank's operation as well as changes in the economic environment and which takes account of the expected risk level.

The internal capital is estimated to cover risks identified as significant. For insignificant risks, the Bank does not establish internal capital to cover them.

The total amount of internal capital is determined as the sum of internal capital for individual types of risk.

As at 31 December 2013, internal capital totalled PLN 1,332,740 thousands and the internal capital ratio – 18.49%. The percentage structure of internal capital is presented in Chart 4.

Chart 4. Structure of internal capital as at 31 December 2013



5. Information on policy on variable components of remuneration of persons holding managerial positions

General principles of determining, awarding and payment of variable components of remuneration of persons in managerial positions at the Bank are defined in the Policy on Variable Components of Remuneration of Persons Holding Managerial Positions in Bank Gospodarstwa Krajowego, developed pursuant to Resolution no. 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 and approved by the Supervisory Board of the Bank.

The process of development and implementation of the Policy on Variable Components of Remuneration of Persons Holding Managerial Positions in Bank Gospodarstwa Krajowego involves the Remuneration Committee appointed in 2013 from among the members of the Supervisory Board of Bank Gospodarstwa Krajowego and comprising the chairman and two members. The tasks of the Committee include:

- monitoring and providing opinions on the policy on variable components of remuneration and its implementation, including the amounts and types of remuneration components for persons holding managerial positions at the Bank,
- preparation of recommendations for the Management Board on remuneration of persons holding managerial positions at the Bank,
- issuing opinions and monitoring variable components of remuneration of persons holding managerial positions at the Bank that are connected with risk management and compliance with the law and internal regulations,
- issuing opinions on the Bank's internal audit unit reports on the review of implementation and execution of the principles of the variable components of remuneration of persons holding managerial positions.

In accordance with the present organisational structure and within the meaning of the Policy on Variable Components of Remuneration of Persons Holding Managerial Positions in Bank Gospodarstwa Krajowego, managerial positions at the Bank include:

- those with material impact on the Bank's risk profile, i.e.:
  - members of the Management Board,
  - Managing Directors in charge of the following divisions:
    - risks management,
    - financial markets,
    - infrastructural investments,
    - sureties and guarantees,
    - bank products management and sales,
  - managing director responsible for the Bank's finance, whose duties are connected with the maintenance of the Bank's accounting books,
  - heads of branches and their deputies,
  - heads and deputy heads of departments in the risks management division, including the department head responsible for compliance risk management,
  - heads and deputy heads of departments in the following divisions:
    - financial markets,
    - infrastructural investments,
    - sureties and guarantees,
    - bank products management and sales,

- those in charge of control functions at the Bank:
    - head and deputy head of the Internal Audit Department,
    - head and deputy head of the Security Department,
    - head of HR Department.

Variable components of remuneration includes in particular: quarterly bonuses, annual awards and recognition awards, paid to the above mentioned persons on the basis of the Bank's regulations applicable to them due to employment relationship with the Bank in a given position, including regulations for bonuses and regulations for awards.

The annual variable remuneration of an employee holding a managerial position at the Bank cannot exceed 40% of their total annual remuneration.

Variable remuneration is awarded and paid depending on the financial situation of the Bank and when it is justified by the Bank's results, performance of a given branch/organisational unit of the Bank's head office and performance of the person holding a managerial position at the Bank.

The type and amount of variable remuneration is awarded based on the degree to which the employee fulfilled their tasks as well as work quality and performance. Variable remuneration also depends on whether the Bank has achieved a positive net financial result cumulatively from the beginning of the year.

Heads of the internal audit unit, the compliance risk management unit and organisational units in charge of risk management and HR matters are offered variable remuneration for the fulfilment of goals resulting from the functions they perform and their remuneration does not depend on economic results of the Bank's operation in areas controlled by them.

Tables 29 and 30 show the remuneration paid in 2013 to persons holding managerial positions within the meaning of the Policy on Variable Components of Remuneration of Persons Holding Managerial Positions in Bank Gospodarstwa Krajowego.

Table 29. Remuneration in main activity areas (in thousands of PLN)

business line[9]	fixed remuneration	variable remuneration
sales of bank products	4,702	1,360
infrastructure investments	680	242
financial markets	715	207
administration of guarantees and sureties	774	271
risk management	1,835	510
other activity	1,467	445

[9] exclusive of Management Board members, in line with the organisational structure applicable in 2013, with changes during the year included

Table 30. Remunerations in positions[10] (in thousands of PLN)

	members of the Management Board (7 persons)	persons reporting directly to a Management Board member, heads of branches and their deputies and chief accountant (36 persons)	other persons holding managerial positions at BGK (31 persons)
fixed remuneration	1,344	6,258	3,916
variable remuneration:	207	1,769	1,266
paid in cash	207	1,769	1,266
paid in financial instruments	0	0	0
variable remuneration with deferred payments, awarded	0	0	0
variable remuneration with deferred payments, paid out	0	0	0
payments connected with beginning of employment and termination of employment	0	0	0

[10] taking into account changes during the year