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Bank Polski

Consolidated Financial Statements of the PKO Bank Polski SA Group for the year ended 31 December 2013

Report publication date:
10 March 2014

Bank Polski

SELECTED FINANCIAL DATA DERIVED FROM THE FINANCIAL STATEMENTS

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	period from 01.01.2013 to 31.12.2013	period from 01.01.2012 to 31.12.2012 restated	period from 01.01.2013 to 31.12.2013	period from 01.01.2012 to 31.12.2012 restated
Net interest income	6 721 962	8 089 268	1 596 286	1 938 199
Net fee and commission income	3 005 752	2 916 537	713 786	698 806
Operating profit	4 046 442	4 613 913	960 922	1 105 500
Profit before income tax	**4 044 464**	**4 632 938**	**960 452**	**1 110 058**
Net profit (including non-controlling shareholders)	**3 228 193**	**3 737 462**	**766 610**	**895 501**
Net profit attributable to equity holders of the parent company	**3 229 793**	**3 738 640**	**766 990**	**895 783**
Earnings per share for the period – basic (in PLN/EUR)	**2.58**	**2.99**	**0.61**	**0.72**
Earnings per share for the period – diluted (in PLN/EUR)	**2.58**	**2.99**	**0.61**	**0.72**
Net comprehensive income	**2 967 917**	**3 514 244**	**704 801**	**842 017**
Net cash flow from / used in operating activities	(1 136 695)	1 405 075	(269 935)	336 658
Net cash flow from / used in investing activities	(1 031 818)	1 024 477	(245 029)	245 466
Net cash flow from / used in financing activities	(1 442 380)	(1 356 890)	(342 527)	(325 113)
Total net cash flows	(3 610 893)	1 072 662	(857 491)	257 011

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	as at 31.12.2013	as at 31.12.2012 restated	as at 31.12.2013	as at 31.12.2012 restated
Total assets	199 231 110	193 150 675	48 039 909	47 245 897
Total equity	25 154 325	24 436 408	6 065 375	5 977 302
Capital and reserves attributable to equity holders of the parent company	25 152 816	24 436 746	6 065 012	5 977 385
Share capital	1 250 000	1 250 000	301 408	305 758
Number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Book value per share (in PLN/EUR)	20.12	19.55	4.85	4.78
Diluted number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Diluted book value per share (in PLN/EUR)	20.12	19.55	4.85	4.78
Capital adequacy ratio	13.58%	12.89%	13,58%	12.89%
Basic funds (Tier 1)	19 611 274	18 474 861	4 728 799	4 519 070
Supplementary funds (Tier 2)	1 539 670	1 573 276	371 255	384 833
Short-term equity (Tier 3)	154 112	129 641	37 160	31 711

The selected consolidated financial statements positions were translated into EUR using the following exchange rates:

- the income statement, the statement of comprehensive income and the cash flow statement items – the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month of 2013 and 2012, respectively: EUR 1 = PLN 4.2110 and EUR 1 = PLN 4.1736,

- the statement of financial position items – average NBP exchange rate as at 31 December 2013: EUR 1 = PLN 4.1472 and as at 31 December 2012: EUR 1 = PLN 4.0882.

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CONSOLIDATED INCOME STATEMENT

	Note	2013	2012 restated
Continuing operations			
Interest and similar income	4	10 763 494	13 198 219
Interest expense and similar charges	4	(4 041 532)	(5 108 951)
Net interest income		**6 721 962**	**8 089 268**
Fee and commission income	5	3 926 602	3 648 214
Fee and commission expense	5	(920 850)	(731 677)
Net fee and commission income		**3 005 752**	**2 916 537**
Dividend income	6	5 766	8 081
Net income from financial instruments measured at fair value	7	54 309	94 188
Gains less losses from investment securities	8	67 484	79 813
Net foreign exchange gains (losses)		241 848	256 137
Other operating income	9	1 080 945	563 369
Other operating expense	9	(471 200)	(385 715)
Net other operating income and expense		**609 745**	**177 654**
Net impairment allowance and write-downs	10	(2 037 881)	(2 325 228)
Administrative expenses	11	(4 622 543)	(4 682 537)
Operating profit		**4 046 442**	**4 613 913**
Share of profit (loss) of associates and jointly controlled entities		(1 978)	19 025
Profit before income tax		**4 044 464**	**4 632 938**
Income tax expense	12	(816 271)	(895 476)
Net profit (including non-controlling shareholders)		**3 228 193**	**3 737 462**
Profit (loss) attributable to non-controlling shareholders		(1 600)	(1 178)
Net profit attributable to equity holders of the parent company		**3 229 793**	**3 738 640**
Earnings per share	13		
– basic earnings per share for the period (PLN)		2.58	2.99
– diluted earnings per share for the period (PLN)		2.58	2.99
Weighted average number of ordinary shares during the period (in thousand)		1 250 000	1 250 000
Weighted average diluted number of ordinary shares during the period (in thousand)		1 250 000	1 250 000

Discontinued operations

In years 2013 and 2012 the PKO Bank Polski SA Group did not have discontinued operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2013	2012 restated
Net profit (including non-controlling shareholders)		**3 228 193**	**3 737 462**
Other comprehensive income		**(260 276)**	**(223 218)**
Items that may be reclassified to the income statement		**(252 600)**	**(275 171)**
Cash flow hedges (gross)	19	(219 126)	(383 069)
Deferred tax on cash flow hedges	12	41 634	72 783
Cash flow hedges (net)		(177 492)	(310 286)
Unrealised net gains on financial assets available for sale (gross)	8; 22	(79 539)	73 676
Deferred tax on unrealised net gains on financial assets available for sale	12	14 644	(14 156)
Unrealised net gains on financial assets available for sale (net)		(64 895)	59 520
Currency translation differences from foreign operations		(8 829)	(25 992)
Share in other comprehensive income of an associate	24	(1 384)	1 587
Items that may not be reclassified to the income statement		**(7 676)**	**51 953**
Actuarial gains and losses (net)		(7 676)	51 953
Actuarial gains and losses (gross)		(9 477)	64 140
Deferred tax on actuarial gains and losses	12	1 801	(12 187)
Total net comprehensive income		**2 967 917**	**3 514 244**
Total net comprehensive income, of which attributable to:		**2 967 917**	**3 514 244**
equity holders of PKO Bank Polski SA		2 969 231	3 515 311
non-controlling shareholders		(1 314)	(1 067)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31.12.2013	31.12.2012 restated	01.01.2012 restated
ASSETS				
Cash and balances with the central bank	15	7 246 120	10 289 451	9 142 168
Amounts due from banks	16	1 893 441	3 392 486	2 396 227
Trading assets	17	479 881	277 566	1 311 089
Derivative financial instruments	18	3 000 860	3 860 561	3 064 733
Financial assets designated upon initial recognition at fair value through profit and loss	20	15 204 756	12 629 711	12 467 201
Loans and advances to customers	21	149 623 262	143 483 066	141 254 489
Investment securities available for sale	22	14 073 078	12 205 130	14 393 276
Investment securities held to maturity	23	38 005	46 971	-
Investments in associates and jointly controlled entities	24	309 692	119 211	123 119
Non-current assets held for sale	25	172 219	20 410	20 410
Inventories	26	649 641	553 534	566 846
Intangible assets	27	2 230 222	1 934 000	1 800 008
Tangible fixed assets, of which:	28	2 611 233	2 650 597	2 541 317
investment properties		114 589	238	248
Current income tax receivables	12	206 401	5 713	5 957
Deferred income tax asset	12	562 421	628 139	617 392
Other assets	29	929 878	1 054 129	737 270
TOTAL ASSETS		**199 231 110**	**193 150 675**	**190 441 502**
LIABILITIES AND EQUITY				
Liabilities				
Amounts due to the central bank	30	4 065	3 128	3 454
Amounts due to banks	31	3 747 337	3 733 947	6 239 164
Derivative financial instruments	18	3 328 211	3 964 098	2 645 281
Amounts due to customers	32	151 904 181	146 193 570	146 473 897
Liabilities associated with assets classified as held for sale		2 880	-	-
Debt securities in issue	33	10 546 446	10 270 783	7 771 779
Subordinated liabilities	34	1 620 857	1 631 256	1 614 377
Other liabilities	35	2 547 237	1 983 399	2 440 845
Current income tax liabilities	12	22 595	155 580	78 810
Deferred income tax liability	12	32 106	41 300	29 364
Provisions	36	320 870	737 206	635 761
TOTAL LIABILITIES		**174 076 785**	**168 714 267**	**167 932 732**
Equity				
Share capital		1 250 000	1 250 000	1 250 000
Other capital		21 108 673	19 984 965	17 881 264
Currency translation differences from foreign operations		(129 420)	(120 305)	(92 023)
Unappropriated profits		(306 230)	(416 554)	3 470 819
Net profit for the year		3 229 793	3 738 640	-
Capital and reserves attributable to equity holders of the parent company		**25 152 816**	**24 436 746**	**22 510 060**
Non-controlling interest		1 509	(338)	(1 290)
TOTAL EQUITY		**25 154 325**	**24 436 408**	**22 508 770**
TOTAL LIABILITIES AND EQUITY		**199 231 110**	**193 150 675**	**190 441 502**

Capital adequacy ratio	64	13.58%	12.89%	12.37%
Book value (in PLN thousand)		25 154 325	24 436 408	22 508 770
Number of shares (in thousand)	1	1 250 000	1 250 000	1 250 000
Book value per share (in PLN)		20.12	19.55	18.01
Diluted number of shares (in thousand)		1 250 000	1 250 000	1 250 000
Diluted book value per share (in PLN)		20.12	19.55	18.01

(IN PLN THOUSAND)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013	Share capital	Other capital									Currency translation differences from foreign operations	Unappropriated profits	Net profit for the period	Capital and reserves attributable to equity holders of the parent company	Non-controlling interest	Total equity
		Reserves			Other comprehensive income				Total other capital							
		Reserve capital	General banking risk fund	Other reserves	Share in other comprehensive income of an associate	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses								
As at 1 January 2013 (restated)	1 250 000	15 364 728	1 070 000	3 437 957	1 330	7 098	51 899	51 953	19 984 965	(120 305)	(416 554)	3 738 640	24 436 746	(338)	24 436 408
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	-	-	3 738 640	(3 738 640)	-	-	-
Total comprehensive income, of which:	-	-	-	-	(1 384)	(64 895)	(177 492)	(7 676)	(251 447)	(9 115)	-	3 229 793	2 969 231	(1 314)	2 967 917
Net profit	-	-	-	-	-	-	-	-	-	-	-	3 229 793	3 229 793	(1 600)	3 228 193
Other comprehensive income	-	-	-	-	(1 384)	(64 895)	(177 492)	(7 676)	(251 447)	(9 115)	-	-	(260 562)	286	(260 276)
Transfer from unappropriated profits	-	1 416 885	-	31 150	-	-	-	-	1 448 035	-	(1 448 035)	-	-	-	-
Change in the non-controlling interest	-	-	-	-	-	-	-	-	-	-	(3 161)	-	(3 161)	3 161	-
Loss of control of a subsidiary	-	(20 927)	-	-	-	-	-	-	(20 927)	-	20 927	-	-	-	-
Transfer from other comprehensive income to unappropriated profits	-	-	-	-	-	-	-	(51 953)	(51 953)	-	51 953	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	-	(2 250 000)	-	(2 250 000)	-	(2 250 000)
As at 31 December 2013	1 250 000	16 760 686	1 070 000	3 469 107	(54)	(57 797)	(125 593)	(7 676)	21 108 673	(129 420)	(306 230)	3 229 793	25 152 816	1 509	25 154 325

for the year ended 31 December 2012	Share capital	Other capital									Currency translation differences from foreign operations	Unappropriated profits	Net profit for the period	Capital and reserves attributable to equity holders of the parent company	Non-controlling interest	Total equity
		Reserves			Other comprehensive income				Total other capital							
		Reserve capital	General banking risk fund	Other reserves	Share in other comprehensive income of an associate	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses								
As at 1 January 2012 (before restatement)*	1 250 000	13 041 390	1 070 000	3 460 368	(257)	(52 422)	362 185	-	17 881 264	(92 023)	3 784 033	-	22 823 274	(1 290)	22 821 984
Change in accounting policies	-	-	-	-	-	-	-	-	-	-	(313 214)	-	(313 214)	-	(313 214)
As at 1 January 2012 (after restatement)	1 250 000	13 041 390	1 070 000	3 460 368	(257)	(52 422)	362 185	-	17 881 264	(92 023)	3 470 819	-	22 510 060	(1 290)	22 508 770
Total comprehensive income (restated), of which:	-	-	-	-	1 587	59 520	(310 286)	51 953	(197 226)	(26 103)	-	3 738 640	3 515 311	(1 067)	3 514 244
Net profit (restated)	-	-	-	-	-	-	-	-	-	-	-	3 738 640	3 738 640	(1 178)	3 737 462
Other comprehensive income (restated)	-	-	-	-	1 587	59 520	(310 286)	51 953	(197 226)	(26 103)	-	-	(223 329)	111	(223 218)
Transfer from unappropriated profits	-	2 322 284	-	66 122	-	-	-	-	2 388 406	-	(2 388 406)	-	-	-	-
The effect of the takeover of subsidiary's assets and liabilities by the parent company	-	-	-	(88 533)	-	-	-	-	(88 533)	-	88 533	-	-	-	-
Loss of control of a subsidiary	-	1 054	-	-	-	-	-	-	1 054	(2 179)	-	-	(1 125)	2 019	894
Dividends paid	-	-	-	-	-	-	-	-	-	-	(1 587 500)	-	(1 587 500)	-	(1 587 500)
As at 31 December 2012 (after restatement)	1 250 000	15 364 728	1 070 000	3 437 957	1 330	7 098	51 899	51 953	19 984 965	(120 305)	(416 554)	3 738 640	24 436 746	(338)	24 436 408

*unappropriated profits include transfer from net profit for 2011 year.

(IN PLN THOUSAND)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2013	2012 restated
Net cash flow from operating activities			
Profit before income tax		4 044 464	4 632 938
Adjustments:		(5 181 159)	(3 227 863)
Amortisation and depreciation		579 240	541 289
(Gains) losses from investing activities	39	(432 805)	4 332
Interest and dividends	39	(526 650)	(844 090)
Change in amounts due from banks	39	932 282	(1 067 450)
Change in trading assets and financial assets designated upon initial recognition at fair value through profit and loss		(2 777 360)	871 013
Change in derivative financial instruments (asset)		859 701	(795 828)
Change in loans and advances to customers	39	(6 014 711)	(3 346 599)
Change in other assets, inventories and non-current assets held for sale		(123 665)	(303 547)
Change in amounts due to banks	39	(254 374)	(786 139)
Change in derivative financial instruments (liability)		(635 887)	1 318 817
Change in amounts due to customers	39	4 704 388	42 704
Liabilities classified as held for sale		2 880	-
Change in debt securities in issue		542 532	(154 519)
Change in provisions and impairment allowances	39	(598 898)	1 157 100
Change in other liabilities and subordinated liabilities	39	719 951	(96 186)
Income tax paid		(1 033 741)	(771 077)
Other adjustments	39	(1 124 042)	1 002 317
Net cash from / used in operating activities		(1 136 695)	1 405 075
Net cash flow from investing activities			
Inflows from investing activities		**45 064 980**	**39 654 856**
Proceeds from sale of a subsidiary, net of cash proceeded		383 561	-
Proceeds from sale of non-current assets held for sale		25 450	-
Proceeds from sale and interest of investment securities		44 610 734	39 643 046
Proceeds from sale of intangible assets and tangible fixed assets		43 347	5 620
Other investing inflows (dividends)		1 888	6 190
Outflows from investing activities		**(46 096 798)**	**(38 630 379)**
Purchase of a subsidiary, net of cash acquired		(39)	(2 500)
Purchase of investment securities		(45 040 357)	(37 781 332)
Purchase of intangible assets and tangible fixed assets		(1 056 402)	(846 547)
Net cash from / used in investing activities		(1 031 818)	1 024 477
Net cash flow from financing activities			
Proceeds from debt securities in issue		2 119 934	10 905 223
Proceeds from subordinated bonds		-	1 600 700
Redemption of subordinated bonds		-	(1 696 042)
Redemption of debt securities in issue		(2 032 020)	(8 251 390)
Dividends paid		(2 250 000)	(1 587 500)
Repayment of interest from issued debt securities and subordinated loans		(478 531)	(206 364)
Long-term borrowings		1 974 081	2 506 054
Repayment of long-term borrowings		(775 844)	(4 627 571)
Net cash used in financing activities		(1 442 380)	(1 356 890)
Net cash flow		(3 610 893)	1 072 662
of which currency translation differences on cash and cash equivalents		(16 722)	(196 850)
Cash and cash equivalents at the beginning of the period		12 495 632	11 422 970
Cash and cash equivalents at the end of the period	39	8 884 739	12 495 632
of which restricted	15	32 078	6 661

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(IN PLN THOUSAND)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski SA Group ('the PKO Bank Polski SA Group', 'the Group') have been prepared for the year ended 31 December 2013 and include comparative data for the year ended 31 December 2012. Financial data have been presented in Polish zloty (PLN), rounded to thousand zloty, unless indicated otherwise.

The parent company of the Group is Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ('PKO Bank Polski SA', 'the Bank').

The Bank was established in 1919 as Pocztowa Kasa Oszczędnościowa. In 1950 it operated as the Powszechna Kasa Oszczędności State-owned bank. Pursuant to the Decree of the Council of Ministers dated 18 January 2000 (Journal of Laws No. 5, item 55 with subsequent amendments) Powszechna Kasa Oszczędności (a State-owned bank) was transformed into a State-owned joint-stock company, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna with its Head Office in Warsaw, Puławska 15, 02-515 Warsaw, Poland.

On 12 April 2000, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna was registered and entered into the Register of Companies by the District Court for the capital city of Warsaw, Commercial Court XVI Registration Department. At present, the appropriate court is the District Court for the capital city of Warsaw, XIII Economic Department of the National Court Register. The Bank was registered under entry No. KRS 0000026438 and was granted a statistical REGON No. 016298263. The paid share capital amounts to PLN 1 250 000 000.

According to information available as at 31 December 2013 the Bank's shareholding structure is as follows:

Name of entity	Number of shares	Number of votes %	Nominal value of 1 share	Share in equity %
As at 31 December 2013				
The State Treasury	392 406 277	31.39	PLN 1	31.39
Aviva Otwarty Fundusz Emerytalny	83 952 447	6.72	PLN 1	6.72
ING Otwarty Fundusz Emerytalny*	64 594 448	5.17	PLN 1	5.17
Other shareholders	709 046 828	56.72	PLN 1	56.72
Total	**1 250 000 000**	**100.00**	---	**100.00**
As at 31 December 2012				
The State Treasury	417 406 277	33.39	PLN 1	33.39
Bank Gospodarstwa Krajowego	128 102 731	10.25	PLN 1	10.25
ING Otwarty Fundusz Emerytalny*	64 594 448	5.17	PLN 1	5.17
Other shareholders	639 896 544	51.19	PLN 1	51.19
Total	**1 250 000 000**	**100.00**	---	**100.00**

*According to information provided by the shareholder on 27 July 2012.

According to the Resolution of the Extraordinary General Shareholders' Meeting No. 3/2011 dated on 14 April 2011 on amending the Memorandum of Association of PKO Bank Polski SA, the decrease in share of the State Treasury in the equity of Bank (maximum up to 25%) will not lead to limiting the control of the State Treasury over the Bank's strategic decisions.

On 31 January 2013 PKO Bank Polski SA received notification from Bank Gospodarstwa Krajowego ('BGK') and the Minister of the State Treasury of selling off a considerable block of shares on 24 January 2013, through the Warsaw Stock Exchange (WSE) in block transactions. As a result of these transactions BGK sold all of the Bank's shares held (128 102 731 shares), which constituted 10.25% of the share capital and the total number of votes at the General Shareholders' Meeting of the Bank, whereas the State Treasury sold 25 000 000 of 417 406 277 Bank's shares held (which amounted to 2.00% of the share capital and the total number of votes at the General Shareholder's Meeting of the Bank).

On 1 February 2013, PKO Bank Polski SA received a notification from Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK SA about increasing by the Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK ('Aviva OFE') the stake of the Bank's shares and exceeding the 5% threshold of the total number of votes in the Bank as the result of the purchase transaction concluded on 24 January 2013. Prior to the settlement of the above mentioned transaction Aviva OFE as at 28 January 2013 held 57 152 447 Bank's shares representing 4.57% of the Bank's share capital and the total number of votes at the Bank's General Shareholders' Meeting. After conclusion and settlement of the above mentioned transactions, as at 29 January 2013 Aviva OFE held 83 952 447 Bank's shares representing 6.72% of share capital and the total number of votes at the Bank's General Shareholders' Meeting.

On 1 March 2013 the Bank received a copy of a letter from the Ministry of State Treasury ('MSP') sent to MSP by BGK, informing that with reference to the sale of all the Bank's shares held by BGK and thus the loss of the Bank's shareholder Status by BGK., the Agreement on cooperation in the joint exercise of corporate governance (joint control) over the Bank concluded on 21 April 2010 between the State Treasury and BGK ceased to be binding.

The Bank is a listed company on the Warsaw Stock Exchange. According to the Warsaw Stock Exchange Bulletin (Ceduła Giełdowa), the Bank is classified under the macro-sector 'Finance', sector 'Banks'.

(IN PLN THOUSAND)

The structure of PKO Bank Polski SA share capital:

Series	Type of shares	Number of shares	Nominal value of 1 share	Series amount by nominal value
Series A	registered ordinary shares	312 500 000	PLN 1	PLN 312 500 000
Series A	bearer ordinary shares	197 500 000	PLN 1	PLN 197 500 000
Series B	bearer ordinary shares	105 000 000	PLN 1	PLN 105 000 000
Series C	bearer ordinary shares	385 000 000	PLN 1	PLN 385 000 000
Series D	bearer ordinary shares	250 000 000	PLN 1	PLN 250 000 000
Total	---	**1 250 000 000**	---	**PLN 1 250 000 000**

In 2013, there were no changes in the amount of the share capital of PKO Bank Polski SA. Issued shares of PKO Bank Polski SA are not preferred shares and are fully paid.

Business activities of the Group

PKO Bank Polski SA is a universal deposit-loan commercial bank offering services to both residents and non-residents retail, corporate and other clients. PKO Bank Polski SA is licensed to hold foreign exchange and currencies and sell/buy them, as well as to perform a full range of foreign exchange services, to open and hold bank accounts abroad and to deposit foreign exchange in these accounts.

Moreover, through its subsidiaries, the Group provides financial services relating to leasing, factoring, investment funds, pension funds, it conducts banking activities in Ukraine and investment, real estate development and debt collection activities. In 2013 the Group also conducted activities relating to servicing and settlement of card transactions.

The scope of activities of each of the Group entities is set out in this note in the table ‘Structure of the PKO Bank Polski SA Group’.

In 2013 the Group operated in the Republic of Poland and through its subsidiaries: KREDOBANK SA, ‘Inter-Risk Ukraina’ Additional Liability Company, Finansowa Kompania ‘Prywatne Inwestycje’ Sp. z o.o., Finansowa Kompania ‘Idea Kapitał’ Sp. z o.o in Ukraine as well as through its subsidiaries PKO Finance AB and PKO Leasing Sverige AB in Sweden.

(IN PLN THOUSAND)

Structure of the PKO Bank Polski SA Group

The PKO Bank Polski SA Group consists of the following direct and indirect subsidiaries:

NAME OF ENTITY	HEAD OFFICE	RANGE OF ACTIVITY	% SHARE IN EQUITY*	
			31.12.2013	31.12.2012
PKO Towarzystwo Funduszy Inwestycyjnych SA	**Warsaw**	**investment fund management**	**100.00**	**100.00**
PKO BP Bankowy PTE SA	**Warsaw**	**pension fund management**	**100.00**	**100.00**
PKO Leasing SA [1]	**Łódź**	**leasing services**	**100.00**	**100.00**
PKO Bankowy Leasing Sp. z o.o. [2]	Łódź	leasing services	100.00	100.00
PKO Leasing Sverige AB [3]	Stockholm, Sweden	leasing services	100.00	0.00
Bankowe Towarzystwo Kapitałowe SA	**Warsaw**	**services**	**100.00**	**100.00**
PKO BP Faktoring SA [4]	Warsaw	factoring	99.9889	99.9889
Inteligo Financial Services SA	**Warsaw**	**development and maintenance of IT systems**	**100.00**	**100.00**
PKO BP Finat Sp. z o.o.	**Warsaw**	**transfer agent services**	**100.00**	**100.00**
KREDOBANK SA	**Lviv, Ukraine**	**banking activities**	**99.5655**	**99.5655**
Finansowa Kompania 'Idea Kapitał' Sp. z o.o.	Kiev, Ukraine	financial services	100.00	100.00
'Inter-Risk Ukraina' Additional Liability Company [5]	**Kiev, Ukraine**	**debt collection services**	**100.00**	**100.00**
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. [6]	**Kiev, Ukraine**	**factoring**	**91.8766**	**6.5920**
PKO Finance AB	**Stockholm, Sweden**	**financial services**	**100.00**	**100.00**
Qualia Development Sp. z o.o. [7]	**Warsaw**	**real estate development**	**100.00**	**100.00**
Qualia Sp. z o.o.	Warsaw	general partner in limited partnerships of the Qualia Development Group entities	100.00	100.00
Qualia spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k.	Warsaw	real estate development	99.9975	99.9975
Qualia spółka z ograniczoną odpowiedzialnością – Sopot Sp. k.	Warsaw	real estate development	99.9787	99.9787
Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k.	Warsaw	real estate development	99.9750	99.9750
Qualia spółka z ograniczoną odpowiedzialnością – Jurata Sp. k.	Warsaw	real estate development	99.9608	50.00
Qualia spółka z ograniczoną odpowiedzialnością – Zakopane Sp. k.	Warsaw	real estate development	99.9123	50.00
Qualia spółka z ograniczoną odpowiedzialnością – Pomeranka Sp. k.	Warsaw	real estate development	99.8951	99.8951
Qualia spółka z ograniczoną odpowiedzialnością – Projekt 1 Sp. k.	Warsaw	real estate development	50.00	50.00
Qualia spółka z ograniczoną odpowiedzialnością – Władysławowo Sp. k.	Warsaw	real estate development	50.00	50.00
Qualia Hotel Management Sp. z o.o.	Warsaw	real estate development	100.00	100.00
Qualia – Residence Sp. z o.o.	Warsaw	real estate development	100.00	100.00
Qualia – Rezydencja Flotylla Sp. z o.o.	Warsaw	real estate development	100.00	100.00
Fort Mokotów Inwestycje Sp. z o.o. [8]	Warsaw	real estate development	100.00	0.0109
Sarnia Dolina Sp. z o.o.	Warsaw	real estate development	100.00	56.00
Giełda Nieruchomości Wartościowych Sp. z o.o.	Warsaw	intermediation in the sale of real estate	100.00	0.00
Fort Mokotów Sp. z o.o. in liquidation	Warsaw	in liquidation	51.00	51.00
Merkury – fiz an [9]	**Warsaw**	**placement of funds collected from fund members**	**100.00**	**0.00**
'Zarząd Majątkiem Górczewska' Sp. z o.o.	Warsaw	real estate management	100.00	0.00
Molina Sp. z o.o.	Warsaw	general partner in limited joint-stock partnership entities of the Fund	100.00	0.00
Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	Warsaw	purchasing and selling of real estate	100.00	0.00
Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.	Warsaw	purchasing and selling of real estate	100.00	0.00
Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A.	Warsaw	purchasing and selling of real estate	100.00	0.00
Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.	Warsaw	purchasing and selling of real estate	100.00	0.00
Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.	Warsaw	purchasing and selling of real estate	100.00	0.00
Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.	Warsaw	purchasing and selling of real estate	100.00	0.00

* Share in equity of direct parent entity
1) formerly Bankowy Fundusz Leasingowy SA,
2) formerly Bankowy Leasing Sp. z o.o.,
3) the Company was registered in Sweden on 18 September 2013,
4) the second shareholder of the Entity is PKO Bank Polski SA,
5) in 2013 the share in the Entity is recognised in non-current assets held for sale,
6) the second shareholder of the Entity is 'Inter-Risk Ukraina' Sp. z d.o. In 2013 the share in the Entity is recognised in non-current assets held for sale.
Until 9 September 2013 the Entity was a direct subsidiary of 'Inter-Risk Ukraina' Sp. z d.o. (share in equity of the Entity as at the end of 2012 was 93.408%),
7) the total contributions made by the limited partner - Qualia Development Sp. z o.o. are presented in the position 'Share in equity'
8) Until 30 December 2013 the Entity was a direct subsidiary of PKO Bank Polski SA (the share in equity of the Entity as at the end of 2012 was 99.9891%)
9) PKO Bank Polski SA has investment certificates of the Fund; 'Share in equity' the share of possessed investment certificates of the Fund is presented in the position;
the Fund's subsidiaries are consolidated on the level of the PKO Bank Polski SA Group.

(IN PLN THOUSAND)

Additionally, the Bank holds the following jointly controlled entities and associates included in the consolidated financial statements:

NAME OF ENTITY	HEAD OFFICE	RANGE OF ACTIVITY	% SHARE IN EQUITY*	
			31.12.2013	31.12.2012
Jointly controlled entities				
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.[1]	Warsaw	servicing and settlement of card transactions	34.00	100.00
Centrum Obsługi Biznesu Sp. z o.o.	Poznań	hotel management	41.44	41.44
CENTRUM HAFFNERA Sp. z o.o.	Sopot	subsidiaries' real estate management	49.43	49.43
Sopot Zdrój Sp. z o.o.	Sopot	hotel management	100.00	100.00
Promenada Sopocka Sp. z o.o.	Sopot	rental services and real estate management	100.00	100.00
Centrum Majkowskiego Sp. z o.o. in liquidation	Sopot	in liquidation	100.00	100.00
Kamienica Morska Sp. z o.o. in liquidation[2]	Sopot	in liquidation	100.00	100.00
Associates				
Bank Pocztowy SA	Bydgoszcz	banking activities	25.0001	25.0001
Centrum Operacyjne Sp. z o.o.	Bydgoszcz	activities supporting financial services	100.00	100.00
Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o.	Warsaw	intermediary financial services	100.00	100.00
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Poznań	guarantees	33.33	33.33
Kolej Gondolowa Jaworzyna Krynicka SA[3]	Krynica - Zdrój	cable railway transport	0.00	37.53
Agencja Inwestycyjna CORP-SA SA[4]	Warsaw	office real estate management	0.00	22.31

* Share in equity of direct parent entity
1) Until 30 December 2013 the entity was a direct subsidiary of PKO Bank Polski,
2) On 24 January 2014 the Entity was removed from the National Court Register,
3) Shares of the Entity were sold on 24 September 2013,
4) Shares of the Entity were sold on 31 October 2013.

Information on changes in the participation in the share capital of the subsidiaries is set out in Note 45 'Changes to the entities of the Group'.

Information on members of the Management and Supervisory Board of the Bank

As at 31 December 2013 the Bank's Management Board consisted of:

- Zbigniew Jagiełło — President of the Management Board
- Piotr Alicki — Vice-President of the Management Board
- Bartosz Drabikowski — Vice-President of the Management Board
- Piotr Mazur — Vice-President of the Management Board
- Jarosław Myjak — Vice-President of the Management Board
- Jacek Obłękowski — Vice-President of the Management Board
- Jakub Papierski — Vice-President of the Management Board

During the year ended 31 December 2013 no changes took place in the composition of the Bank's Management Board. Moreover, on 8 January 2014 the Supervisory Board of PKO Bank Polski SA passed the Resolutions appointing to mentioned persons to perform indicated functions, for the joint term which commence with the end of the current joint term of the Bank's Management Board.

As at 31 December 2013, the Bank's Supervisory Board consisted of:

- Cezary Banasiński — Chairman of the Supervisory Board
- Tomasz Zganiacz — Deputy-Chairman of the Supervisory Board
- Mirosław Czekaj — Secretary of the Supervisory Board
- Zofia Dzik — Member of the Supervisory Board
- Piotr Marczak — Member of the Supervisory Board
- Marek Mroczkowski — Member of the Supervisory Board
- Ryszard Wierzba — Member of the Supervisory Board
- Elżbieta Mączyńska – Ziemacka — Member of the Supervisory Board

During the year ended 31 December 2013 the Ordinary General Shareholders' Meeting of PKO Bank Polski SA appointed as of 20 June 2013 Mrs Elżbieta Mączyńska – Ziemacka as a member of the Supervisory Board of PKO Bank Polski SA and at the same time dismissed from the Supervisory Board of PKO Bank Polski SA Mr Jan Bossak. Moreover, on 21 November 2013 the Bank's Management Board has accepted resignation of Mr Krzysztof Kilian from performing the function of the Bank's Supervisory Board member.

Approval of financial statements

These consolidated financial statements, reviewed by the Bank's Supervisory Board's Audit Committee on 5 March 2014, have been approved for issuance by the Bank's Management Board on 4 March 2014.

2. Summary of significant accounting policies and estimates and judgements

2.1. Compliance with accounting standards

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU as at 31 December 2013, and in the areas not regulated by these standards, in accordance with the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2013, item 330, uniform text with subsequent amendments) and the respective secondary legislation issued on its basis, as well as the requirements relating to issuers of securities registered or applying for registration on an official quotations market.

The European Commission has adopted IAS 39 'Financial Instruments: Recognition and Measurement' except some decisions concerning hedge accounting. Due to the fact that the Bank applies IFRS as adopted by the European Union ('EU'), the Bank has applied the IAS 39 OS.99C in the form adopted by the EU, which allows to designate as a hedged item a portion of cash flows from variable rate deposits for which the effective interest rate is lower than the reference interest rate (not including margins). The IAS 39 as issued by the International Accounting Standards Board introduces limitations in that respect.

2.2. Going concern

The consolidated financial statements of the PKO Bank Polski SA Group have been prepared on the basis that the Group will continue as a going concern during a period of 12 months from the issue date, i.e. since 10 March 2014. As at the date of signing these consolidated financial statements, the Bank's Management Board is not aware of any facts or circumstances that would indicate a threat to the continuing activity (of the PKO Bank Polski SA Group for 12 months following the issue date as a result of any intended or compulsory withdrawal or significant limitation in the activities of the PKO Bank Polski SA Group).

2.3. Basis of preparation of the financial statements

These financial statements have been prepared on a fair value basis in respect of financial assets and liabilities measured at fair value through profit and loss, including derivatives and financial assets available for sale, with the exception of those for which the fair value cannot be reliably estimated. Other financial assets and liabilities (including loans and advances) are measured at amortised cost impairment or at price impairment.

Non-current assets are stated at acquisition cost less accumulated depreciation and impairment allowances. Non-current assets (or groups of the above-mentioned assets) classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

2.4. Basis of consolidation

2.4.1. Subsidiaries

Subsidiaries are entities (including entities which are not incorporated, such as general partnerships) controlled by the parent company, which means that the parent company has a direct or indirect impact on the financial and operating policy of the given entity in order to gain economic benefits from its operations.

Control is exercised when the parent company holds directly or indirectly more than one-half of the voting rights in a given entity, unless in special circumstances it may be proven that such holdings do not lead to exercising control. Control is also exercised when the Bank has one-half or less voting rights in a given entity and when:

1) it has more than one-half of votes on the basis of agreements with other investors,
2) it is capable of managing the entity's financial and operational policy on the basis of the Memorandum of Association or an agreement,
3) it is capable of appointing and removing most of the Management Board or any equivalent management body where the Management Board or equivalent body exercises control over the entity or
4) it has the majority of votes at the Management Board's or any equivalent management body's meetings where the Management Board or equivalent body exercises control over the entity.

Subsidiaries are fully consolidated from the date on which control was acquired until the day until it ceased.

The 'full' method of consolidation requires the adding up of all full amounts of the individual items of statement of financial position, income statement and other comprehensive income of the parent company and the subsidiaries, and making appropriate consolidation adjustments and eliminations. The carrying amount of the Bank's investments in subsidiaries and the equity of these entities at the date of their acquisition are eliminated at consolidation. The following items are eliminated in full at consolidation:

1) inter-company receivables and payables, and any other settlements of a similar nature, between the consolidated entities,
2) revenue and costs arising from business transactions conducted between the consolidated entities,
3) gains or losses from business transactions conducted between consolidated entities, included in the carrying amount of the assets of the consolidated entities, except for losses indicating impairment,
4) dividends accrued or paid by the subsidiaries to the parent company and to other consolidated entities,
5) inter-company cash flows in the cash flow statement.

The consolidated cash flow statement has been prepared on the basis of the consolidated statement of financial position, consolidated income statement and the additional notes and explanations.

The parent company and consolidated subsidiary reporting periods for the financial statements are co-terminous. Consolidation adjustments are made in order to eliminate any differences in the accounting policies applied by the Bank and its subsidiaries.

2.4.2. Acquisition method

The acquisition of subsidiaries by the Group is accounted for under the acquisition method.

As at the date of the acquisition, identifiable assets taken over, liabilities taken over and all non-controlling shares in the acquired entity are recognised separately from goodwill.

Identifiable assets and liabilities acquired are initially designated at fair value as at the acquisition date. In each and every business combination, all non-controlling shares in the acquired entity are designated at fair value or on a pro rata basis in respect of the share of the non-controlling shares in the identifiable net assets of the target entity.

Goodwill is recognised as at the acquisition date and measured as the excess of the total of:

1) the consideration provided, designated at fair value as at the date of the acquisition,
2) value of all non-controlling shares in the acquired entity, measured in accordance with the above rules and
3) in the event of a business combination performed in stages, at fair value as at the date of acquiring interest in the capital of the acquired entity, which had been previously owned by the Bank,

over the net amount of the value of identifiable assets and liabilities acquired, designated at fair value as at the acquisition date, determined as at the acquisition date.

If the net value, determined as at the acquisition date, of identifiable assets and liabilities acquired, designated at fair value as at the acquisition date is higher than the total of:

1) the consideration provided, designated at fair value as at the date of the acquisition,
2) value of all non-controlling shares in the acquired entity, measured in accordance with the above rules and
3) in the event of a business combination performed in stages, at fair value as at the date of acquiring interest in the capital of the acquired entity, which had been previously owned by the Bank,

the difference is recognised directly in the income statement.

2.4.3. Associates and jointly controlled entities

Associates are entities (including entities which are not incorporated, such as general partnerships) on which the Group exerts significant influence but whose financial and operating policies it does not control, which usually accompanies having from 20% to 50% of the total number of votes in the decision-making bodies of the entities.

Jointly controlled entities are trade companies or other entities, which are partly controlled by parent company or a significant investor and other shareholders or partners on the basis of the Memorandum of Association, company's agreement or an agreement concluded for a period longer than one year.

Investments in associates and jointly controlled entities are accounted in accordance with the equity method and are initially stated at cost. The Group's investment in associates and jointly controlled entities includes goodwill determined as at the acquisition date, net of any potential accumulated impairment allowances.

The Group's share in the results of the associates and jointly controlled entities from the date of purchase has been recorded in the income statement and its share in changes of other comprehensive income from the date of purchase has been recorded in other comprehensive income. The carrying amount of investments is adjusted by the total movements in particular equity items from the date of their purchase. When the Group's share in the losses of an associate or jointly controlled entity becomes equal or higher than the Group's share in the associate or jointly controlled entity, which covers potential unsecured receivables, the Group discontinues recognising further losses unless it has assumed the obligation or has made payments on behalf of the given associate or jointly controlled entity.

Unrealised gains on transactions between the Group and its associates and jointly controlled entities are eliminated in proportion to the Group's share in the above-mentioned entities. Unrealised losses are also eliminated unless the transaction proves that the given asset transferred has been impaired.

At each balance date, the Group makes an assessment of whether there are any indicators of impairment in the value of investments in associates and jointly controlled entities. If any such indicators exist, the Group estimates recovery value, i.e. the value in use of the investment or the fair value of the investment less costs to sale, depending on which of these values is higher. If carrying amount of the asset exceeds its recovery value, the Group recognises an impairment allowance in the income statement. The projection for the recovery value requires making assumptions, e.g. about future cash flows that the Group may receive from dividends or the cash inflows from a potential disposal of the investment, less costs of the disposal. The adoption of different assumptions with reference to the projected cash flows could affect the carrying amount of certain investments.

2.5. Foreign currencies

2.5.1. Functional and presentation currency

Items presented in the financial statements of the individual Group entities operating outside of Poland are measured in functional currency i.e. in the currency of the basic economic environment in which the given entity operates. The functional currency of the parent company and other entities included in these financial statements, except for entities conducting their activities outside of the Republic of Poland is the Polish zloty. The functional currency of the entities operating in Ukraine is the Ukrainian hryvnia, and the functional currency of entities operating in Sweden is Euro. Consolidated financial statements are presented in the Polish zloty, which is the functional and presentation currency of the Group.

(IN PLN THOUSAND)

2.5.2. Transactions and balances denominated in foreign currencies

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. At each balance date items are translated by the Group using the following principles:

1) monetary assets denominated in foreign currency using a closing rate i.e. the average rate announced by the National Bank of Poland prevailing as at the balance date,
2) non-monetary assets measured at historical acquisition cost in foreign currency using exchange rate as of the date of the transaction,
3) non-monetary assets designated at fair value in foreign currency using exchange rates prevailing as at the date of the determination of fair value.

Gains and losses on settlements of these transactions and the carrying amount of monetary and non-monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

UAH	2013	2012
Rate prevailing on the last day of the period	0.3706	0.3825
Rate representing the arithmetical mean of the rates prevailing on the last day of each month of the period	0.3886	0.4001
The highest rate in the period	0.4044	0.4383
The lowest rate in the period	0.3706	0.3825

EUR	2013	2012
Rate prevailing on the last day of the period	4.1472	4.0882
Rate representing the arithmetical mean of the rates prevailing on the last day of each month of the period	4.2110	4.1736
The highest rate in the period	4.3292	4.3889
The lowest rate in the period	4.1429	4.0882

2.6. Financial assets and liabilities

2.6.1. Classification

Financial assets are classified by the Group into the following categories: financial assets designated at fair value through profit and loss, financial assets available for sale, loans, advances and other receivables, financial assets held to maturity. Financial liabilities are classified as follows: financial liabilities designated at fair value through profit and loss and other financial liabilities. The classification of financial assets and liabilities is determined by the Group on initial recognition.

2.6.1.1. Financial assets and liabilities designated at fair value through profit and loss

Financial assets and financial liabilities designated at fair value through profit and loss are financial assets and financial liabilities that meet either of the following conditions:

1) they are classified as held for trading. Financial assets or financial liabilities are classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term, is 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-making. Derivatives are also classified as held for trading except for derivatives that are designated and effective hedging instruments,
2) upon initial recognition they are classified as designated at fair value through profit and loss. The Group may use this designation only when:
   a) the designated financial asset or liability is a hybrid instrument which includes one or more embedded derivatives qualifying for separate recognition, and the embedded derivative financial instrument cannot significantly change the cash flows resulting from the host contract or its separation from the hybrid instrument is forbidden;
   b) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch' that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different basis);
   c) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with the written risk management principles or investment strategy of the Group,
3) The Group has a policy of financial assets and liabilities management according to which financial assets and liabilities classified as held for trading and financial assets and liabilities portfolio designated upon initial recognition at fair value through profit and loss are managed separately.

2.6.1.2. Financial assets available for sale

Financial assets available for sale are non-derivative financial assets that are designated as available for sale or are not classified as financial assets:

1) designated by the Group upon initial recognition at fair value through profit and loss,
2) held to maturity,
3) those that meet the definition of loans and advances.

2.6.1.3. Loans, advances and other receivables

Loans, advances and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, other than:

1) financial assets that the Group intends to sell immediately or in the near term, which are classified as held for trading, and those that were upon initial recognition designated as at fair value through profit and loss,
2) financial assets that the Group designates upon initial recognition as available for sale,
3) financial assets for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

2.6.1.4. 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:

1) those that the Group designates upon initial recognition at fair value through profit and loss,
2) those that the Group designates as available for sale,
3) those that meet the definition of loans and advances.

2.6.1.5. Other financial liabilities

Other financial liabilities are financial liabilities other than designated at fair value through profit and loss which have the nature of a deposit, or a loan or an advance received.

2.6.1.6. Reclassification of financial assets

A financial asset classified as available for sale, which meets the definition of loans and advances, can be reclassified by the Group from the category of financial assets available for sale to the category of loans and advances, if the Group has the intention and ability to hold that financial asset in the foreseeable future or to maturity.

The Group does not reclassify financial instruments to or from the category of designated at fair value through profit and loss since they are held or issued. The Group can reclassify financial instruments classified as held for trading, other than derivative financial instruments and financial instruments designated upon initial recognition at fair value through profit or loss, to loans, advances and other receivables category, if they meet criteria described in point 2.6.1.3.

2.6.2. Accounting for transactions

Financial assets and financial liabilities, including forward transactions giving rise to an obligation or a right to acquire or sell in the future a given number of specified financial instruments at a given price, are recognised in the books of account under trade date, irrespective of the settlement date provided in the contract.

2.6.3. Derecognition of financial instruments from a statement of financial position

Financial assets are derecognised from the statement of financial position when contractual rights to the cash flows from the financial asset expire, or when the financial asset is transferred by the Group to another entity. The financial asset is transferred when the Group:

1) the contractual rights to receive the cash flows from the financial asset are transferred, or
2) retains the contractual rights to receive cash flows from the financial asset, but assumes a contractual obligation to pay cash flows to an entity outside the Group.

When the Group transfers a financial asset, it evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. In such a case:

1) if all the risks and rewards of ownership of the financial asset are substantially transferred, then the Group derecognises the financial asset from the statement of financial position,
2) if all the risks and rewards of ownership of the financial asset are substantially retained by the Group, then the financial asset continues to be recognised in the statement of financial position,
3) if substantially all the risks and rewards of ownership of the financial asset are neither transferred nor retained by the Group, then a determination is made as to whether control of the financial asset has been retained.

If the Group has retained control, it continues to recognise the financial asset in the statement of financial position to the extent of its continuing involvement in the financial asset, if control has not been retained, then the financial asset is derecognised from the statement of financial position.

The Group removes a financial liability (or a part of a financial liability) from its statement of financial position when the obligation specified in the contract is discharged or cancelled or expires.

The Group derecognises loans when they have been extinguished, when they are expired, or when they are not recoverable. Loans, advances and other amounts due are written off against impairment allowances that were recognised for these accounts. In the case where no allowances were recognised against the account or the amount of the allowance is less than the amount of the loan, advance or other receivable, the loan, advance or receivable is written off after, the amount of the impairment allowance is increased by the difference between the value of the receivable and the amount of the allowances that have been recognised to date.

2.6.4. Valuation

When a financial asset or liability is initially recognised, it is measured at its fair value plus, in the case of a financial asset or liability not designated at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or the issue of the financial asset or liability.

Subsequent to the initial recognition financial instruments are valued as follows:

2.6.4.1. Assets and liabilities designated at fair value through profit and loss

They are designated at fair value through profit and loss to the item net income from financial instruments at fair value through profit and loss.

2.6.4.2. Financial assets available for sale

They are designated at fair value, and gains and losses arising from changes in fair value (except for impairment allowances and currency translation differences) are recognised in other comprehensive income until the amount included in other comprehensive income is reclassified to the income statement when the asset is derecognised from the statement of financial position. Interest determined using effective interest rate from financial assets available for sale is presented in the net interest income.

2.6.4.3. Loans, advances and investments held to maturity

They are measured at amortised cost with the use of an effective interest rate with an allowance for impairment losses. In case of loans and advances for which it is not possible to reliably estimate the future cash flows and the effective interest rate, loans advances and investments held to maturity are measured at cost to pay.

2.6.4.4. Other financial liabilities including liabilities resulting from the issue of securities

They are measured at amortised cost. If the time schedule of cash flows from a financial liability cannot be determined, and thus the effective interest rate cannot be determined fairly, this liability is measured at cost to pay.

Debt instruments issued by the Group are recognised as financial liabilities and measured at amortised cost.

2.6.5. Derivative instruments

2.6.5.1. Recognition and measurement

Derivative financial instruments are recognised at fair value from the trade date. A derivative instrument becomes an asset if its fair value is positive and it becomes a liability if its fair value is negative. In the valuation of these instruments assumptions about the contractor's credit risk and the Bank's own credit risk are taken into account.

When the estimated fair value is lower or higher than the fair value as of the preceding balance date (for transactions concluded in the reporting period – initial fair value), the Group includes the difference, respectively, in the net income from financial instruments designated at fair value through profit and loss or in the net foreign exchange gains in correspondence with 'Derivative financial instruments'. The above mentioned recognition method applies to derivative instruments which do not qualify to the application of hedge accounting. The method of recording hedging derivatives is presented in Note 2.6.6.4.

The result of the ultimate settlement of derivative instruments transactions is reflected in the result from financial instruments designated at fair value through profit and loss or in the net foreign exchange gains.

The notional amounts of the underlying derivative instruments are presented in off-balance sheet items from the date of the transaction until maturity.

2.6.5.2. Embedded derivative instruments

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract (both of a financial or non-financial nature), with the effect that some of the cash flows of the combined instrument vary in a way similar to the cash flow of a stand-alone derivative.

An embedded derivative causes some or all of the cash flows required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, or other variable, provided that the non-financial variable is not specific to a party to the contract.

An assessment of whether a given contract contains an embedded derivative instrument is made at the date of entering into a contract. A reassessment can only be made when there is a change in the terms of the contract that significantly modifies the cash flows required under the contract.

Derivative instruments separated from host contracts and recognised separately in the account books are designated at fair value. Valuation is presented in the statement of financial position under 'Derivative Financial Instruments'. Changes in the valuation at fair value of derivative instruments are recorded in the income statement under the 'Net income from financial instruments measured at fair value' or 'Net foreign exchange gains'.

Derivative instrument is recognised separately, if all of the following conditions are met:

1) the hybrid (combined) instrument is not designated at fair value through profit and loss,
2) the economic characteristics and risks related to the embedded instrument are not closely related to the economic characteristics of the host contract and related risks,
3) a separate instrument with the same characteristics as the embedded derivative instrument would meet the definition of a derivative.

In case of contracts which are not financial instruments and which include an instrument that fulfils the above conditions, embedded derivatives are recorded in the income statement under the position 'Net income from financial instruments measured at fair value through profit and loss' or 'Net foreign exchange gains'.

2.6.6. Hedge accounting

2.6.6.1. Hedge accounting criteria

The Group applies hedge accounting when all the terms and conditions below, specified in IAS 39, have been met:

1) upon setting up the hedge, a hedge relationship, the purpose of risk management by the entity, and the hedging strategy were officially established. The documentation includes the identification of the hedging instrument, the hedged item or transaction, the nature of the hedged risk and the manner in which the entity will assess the effectiveness of the hedging instrument in compensating the threat of changes in fair value of the hedged item or the cash flows related to the hedged risk,
2) a hedge is expected to be highly effective in compensating changes to the fair value or cash flows resulting from the hedged risk in accordance with the initially documented risk management strategy relating to the specific hedge relationship,
3) in respect of cash flow hedges, the planned hedged transaction must be highly probable and must be exposed to changes in cash flows which may, as a result, have an impact on the income statement,
4) the effectiveness of a hedge may be reliably assessed, i.e. the fair value or cash flows related to the hedged item and resulting from the hedged risk, and the fair value of the hedging instrument, may be reliably measured,
5) the hedge is assessed on a current basis and its high effectiveness in all reporting periods for which the hedge had been established is determined.

2.6.6.2. Discontinuing hedge accounting

The Group discontinues hedge accounting when:

1) a hedge instrument expires, is sold, released or exercised (replacing one hedge instrument with another or extending the validity of a given hedge instrument is not considered to be expiration or release if the replacement or extension of period to maturity is part of the documented hedging strategy adopted by the entity). In such an instance accumulated gains or losses related to the hedging instrument which were recognised directly in other comprehensive income over the period in which the hedge was effective are recognised in a separate item in other comprehensive income until the planned transaction is effected,
2) the hedge ceases to meet the hedge accounting criteria. In such an instance accumulated gains or losses related to the hedging instrument which were recognised directly in other comprehensive income over the period in which the hedge was effective are recognised in a separate item in other comprehensive income until the planned transaction is effected,
3) the planned transaction is no longer considered probable, therefore, all the accumulated gains or losses related to the hedging instrument which were recognised directly in other comprehensive income over the period in which the hedge was effective, are recognised in the income statement,
4) the Group invalidates a hedge relationship.

2.6.6.3. Fair value hedge

As at 31 December 2013 and 2012 respectively, the Group did not apply fair value hedge accounting.

2.6.6.4. Cash flow hedges

A cash flow hedge is a hedge against the threat of cash flow volatility which can be attributed to a specific type of risk related to a recorded asset or a liability (such as the whole or a portion of future interest payments on variable interest rate debt) or a highly probable planned transaction, and which could affect the income statement.

Changes in the fair value of a derivative financial instrument designated as a cash flow hedge are recognised directly in other comprehensive income in respect of the portion constituting the effective portion of the hedge. The ineffective portion of a hedge is recognised in the income statement in 'Net income from financial instruments designated at fair value'.

Amounts transferred directly to other comprehensive income are transferred to the income statement in the same period or periods in which the hedged planned transaction affects the income statement.

The effectiveness tests comprise the valuation of hedging transactions, net of interest accrued and currency translation differences on the nominal value of the hedging transactions (in case of CIRS transactions). They are recognised in the income statement, in 'Net interest income' and 'Net foreign exchange gains' respectively.

2.6.7. Offsetting of financial instruments

Financial assets and liabilities may only be offset when the Group has a valid legal title to offset them and the settlement needs to be performed on a net basis, or the asset and liability are realised at the same time. The Bank has ISDA agreements which allow offsetting financial assets and liabilities (excluding securities), if certain conditions are met (date and settlement currency are the same). In 2013 and 2012 respectively, there were no such cases enabling the offsetting. Moreover, offsetting of financial assets and liabilities applies to financial instruments acquired as part of issuance stabilising actions for the selling shareholder, conducted by the Brokerage House of PKO Bank Polski SA. Described in details in Note 21 'Loans and advances to customers'.

2.7. Transactions with a commitment to sell or buy back

Sell-buy back and buy-sell back transactions are sale or purchase operations of a security with a commitment to buy or sell back the security at an agreed date and price.

Sell-buy back securities transactions are recognised at the date of the transaction under amounts due to other banks or amounts due to customers in respect of deposits, depending on the counterparty of transaction.

Buy-sell back securities are recognised under amounts due from banks or loans and advances to customers, depending on the counterparty of transaction.

Sell-buy back, buy-sell back transactions are measured at amortised cost, whereas securities which are an element of a sell-buy back transaction are not derecognised from the statement of financial position and are measured at the terms and conditions specified for particular securities portfolios. The difference between the sale price and the repurchase price is recognised as interest expense/income, as appropriate, and it is settled over the term of the contract using the effective interest rate.

2.8. Impairment of financial assets

2.8.1. Assets measured at amortised cost

At each balance date for credit and loan, the Group assesses whether there is objective evidence that a given financial asset or a group of financial assets is impaired. If such evidence exists, the Group determines the amounts of impairment losses. An impairment loss is incurred when there is objective evidence of impairment due to one or more events that occurred after the initial recognition of the asset ('a loss event'), and the loss has a reliably measurable impact on the expected future cash flows from the financial asset or group of financial assets.

Objective evidence that a financial asset or group of assets is impaired includes information that comes to the attention of the Group particularly about the following events:

1) significant financial difficulties of the issuer or the debtor,
2) breach of a contract by the issuer or the debtor, such as a default or a delinquency in contracted payments of interest or principal,
3) granting of a concession by the lender to the issuer or the borrower, for economic or legal reasons relating to the borrower's financial difficulty, that the lender would not otherwise consider (detailed description for forbearance practices is presented in Note 49.4),
4) high probability of bankruptcy or reorganisation of the issuer or the debtor,
5) evidence that there is a measurable reduction in the estimated future cash flows from a group of financial assets, including collectability of these cash flows.

Credit exposures, in respect of which no objective evidence of individual impairment was identified, or in spite of their occurrence no impairment loss was recognised, are assessed for impairment as a group of exposures with the same characteristics.

Loan receivables are classified by the Group on the basis of the amount of exposure.

In individually significant credit exposures portfolio, each individual credit exposure is subjected to individual assessment of the evidence of impairment and the level of recognised loss. For individually insignificant exposures recognition and measurement of loss are made using portfolio risk parameters estimated with statistical methods. If loss is recognised for individual credit exposure, the adequate impairment allowance is made. If for individual credit exposure loss is not recognised, the exposure is classified to a portfolio of assets with similar characteristics which is assessed on a group basis and is a subject of impairment allowance set up for the certain group for incurred but not reported loss (IBNR allowance).

IBNR allowance is estimated using the portfolio parameters. These parameters are estimated for the group of exposures with the same characteristics, considered as evidence of loss at the group level (not reported at the individual level) – IBNR evidence.

IBNR evidences are in particular:

1) increase during the lending period, the risk of industry in which debtor (group of debtors) operates, reflected by the industry being qualified by the Bank as a high-risk industry,
2) delay in payment of principal or interests no longer than 90 days,
3) unrecognised deterioration of the economic and financial situation of the debtor in the assessment of risk associated with its financing (in spite of keeping the existing procedures for monitoring the situation and updating the assessment),
4) receiving information about potential credit extortion.

The amount of the impairment allowance and IBNR allowance is the difference between the carrying amount of the asset and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred), discounted using the effective interest rate as of the date when objective evidence of the impairment of financial asset was identified.

The calculation of the present value of estimated cash flows relating to financial assets for which collateral is held takes into account cash flows arising from the realisation of the collateral, less costs to acquire and sell.

When determining the impairment allowance on an individual basis, future cash flows are estimated taking into account the nature of the case and possible scenarios for exposure management.

In determining impairment allowances for exposures not assessed on an individual basis, portfolio parameters are used:

1) recovery rates assessed for the group of exposures with certain characteristics,
2) probability of reporting loss on the individual level (in relation to exposures from IBNR portfolio).

Future cash flows of a group of financial assets assessed for impairment on a collective basis are estimated on the basis of cash flows generated from contracts and historical recovery parameters generated from assets with similar risk characteristics.

Historical recovery parameters are adjusted on the basis of data from current observations, so as to take into account the impact of current conditions and exclude factors that were relevant in the past but which currently do not occur. In subsequent period, if the amount of impairment loss is reduced because of an event subsequent to the impairment being recognised (e.g. improvement in debtor's credit rating), the impairment loss that was previously recognised is reversed by making an appropriate adjustment to impairment allowances. The amount of the reversal is recorded in the income statement.

The Group plans that the adopted methodology used for estimating impairment allowances will be developed in line with the further accumulations of acquiring impairment data from the existing and implemented applications and information systems. As a consequence, new data obtained by the Group could influence the level of impairment allowances in the future.

The methodology and assumptions used in the estimates are reviewed on a regular basis to minimise the differences between the estimated and actual loss amounts.

2.8.2. Assets available for sale

At each balance date, the Group makes an assessment, whether there is objective evidence that a given financial asset classified to financial assets available for sale is impaired. If such evidence exists, the Group determines the amounts of impairment allowances.

Objective evidence that a financial asset or group of assets available for sale is impaired includes the following events:

1) significant financial difficulties of the issuer,
2) breach of a contract by the issuer, such as lack of contracted payments of interest or principal or late payments,
3) granting of a concession by the lender to the issuer, for economic or legal reasons relating to the borrower's financial difficulty, that the lender would not otherwise consider,
4) deterioration of the issuer's financial condition in the period of maintaining the exposure,
5) high probability of bankruptcy or other financial reorganisation of the issuer,
6) increase in risk of a certain industry in the period of maintaining a significant exposure,
   in which the borrower operates, reflected by the industry being qualified by the Bank as elevated risk industry.

The Group firstly assesses if impairment on an individual basis for significant receivables exists.

If there is objective evidence of impairment on financial assets classified as debt securities available for sale not issued by the State Treasury, an impairment allowance is calculated as the difference between the asset's carrying amount and the present fair value estimated as value of future cash flows discounted using the market interest rates based on yield curves for Treasury bonds moved by risk margins.

Impairment of a financial asset classified as available for sale is recognised in the income statement, which results in the necessity to transfer the effects of accumulated losses from other comprehensive income to the income statement.

In subsequent periods, if the fair value of debt securities increases, and the increase may be objectively related to an event subsequent to the impairment being recognised in the income statement, the impairment loss is reversed and the amount of the reversal is recorded in the income statement.

Impairment losses recognised against equity instruments are not reversed through profit and loss.

2.9. Leasing

The Group is a party to lease agreements, based on which it conveys in return for payment to use and take profits (the lessor) from tangible and intangible assets during a fixed period (the rights).

The Group is also a party to lease agreements, based on which it receives tangible fixed assets for an agreed period of time (the lessee).

The classification of lease agreements by the Group is based on the extent to which risks and rewards incidental to ownership of an asset lie with the lessor or the lessee.

2.9.1. The Group as a lessor

As regards finance lease agreements, the Group, as a lessor, has receivables of the present value of contractual lease payments, increased by a possible unguaranteed residual value assigned to the lessor, fixed at the date of the lease agreement. These receivables are disclosed under 'Loans and advances to customers'. Finance lease payments are apportioned between the net interest income and the reduction of balance of receivables in a way that provide fixed interest rate from an outstanding debt.

As regards operating lease agreements, initial direct costs that are incremental and directly attributable to negotiating and arranging a lease, are added to the carrying value of the leased asset during the period fixed in the lease agreement, on the same basis as in the case of contracts for hire. Conditional lease payments constitute income when they are due. Lease payments due from agreements, which do not meet the finance lease criteria (operating lease agreements) constitute income in the income statement and are recognised on a straight-line basis during the lease term.

2.9.2. The Group as a lessee

Lease payments under an operating lease and subsequent instalments are recognised as an expense in the income statement and are recognised on a straight-line basis over the lease term.

2.10. Tangible fixed assets and intangible assets

2.10.1. Intangible assets

Intangible assets are identifiable non-monetary assets which do not have a physical form.

2.10.2. Goodwill

Goodwill arising on acquisition of a business entity is initially recognised at the value determined according to the Note 2.4.2. Following the initial recognition, goodwill is stated at the initial value less any cumulative impairment allowances.

Goodwill arising on acquisition of subsidiaries is recognised under ‘Intangible assets’ and goodwill arising on acquisition of associates and jointly controlled entities is recognised under ‘Investments in associates and jointly controlled entities’.

The test for goodwill impairment is carried out at least at the end of each year. Impairment is calculated by estimating the recoverable amount of the cash-generating unit to which the given goodwill relates. If the recoverable amount of the cash-generating unit is lower than its carrying amount, an impairment allowance is recognised.

2.10.3. Software

Acquired computer software licenses are capitalised in the amount of costs incurred on the purchase and preparation of the software for use, taking into consideration accumulated amortisation and impairment allowances.

Further expenditure related to the maintenance of the computer software is recognised in costs when incurred.

2.10.4. Other intangible assets

Other intangible assets acquired by the Group are recognised at acquisition cost or production cost, less accumulated amortisation and impairment allowances.

2.10.5. Development costs

Research and development costs are included in intangible assets in connection with future economic benefits and meeting specific terms and conditions, i.e. if there is a possibility and intention to complete and use the internally generated intangible asset, there are appropriate technical and financial resources to finish the development and to use the asset and it is possible to measure reliably the expenditure attributable to the intangible asset during its development which can be directly associated to the creation of the intangible asset.

2.10.6. Tangible fixed assets

Tangible fixed assets are stated at the end of the reporting period at acquisition cost or cost of production, less accumulated depreciation and impairment allowances.

Properties accounted for investment properties are valued according to accounting principles applied to tangible fixed assets.

2.10.7. Capital expenditure accrued

Carrying amount of tangible fixed assets and intangible assets is increased by additional expenditures incurred during their maintenance, when:

1) probability exists that the Group will achieve future economic benefits which can be assigned to the particular tangible fixed asset or intangible asset (higher than initially assessed, measured at e.g. by useful life, improvement of service quality, maintenance costs),
2) acquisition price or production cost of tangible fixed assets and intangible assets can be reliably estimated.

(IN PLN THOUSAND)

2.10.8. Depreciation/amortisation

Depreciation/amortisation is charged on all non-current assets, whose value decreases due to usage or passage of time, using the straight-line method over the estimated useful life of the given asset. The adopted depreciation/amortisation method and useful life are reviewed on an annual basis.

Depreciation of tangible fixed assets, investment properties and amortisation of intangible assets begins on the first day of the month following the month in which the asset has been brought into use, and ends no later than at the time when:

1) the amount of depreciation or amortisation charges becomes equal to the initial cost of the asset, or
2) the asset is designated for liquidation, or
3) the asset is sold, or
4) the asset is found to be missing, or
5) it is found - as a result of verification - that the expected residual value of the asset exceeds its (net) carrying amount.

For non-financial fixed assets it is assumed that the residual value is nil, unless there is an obligation of a third party to buy back the asset, or if there is an active market which will continue to exist at the end of the asset's period of use and when it is possible to determine the value of the asset on this market.

Depreciation/amortisation periods for basic groups of tangible fixed assets, investment properties and intangible assets applied by the Group:

Tangible fixed assets	Periods
Buildings, premises, cooperative rights to premises (including investment properties)	40-60 years
Leaseholds improvements (buildings, premises)	1-13 years (or term of the lease, if shorter)
Machinery and equipment	2-15 years
Computer hardware	2-11 years
Means of transport	3-8 years
Intangible assets	**Periods**
Software	2-30 years
Other intangible assets	1-20 years

Costs relating to acquisition or construction of buildings are allocated to significant parts of the building (components), when such components have different useful lives or when each of the components generates benefits for the Group in a different manner. Each component of the building is depreciated separately.

Intangible assets with indefinite useful lives, which are subject to an annual impairment test in accordance with Note 2.10.9., are not amortised.

2.10.9. Impairment allowances of non-financial non-current assets

At each balance date, the Group makes an assessment of whether there are any indicators of impairment of any of non-financial non-current assets (or cash-generating units). If any indicator exists and annually in case of intangible assets which are not subject to amortisation and goodwill. the Group estimates the recoverable amount being the higher of the fair value less costs to sell and the value in use of a non-current asset (or a cash generating unit). If the carrying amount of an asset exceeds its recoverable amount, the Group recognises an impairment loss in the income statement. The projection for the above mentioned values requires making assumptions, e.g. about future expected cash flows that the Group may receive from the continued use or disposal of the non-current asset (or a cash-generating unit). The adoption of different assumptions with reference to the projected cash flows could affect the carrying amount of certain non-current assets.

If there are indications for impairment for group of assets, which do not generate cash flows irrespective of other assets or asset groups, and the recoverable amount of a single asset included in common assets cannot be determined, the Group determines the recoverable amount at the level of the cash generating unit to which the asset belongs.

An impairment allowance is recognised if the book value of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment allowances in respect of cash generating units first and foremost reduce the goodwill relating to those cash generating units (groups of units), and then they reduce proportionally the book value of other assets in the unit (group of units).

An impairment allowance in respect of goodwill cannot be reversed. In respect of other assets, the impairment allowance may be reversed if there was a change in the estimates used to determine the recoverable amounts. An impairment allowance may be reversed only to the level at which the book value of an asset does not exceed the book value – less depreciation – which would be determined should the impairment allowances not have been recorded.

2.11. Other items in the statement of financial position

2.11.1. Non-current assets held for sale and discontinued operations

Non-current assets held for sale include assets which carrying amount is to be recovered as a result of sale and not due to continued use. Such assets only include assets available for immediate sale in the current condition, when such sale is highly probable, i.e. the entity has determined to sell the asset started to seek actively for a buyer and finish the sale process. In addition, such assets are offered for sale at a price which is reasonable with respect to their current fair value and it is expected that the sale will be recognised as completed within one year from the date of classification of the asset into this category.

Non-current assets held for sale are stated at the lower of their carrying amount or fair value less costs to sell. Impairment allowances for non-current assets held for sale are recognised in the income statement for the period, in which these allowances are made. These assets are not depreciated.

Discontinued operations are an element of the Group's business which has been sold or which is qualified as held for sale, and which also constitutes an important separate area of the operations or its geographical area, or is a subsidiary acquired solely with the intention of resale.

Operations may be classified as discontinued only when the operations are sold or when they meet the criteria of operations held for sale, whichever occurs earlier. A group for sale which is to be retired may also qualify as discontinued operations.

In case of non-current assets, for whose qualification criteria for the group of non-current assets held for sale are no longer fulfilled, the Group makes reclassification from non-current assets held for sale to the proper category of assets. Non-current assets withdrawn from assets held for sale are valued at lower of two values:

1) carrying amount before the moment of qualification to assets held for sale, less depreciation, which would have been included if the asset (or group of assets to be sold) would not have been qualified as held for sale,
2) recovery amount for the day of decision of sales abandonment.

2.11.2. Inventories

Inventories related mainly to real estate development activities of the Group and valued at the lower of two values: the purchase price/cost of production and net realisable value.

Expenses incurred in bringing the inventories to their present location and condition are treated as follows: finished goods (housing and service premises) and work in progress (housing and service premises in progress and land held for development) – as direct expenses and part of indirect costs of production. In the case of long-term preparatory or production periods, cost or purchase price is increased by finance charges specifically incurred for such purchases.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The value of inventories disbursement is determined by specific identification of individual purchase prices or production cost of components, which relate to realisation of specific projects.

2.11.3. Accruals and deferred income

Accruals and deferred income mainly comprise fee and commission income recognised using the straight-line method and other income received in advance, which will be recognised in the income statement in future reporting periods. Accruals and deferred income are shown in the statement of financial position under 'Other liabilities'.

Prepayments and deferred costs include particular kinds of expenses which will be recognised in the income statement in future reporting periods. Prepayments and deferred costs are shown in the statement of financial position under 'Other assets'.

2.12. Provisions

Provisions are liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

If the effect of the time value of money is material, the amount of the provision is determined by discounting the forecast future cash flows to their present value, using the discount rate before tax which reflects the current market assessments of the time value of money and the potential risk related to a given obligation.

The Bank creates provisions for legal claims with counterparties, customers and external institutions (e.g. UOKiK) after confirming with legal adviser the probability of losing a court case, provisions for retirement benefits, provisions for liabilities and guarantees granted and other provisions, in particular restructuring provision and provision for potential claims on impaired loans portfolios sold. A detailed description of the changes is described in Note 36 'Provisions' and Note 49.9 'Off-balance sheet provisions'.

2.13. Restructuring provision

A restructuring provision is set up when general criteria for recognising provisions are met as well as the detailed criteria related to the legal or constructive obligation to set up provisions for restructuring costs specified in IAS 37 are met. Precisely, the constructive obligation of restructuring and recognising provisions arises only when the Group has a detailed, official restructuring plan and has raised justified expectations of the parties to which the plan relates that it will carry out restructuring by starting to implement the plan or by announcing the key elements of the plan to the above-mentioned parties.

A detailed restructuring plan specifies at least activities or part of the activities to which the plan relates, the basic locations covered by the plan, the place of employment, functions and estimated number of employees who are to be compensated due to their contract termination, the amount of expenditure which is to be incurred and the date when the plan will be implemented.

The restructuring provision covers only such direct expenditures arising as a result of the restructuring which at the same time:

1) necessarily result from the restructuring,
2) are not related to the Group's on-going business operations.

The restructuring provision does not cover future operating losses.

2.14. Employee benefits

According to the Labour Code (Kodeks Pracy), employees of the Group are entitled to retirement or pension benefits upon retirement or pension. The Group periodically performs an actuarial valuation of provisions for future liabilities to employees.

The provision for retirement and pension benefits resulting from the Labour Code is created individually for each employee on the basis of an actuarial valuation performed periodically by an independent actuary. The basis for calculation of these provisions are internal regulations, and especially the Collective Labour Agreements being in force at the Group entities. Valuation of the employee benefit provisions is performed using actuarial techniques and assumptions. The calculation of the provision includes all retirement and pension benefits expected to be paid in the future. The provision was created on the basis of a list including all the necessary details of employees, in particular the length of their service, age and gender. The provisions calculated equate to discounted future payments, taking into account staff turnover, and relate to the period beginning on the balance date. Gains or losses resulting from actuarial calculations are recognised in other comprehensive income.

The Group creates provisions for future liabilities arising from damages and severance payments made to those employees whose employment contracts are terminated for reasons independent of the employee and periodical settlements for the employee compensation costs incurred in the current period which will be paid out in future periods, including bonuses and from unused annual leave, taking into account all outstanding unused holiday days.

Employee benefits include also employee pension program being a defined contribution plan recognised as an expense in position 'Wages and Salaries' as well as variable remuneration components programme for persons holding managerial positions, part of which is recognised as a liability due to cash-settled share-based payments pursuant to IFRS 2 'Share -based payments'.

2.15. Borrowing costs

Borrowing costs that may be directly attributable to the acquisition, construction or production of a qualifying asset. The Group activates as a part of a purchase price or production cost of that asset if there is a probability that they will result in future economic benefits and on the condition that the purchase price or production cost can be measured reliably.

Other borrowing costs are recognised by the Group as an expense in the period in which they are incurred.

2.16. Off-balance sheet liabilities granted

As regards operating activities, the Group concludes transactions, which, at the time of their inception, are not recognised in the statement of financial position as assets or liabilities, however they give rise to contingent liabilities. A contingent liability is:

1) a possible obligation that arises from past events and whose existence will be confirmed only at the time of occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group entities;
2) a present obligation resulting from past events, but not recognised in the statement of financial position, because it is not probable that an outflow of cash or other assets will be required to fulfil the obligation, or the amount of the obligation cannot be estimated reliably.

For off-balance sheet liabilities granted which carry the risk of default by the commissioning party, provisions are recognised in accordance with IAS 37.

Credit lines and guarantees are the most significant items of off-balance sheet liabilities granted.

Upon initial recognition, a financial guarantee is stated at fair value. Following the initial recognition, the financial guarantee is measured at the higher of:

1) the amount determined in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and
2) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 'Revenue'.

2.17. Shareholders' equity

Equity constitutes capital and reserves created in accordance with the legal regulations applicable. The classification to particular equity components, discussed below, results from the Polish Commercial Companies' Code, the Banking Law and the requirements of IAS 1.7, IAS 1.78.e, IAS 1.54.q-r and IAS 1.79.b. In accordance with IAS 1, equity also includes unappropriated profits and accumulated losses, currency translation differences on translating foreign operations, the effective portions of cash flow hedges, actuarial gains and losses and net gains or losses on the valuation of financial instruments classified as available-for-sale. Equity components of the subsidiaries, other than share capital, in a proportion equal to the interest in the subsidiary held by the parent company, are added to respective equity components of the parent company. The Group's equity includes only those parts of the equity of the subsidiaries which arose after the acquisition of shares by the parent company. In accordance with the legislations which are in force in Poland, only the equity of the parent company and the equity of specific subsidiaries, determined on the basis of stand-alone financial statements, are distributable.

2.17.1. Share capital

Share capital comprises solely the share capital of the parent company and is stated at nominal value in accordance with Memorandum of Association and entry to the Register of Entrepreneurs.

2.17.2. Reserve capital

Reserve capital is created according to the Memorandum of Association of the Group entities, from the appropriation of net profits and from share premium less issue costs and it is to cover the potential losses of Group entities.

2.17.3. Other comprehensive income

Other comprehensive income comprises the effects of valuation of financial assets available for sale and the amount of the related deferred tax, the effective part of cash flow hedging resulting from hedge accounting and the related deferred tax as well as actuarial gains and losses and the amount of the related deferred tax. Moreover, the item includes the share of the Parent company in the revaluation reserve of associated entities and foreign exchange differences on translation of the net result of the foreign operation as a rate constituting the arithmetical average of foreign exchange rates for the currency as at the day ending each of the months in the financial year published by the National Bank of Poland, and foreign exchange differences arising on the measurement of net assets in the foreign operation.

2.17.4. General risk fund

General banking risk fund in PKO Bank Polski SA is created from net profit write-down according to 'The Banking Law' dated 29 of August 1997 (Journal of Laws 2012, item 1376 with subsequent amendments), hereinafter referred to 'The Banking Law' and it is to cover unidentified risks of the Bank.

2.17.5. Other reserves

Other reserves are created from the appropriation of net profits. It is uniquely to cover the potential losses in the statement of financial position.

2.17.6. Non-controlling interest

Non-controlling interest represent the part of capital in a subsidiary company, which cannot be directly or indirectly assigned to the parent company.

2.18. Determination of a financial result

The Group recognises all significant expenses and income in accordance with the following policies: accrual basis, matching principle, policies for recognition and valuation of assets and liabilities, policies for recognition of impairment losses.

2.18.1. Interest income and expense

Interest income and expense comprise interest, including premiums and discounts in respect of financial instruments measured at amortised cost and instruments at fair value, with the exception of derivative financial instruments classified as held for trading.

Interest income and interest expense are recognised on an accrual basis using the effective interest rate method.

Interest income in case of financial assets or group of similar financial assets for which an impairment allowance values are calculated from present values of receivables (that is net of impairment allowance) by using current interest rate used for discounting future cash flows for the purposes of estimating losses due to impairment.

Interest income/expense in respect of derivative financial instruments classified as held for trading are recognised in 'Net income from financial instruments at fair value' or 'Net foreign exchange gains' (applied to CIRS), with the exception of derivative instruments classified as hedging instruments into hedge accounting, which have been presented in interest income.

Interest income also includes fee and commission received and paid, which are part of the effective interest rate of the financial instrument.

2.18.2. Fee and commission income and expense

Fee and commission income is generally recognised on an accrual basis at the time when the related service is performed. Fee and commission income includes one-off amounts charged by the Group for services not related directly to creation of loans, advances and other receivables, as well as amounts charged by the Group for services performed over a period exceeding 3 months, which are recognised on a straight-line basis.

Fee and commission income also includes fee and commission recognised on a straight-line basis, received on loans granted with unspecified schedule of cash flows for which the effective interest rate cannot be determined.

2.18.2.1. Income and expense from sale of insurance products related to loans and advances

Due to the fact that the Group offers insurance products along with loans and advances and there is no possibility of purchasing from the Bank the identical insurance product as to the legal form, conditions and economic content without purchasing a loan or an advance, fees received by the Bank from sale of insurance products are treated as an integral part of the remuneration from the offered financial instruments.

Remuneration received and due to the Group from offering insurance products for the products directly associated with the financial instruments is settled using the effective interest rate method and recognised in interest income.

Remuneration received and due to the Group for performing intermediary services is recognised in commission income upon the sale of an insurance product or its renewal.

Distribution of remuneration for a commission and an interest part is made in the proportion of the fair value of a financial instrument and the fair value of intermediary service in relation to the sum of these two values.

Costs directly related to the sale of insurance products are settled in a similar manner to the settlement of revenues, according to the principle of matching revenues and expenses, i.e. as part of the amortised cost of a financial instrument or on a one-off basis.

The Group makes a periodically estimation of the compensation amount that will be recoverable in the future due to the early termination of the insurance agreement and accordingly reduces the recognised interest or commission income.

2.18.3. Dividend income

Dividend income is recognised in the income statement of the Group at the date on which shareholders' rights to receive the dividend have been established.

2.18.4. Net income from financial instruments designated at fair value

The result on financial instruments at fair value through profit and loss includes gains and losses arising from the disposal of financial instruments classified as financial assets/liabilities at fair value through profit and loss as well as the effect of their fair value measurement. This position includes also an ineffective portion related to cash flow hedges, as described in Note 2.6.6.4.

2.18.5. Gains less losses from investment securities

Gains less losses from investment securities include gains and losses arising from disposal of financial instruments classified as available for sale and held to maturity.

2.18.6. Net foreign exchange gains

Foreign exchange gains comprise foreign exchange gains and losses, both realised and unrealised, resulting from daily revaluation of assets and liabilities denominated in foreign currency using the National Bank of Poland average exchange rates at the balance date, and from the fair value valuation of outstanding derivatives (FX forward, FX swap, CIRS and currency options).

The Group recognises in net foreign exchange gains both realised and unrealised foreign exchange gains and losses on fair value measurement of unrealised currency options. From an economic point of view, the method of presentation of net gains/losses on currency options applied allows the symmetrical recognition of net gains/losses on currency options and on spot and forward transactions concluded to hedge such options (transactions hedging the currency position generated as a result of changes in the market parameters affecting the currency option position).

The effects of changes in fair value and the result realised on the Gold Index option are also included in the foreign exchange gains due to the fact that the Bank treats gold as one of the currencies, in line with the provisions of the Resolution No. 76/2010 of the Polish Financial Supervision Authority dated 10 March 2010 on the scope and detailed principles for setting capital requirements in relation to the individual risk types (Official Journal of Polish Financial Supervision Authority of 2010, No. 2, item 11 with subsequent amendments), hereinafter Resolution No. 76/2010.

Monetary assets and liabilities presented by the Group in the statement of financial position and off-balance sheet items denominated in foreign currency are translated into Polish zloty using the average National Bank of Poland rate prevailing for a given currency as at the balance date.

Impairment allowances for loan exposures and other receivables denominated in foreign currencies, which are created in Polish zloty, are updated in line with a change in the valuation of the foreign currency assets for which these impairment allowances are created. Realised and unrealised currency translation differences are recorded in the income statement.

2.18.7. Other operating income and expense

Other operating income and expense includes income and expense not related directly to banking activity. Other operating income mainly includes gains from sale of housing investments, sale or liquidation of non-current assets and assets possessed in exchange for debts, sale of subsidiary, recovered bad debts, legal damages, fines and penalties, income from lease/rental of properties. Other operating expense mainly includes losses from sale or liquidation of non-current assets, including assets possessed in exchange for debts, costs of debt collection and donations.

Other operating income and expense in relation to the Group entities include also income from sale of finished goods, goods for resale and raw materials, and the corresponding costs of their production.

Income from construction services (real estate development activities) is recognised on a completed contract basis, which involves recognition of all construction costs that incurred during the period of construction as work-in-progress. Payments received on account of a purchase of apartments are shown within deferred income.

2.19. Income tax

The income tax expense is classified into current and deferred income tax. The current income tax is recognised in the income statement. Deferred income tax, depending on the source of the temporary differences, is recorded in the income statement or in the item 'Other comprehensive income' in the statement of comprehensive income.

2.19.1. Current income tax

Current income tax is calculated on the basis of gross accounting profit adjusted by non-taxable income, taxable income that does not constitute accounting income, non-tax deductible expenses and tax costs which are not accounting costs, in accordance with tax regulations. These items mainly include income and expenses relating to accrued interest receivable and payable, allowances on receivables and provisions for off-balance sheet liabilities.

While calculating corporate income tax, regulations being in force within particular tax jurisdiction with regard to corporate income tax of the Group entities are taken into consideration. Simultaneously, the regulations of Decree of the Minister of Finance dated 7 May 2001 on extending the deadlines for paying corporate income tax prepayments for banks granting housing loans (Journal of Laws No. 43, item 482) are taken into consideration. According to the above-mentioned Decree moment of taxation of capitalised interest not paid by the borrower and not subject to temporary redemption by the State budget is deferred to the date of actual repayment or redemption of such interest. Therefore, the Group recognises the deferred income tax liability on income due to capitalised interest on mortgage loans, as described in the Decree.

2.19.2. Deferred income tax

The amount of deferred tax is calculated as the difference between the tax base and book value of assets and liabilities for financial reporting purposes. The Group recognises deferred income tax assets and liabilities. An amount of deferred tax recognised in profit and loss is determined using the statement of financial position method – as a change in deferred income tax assets and liabilities. Deferred tax assets and deferred tax liabilities of the Group are presented in the statement of financial position respectively as assets or liabilities. The change in the balance of a deferred tax liability or a deferred tax asset is included in obligatory net profit expense (position: 'Income tax expense' in income statement), except for the effects of valuation of financial assets and actuarial gains and losses recognised in other comprehensive income, where changes in the balance of a deferred tax liability or deferred tax asset are accounted for in correspondence with other comprehensive income. The calculation of deferred tax takes into account the balance of the deferred tax asset and deferred tax liability at the beginning and at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or a part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured using tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

The Group uses the 19% tax rate for entities operating on the territory of Poland, a 19% tax rate for entities operating in Ukraine and 22% tax rate for entities operating in Sweden.

Deferred tax assets are offset by the Group with deferred tax liabilities only when the enforceable legal entitlement to offset current tax receivables with current tax liabilities exists and deferred tax is related to the same taxpayer and the same tax authority.

2.20. Critical estimates and judgements

While preparing financial statements, the Group makes certain estimates and assumptions, which have a direct influence on both the financial statements presented and the notes to the financial statements.

The estimates and assumptions that are used by the Group in determining the value of its assets and liabilities as well as revenues and costs, are made based on historical data and other factors which are available and are considered to be proper in the given circumstances.

Assumptions regarding the future and the data available are used for assessing carrying amounts of assets and liabilities which cannot be determined interchangeably using other sources. In making assessments the Group takes into consideration the reasons and sources of the uncertainties that are anticipated at the balance date. Actual results may differ from estimates.

Estimates and assumptions made by the Group are subject to periodic reviews. Adjustments to estimates are recognised in the periods in which the estimates were adjusted, provided that these adjustments affect only the given period. If the adjustments affect both the period in which the adjustment was made as well as future periods, they are recognised in the period in which the adjustments were made and in the future periods.

The most significant areas in which the Group performs critical estimates are presented below:

2.20.1. Impairment of loans and advances

An impairment loss is incurred when there is objective evidence of impairment due to events that occurred after the initial recognition of the asset ('a loss event') and when the loss has a reliably measurable impact on the expected future cash flows from the financial asset or group of financial assets. Future cash flows are assessed by the Group on the basis of estimates based on historical parameters.

The adopted methodology used for estimating impairment allowances will be developed in line with the further possibilities of accumulations of historic impairment data from the existing information systems and applications. As a consequence, acquiring new data by the Group could affect the level of impairment allowances in the future. The methodology and assumptions used in the estimates are reviewed on a regular basis to minimise the differences between the estimated and actual loss amounts.

The impact of an increase/decrease of cash flows for the Group's loan portfolio individually determined to be impaired is presented in the table below (in PLN million):

Estimated change in impairment of loans and advances resulting from:	31.12.2013		31.12.2012	
	+10% scenario	-10% scenario	+10% scenario	-10% scenario
change in the present value of estimated cash flows for the Bank's loan portfolio (individually determined to be impaired assessed)	(287)	462	(301)	484
change in probability of default	73	(73)	114	(116)
change in recovery rates	(545)	545	(344)	344

This estimate was made for the loan portfolio assessed for impairment on an individual basis, i.e. on the basis of individual analysis of future cash flows arising both from own payments and realisation of the collateral, i.e. the positions for which an individual method is applied.

2.20.2. Valuation of derivatives and non-listed debt securities available for sale

The fair value of non-option derivatives is determined using valuation models based on discounted cash flows expected to be received from the given financial instrument. Options are valued using option pricing models. The variables and assumptions used in a valuation include, where available, data derived from observable markets. The fair value of derivatives includes own credit risk as well as counterparty credit risk. In case of derivative instruments adjustment of the valuation of derivatives reflecting counterparty credit risk CVA (credit value adjustment) and adjustment of the valuation of derivatives reflecting own credit risk DVA (debit value adjustment) is calculated. The process of calculation of the CVA and DVA adjustments includes a selection of method determining the spread of a counterparty's or the Bank's credit risk (e.g. a market price method based on the constant price quotations of debt instruments issued by the counterparty, a method of spread implied from Credit Default Swap contracts), an estimation of the probability of default of the counterparty or the Bank and the recovery rate, the choice of a method for calculating CVA and DVA adjustments (the advanced method including a collateral or the simplified method) and calculation of the amount of CVA and DVA adjustments.

The fair value of non-listed debt securities available for sale is determined using valuation models based on discounted cash flows expected to be received from the given financial instrument. In the valuation of non-listed debt securities available for sale, assumptions are also made about the counterparty's credit risk, which may have an impact on the pricing of the instruments. The credit risk of the securities, for which there is no reliable market price available, is included in the margin, for which the valuation methodology is consistent with the calculation of credit spreads to determine the CVA and DVA adjustments.

The valuation techniques used by the Bank for non-option derivative instruments are based on yield curves based on available market data (deposit margins on interbank market, IRS quotations). The Group conducted a simulation to assess the potential influence of changes of the yield curves on the transaction valuation.

The tables below present the outcomes of estimated changes in valuation of non-option derivative instruments for parallel movements of yield curves:

a) for the whole portfolio of non-option derivative instruments:

Estimated change in valuation due to parallel movement of yield curve by:	31.12.2013		31.12.2012	
	+50 b.p. scenario	-50 b.p. scenario	+50 b.p. scenario	-50 b.p. scenario
IRS	(62 968)	63 915	(45 124)	45 852
CIRS	(77 102)	80 805	(93 837)	98 908
other derivatives	4 139	(4 135)	1 679	(1 698)
Total	**(135 931)**	**140 585**	**(137 282)**	**143 062**

b) for derivative instruments that are designated to hedge accounting:

Estimated change in valuation due to parallel movement of yield curve by:	31.12.2013		31.12.2012	
	+50 b.p. scenario	-50 b.p. scenario	+50 b.p. scenario	-50 b.p. scenario
IRS	(72 994)	74 072	(49 664)	50 656
CIRS	(77 400)	81 118	(94 439)	99 543
Total	**(150 394)**	**155 190**	**(144 103)**	**150 199**

2.20.3. Calculation of provision for employee benefits

The provision for retirement and pension benefits is created individually for each employee on the basis of an actuarial valuation performed at the balance date by an external independent actuary. Valuation of the employee benefit provisions is performed using actuarial techniques and assumptions.

The calculation of the provision includes retirement and pension benefits expected to be paid in the future. The Group performed a reassessment of its estimates as at 31 December 2013, on the basis of calculation conducted by an independent external actuary. The provisions calculated equate to discounted future payments, taking into account staff turnover, and relate to the period ending on the balance date. An important factor affecting the amount of the provision is the adopted financial discount rate. A contribution of an increase/decrease in the financial discount rate to a decrease/increase in the amount of the provision for retirement and pension benefits is presented in the table below (in PLN million):

Estimated change in provision as at 31.12.2013	Financial discount rate		Planned increase in base salaries	
	+1 pp. scenario	-1 pp. scenario	+1 pp. scenario	-1 pp. scenario
Provision for retirement and pension benefits	(4)	4	5	(4)

An important factor affecting the amount of the provision in 2012 was the adopted financial discount rate, adopted by the Group at the level of 3.75%.

Gains and losses of the calculations conducted by an actuary are recognised in other comprehensive income.

The Group creates provisions for future liabilities arising from unused annual leave (taking into account all outstanding unused holiday days), from damages and severance payments made to those employees whose employment contracts are terminated for reasons independent of the employee, and for the employee compensation costs incurred in the current period which will be paid out in future periods, including bonuses.

2.20.4. Useful economic lives of tangible fixed assets, intangible assets and investment properties

In estimating useful economic lives of particular types of tangible fixed assets, intangible assets and investment properties, the following factors are considered:

1) expected physical wear and tear, estimated based on the average period of use recorded to date, reflecting the normal physical wear and tear rate, intensity of use etc.,
2) technical or market obsolescence,
3) legal and other limitations on the use of the asset,
4) expected use of the asset assessed based on the expected production capacity or volume,
5) other factors affecting useful lives of such assets.

When the period of use of a given asset results from a contract term, the useful life of such an asset corresponds to the period defined in the contract. If the estimated useful life is shorter than the period defined in the contract, the estimated useful life is applied.

The impact of change in useful economic lives of assets being subject to depreciation and classified as land and buildings on the change of financial result is presented in the table below (in PLN million).

Change in useful economic lives of assets being subject to depreciation and classified as land and buildings	31.12.2013		31.12.2012	
	+10 years scenario	-10 years scenario	+10 years scenario	-10 years scenario
Depreciation costs	(28)	192	(28)	155

(IN PLN THOUSAND)

2.21. Changes in accounting policies

The Group prepares its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union in the form of a Decrees of the European Union Committee ('the EU Committee').

Amendments to published standards and interpretations which have come into force and have been applied by the Group since 1 January 2013

Standard/ interpretation	Introduction/ publication date	Application date	Description of potential changes
Decree of the EU Committee No. 475/2012 of 5.06.2012			
Presentation of items of Other Comprehensive Income – amendments to IAS 1	06.2011	Financial year starting on or after 1.07.2012	The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. Changes in presentation. Appropriate division has been introduced in the statement of comprehensive income, while the Group has not changed the names of the titles.
Decree of the EU Committee No. 1255/2012 of 11.12.2012			
Amendments to IAS 19 'Employee Benefits'	06.2011	Financial year starting on or after 1.01.2013 (retrospective changes)	The amendments introduce new requirements for the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. A detailed description of changes is presented in Note 2.22. 'Explanation of differences between the previously published financial statements and these financial statements'.
IFRS 13 'Fair Value Measurement'	05.2011	Financial year starting on or after 1.01.2013	The new standard aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements. The new definition of fair value is included in the applicable accounting policies. Disclosures required by the standard are presented in note 'Fair value of financial assets and financial liabilities' and in 'Summary of significant accounting policies and estimates and judgments', 'Categories of fair value valuation of financial assets and liabilities designated at fair value in the consolidated statement of financial position'.
Decree of the EU Committee No. 1256/2012 of 13.12.2012			
Disclosures – Offsetting financial assets and financial liabilities - amendments to IFRS 7	12.2011	Financial year starting on or after 1.01.2013	The amendments introduce requirement of new disclosures that will enable users of financial statements to evaluate effects or the potential effects of netting arrangements, including rights of set-off. These changes have a presentation character, which is included in 'Summary of significant accounting policies and estimates and judgements'.
Decree of the EU Committee No. 301/2013 of 27.03.2013			
Improvements to IFRSs 2009-2011	05.2012	Financial year starting on or after 1.01.2013	'Improvements to IFRSs 2009-2011', changing i.a. IAS 1 'Presentation of financial statements', IAS 16 'Property, plant and equipment', IAS 32 'Financial instruments: presentation' and IAS 34, 'Interim financial reporting'. The improvements include changes in presentation, recognition and measurement as well as terminology and editorial changes. The amendments did not have a material impact on the Group, only provisions of IAS 1 relating to this retrospective adjustment of comparative data were applicable, where it is required to present the statement of financial position for periods but there is no requirement to prepare notes to the statement of financial position at the beginning of the previous reporting period (i.e. third period).

(IN PLN THOUSAND)

New standards and interpretations and amendments to existing standards and interpretations, which have been published and also have been approved by the European Union, but are not yet effective nor applied by the Group

1) Applying for the first time to the financial statements of the Group for the year 2014

Standard/ interpretation	Introduction/ publication date	Application date	Description of potential changes
Decree of the EU Committee No. 1254/2012 of 11.12.2012			
IFRS 10 'Consolidated Financial Statements'	05.2011	Financial year starting on or after 1.01.2013 (in the European Union mandatory application from 1.01.2014)	The new standard replaces all of the guidance on control and consolidation in IAS 27 'Consolidated and separate financial statements' and in the interpretation SIC-12 'Consolidation - special purpose entities'. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. On the basis of analysis performed by the Group, the new standard does not seem to have an impact on the current structure of the PKO Bank Polski SA Group, for which the Bank is the parent company. Entities identified as at 31 December 2013, in accordance with the existing definition of control, as subsidiaries of the Bank, meet the definition of a subsidiary also under new IFRS. With regard to pension funds or investment funds existing in the Group, by having fund managers the Bank has the ability to decision-making, however benefits being a result of the above mentioned scope of decision-making accrue to investors holding participation units in funds. Due to regulatory requirements and market conditions, the remuneration received by the managing entities due to the funds asset management seems to be market remuneration. Therefore, the change of the standard should not affect the scope of the consolidation of funds.
IFRS 11 'Joint Arrangements'	05.2011	Financial year starting on or after 1.01.2013 (in the European Union mandatory application from 1.01.2014)	The new standard replaces IAS 31 'Interests in Joint Ventures' and the interpretation SIC-13 'Jointly Controlled Entities – Non-Monetary Contributions by Ventures'. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. At the same time, the existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity method is mandatory for all participants in joint ventures. In case of the Group, taking into account the jointly controlled entities are consolidated using the equity method, the scope of the changes will not be material.
IFRS 12 'Disclosure of Interest In Other Entities'	05.2011	Financial year starting on or after 1.01.2013 (in the European Union mandatory application from 1.01.2014)	The new standard applies to entities that have an interest in a subsidiary, a joint ventures, an associate or an unconsolidated structured entity. The standard replaces the disclosure requirements currently found in IAS 27 'Consolidated and separate financial statements' IAS 28 'Investments in associates' and IAS 31 'Interests in Joint Ventures'. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint ventures and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The changes will require additional disclosures to the Group's financial statements, but it is estimated that, due to the current extensive range of disclosures about the Group entities, the additional scope of disclosures will not be material.

(IN PLN THOUSAND)

Standard/ interpretation	Introduction/ publication date	Application date	Description of potential changes
Revised IAS 27 'Separate Financial Statements'	05.2011	Financial year starting on or after 1.01.2013 (in the European Union mandatory application from 1.01.2014)	IAS 27 was changed in connection with the publication of IFRS 10 'Consolidated Financial Statements'. The objective of revised IAS 27 is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10. It is estimated that the scope of changes will not be material.
Revised IAS 28 'Investments in Associates and Joint Ventures'	05.2011	Financial year starting on or after 1.01.2013 (in the European Union mandatory application from 1.01.2014)	The amendment of IAS 28 resulted from the IASB's project on joint ventures. The Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. According to the Group's accounting policies, subsidiaries and associates are recognised using equity method. In the case of the Group, taking into account the jointly controlled entities are consolidated using the equity method, the above changes will not have an impact on the consolidated financial statements.
Decree of the EU Committee No. 1256/2012 of 13.12.2012			
'Offsetting Financial Assets and Financial Liabilities' - amendments to IAS 32	12.2011	Financial year starting on or after 1.01.2014	The amendments introduce application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes i.a. clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement if certain conditions are met. The above additional explanations do not seem to have material impact on disclosures in the financial statements of the Group.
Decree of the EU Committee No. 1174/2013 of 20.11. 2013			
Investment entities - amendments to IFRS 10, IFRS 12 and IAS 27	10.2012	Financial year starting on or after 1.01.2014	The amendments introduce to IFRS 10 a definition of an investment entity. Such entities will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was also amended so as to impose requirement of detailed disclosures on subsidiaries introducing new disclosures on investment entities and their subsidiaries. As a result of amendments to IAS 27, investment entities are no longer permitted to choose for its investments in certain subsidiaries between valuation at cost or at fair value in their separate financial statements. The above changes will not have an impact on the consolidated financial statements.
Decree of the EU Committee No. 1374/2013 of 19 December 2013			
Amendments to IAS 36 'Impairment of assets' – recoverable amount disclosures for non-financial assets	05.2013	Financial year starting on or after 1.01.2014 (retrospective changes), possibility of early adoption	Introduction of the requirement to disclose certain non-financial assets recoverable amount only when impairment losses were recognised or reversed. Additional requirements for disclosure of fair value when the recoverable amount is determined at fair value less costs to sell were also introduced, including i.a. level of the hierarchy defined in IFRS 13, in the case of valuations at level 2 or 3 of fair value hierarchy defined in IFRS 13 of the key valuation assumptions. The above changes will possibly apply for the first time for financial statements for the year 2014 and will concern presentation, requiring the extension of disclosures, if specific cases occur.

Standard/ interpretation	Introduction/ publication date	Application date	Description of potential changes
Decree of the EU Committee No. 1375/2013 of 19 .012. 2013			
Amendment to IAS 39 'Financial Instruments: recognition and measurement' - Novation of derivatives and hedge accounting continuation.	06.2013	Financial year starting on or after 1.01.2014 (retrospective changes), possibility of early adoption	Amendment involves easing of certain requirements for hedge accounting when the derivative must be novated in such a way that its party becomes the central counterparty (CCP), which is an entity that helds position between the original parties to the transaction, becoming the buyer to the seller and the seller to the buyer. At present no such cases of novations are identified in the Group.

2) Not yet adopted by the European Union

Standard/ interpretation	Introduction/ publication date	Application date	Description of potential changes
IFRS 9, 'Financial Instruments Part 1: Classification and Measurement'	11.2009 with subsequent amendments	International Accounting Standards Board has set year 2018 as the application date of IFRS 9. The European Union determines commencing of work on the adaptation conditional by the IASB issuing a version of IFRS 9 which includes Part 2 'Impairment'.	IFRS 9 replaces parts of IAS 39 regarding the classification and measurement of financial assets, and is updated with the issue of classification and measurement of financial liabilities. The standard introduces the model allowing only two categories of the financial assets classification: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The classification is to be made at initial recognition and it depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income. Due to lack of a final version of the Standard project, the effect of IFRS 9 on the adopted accounting policies has not yet been evaluated.
IFRS 9, 'Financial Instruments': Part 3 Hedge Accounting	2013		The new standard applies only to the so-called micro hedging and increases the range of items that can be designated as hedged items, as well as allows designating as a hedging instrument financial assets or liabilities measured at fair value through profit or loss. The obligation of retrospective test of hedge effectiveness together with previously applicable range of 80-125% were eliminated (the condition to the application of hedge accounting is the occurrence of the economic relationship between the hedging instrument and the hedged item). In addition, the scope of required disclosures regarding risk management strategies, cash flows arising from hedging transactions and the impact of hedge accounting on the financial statements was extended. Due to lack of a final version of the Standard project, the effect of IFRS 9 on the adopted accounting policies has not yet been evaluated.

(IN PLN THOUSAND)

Standard/ interpretation	Introduction/ publication date	Application date	Description of potential changes
IFRIC 21 'Levies' (interpretation of IAS 37 'Provisions, contingent liabilities and contingent assets')	05.2013	Financial year starting on or after 1 January 2014 (retrospective application)	IFRIC 21 determines how an entity should account for, in its financial statements, the obligation to pay the levies imposed by governments (other than income tax liabilities). The main issue is when an entity should recognise a liability to pay a levy. IFRIC 21 sets out the criteria for the recognition of the liability. One of these criteria is the requirement of an obligation arising from a past event (so called the obligating event). The interpretation explains that an obligating event that give rise to the obligation to pay the levy, are relevant legislations that triggers the payment of the levy. The interpretation does not apply to payments under the scope of IAS 12 'Income Taxes', as well as fines and penalties. Its scope also does not include payments to the government in respect of services or acquisition of assets under contract. IFRIC 21 applies to fees primarily to the Bank Guarantee Fund (mandatory fee and prudential fee), which according to previous accounting policies are accounted for as deferred. Due to the lack of adoption by the European Union, these levies are settled on the above mentioned method instead being recognised at once.
Defined benefit plans: Employee contributions – Amendments to IAS 19	11.2013	Financial year starting on or after 1.07.2014	The amendments allow for the recognition of contributions paid by employees as a reduction of staff costs in the period in which the work is performed by the employee, rather than assign contributions to the work periods, if the amount of employee contributions is independent from the length of service. The above changes will possibly apply for the first time for the financial statements of the Group for the year 2015 and it will have a presentation character, requiring a possible extension of disclosures.
Improvements to IFRSs 2010-2012	12.2013	Financial year starting on or after 1.07.2014	'Improvements to IFRSs 2010-2012', which change 7 standards. The improvements include changes in presentation, recognition and measurement, as well as terminology and editorial changes. The above changes will possibly apply for the first time for the financial statements of the Group for the year 2015 and it will have a presentation character, requiring a possible extension of disclosures.
Improvements to IFRSs 2011-2013	12.2013	Financial year starting on or after 1.07.2014	The improvements include changes in presentation, recognition and measurement, as well as terminology and editorial changes. The above changes will possibly apply for the first time for the financial statements of the Group for the year 2015 and it will have a presentation character, requiring a possible extension of disclosures.

The Management Board does not expect the introduction of the above-mentioned standards and interpretations to have a significant influence on the accounting policies applied by the Group with the exception of IFRS 9 (an influence of IFRS 9 on accounting principles applied by the Group have not been assessed yet). The Group intends to apply them in the periods indicated in the relevant standards and interpretations (without early adoption), provided that they are adopted by the EU.

2.22. Explanation of differences between the previously published financial statements and these financial statements

In these financial statements the following changes were made with respect to the previously published financial statements:

1. Actuarial gains and losses

Due to the amendment to IAS 19 'Employee Benefits', adopted by the European Union by the Regulation of the EU Committee No. 1255/2012 dated 11 December 2012, which is effective for periods beginning on or after 1 January 2013 and has a retrospective character, in the second half of 2013 the Group introduced a change in accounting policy on the principle of recognising actuarial gains and losses from the valuation of defined benefits plans.

Actuarial gains and losses arising from changes in the present value of the Group's liability due to defined benefit plans, resulting from changes in actuarial assumptions were recognised at the end of 2013, as a component of the other comprehensive income, not as an item of the income statement. In connection with the restatement of comparative data for 2012, there was a transfer of the amount of PLN 64.1 million from the position 'administrative expenses' in the income statement to the position 'actuarial gains and losses' in the other comprehensive income.

Additionally, deferred tax related to this item was recognised in other comprehensive income in the amount of PLN 12.2 million (the amount was previously recognised in the income tax in the consolidated income statement).

At the same time, the Group applied the provisions of the clause 122 of the amended standard IAS 19, which states that the re-valuation of net liabilities due to defined benefits, recognised in the other comprehensive income, is not transferred to profit or loss in a subsequent period, however, the entity can transfer amounts recognised in the other comprehensive income within the equity.

Based on the provisions of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' the Group did not make the restatement of the opening balance as at 1 January 2012, as determining the impact of the change on previous periods is impracticable.

2. Recognition of income and expense from sale of insurance products attached to loans

The Group introduced changes in accounting policies on recognition of income and expenses from fees collected/paid by the Group in respect of accession customers to insurance agreements associated with banking products offered by the Group.

Policy applied by the Group in this regard was so far as follows:

- the Group recognised one-time the above mentioned income/expense at the date of fees collection from the client or at the date of incurring the expense associated with the value of the insurance premium transferred to the Insurance Company on the date specified in the agreement with this Insurance Company (as a result of net fee and commission income),
- starting from the first quarter of 2012, the Group additionally restricted a part of the above mentioned income and expense in connection with future returns of a part of the insurance premium due to the early termination of an agreement . Due to the marginal level of returns realised on most insurance products, a provision for future returns was recognised only in case of insurance of a borrowers' cash loan. A provision ratio amounted to 40%.

At the same time, the external costs associated with the remuneration of intermediaries and agents due to distribution of mortgage loans with insurance from job loss and hospitalisation and cash loan with insurance, were recognised over the life of the loan as part of net interest income.

In 2013, the Group verified the approach in the recognition of remuneration from bancassurance products distribution, i.a. as a result of a letter to banks submitted by the Polish Financial Supervision Authority, containing a recommendation with regard to the approach to bancassurance products . The Group applied to the PFSA guidance in respect of the definition of the related product and recognition of income from the sale of insurance products offered in the sale of loan products, including interest income and commission income, based on an analysis of the relative fair values of the financial instrument and the fair value of agency services in relation to the sum of these values.

As a result of the above mentioned change, the Group adopted the following approach:

a) cash loan with insurance

Part of remuneration is deferred due to the provision for future by returns applying a ratio of 42%. 12% of remuneration is recognised in commission income on a one-off basis and a remained part, i.e. 46% of remuneration is settled in interest income in the period of economic life of the loan. Change in commission income is recognised as being divided into commission income and commission expense. Part of the provision for future cash returns was assigned to a loan value adjustment in the proportion of the fair value of a financial instrument to the sum of the fair value of a financial instrument and agency services.

b) mortgage loans with insurance from job loss and hospitalisation

32% of remuneration is recognised on a one-off basis for distribution services of insurance products in commission income. 40% of the remuneration is settled over the term of the loan and recognised using the effective interest rate on interest income. 28% of remuneration is settled during the term of the insurance policy - 48 months - and is recognised in interest income using the effective interest rate method.

At the same time, recognition of the external costs associated with the remuneration of intermediaries and agents, was changed, applying principles of their settlement consistent with the principles of remuneration recognition.

The above mentioned change in accounting policies was implemented retrospectively and the effect of its use on net assets is presented below.

(IN PLN THOUSAND)

3. Reclassification of legal claims with UOKiK from other liabilities to provisions

The Group decided to reclassify provisions for the unfair competition proceedings conducted by UOKiK, from the position 'Other liabilities' to the position 'Provisions' for legal claims due to the uncertain date of penalties payment and their final amount. Comparable data were accordingly restated.

Restatements in the consolidated statement of financial position as at 1 January 2012

	01.01.2012 before restatement	changes due to bancassurance	reclassification of liabilities due to UOKiK	01.01.2012 restated
Assets				
Loans and advances to customers	141 634 494	(380 005)	-	141 254 489
Deferred income tax asset	543 922	73 470	-	617 392
Other items of assets	48 569 621	-	-	48 569 621
TOTAL ASSETS	**190 748 037**	**(306 535)**	**-**	**190 441 502**
Liabilities				
Other liabilities	2 450 763	6 679	(16 597)	2 440 845
Provisions	619 164	-	16 597	635 761
Other items of liabilities	164 856 126	-	-	164 856 126
TOTAL LIABILITIES	**167 926 053**	**6 679**	**-**	**167 932 732**
Equity				
Share capital	1 250 000	-	-	1 250 000
Other capital	17 881 264	-	-	17 881 264
Currency translation differences from foreign operations	(92 023)	-	-	(92 023)
Unappropriated profits	3 784 033	(313 214)	-	3 470 819
Capital and reserves attributable to equity holders of the parent company	**22 823 274**	**(313 214)**	**-**	**22 510 060**
Non-controlling interest	(1 290)	-	-	(1 290)
TOTAL EQUITY	**22 821 984**	**(313 214)**	**-**	**22 508 770**
TOTAL LIABILITIES AND EQUITY	**190 748 037**	**(306 535)**	**-**	**190 441 502**

as at 31 December 2012

	31.12.2012 before restatement	change of IAS 19 (actuarial gains and losses)	changes due to bancassurance	reclassification of liabilities due to UOKiK	31.12.2012 restated
Assets					
Loans and advances to customers	143 875 644	-	(392 578)	-	143 483 066
Deferred income tax asset	564 514	-	63 625	-	628 139
Other items of assets	49 039 470	-	-	-	49 039 470
TOTAL ASSETS	**193 479 628**	**-**	**(328 953)**	**-**	**193 150 675**
Liabilities					
Other liabilities	2 057 707	-	(57 711)	(16 597)	1 983 399
Provisions	720 609	-	-	16 597	737 206
Other items of liabilities	165 993 662	-	-	-	165 993 662
TOTAL LIABILITIES	**168 771 978**	**-**	**(57 711)**	**-**	**168 714 267**
Equity					
Share capital	1 250 000	-	-	-	1 250 000
Other capital	19 933 012	51 953	-	-	19 984 965
Currency translation differences from foreign operations	(120 305)	-	-	-	(120 305)
Unappropriated profits	(103 340)	-	(313 214)	-	(416 554)
Net profit for the year	3 748 621	(51 953)	41 972	-	3 738 640
Capital and reserves attributable to equity holders of the parent company	**24 707 988**	**-**	**(271 242)**	**-**	**24 436 746**
Non-controlling interest	(338)	-	-	-	(338)
TOTAL EQUITY	**24 707 650**	**-**	**(271 242)**	**-**	**24 436 408**
TOTAL LIABILITIES AND EQUITY	**193 479 628**	**-**	**(328 953)**	**-**	**193 150 675**

(IN PLN THOUSAND)

Restatements in the consolidated income statement

	2012 before restatement	change of IAS 19 (actuarial gains and losses)	changes due to bancassurance	2012 restated
Interest and similar income	12 991 737	-	206 482	13 198 219
Interest expense and similar charges	(5 108 951)	-	-	(5 108 951)
Net interest income	**7 882 786**	**-**	**206 482**	**8 089 268**
Fee and commission income	3 837 303	-	(189 089)	3 648 214
Fee and commission expense	(766 101)	-	34 424	(731 677)
Net fee and commission income	**3 071 202**	**-**	**(154 665)**	**2 916 537**
Dividend income	8 081	-	-	8 081
Net income from financial instruments designated at fair value	94 188	-	-	94 188
Gains less losses from investment securities	79 813	-	-	79 813
Net foreign exchange gains	256 137	-	-	256 137
Other operating income	563 369	-	-	563 369
Other operating expense	(385 715)	-	-	(385 715)
Net other operating income and expense	**177 654**	**-**	**-**	**177 654**
Net impairment allowance and write-downs	(2 325 228)	-	-	(2 325 228)
Administrative expenses	(4 618 397)	(64 140)	-	(4 682 537)
Operating profit	**4 626 236**	**(64 140)**	**51 817**	**4 613 913**
Share of profit (loss) of associates and jointly controlled entities	**19 025**	**-**	**-**	**19 025**
Profit before income tax	**4 645 261**	**(64 140)**	**51 817**	**4 632 938**
Income tax expense	**(897 818)**	12 187	(9 845)	**(895 476)**
Net profit (including non-controlling shareholders)	**3 747 443**	**(51 953)**	**41 972**	**3 737 462**
Profit (loss) attributable to non-controlling shareholders	(1 178)	-	-	(1 178)
Net profit attributable to equity holders of the parent company	**3 748 621**	**(51 953)**	**41 972**	**3 738 640**

Restatement in the consolidated statement of comprehensive income

	2012 before restatement	change of IAS 19 (actuarial gains and losses)	changes due to bancassurance	2012 restated
Net profit (including non-controlling shareholders)	3 747 443	(51 953)	41 972	3 737 462
Other comprehensive income	**(275 171)**	**51 953**	**-**	**(223 218)**
Items that may be reclassified to the income statement	**(275 171)**	**-**	**-**	**(275 171)**
Cash flow hedges (gross)	(383 069)	-	-	(383 069)
Deferred tax on cash flow hedges	72 783	-	-	72 783
Cash flow hedges (net)	(310 286)	-	-	(310 286)
Unrealised net gains on financial assets available for sale (gross)	73 676	-	-	73 676
Deferred tax on unrealised net gains on financial assets available for sale	(14 156)	-	-	(14 156)
Unrealised net gains on financial assets available for sale (net)	59 520	-	-	59 520
Currency translation differences from foreign operations	(25 992)	-	-	(25 992)
Share in other comprehensive income of an associate	1 587	-	-	1 587
Items that may not be reclassified to the income statement	-	51 953	-	51 953
Actuarial gains and losses (net)	-	51 953	-	51 953
Actuarial gains and losses (gross)	-	64 140		64 140
Deferred tax on actuarial gains and losses	-	(12 187)		(12 187)
Total net comprehensive income	**3 472 272**	-	**41 972**	**3 514 244**

As a result of the introduced changes, comparable financial data disclosed in the notes to the consolidated financial statements have changed.

3. Information on the segments of activities and information about geographical areas

3.1. Information on the segments of activities

The PKO Bank Polski SA Group's segment reporting scheme is primarily based on the criteria of groups of clients i.e. recipients of products and services offered by the parent company and the PKO Bank Polski SA Group entities. Each operating business segment comprises activities of providing products and services that are characterised by similar risk and income – different from other business segments. The segment note below is recognised in an internal reporting system, i.e. information presented to the Management Board of PKO Bank Polski SA, used to assess achieved results and to allocate resources.

The segment report below presents an internal organisational structure of Bank Group. At present, the Group comprises four basic segments: retail, corporate and investment segment and transfer centre:

1. The retail segment comprises transactions of the parent company with retail clients, clients of small and medium enterprises and housing market clients. This segment comprises, among others, the following products and services: current and saving accounts, deposits, private banking services, investment products, credit and debit cards, consumer and mortgage loans, corporate loans for small and medium enterprises and housing market customers.

2. The corporate segment includes transactions of the parent company with large corporate clients. This segment comprises, among others, the following products and services: current accounts, deposits, depositary services, currency and derivative products, sell-buy-back and buy-sell-back transactions, corporate loans, leases and factoring. Within the segment, PKO Bank Polski SA also enters, individually or in a consortium with other banks, into loan agreements financing large investment projects and issuance of non-Treasury securities.

3. The investment segment comprises transactions of the parent company with financial institutions' clients and the Bank's portfolio activity on its own account i.e. investing and brokerage activities, interbank transactions, derivative instruments and debt securities transactions and activities of PKO Bank Polski SA's subsidiaries.

4. The transfer centre comprises the result on internal settlements related to funds transfer pricing, the result on long-term sources of financing and the result on positions classified for hedge accounting is presented. Internal funds transfer is based on transfer pricing dependant on interest rates. The transactions between business segments are conducted on arm's length. Long-term external financing includes the issuance of securities, subordinated liabilities and amounts due to financial institutions.

The Group typically settles inter-segment transactions as if they were concluded between unrelated parties - using internal settlement rates. The transactions between business segments are conducted on arm's length.

Accounting policies applied in the segment report are consistent with accounting policies described in Note 2 of these financial statements.

Disclosed values of assets and liabilities are operating assets and liabilities applied by operating activities segment. Values of assets, liabilities, income and expenses of a particular segment are based on internal management information. To particular segments there are assigned assets and liabilities as well as income and costs related to these assets and liabilities.

The current income tax expense in respect of the presentation of the result, and deferred income tax asset, current income tax receivables, current income tax liabilities and deferred income tax liability in respect of the consolidated statement of financial position presentation were recognised at the Group level.

(IN PLN THOUSAND)

The tables below present data relating to revenue and results of individual business segments of the PKO Bank Polski SA Group for the 12-month period ended 31 December 2013 and 31 December 2012 and assets and liabilities as at 31 December 2013 and as at 31 December 2012.

For the year ended 31 December 2013	Continuing operations				
	Retail segment	Corporate segment	Investment segment	Transfer centre	Total activity of the PKO Bank Polski SA Group
Net interest income	5 446 477	608 722	276 617	390 146	6 721 962
Net fee and commission income	2 227 274	312 278	466 055	145	3 005 752
Other net income	180 762	84 935	732 826	(19 371)	979 152
Net result from financial operations	8 359	18 033	76 536	18 865	121 793
Net foreign exchange gains	141 195	90 295	48 594	(38 236)	241 848
Dividend income	-	-	5 766	-	5 766
Net other operating income and expense	5 170	2 645	601 930	-	609 745
Income/expenses relating to internal customers	26 038	(26 038)	-	-	-
Net impairment allowance and write-downs	(1 180 140)	(606 948)	(250 793)	-	(2 037 881)
Administrative expenses, of which:	(3 694 647)	(261 602)	(666 294)	-	(4 622 543)
amortisation and depreciation	(487 404)	(31 248)	(60 588)	-	(579 240)
Share of profit (loss) of associates and jointly controlled entities	-	-	-	-	(1 978)
Segment gross profit	**2 979 726**	**137 385**	**558 411**	**370 920**	**4 044 464**
Income tax expense (tax burden)	-	-	-	-	(816 271)
Profit (loss) attributable to non-controlling shareholders	-	-	-	-	(1 600)
Net profit attributable to the equity holders of the parent company	**2 979 726**	**137 385**	**558 411**	**370 920**	**3 229 793**

As at 31 December 2013	Continuing operations				
	Retail segment	Corporate segment	Investment segment	Transfer centre	Total activity of the PKO Bank Polski SA Group
Assets	111 712 993	40 628 974	39 710 644	6 409 677	198 462 288
Unallocated assets	-	-	-	-	768 822
Total assets	**111 712 993**	**40 628 974**	**39 710 644**	**6 409 677**	**199 231 110**
Liabilities	127 700 088	17 622 539	21 501 703	7 197 754	174 022 084
Unallocated liabilities	-	-	-	-	54 701
Total liabilities	**127 700 088**	**17 622 539**	**21 501 703**	**7 197 754**	**174 076 785**

For the year ended 31 December 2012	Continuing operations* (restated)				
	Retail segment	Corporate segment	Investment segment	Transfer centre	Total activity of the PKO Bank Polski SA Group
Net interest income	5 934 256	564 710	254 069	1 336 233	8 089 268
Net fee and commission income	2 251 222	312 124	355 499	(2 308)	2 916 537
Other net income	198 515	92 211	388 274	(63 127)	615 873
Net result from financial operations	1 874	16 424	134 133	21 570	174 001
Net foreign exchange gains	170 317	101 522	68 995	(84 697)	256 137
Dividend income	-	-	8 081	-	8 081
Net other operating income and expense	286	303	177 065	-	177 654
Income/expenses relating to internal customers	26 038	(26 038)	-	-	-
Net impairment allowance and write-downs	(1 546 964)	(657 635)	(120 629)	-	(2 325 228)
Administrative expenses*, of which:	(3 767 883)	(264 421)	(650 233)	-	(4 682 537)
amortisation and depreciation	(443 954)	(26 148)	(71 187)	-	(541 289)
Share of profit (loss) of associates and jointly controlled entities	-	-	-	-	19 025
Segment gross profit	**3 069 146**	**46 989**	**226 980**	**1 270 798**	**4 632 938**
Income tax expense (tax burden)	-	-	-	-	(895 476)
Profit/loss attributable to non-controlling shareholders	-	-	-	-	(1 178)
Net profit attributable to the equity holders of the parent company	**3 069 146**	**46 989**	**226 980**	**1 270 798**	**3 738 640**

*Data for 2012 have been brought to comparability. Restatements include: 1) changes in the presentation of the results from sale of non-Treasury securities, 2) changes in accounting policies as regards to the recognition of income and expenses related to the sale of insurance products associated with loan agreements, 3) changes in presentation of actuarial gains and losses.

(IN PLN THOUSAND)

As at 31 December 2012	Continuing operations* (restated)				
	Retail segment	Corporate segment	Investment segment	Transfer centre	Total activity of the PKO Bank Polski SA Group
Assets	107 612 720	43 031 211	32 563 098	9 309 794	192 516 823
Unallocated assets	-	-	-	-	633 852
Total assets	**107 612 720**	**43 031 211**	**32 563 098**	**9 309 794**	**193 150 675**
Liabilities	121 308 052	18 739 826	23 683 438	4 786 071	168 517 387
Unallocated liabilities*	-	-	-	-	196 880
Total liabilities	**121 308 052**	**18 739 826**	**23 683 438**	**4 786 071**	**168 714 267**

* Data have been brought to comparability. Recognition of current income tax receivables and deferred income tax liability on the Group level.

3.2. Information about geographical areas

As a complementary, the PKO Bank Polski SA Group applies geographical areas distribution. The PKO Bank Polski SA Group operations conducted in the Republic of Poland and in Ukraine through the KREDOBANK SA Group, 'Inter-Risk Ukraina' Additional Liability Company and Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o., as well as in Sweden through subsidiaries: PKO Finance AB and PKO Leasing Sverige AB. For presentation purposes, the results of companies operating in Sweden are included in the segment of Poland.

For the year ended 31 December 2013	Poland	Ukraine	Total
Net interest income	6 666 210	55 752	6 721 962
Net fee and commission income	2 941 936	63 816	3 005 752
Other net income	978 426	726	979 152
Administrative expenses	(4 494 360)	(128 183)	(4 622 543)
Net impairment allowance and write-downs	(1 879 991)	(157 890)	(2 037 881)
Share of profit (loss) of associates and jointly controlled entities	-	-	(1 978)
Gross profit	**4 212 221**	**(165 779)**	**4 044 464**
Income tax expense (tax burden)	-	-	(816 271)
Profit (loss) attributable to non-controlling shareholders	-	-	(1 600)
Net profit (loss)	**4 212 221**	**(165 779)**	**3 229 793**

As at 31 December 2013	Poland	Ukraine	Total
Assets, of which:	197 625 058	1 606 052	**199 231 110**
non-financial fixed assets	4 695 955	145 500	**4 841 455**
deferred income tax assets and current income tax receivable	751 802	17 020	**768 822**
Liabilities	172 517 523	1 559 262	**174 076 785**

For the year ended 31 December 2012* (restated)	Poland	Ukraine	Total
Net interest income	8 033 225	56 043	8 089 268
Net fee and commission income	2 858 740	57 797	2 916 537
Other net income	619 775	(3 902)	615 873
Administrative expenses*	(4 551 417)	(131 120)	(4 682 537)
Net impairment allowance and write-downs	(2 264 626)	(60 602)	(2 325 228)
Share of profit (loss) of associates and jointly controlled entities	-	-	19 025
Gross profit	**4 695 697**	**(81 784)**	**4 632 938**
Income tax expense (tax burden)	-	-	(895 476)
Profit (loss) attributable to non-controlling shareholders	-	-	(1 178)
Net profit (loss)	**4 695 697**	**(81 784)**	**3 738 640**

*Data for 2012 have been brought to comparability. Restatements include: 1) changes in accounting policies as regards to the recognition of income and expenses related to sale of insurance products associated with loan agreements, 2) changes in rules presentation of actuarial gains and losses.

(IN PLN THOUSAND)

As at 31 December 2012 (restated)	Poland	Ukraine	Total
Assets, of which:	191 284 259	1 866 416	**193 150 675**
non-financial fixed assets	4 438 395	146 202	**4 584 597**
deferred income tax assets and current income tax receivable*	566 621	67 231	**633 852**
Liabilities	167 043 134	1 671 133	**168 714 267**

*Data have been brought to comparability. Recognition of current income tax receivables on the Group level.

(IN PLN THOUSAND)

NOTES TO THE CONSOLIDATED INCOME STATEMENT

4. Interest income and expense

Interest and similar income

	2013	2012 restated
Interest income calculated using the effective interest rate method, with respect to financial assets, which are not measured at fair value through profit and loss, of which:	**9 774 336**	**11 537 641**
Income from loans and advances to customers, of which:	9 065 530	10 585 366
from impaired loans	499 865	495 396
Income from investment securities available for sale	537 102	695 326
Income from placements with banks	165 156	250 184
Income from investments securities held to maturity	2 538	176
Other	4 010	6 589
Other income, of which:	**989 158**	**1 660 578**
Income from financial assets designated upon initial recognition at fair value through profit and loss	470 979	730 864
Income from derivative hedging instruments (Note 19)	454 278	870 450
Income from trading assets	63 901	59 264
Total	**10 763 494**	**13 198 219**

Interest expense and similar charges

	2013	2012
Interest expense calculated using the effective interest rate method, with respect to financial liabilities, which are not measured at fair value through profit and loss, of which:	**(4 018 230)**	**(5 105 835)**
Interest expense on amounts due to customers	(3 489 785)	(4 637 675)
Interest expense on debt securities in issue and subordinated liabilities	(472 588)	(431 010)
Premium expense on debt securities available for sale	(38 737)	(9 911)
Interest expense on deposits from banks	(17 120)	(27 239)
Other expense	**(23 302)**	**(3 116)**
Expense on financial assets designated upon initial recognition at fair value through profit and loss	(14 375)	(969)
Expense on trading assets	(8 927)	(2 147)
Total	**(4 041 532)**	**(5 108 951)**

(IN PLN THOUSAND)

5. Fee and commission income and expense

Fee and commission income

	2013	2012 restated
Income from financial assets, which are not measured at fair value through profit and loss, of which:	585 484	578 521
Income from loans and advances granted	585 484	578 521
Other commissions from:	**3 336 775**	**3 065 994**
payment cards	1 314 322	1 186 733
maintenance of bank accounts	894 520	881 286
loans insurance	266 199	226 250
maintenance of investment and open pension funds (of which management fees)	400 413	323 276
cash transactions	126 765	136 451
securities transactions	79 334	82 855
servicing foreign mass transactions	52 290	48 785
providing the services of an agent for the issue of Treasury bonds	29 022	39 295
sale and distribution of court fee stamps	20 927	25 624
Other*	152 983	115 439
From fiduciary activities	**4 343**	**3 699**
Total	**3 926 602**	**3 648 214**

* Included in 'Other' are i.a.: commissions of the Brokerage House of PKO Bank Polski SA for servicing Initial Public Offering issue and commissions for servicing indebtedness of borrowers against the State budget.

Fee and commission expense on

	2013	2012 restated
payment cards	(575 584)	(420 264)
loans insurance	(95 005)	(76 896)
acquisition services	(101 673)	(107 140)
settlement services	(24 383)	(24 058)
asset management fees	(12 634)	(9 971)
fee and commissions for operating services provided by banks	(11 488)	(10 756)
Other*	(100 083)	(82 592)
Total	**(920 850)**	**(731 677)**

* Included in 'Other' are i.a.: fee and expenses paid by the Brokerage House to WSE and to the National Depository for Securities (KDPW).

6. Dividend income

	2013	2012
Investment securities classified as available for sale	4 849	5 943
Trading assets	623	2 138
Entity classified as held for sale	294	-
Total	**5 766**	**8 081**

7. Net income from financial instruments measured at fair value

	2013	2012
Change in fair value of financial instruments measured at fair value through profit and loss determined using the valuation techniques	46 261	(8 120)
Derivative instruments, of which:	65 103	3 186
an ineffective portion related to cash flow hedges	24 333	7 938
Structured bank securities measured at fair value through profit and loss	(18 842)	(11 306)
Debt securities	**8 841**	**103 343**
Equity instruments	**(793)**	**(1 035)**
Total	**54 309**	**94 188**

(IN PLN THOUSAND)

2013	Gains	Losses	Net result
Trading assets	12 844 531	(12 773 738)	70 793
Financial assets designated upon initial recognition at fair value through profit and loss	74 478	(90 962)	(16 484)
Total	**12 919 009**	**(12 864 700)**	**54 309**

2012	Gains	Losses	Net result
Trading assets	14 016 797	(14 000 105)	16 692
Financial assets designated upon initial recognition at fair value through profit and loss	151 334	(73 838)	77 496
Total	**14 168 131**	**(14 073 943)**	**94 188**

8. Gains less losses from investment securities and unrealised net gains on financial assets available for sale

	2013	2012
Gain/loss due to change in value of assets available for sale recognised directly in other comprehensive income during the period	(147 023)	(6 137)
Gain/loss derecognised from other comprehensive income recognised in income statement in the position 'Gains less losses from investment securities' on:	**67 484**	**79 813**
Gain from sale derecognised from other comprehensive income	111 256	86 376
Loss on sale derecognised from other comprehensive income	(43 772)	(6 563)
Impact on other comprehensive income (gross), position 'Unrealised net gains on financial assets available for sale (gross)'	**(79 539)**	**73 676**

9. Other operating income and expense

	2013	2012
Other operating income		
Net income from sale of products and services	339 285	331 224
Gain recognised on sale of majority stake in a subsidiary	314 802	3 118
Valuation to fair value of the remaining share as a result of sale of an organised part of a subsidiary	162 171	-
Sale and disposal of tangible fixed assets, intangible assets and assets held for sale	109 696	92 680
Damages, penalties and fines received	59 810	35 368
Sundry income	19 537	21 692
Recovery of expired and written-off receivables	8 296	3 062
Other	67 348	76 225
Total	**1 080 945**	**563 369**

	2013	2012
Other operating expense		
Costs of sale of products and services	(273 560)	(221 007)
Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(92 693)	(99 733)
Donations	(11 158)	(12 815)
Sundry expenses	(5 209)	(5 879)
Other	(88 580)	(46 281)
Total	**(471 200)**	**(385 715)**

(IN PLN THOUSAND)

10. Net impairment allowance and write-downs

For the year ended 31 December 2013	Note	Value at the beginning of the period	Increases		Decreases				Value at the end of the period	Net – impact on the income statement
			Recognised during the period	Other	Decrease due to derecognition of assets and settlement	Reversed during the period	Currency translation differences	Other		
Investment securities available for sale	22	23 243	16 183	-	5 536	-	3	432	33 455	(16 183)
Debt securities available for sale		5 536	3 728	-	5 536	-	-	432	3 296	(3 728)
Equity securities		17 707	12 455	-	-	-	3	-	30 159	(12 455)
Amounts due from banks	16	29 382	-	-	-	5	-	794	28 583	5
Loans and advances to customers measured at amortised cost	21	6 776 265	6 434 839	2 074	1 775 811	4 406 501	15 770	364 316	6 650 780	(2 028 338)
Non-financial sector		6 606 755	6 378 377	1 806	1 770 829	4 363 011	14 818	337 234	6 501 046	(2 015 366)
corporate loans		3 458 562	3 491 446	1 806	1 149 355	2 183 195	11 621	278 291	3 329 352	(1 308 251)
consumer loans		1 431 689	1 561 370	-	425 117	1 148 890	624	5 079	1 413 349	(412 480)
housing loans		1 714 698	1 300 280	-	196 357	1 030 926	2 573	53 864	1 731 258	(269 354)
debt securities		1 806	25 281	-	-	-	-	-	27 087	(25 281)
Financial sector		25 376	9 051	80	-	949	952	27 082	5 524	(8 102)
corporate loans		25 376	9 051	80	-	949	952	27 082	5 524	(8 102)
Public sector		21 990	-	188	-	10 651	-	-	11 527	10 651
corporate loans		19 640	-	188	-	9 279	-	-	10 549	9 279
debt securities		2 350	-	-	-	1 372	-	-	978	1 372
Finance lease receivables		122 144	47 411	-	4 982	31 890	-	-	132 683	(15 521)
Non-current assets held for sale	25	2 906	1 634	363 443	963	-	-	1 680	365 340	(1 634)
Tangible fixed assets	28	13 943	790	299	1 932	330	383	303	12 084	(460)
Intangible assets	27	142 313	11 021	-	-	-	9	314	153 011	(11 021)
Investments in associates and jointly controlled entities	24	113 226	7 617	-	-	4 311	-	-	116 532	(3 306)
Inventories	26	31 504	23 460	-	1 136	23	-	-	53 805	(23 437)
Other receivables		145 043	80 742	1 838	23 883	39 069	127	5 792	158 752	(41 673)
Provisions for legal claims, loan commitments and guarantees granted	36	233 682	265 311	1 957	318	349 010	19	-	151 603	83 699
Provision for future liabilities		11 961	5 262	-	549	9 729	-	-	6 945	4 467
Total		7 523 468	6 846 859	369 611	1 810 128	4 808 978	16 311	373 631	7 730 890	(2 037 881)

Reclassification of impairment allowances of loan portfolio of Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o., in connection with the planned disposal of the company, was recognised in position of other decreases in impairment allowances of 'Loans and advances to customers' and other increases in impairment allowances of 'Non-current assets held for sale'.

(IN PLN THOUSAND)

For the year ended 31 December 2012	Note	Value at the beginning of the period	Increases		Decreases				Value at the end of the period	Net – impact on the income statement
			Recognised during the period	Other	Decrease due to derecognition of assets and settlement	Reversed during the period	Currency translation differences	Other		
Investment securities available for sale	**22**	**20 563**	**15 100**	**-**	**10 548**	**1 564**	**308**	**-**	**23 243**	**(13 536)**
Debt securities available for sale		17 944	-	-	10 548	1 564	296	-	5 536	1 564
Equity securities		2 619	15 100	-	-	-	12	-	17 707	(15 100)
Amounts due from banks	**16**	**32 812**	**518**	**-**	**-**	**856**		**3 092**	**29 382**	**338**
Loans and advances to customers measured at amortised cost	**21**	**5 658 243**	**5 870 957**	**33 092**	**934 324**	**3 732 460**	**54 322**	**64 921**	**6 776 265**	**(2 138 497)**
Non-financial sector		5 497 033	5 768 707	32 123	923 826	3 650 806	51 555	64 921	6 606 755	(2 117 901)
corporate loans		2 709 360	2 522 177	10 276	284 453	1 434 913	41 421	22 464	3 458 562	(1 087 264)
consumer loans		1 463 843	2 040 950	19 447	611 684	1 472 122	1 378	7 367	1 431 689	(568 828)
housing loans		1 323 830	1 203 774	2 400	27 689	743 771	8 756	35 090	1 714 698	(460 003)
debt securities		-	1 806	-	-	-	-	-	1 806	(1 806)
Financial sector		37 058	42 145	391	3 848	47 603	2 767	-	25 376	5 458
corporate loans		37 058	42 145	391	3 848	47 603	2 767	-	25 376	5 458
Public sector		15 779	8 763	578	-	3 130	-	-	21 990	(5 633)
corporate loans		15 779	6 413	578	-	3 130	-	-	19 640	(3 283)
debt securities		-	2 350	-	-	-	-	-	2 350	(2 350)
Finance lease receivables		108 373	51 342	-	6 650	30 921	-	-	122 144	(20 421)
Non-current assets held for sale	**25**	**2 958**	**-**	**-**	**52**	**-**	**-**	**-**	**2 906**	**-**
Tangible fixed assets	**28**	**6 388**	**12 104**	**-**	**3 366**	**305**	**878**	**-**	**13 943**	**(11 799)**
Intangible assets	**27**	**135 295**	**11 337**	**239**	**4 558**	**-**	**-**	**-**	**142 313**	**(11 337)**
Investments in associates and jointly controlled entities	**24**	**88 953**	**24 273**	**-**	**-**	**-**	**-**	**-**	**113 226**	**(24 273)**
Inventories	**26**	33 088	10 705	-	11 322	967	-	-	31 504	(9 738)
Other receivables		179 447	31 423	6 915	50 051	21 665	539	487	145 043	(9 758)
Provisions for legal claims, loan commitments and guarantees granted	**36**	132 204	254 247	-	798	151 442	12	517	233 682	(102 805)
Provision for future liabilities		8 608	23 249	-	470	19 426	-	-	11 961	(3 823)
Total		**6 298 559**	**6 253 913**	**40 246**	**1 015 489**	**3 928 685**	**56 059**	**69 017**	**7 523 468**	**(2 325 228)**

(IN PLN THOUSAND)

11. Administrative expenses

	2013	2012 restated
Employee benefits	(2 514 763)	(2 572 195)
Overheads	(1 289 796)	(1 352 530)
Amortisation and depreciation, of which:	(579 240)	(541 289)
tangible fixed assets	(312 627)	(309 358)
intangible assets	(266 603)	(231 920)
investment properties	(10)	(11)
Taxes and other charges	(71 041)	(72 535)
Contribution and payments to the Bank Guarantee Fund	(167 703)	(143 988)
Total	**(4 622 543)**	**(4 682 537)**

Employee benefits

	2013	2012 restated
Wages and salaries*, of which:	(2 071 231)	(2 156 728)
expenses on employee pension programme	(25 701)	-
Social Insurance, of which:	(375 011)	(343 166)
contributions for retirement pay and pensions	(300 687)	(279 582)
Other employee benefits	(68 521)	(72 301)
Total	**(2 514 763)**	**(2 572 195)**

* In the position 'Wages and salaries' the effect of release of provision for retirement benefits and pensions and anniversary bonuses and in the amount of PLN 179 million was included.

Operating lease agreements

Operating lease – lessee

Lease agreements, under which the lessor retains substantially all the risk and rewards incidental to the ownership of an asset, are classified as operating lease agreements. Lease payments under operating leases are recognised as expenses in the income statement, on a straight-line basis over the lease term.

Rental and tenancy agreements concluded by the Group in the course of its normal operating activities meet the criteria of operating leases. All of the above are arm's length agreements.

The table below presents data on operating lease agreements concluded by the Group.

	31.12.2013	31.12.2012
Total value of future lease payments under irrevocable operating lease for the period		
up to 1 year	153 102	117 968
from 1 year to 5 years	261 039	222 587
over 5 years	49 476	54 450
Total	**463 617**	**395 005**

Lease and sub-lease payments recognised as an expense of a given period from 1 January 2013 to 31 December 2013 amounted to PLN 162 845 thousand (in the period from 1 January 2012 to 31 December 2012 PLN 157 588 thousand).

(IN PLN THOUSAND)

12. Income tax expense

	2013	2012 restated
Consolidated income statement		
Current income tax expense	(699 136)	(847 847)
Deferred income tax related to creating and reversal of temporary differences	(117 135)	(47 629)
Tax expense in the consolidated income statement	**(816 271)**	**(895 476)**
Deferred tax expense in other comprehensive income related to creating and reversal of temporary differences	58 079	46 440
Total	**(758 192)**	**(849 036)**

	2013	2012 restated
Profit before income tax	**4 044 464**	**4 632 938**
Corporate income tax calculated using the enacted tax rate 19% in force in Poland	(768 448)	(880 258)
Effect of other tax rates of foreign entities	(48)	1 422
Permanent differences between profit before income tax and taxable income, of which:	**1 852**	**(63 833)**
Revaluation of shares in eService	30 812	-
Recognition/reversal of provisions and revaluation not constituting taxable expense/income	(35 196)	(42 388)
Other non-tax-deductible expenses	(14 264)	(18 627)
Other permanent differences	20 500	(2 818)
Other differences between profit before income tax and taxable income, of which donations	**(50 655)**	**45 940**
Tax loss settlement	**1 028**	**1 253**
Income tax in the consolidated income statement	**(816 271)**	**(895 476)**
Effective tax rate	**20.18%**	**19.33%**
Temporary difference due to the deferred tax presented in the income statement	(117 135)	(47 629)
Current income tax expense in the income statement, of which:	**(699 136)**	**(847 847)**
Corporate income tax calculated using the enacted tax rate 19% in force in Poland	(699 101)	(847 678)
Effect of other tax rates of foreign entities	(35)	(169)

Current income tax liabilities/receivables

	31.12.2013	31.12.2012
Current income tax receivables	206 401	5 713
Current income tax liabilities	22 595	155 580

The Group entities are subject to corporate income tax. The amount of current tax liability is transferred to the appropriate tax authorities. The final settlement of the corporate income tax liabilities of the Group entities for the year 2013 is made within the statutory deadline. According to regulations on considering tax liabilities as past due, tax authorities can verify the correctness of income tax settlements within 5 years from the end of the accounting year in which the tax declaration was submitted.

(IN PLN THOUSAND)

Deferred tax asset/liability

	Consolidated statement of financial position			Consolidated income statement	
	31.12.2013	31.12.2012	01.01.2012 restated	2013	2012 restated
Deferred income tax liability					
Interest accrued on receivables (loans)	206 564	193 308	176 076	(13 256)	(17 232)
Capitalised interest on performing housing loans	155 285	169 830	190 844	14 545	21 014
Interest on securities	22 438	14 567	58 187	(7 871)	43 620
Valuation of derivative financial instruments, of which:	-	18 450	94 471		-
recognised in the income statement	-	6 276	9 514	6 276	3 238
recognised in other comprehensive income	-	12 174	84 957	-	-
Valuation of securities	-	6 037	16 414	-	-
recognised in the income statement	-	3 889	15 443	3 889	11 554
recognised in other comprehensive income	-	2 148	971	-	-
Difference between carrying amount and tax value of tangible fixed assets and intangible assets	336 603	333 554	293 318	(3 049)	(40 236)
Temporary positive differences concerning Group entities, of which:	34 639	41 300	29 363	-	-
recognised in the income statement	34 265	40 749	29 307	6 484	(11 442)
recognised in other comprehensive income	374	551	56	-	-
Gross deferred income tax liability, of which:	**755 529**	**777 046**	**858 673**	**-**	**-**
recognised in the income statement	755 155	762 173	772 689	7 018	10 516
recognised in other comprehensive income	374	14 873	85 984	-	-
Deferred income tax asset					
Interest accrued on liabilities	159 134	235 244	391 527	(76 110)	(156 283)
Interest accrued on securities	1 212	-	-	1 212	
Valuation of derivative financial instruments, of which:	9 225	10 661	16 093	-	-
recognised in the income statement	(20 235)	10 661	16 093	-	-
recognised in other comprehensive income	29 460	-	-	(30 896)	(5 432)
Valuation of securities, of which:	13 909	-	24 550	-	-
recognised in the income statement	1 477	-	11 580	-	-
recognised in other comprehensive income	12 432	-	12 970	1 477	(11 580)
Provision for employee benefits, of which:	83 165	131 770	126 714	-	
recognised in the income statement	69 177	119 583	126 714	(50 406)	17 243
recognised in other comprehensive income	13 988	12 187	-	-	-
Impairment allowances on credit exposures	506 795	494 933	414 558	11 862	80 375
Influence of measurement at amortised cost	184 089	187 166	211 011	(3 077)	(23 845)
Bancassurance adjustment	62 878	63 625	73 470	(747)	(9 845)
Other temporary negative differences	87 676	44 979	28 991	42 697	15 988
Temporary negative differences concerning Group entities, of which:	175 226	195 507	159 787	-	-
recognised in the income statement	174 280	194 445	159 211	(20 165)	35 234
recognised in other comprehensive income	946	1 062	576	-	-
Gross deferred income tax asset, of which:	**1 283 309**	**1 363 885**	**1 446 701**	**-**	**-**
recognised in the income statement	1 226 483	1 350 636	1 433 155	(124 153)	(58 145)
recognised in other comprehensive income	56 826	13 249	13 546	-	-
Total deferred tax impact, of which:	527 780	586 839	588 028	-	-
recognised in the income statement	471 328	588 463	660 466	(117 135)	(47 629)
recognised in other comprehensive income	56 452	(1 624)	(72 438)		-
Deferred income tax asset (presented in statement of financial position)	**562 421**	**628 139**	**617 392**		**-**
Deferred income tax liability	34 641	41 300	29 364		-
Liabilities of Finansowa Kompania 'Prywatne Inwestycje' due to deferred income tax liability	(2 535)	-	-		
Deferred income tax liability (presented in statement of financial position)	**32 106**	**41 300**	**29 364**		
Net deferred tax impact on the income statement	**-**	**-**	**-**	**(117 135)**	**(47 629)**

In 2013, KREDOBANK SA conducted proceedings related to legal claims described below with the tax authority in Ukraine.

1. The legal claim concerned the possibility of recognition of the loss from previous years – for the period 2008-2010 in the amount of UAH 771 437 thousand (PLN 285 895 thousand*) – as tax deductible expenses. The negative outcome of the legal claim would result in a decrease in the deferred tax asset by UAH 123 430 thousand (i.e. PLN 45 743 thousand). On 31 January 2013 KREDOBANK SA obtained a legally valid judgment of the court of second instance favourable to the Company. The tax authority had 20 days for filing a motion for cassation of this judgment. KREDOBANK SA does not have any information indicating that the tax authority within the statutory term applied on cassation of the judgment. The risk of further continuation of the presented legal claim, KREDOBANK SA considers as minor.
2. The legal claim concerns the possibility of recognition of the legal costs in litigation conducted by KREDOBANK SA as tax deductible expenses, questioned by the tax authority as a result of the audit conducted in 2003.

* All values in this information were translated into PLN using the average NBP exchange rate as at 31 December 2013 (0.3706 PLN/UAH).

The court of first instance (2003) and second instance (2004) issued a favourable verdict for KREDOBANK SA, however the decision of the court of second instance was not delivered to the tax authority within the statutory period. This situation allowed the interruption of the limitation period and renewal of claims by the tax authority.

On 10 December 2012, the court of the first instance, and on 19 December 2013, the court of the second instance, issued an unfavourable verdict for KREDOBANK SA in this proceeding.

As a result, in January 2014, KREDOBANK SA paid UAH 396 thousand (PLN 147 thousand) of corporate income tax and UAH 198 thousand (PLN 73 thousand) of financial sanctions to the State Treasury of Ukraine. Default interest remained to be paid, however, the tax authority has not yet presented a calculation of the above mentioned liability.

As at 31 December 2013, KREDOBANK SA recognised a provision for above mentioned legal claims in the amount of UAH 594 thousand (PLN 220 thousand).

3. The legal claim concerned recognition of the costs related to the transaction of selling loans in 2011, including factoring transactions between KREDOBANK SA and Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. as tax deductible expenses by KREDOBANK SA (the tax authority questioned the legal basis treating the above mentioned costs as tax deductible).

   Recognition of the decision of the tax authority would result in resolving deferred tax assets and the elimination of tax losses of KREDOBANK SA from previous years and the need to pay additional income tax up to UAH 62 909 thousand (PLN 23 314 thousand).

   On 5 October 2012, KREDOBANK SA filed a claim against the basis of the inspection by the tax authority and applying for annulling the decision to pay income tax based on the inspection protocol. On 6 December 2012, the court of the first instance granted the complaint of KREDOBANK SA. On 21 March 2013, KREDOBANK SA obtained a legally valid judgment of the court of the second instance confirming the correctness of KREDOBANK SA's position.

   The tax authority applied a motion for cassation of this judgment to the Higher Administrative Court

   On 19 November 2013, the Higher Administrative Court awarded the elimination of tax loss of KREDOBANK SA in the amount of UAH 1 084 316 thousand (PLN 401 848 thousand) within the factoring operations between KREDOBANK SA and Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. On the other hand, within the transaction of sale of loans to legal entities and individuals (assignment agreement), the Court recognised the right of KREDOBANK SA to tax deductible costs resulting from the above mentioned transactions, recognised by the tax authority as invalid, maintaining the position of the lower courts on lack of competence of tax authorities to invalidate agreements. At the same time, the Court invalidated the tax decisions stating the tax liability occurrence.

   The elimination of tax loss arising from the above mentioned judgment of the Higher Administrative Court resulted in recognition of income tax from legal entities in the amount of UAH 44 583 thousand (PLN 16 522 thousand) in the financial statements of KREDOBANK SA for 2013, prepared in accordance with IAS/IFRS, and due to the need to resolve deferred tax assets, recognition in the net profit in the amount of UAH 116 882 thousand (PLN 43 317 thousand). As a result of the above mentioned, the total net profit of KREDOBANK SA was decreased by UAH 161 465 thousand (PLN 59 839 thousand).

   Judgment of the Higher Administrative Court was based on the interpretation that the loans constitute material assets, i.e. goods, which, in the opinion of PKO Bank Polski SA and KREDOBANK SA, stands in clear contradiction with the law regulations in Ukraine and business practice, including international. Moreover, KREDOBANK SA and PKO Bank Polski SA held legal opinions, clearly confirming the correctness of tax returns in this area, made by KREDOBANK SA.

   On 18 February 2014, KREDOBANK SA filed a claim for cassation of the Higher Administrative Court's judgment to the Supreme Court of Ukraine. Filing this claim and possible further appeal activities does not suspend the execution of the judgment of the Higher Administrative Court and the maturity of financial liabilities, resulting from this execution.

4. The legal claim concerns the results of tax audit, which covered the period from 1 April 2011 to 30 September 2012. Legal claims mainly concern recognition of the costs related to the transaction of selling loans in the period covered by the inspection as tax deductible expenses, the adequacy of recognition of impairment allowances on loans, the correctness of the settlement of VAT on property sales and withholding tax for the payment of fees for services.

   The value of disputed claims amounted to UAH 877 thousand (i.e. PLN 325 thousand) and the amount of reducing tax loss from previous years - UAH 626 282 thousand (i.e. PLN 232 100 thousand).

   KREDOBANK SA appealed against the above mentioned tax decision consecutive to the Regional State Tax Service and The Ministry of Revenue and Duties of Ukraine, and these appeals were rejected. On 2 August 2013, KREDOBANK SA filed a claim against the results of the inspection and applying for annulling the above mentioned tax decision. On 5 November 2013 the court of first instance issued a favourable verdict for KREDOBANK SA, which accepted a position of the Company, except the correctness of calculation of tax depreciation on tangible fixed assets in the total amount of UAH 336 thousand (PLN 125 thousand).

   On 26 November 2013, the tax authority appealed to the court of second instance. On 6 December 2013, the court opened proceedings in the above mentioned case - the date of the hearing was scheduled for 2 April 2014.

   In February 2013, KREDOBANK SA paid a part of the legal claims in the total amount of UAH 439 thousand (PLN 163 thousand). This value is still included in subsequent appeal claims.

13. Earnings per share

Basic earnings per share

The basic earnings per share ratio is calculated on the basis of profit attributable to ordinary shareholders of the Bank, by dividing the respective profit by the weighted average number of ordinary shares outstanding during a given period.

Earnings per share

	2013	2012 restated
Profit per ordinary shareholder (in PLN thousand)	3 229 793	3 738 640
Weighted average number of ordinary shares during the period (in thousand)	1 250 000	1 250 000
Earnings per share (in PLN per share)	2.58	2.99

Earnings per share from discontinued operations

In the years ended 31 December 2013 and 31 December 2012 respectively, there were no discontinued operations.

Diluted earnings per share

The diluted earnings per share ratio is calculated on the basis of profit attributable to ordinary shareholders, by dividing the respective profit by the weighted average number of ordinary shares outstanding during a given period, adjusted for the effect of all potential dilutive ordinary shares.

There were no dilutive instruments both in the year 2013 and 2012.

Diluted earnings per share from discontinued operations

During the years ended 31 December 2013 and 31 December 2012, there were no discontinued operations in the Group.

14. Dividends paid (in total or per share) on ordinary shares and other shares

Pursuant to the Resolution No. 8/2013 of the Ordinary General Shareholders' Meeting of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna passed on 20 June 2013, the dividend for the year 2012 amounted to PLN 2 250 000 thousand, i.e. 1.80 per share.

The list of shareholders eligible to receive dividend for the year 2012 was determined as at 19 September 2013, and the payment was made on 4 October 2013.

As at 31 December 2013, the Bank did not decide whether to pay dividend. In accordance with the Bank's policy on paying dividends, the Management Board of the Bank, while placing proposals on paying dividends, will take into consideration the necessity to ensure an appropriate level of the capital adequacy ratio and the capital necessary to the Bank's development.

(IN PLN THOUSAND)

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

15. Cash and balances with the central bank

	31.12.2013	31.12.2012
Current account in the central bank	4 018 340	7 550 898
Cash	3 227 330	2 738 456
Other funds	450	97
Total	**7 246 120**	**10 289 451**

Obligatory reserve

During the course of the working day, the Bank may use funds from the obligatory reserve account for ongoing payments, on the basis of an instruction submitted to the Central Bank of Poland (NBP). However, the Bank must ensure that the average monthly balance on this account complies with the requirements set in the obligatory reserve declaration.

Funds on the obligatory reserve account bear interest of 0.9 of the rediscount rate for bills of exchange. As at 31 December 2013, this interest rate was 2.475%.

Restricted cash:

Cash pledged in the amount of PLN 17 499 thousand (PLN 6 661 thousand as at 31.12.2012) as collateral for securities' transactions conducted by the Brokerage House of PKO BP SA are deposited in the National Depository for Securities (KDPW), CCP as part of the Guarantee Fund for the Settlement of Stock Exchange Transactions. Each direct participant who holds the status of settlements-making participant is obliged to make payments to the settlement fund which guarantees a proper settlement of the stock exchange transactions covered by that fund. The amount of the payments depends on the value of transactions made by each participant and is updated by KDPW, CCP on a daily basis.

In addition, the Bank had restricted cash as a part of issuance stabilising actions for the selling shareholder in the amount of PLN 14 629 thousand, blocked on the stabilisation manager's account.

In the statement of cash flows, these funds are presented as restricted cash. As at 31 December 2013 and 31 December 2012 their value amounted to PLN 32 078 thousand and PLN 6 661 thousand respectively.

Cash and cash equivalents

Amounts on the current account in the Central Bank, cash and other are entirely treated as cash and cash equivalents for the purposes of the statement of financial position.

16. Amounts due from banks

	31.12.2013	31.12.2012
Deposits with banks	1 402 724	2 369 774
Current accounts	469 812	861 331
Loans and advances granted	34 338	38 150
Receivables due from repurchase agreements	14 033	149 284
Cash in transit	1 117	3 329
Total	**1 922 024**	**3 421 868**
Impairment allowances on receivables, of which:	(28 583)	(29 382)
impairment allowances on receivable from a foreign bank	(28 543)	(29 373)
Net total	1 893 441	3 392 486

Details on risk related to amounts due from banks were presented in Note 49 'Credit risk management'.

Liabilities from negative valuation of derivative instruments

Cash deposits in banks include assets held as collateral for own liabilities, in this case settlements due to negative valuation of financial instruments. Value of these assets as at 31 December 2013 amounted to PLN 727 766 thousand (as at 31 December 2012 it amounted to PLN 543 260 thousand).

Cash and cash equivalents

Current amounts due from banks as well as other cash equivalents with maturities up to 3 months from the date of acquisition in the amount of PLN 1 638 619 thousand are entirely treated as cash and cash equivalents for the purposes of the statement of cash flows (PLN 2 206 181 thousand as at 31 December 2012).

(IN PLN THOUSAND)

17. Trading assets

By carrying amount	31.12.2013	31.12.2012
Debt securities	**467 931**	**273 576**
issued by the State Treasury, of which:	395 202	216 521
Treasury bonds PLN	390 660	216 521
Treasury bonds EUR	4 542	-
issued by local government bodies, municipal bonds PLN	41 907	26 673
issued by non-financial institution, corporate bonds PLN	23 892	15 064
issued by other financial institutions, of which:	6 762	13 947
bonds issued by WSE PLN	6 628	13 880
corporate bonds PLN	134	67
issued by banks, of which:	168	1 371
BGK bonds PLN	158	1 361
Shares in other entities - listed on stock exchanges	**10 799**	**3 237**
Investment certificates	**1 151**	**713**
Rights issues	**-**	**40**
Total	**479 881**	**277 566**

Debt securities by nominal value	31.12.2013	31.12.2012
Treasury bonds PLN	389 455	213 650
municipal bonds PLN	39 158	25 678
corporate bonds PLN	30 470	33 157
Treasury bonds EUR	4 174	-
BGK bonds PLN	148	1 308
The average yield on debt securities issued by the State Treasury	**3.79%**	**3.26%**

Change in trading assets	2013	2012
Balance at the beginning of the period	**277 566**	**1 311 089**
Currency translation differences	(71)	(47)
Increases	378 331 420	324 864 253
Decreases	(378 129 976)	(325 899 787)
Changes in fair value	942	2 058
Balance at the end of the period	**479 881**	**277 566**

As at 31 December 2013 and as at 31 December 2012 the Group did not have transferred financial assets, which are derecognised from the financial statements for which the Group would continue involvement in those assets.

Transferred trading assets, which are not derecognised from the statement of financial position

Financial assets which the Group does not derecognise from the financial statements include the assets pledged as collateral for liabilities due to sell-buy-back transactions (treasury bonds). The carrying amounts of transferred trading assets and related liabilities as at 31 December 2013 and 2012 were as follows:

Carrying amount	31.12.2013	31.12.2012
Trading assets	1 682 616	-
Sell-buy-back liabilities	1 684 506	-
Net position	(1 890)	-

(IN PLN THOUSAND)

Initial Settlement Deposit of the National Depository for Securities (KDPW).

The Brokerage House of PKO Bank Polski SA holds bonds in the National Depository for Securities pledged as collateral for settlement of transactions with the Clearing House.

Carrying amount/fair value	31.12.2013	31.12.2012
Value of the deposit	7 589	7 359
Nominal value of the pledge	8 000	8 000
Type of the pledge	Treasury bonds	Treasury bonds
Carrying amount of the pledged asset	7 990	7 744

Trading assets by carrying amount - by maturities

As at 31 December 2013	up to 1 month	1 - 3 months	3 months – 1 year	1 - 5 years	over 5 years	Total
Debt securities						
issued by the State Treasury	50 070	1 082	141 700	175 947	26 403	**395 202**
issued by local government bodies	-	20	47	7 901	33 939	**41 907**
issued by non-financial institutions	-	-	29	21 096	2 767	**23 892**
issued by other financial institutions	-	72	-	6 658	32	**6 762**
issued by banks	-	-	114	54	-	**168**
Total	**50 070**	**1 174**	**141 890**	**211 656**	**63 141**	**467 931**

As at 31 December 2012	up to 1 month	1 - 3 months	3 months – 1 year	1 - 5 years	over 5 years	Total
Debt securities						
issued by the State Treasury	10 565	372	4 234	150 491	50 859	**216 521**
issued by local government bodies	-	9	8	9 055	17 601	**26 673**
issued by non-financial institutions	-	24	1 129	13 911	-	**15 064**
issued by other financial institutions	-	-	-	13 947	-	**13 947**
issued by banks	-	-	-	1 371	-	**1 371**
Total	**10 565**	**405**	**5 371**	**188 775**	**68 460**	**273 576**

18. Derivative financial instruments

Derivative instruments used by the Group

The Bank and the other Group entities use various types of derivatives in order to manage risk involved in its business activities. The most frequently used types of derivatives in the Group's activity are: IRS, CIRS, FX Swap, FRA, Options, Forwards. The remaining the Group's subsidiaries may enter into transactions in derivatives exclusively for the purpose of hedging against the risk resulting from their core activities.

As at 31 December 2013 and as at 31 December 2012, the Group held the following types of derivative instruments:

	31.12.2013		31.12.2012	
	Assets	Liabilities	Assets	Liabilities
Hedging instruments	361 639	414 804	498 130	224 373
Other derivative instruments	2 639 221	2 913 407	3 362 431	3 739 725
Total	**3 000 860**	**3 328 211**	**3 860 561**	**3 964 098**

(IN PLN THOUSAND)

Type of contract	31.12.2013		31.12.2012	
	Assets	Liabilities	Assets	Liabilities
IRS	2 590 721	2 490 821	3 221 798	3 183 744
CIRS	252 941	545 073	357 675	370 043
Options	75 443	61 930	63 301	61 932
FX Swap	39 908	156 393	109 819	207 538
Forward	24 552	60 143	33 190	60 742
FRA	13 652	11 454	74 608	78 693
Other	3 643	2 397	170	1 406
Total	3 000 860	3 328 211	3 860 561	3 964 098

Derivative financial instruments - nominal value of underlying instruments and fair value of derivative financial instruments

31 December 2013

	Nominal values of underlying instruments					
	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
Currency transactions						
FX swap	9 114 776	621 348	2 413 223	-	-	**12 149 347**
Purchase of currency	4 539 899	299 874	1 170 424	-	-	**6 010 197**
Sale of currency	4 574 877	321 474	1 242 799	-	-	**6 139 150**
FX forward	2 020 788	2 202 576	3 397 762	479 550	-	**8 100 676**
Purchase of currency	1 008 082	1 099 414	1 682 174	233 773	-	**4 023 443**
Sale of currency	1 012 706	1 103 162	1 715 588	245 777	-	**4 077 233**
Options	1 454 808	1 201 679	4 126 364	1 024 474	-	**7 807 325**
Purchase	730 276	589 870	2 023 539	508 731	-	**3 852 416**
Sale	724 532	611 809	2 102 825	515 743	-	**3 954 909**
Cross Currency (CIRS)	1 490 674	1 354 330	2 462 933	25 246 228	9 914 523	**40 468 688**
Purchase	745 837	678 010	1 236 520	12 567 095	4 924 105	**20 151 567**
Sale	744 837	676 320	1 226 413	12 679 133	4 990 418	**20 317 121**
Interest rate transactions						
Interest Rate Swap (IRS)	19 499 684	28 960 018	74 498 472	213 739 652	23 776 104	**360 473 930**
Purchase	9 749 842	14 480 009	37 249 236	106 869 826	11 888 052	**180 236 965**
Sale	9 749 842	14 480 009	37 249 236	106 869 826	11 888 052	**180 236 965**
Forward Rate Agreement (FRA)	-	-	49 114 000	3 100 000	-	**52 214 000**
Purchase	-	-	26 063 000	1 100 000	-	**27 163 000**
Sale	-	-	23 051 000	2 000 000	-	**25 051 000**
Other transactions						
Other (of which stock market index derivatives)	5 456 692	111 580	489 039	1 424 298	-	**7 481 609**
Purchase	2 497 383	87 915	259 177	769 506	-	**3 613 981**
Sale	2 959 309	23 665	229 862	654 792	-	**3 867 628**
Total derivative instruments	**39 037 422**	**34 451 531**	**136 501 793**	**245 014 202**	**33 690 627**	**488 695 575**

(IN PLN THOUSAND)

31 December 2012

	Nominal values of underlying instruments					
	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
Currency transactions						
FX swap	8 783 322	2 447 344	4 563 639	-	-	**15 794 305**
Purchase of currency	4 406 267	1 191 556	2 237 520	-	-	**7 835 343**
Sale of currency	4 377 055	1 255 788	2 326 119	-	-	**7 958 962**
FX forward	1 503 932	1 334 616	2 385 440	241 121	-	**5 465 109**
Purchase of currency	753 066	668 651	1 177 926	113 992	-	**2 713 635**
Sale of currency	750 866	665 965	1 207 514	127 129	-	**2 751 474**
Options	1 213 084	1 135 958	3 953 374	2 214 471	-	**8 516 887**
Purchase	614 103	561 159	2 038 053	1 159 517	-	**4 372 832**
Sale	598 981	574 799	1 915 321	1 054 954	-	**4 144 055**
Cross Currency (CIRS)	-	3 523 260	16 135 171	25 748 631	17 277 544	**62 684 606**
Purchase	-	1 769 032	8 059 566	12 810 823	8 670 250	**31 309 671**
Sale	-	1 754 228	8 075 605	12 937 808	8 607 294	**31 374 935**
Interest rate transactions						
Interest Rate Swap (IRS)	22 668 048	37 253 748	102 885 118	153 416 044	20 043 360	**336 266 318**
Purchase	11 334 024	18 626 874	51 442 559	76 708 022	10 021 680	**168 133 159**
Sale	11 334 024	18 626 874	51 442 559	76 708 022	10 021 680	**168 133 159**
Forward Rate Agreement (FRA)	21 700 000	22 550 000	37 975 000	-	-	**82 225 000**
Purchase	10 400 000	11 000 000	19 775 000	-	-	**41 175 000**
Sale	11 300 000	11 550 000	18 200 000	-	-	**41 050 000**
Other transactions						
Other (of which stock market index derivatives)	1 226 253	13 088	5 175	-	-	**1 244 516**
Purchase	1 016 506	9 316	4 237	-	-	**1 030 059**
Sale	209 747	3 772	938	-	-	**214 457**
Total derivative instruments	**57 094 639**	**68 258 014**	**167 902 917**	**181 620 267**	**37 320 904**	**512 196 741**

19. Derivative hedging instruments

The Group applies the following hedging strategies:

19.1. Hedges against fluctuations in cash flows from mortgage loans in CHF and negotiated term deposits in PLN, resulting from the risk of fluctuations in interest rates and in foreign exchange rates, using CIRS transactions

Description of hedge relationship - elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in CHF and negotiated term deposits in PLN resulting from fluctuations in reference interest rates in CHF and PLN, and changes in foreign exchange rates CHF/PLN during the hedged period.

Hedged risk - currency risk and interest rate risk.

Hedging instrument - CIRS transactions where the Group pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal value defined in CHF and PLN respectively.

Hedged position - the portfolio of floating interest rate mortgage loans denominated in CHF and the portfolio of short-term negotiated term deposits, including renewals in the future (high probability of occurrence). The Group designated the hedged position according to the regulations of IAS 39.AG.99C as adopted by the European Union.

Periods in which cash flows are expected and in which they should have an impact on the result - January 2014 to October 2026.

19.2. Hedges against fluctuations in cash flows from floating interest rate loans in PLN, resulting from the risk of fluctuations in interest rates, using IRS transactions

Description of hedge relationship - elimination of the risk of cash flow fluctuations generated by floating interest rate PLN loan portfolio resulting from the interest rate risk in the period covered by the hedge.

Hedged risk - interest rate risk.

Hedging instrument - IRS transactions where the Group pays coupons based on floating 3M WIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded.

Hedged position - the portfolio of loans in PLN indexed to the floating 3M WIBOR rate.

Periods in which cash flows are expected and in which they should have an impact on the result - January 2014 to March 2016.

19.3. Hedges against fluctuations in cash flows from floating interest rate loans in EUR, resulting from the risk of fluctuations in interest rates, using IRS transactions.

Description of hedge relationship - elimination of the risk of cash flow fluctuations generated by floating interest rate EUR loan portfolio resulting from the interest rate risk in the period covered by the hedge.

Hedged risk - Interest rate risk.

Hedging instrument - IRS transactions where the Bank pays coupons based on floating 3M EURIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded.

Hedged position - The portfolio of loans in EUR indexed to the floating EURIBOR rate.

Periods in which cash flows are expected and in which they should have an impact on the result - January 2014 to June 2016.

19.4. Hedges against fluctuations in cash flows from floating interest rate loans in CHF, resulting from the risk of fluctuations in interest rates, using IRS transactions.

Description of hedge relationship - elimination of the risk of cash flow fluctuations generated by floating interest rate CHF loan portfolio resulting from the interest rate risk in the period covered by the hedge.

Hedged risk - interest rate risk.

Hedging instrument - IRS transactions where the Bank pays coupons based on floating 3M CHF LIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded.

Hedged position - The portfolio of loans in CHF indexed to the floating 3M CHF LIBOR rate.

Periods in which cash flows are expected and in which they should have an impact on the result - January 2014 to July 2016.

19.5. Hedges against fluctuations in cash flows from floating interest rate loans in foreign currencies, resulting from the risk of fluctuations in interest rates and from foreign exchange rate risk, and hedges against fluctuations in cash flows from fixed interest rate financial liability in foreign currencies, resulting from foreign exchange rate risk , using CIRS transactions

Description of hedge relationship - elimination of the risk of cash flow fluctuations of floating interest rate loans in foreign currencies, resulting from the risk of fluctuations in interest rates and from foreign exchange rate risk, and elimination of the risk of cash flow fluctuations of fixed interest rate financial liability in foreign currency, resulting from foreign exchange rate risk, using CIRS transactions.

Hedged risk - currency risk and interest rate risk.

Hedging instrument - CIRS transactions where the Bank pays coupons based on floating 3M CHF LIBOR rate, and receives coupons based on a fixed USD rate on the nominal value for which they were concluded.

Hedged position - the portfolio of floating interest rate mortgage loans denominated in CHF and fixed interest rate financial liability denominated in USD.

Periods in which cash flows are expected and in which they should have an impact on the financial result - January 2014 to September 2022.

As at 31 December 2013 and as at 31 December 2012, the Group did not use the fair value hedge.

All types of hedging relationships applied by the Group are cash flow hedge accounting (macro cash flow hedge).

Hedge effectiveness is verified through the use of prospective and retrospective effectiveness tests. Tests are performed monthly.

In the third quarter of 2013, due to the lack of fulfilment of the retrospective effectiveness test, the Group ceased to apply hedge accounting for one of hedging relationships of the strategy 'Hedges against fluctuations in cash flows from mortgage loans in CHF and negotiated term deposits in PLN, resulting from the risk of fluctuations in interest rates and in foreign exchange rates, using CIRS transactions'.

Cash flow hedges

The fair value of derivative instruments constituting cash flow hedges related to the interest rate and / or foreign exchange rate as at 31 December 2013 and as at 31 December 2012:

(IN PLN THOUSAND)

Type of instrument:	Carrying amount/fair value			
	31.12.2013		31.12.2012	
	Assets	Liabilities	Assets	Liabilities
IRS	229 630	630	256 223	54
CIRS	132 009	414 174	241 907	224 319
Total	**361 639**	**414 804**	**498 130**	**224 373**

The nominal value of hedging instruments by maturity

Type of instrument:	Nominal value as at 31 December 2013					
	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
IRS PLN fixed - float	1 600 000	570 000	1 400 000	6 114 000	-	**9 684 000**
IRS EUR fixed – float:						
translated into PLN	-	-	-	1 957 478	-	**1 957 478**
EUR (original currency)	-	-	-	472 000	-	**472 000**
IRS CHF fixed – float:						
translated into PLN	-	-	-	845 400	-	**845 400**
CHF (original currency)	-	-	-	250 000		**250 000**
CIRS float CHF/float PLN						
float PLN	170 080	678 010	855 508	6 708 684	1 831 815	**10 244 097**
float CHF	50 000	200 000	250 000	2 020 000	525 000	**3 045 000**
CIRS fixed CHF/float CHF						
fixed USD	-	-	-	-	750 000	**750 000**
float CHF	-	-	-	-	695 419	**695 419**

Type of instrument:	Nominal value as at 31 December 2012					
	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
IRS PLN fixed - float	1 150 000	60 000	1 816 000	360 000	-	**3 386 000**
IRS EUR fixed – float:						
translated into PLN	-	-	-	1 929 630	-	**1 929 630**
EUR (original currency)	-	-	-	472 000	-	**472 000**
IRS CHF fixed – float:						
translated into PLN	-	-	-	846 700	-	**846 700**
CHF (original currency)	-	-	-	250 000	-	**250 000**
CIRS float CHF/float PLN						
float PLN	-	1 196 440	5 095 105	8 084 755	2 010 240	**16 386 540**
float CHF	-	350 000	1 500 000	2 425 000	575 000	**4 850 000**

The nominal values were translated using the average NBP rate as at 31 December 2013 and as at 31 December 2012 respectively.

(IN PLN THOUSAND)

Other comprehensive income as regards cash flow hedges	31.12.2013	31.12.2012
Other comprehensive income at the beginning of the period, gross	64 073	447 142
Gains/losses transferred to other comprehensive income in the period	122 138	913 761
Amount transferred from other comprehensive income to the income statement in the period, of which:	(341 264)	(1 296 830)
- interest income	(454 278)	(870 450)
- net foreign exchange gains	113 014	(426 380)
Accumulated other comprehensive income at the end of the period, gross	(155 053)	64 073
Tax effect	29 460	(12 174)
Accumulated other comprehensive income at the end of the period, net	(125 593)	51 899
Ineffective part of cash flow hedges recognised in the income statement	24 333	7 938
Effect on other comprehensive income in the period, gross	(219 126)	(383 069)
Deferred tax on cash flow hedges	41 634	72 783
Effect on other comprehensive income in the period, net	(177 492)	(310 286)

20. Financial instruments designated upon initial recognition at fair value through profit and loss

By carrying amount	31.12.2013	31.12.2012
Debt securities	15 204 756	12 629 711
issued by central banks, NBP money market bills	13 997 228	9 995 300
issued by the State Treasury, of which:	956 893	2 377 883
Treasury bonds PLN	931 325	1 322 226
Treasury bills PLN	-	1 040 863
Treasury bonds UAH	25 568	14 794
issued by local government bodies, of which:	250 635	256 528
municipal bonds EUR	136 700	145 343
municipal bonds PLN	113 935	111 185
Total	15 204 756	12 629 711

Debt securities by nominal value	31.12.2013	31.12.2012
NBP money market bills PLN	14 000 000	10 000 000
Treasury bills PLN	-	1 047 510
Treasury bonds PLN	899 531	1 347 927
municipal bonds EUR	103 680	102 205
municipal bonds PLN	100 000	100 000
Treasury bonds UAH	25 571	13 694
The average yield on debt securities issued by the State Treasury	3.09%	3.81%

Change in financial instruments designated upon initial recognition at fair value through profit and loss	2013	2012
Balance at the beginning of the period	12 629 711	12 467 201
Currency translation differences	5 044	(12 235)
Increases	682 869 926	722 143 362
Decreases	(680 292 581)	(721 984 581)
Changes in fair value	(7 344)	15 964
Balance at the end of the period	15 204 756	12 629 711

As at 31 December 2013 and as at 31 December 2012 the Group did not have transferred financial assets, which are derecognised from the financial statements in their entirety, but the Group is continuing involvement in those assets.

(IN PLN THOUSAND)

Transferred financial instruments designated upon initial recognition at fair value through profit and loss

Financial assets which the Group does not derecognise from the financial statements include the assets pledged as collateral for liabilities due to sell-buy-back transactions (treasury bonds). The carrying amounts of transferred financial assets designated upon initial recognition at fair value through profit and loss and related liabilities as at 31 December 2013 and as at 31 December 2012 were as follows:

Carrying value	31.12.2013	31.12.2012
Financial instruments designated upon initial recognition at fair value through profit and loss	2 068	850 231
Sell-buy-back liabilities	2 071	851 416
Net position	(3)	(1 185)

Financial assets designated upon initial recognition at fair value through profit and loss by carrying amount – maturities

As at 31 December 2013	up to 1 month	1 - 3 months	3 months – 1 year	1 - 5 years	over 5 years	Total
Debt securities						
issued by central banks	13 997 228	-	-	-	-	13 997 228
issued by the State Treasury	1 084	-	188 349	767 460	-	956 893
issued by local government bodies	-	-	-	113 935	136 700	250 635
Total	13 998 312	-	188 349	881 395	136 700	15 204 756

As at 31 December 2012	up to 1 month	1 - 3 months	3 months – 1 year	1 - 5 years	over 5 years	Total
Debt securities						
issued by central banks	9 995 300	-	-	-	-	9 995 300
issued by the State Treasury	165 002	883 409	7 246	1 322 226	-	2 377 883
issued by local government bodies	-	-	-	-	256 528	256 528
Total	10 160 302	883 409	7 246	1 322 226	256 528	12 629 711

21. Loans and advances to customers

	31.12.2013	31.12.2012 restated	01.01.2012 restated
Loans and advances to customers, gross, of which:	156 274 042	150 259 331	146 912 732
financial sector	2 986 731	746 320	1 252 368
corporate, of which:	948 308	746 320	1 158 469
deposits of the Brokerage House of PKO Bank Polski SA in the Stock Exchange Guarantee Fund and initial deposit	19 339	8 779	6 891
receivables due from repurchase agreements	2 038 423	-	93 899
non-financial sector	146 067 840	141 826 381	140 582 594
housing	76 631 478	72 133 796	71 009 533
corporate	47 970 294	47 021 975	45 469 595
consumer	20 627 222	21 767 542	24 103 466
debt securities (corporate)	838 846	903 068	-
public sector	7 219 471	7 686 630	5 077 770
corporate	6 135 647	6 511 591	5 066 429
debt securities (municipal)	978 159	1 175 039	-
receivables due from repurchase agreements	105 665	-	11 341
Impairment allowances on loans and advances	(6 650 780)	(6 776 265)	(5 658 243)
Loans and advances to customers, net	149 623 262	143 483 066	141 254 489

As at 31 December 2013, as a part of issuance stabilising actions for the selling shareholder the Brokerage House of PKO Bank Polski SA had the company's shares valued using the purchase price, presented in position 'receivables due from repurchase agreements' in the amount of PLN 105 665 thousand and cash in the amount of PLN 14 629 thousand, blocked on the stabilisation manager's account and a liability in the same amount to the selling shareholder. Settlement of this transaction will take place according to the stabilisation agreement, under mutual offsetting of assets and liabilities in the same amount after 30 days from the beginning of the stabilisation, or when the number of shares acquired from the market as a part of issuance stabilising actions will equal the number of shares received from the selling shareholder.

(IN PLN THOUSAND)

By client segment	31.12.2013	31.12.2012 restated	01.01.2012 restated
Loans and advances granted, gross, of which:	**156 274 042**	**150 259 331**	**146 912 732**
mortgage banking	68 943 625	64 053 692	63 299 968
corporate	40 393 713	41 113 192	33 946 284
retail and private banking	20 627 222	21 767 541	24 103 467
small and medium enterprises	17 333 802	16 688 662	17 454 568
housing market clients	6 812 253	6 627 465	7 984 735
receivables due from repurchase agreements	2 144 088	-	105 240
other receivables	19 339	8 779	18 470
Impairment allowances on loans and advances	**(6 650 780)**	**(6 776 265)**	**(5 658 243)**
Loans and advances granted, net	**149 623 262**	**143 483 066**	**141 254 489**

The structure of loans and advances presented in Note 21 'Loans and advances to customers' includes the following segmentation:

- corporate loans of financial institutions (i.e. e.g. leasing companies, insurance companies, investment companies) include corporate banking,
- housing loans include loans of mortgage banking, housing market clients, corporate client segment and small and medium enterprises as regards to products intended for housing purposes,
- corporate loans of non-financial entities, depending on the size of the entity, include loans for small and medium enterprises, housing market loans and corporate loans granted to corporate entities for non-housing purposes,
- consumer loans include retail and private banking,
- corporate loans of State budget entities include corporate banking loans,
- reclassified debt securities are included in the corporate client segment.

Debt securities in the loans and advances to customers portfolio

	31.12.2013	31.12.2012
Debt securities reclassified to the loans and advances to customers portfolio, gross	1 756 938	2 078 107
Debt securities directly classified to the loans and advances to customers portfolio, gross	60 067	-
Impairment allowances	(28 065)	(4 156)
Total debt securities, net	**1 788 940**	**2 073 951**

Securities reclassification

In 2013 there was no reclassification of securities to the loan and advances to customers' portfolio. In 2012, due to change of intention as regards holding of the selected portfolio of non-Treasury securities classified upon initial recognition as available for sale the Group reclassified them to loans and advances to customers.
As a result of the reclassification of the portfolio, the portfolio valuation methods have changed, i.e. from measured at fair value to measured at amortised cost.

Debt securities reclassified from financial assets available for sale to loans and advances to customers as at the date of reclassification

Portfolio reclassified in the 3rd quarter of 2012	nominal value	fair value	carrying amount
Municipal bonds	778 233	807 275	807 275
Corporate bonds	632 160	632 013	632 013
Total	**1 410 393**	**1 439 288**	**1 439 288**

Portfolio reclassified in the 4th quarter of 2012	nominal value	fair value	carrying amount
Municipal bonds	440 950	430 124	430 124
Corporate bonds	656 630	661 546	661 546
Total	**1 097 580**	**1 091 670**	**1 091 670**

(IN PLN THOUSAND)

Debt securities (municipal bonds and corporate bonds) reclassified from financial assets available for sale to loans and advances to customers as at:

As at 31 December 2013	nominal value	fair value	carrying amount
Municipal bonds	961 611	963 118	965 180
Corporate bonds	787 040	791 503	768 385
Total	**1 748 651**	**1 754 621**	**1 733 565**

As at 31 December 2012	nominal value	fair value	carrying amount
Municipal bonds	1 163 420	1 169 843	1 172 689
Corporate bonds	897 040	904 996	901 262
Total	**2 060 460**	**2 074 839**	**2 073 951**

Change in fair value which would have been recognised in the income statement and/or in other comprehensive income if there was no reclassification, would amount to PLN (5 948) thousand for the period from the date of reclassification until 31 December 2013 (31 December 2012 PLN 10 850 thousand).

As at 31 December 2013, the average effective interest rate for the debt securities portfolio was 4.139% (5.758% as at 31 December 2012).

Loans and advances to customers by method of calculating allowances	31.12.2013	31.12.2012 restated	01.01.2012 restated
Assessed on an individual basis, of which:	7 336 985	8 086 156	6 548 425
Impaired, of which:	5 532 429	6 505 083	5 700 627
finance lease receivables	134 027	134 421	142 150
Not impaired, of which:	1 804 556	1 581 073	847 798
finance lease receivables	193 560	128 142	89 493
Assessed on a portfolio basis	7 328 923	6 911 887	6 073 173
Impaired, of which:	7 328 923	6 911 887	6 073 173
finance lease receivables	115 883	132 185	107 903
Assessed on a group basis (IBNR), of which:	141 608 134	135 261 288	134 291 134
finance lease receivables	3 793 700	3 177 631	2 656 595
Loans and advances to customers, gross	**156 274 042**	**150 259 331**	**146 912 732**
Allowances on exposures assessed on an individual basis	(2 292 218)	(2 707 928)	(2 079 621)
Impaired, of which:	(2 276 093)	(2 647 481)	(2 079 621)
allowances on lease receivables	(46 430)	(35 164)	(36 180)
Allowances on exposures assessed on a portfolio basis, of which:	(3 772 723)	(3 516 549)	(2 910 042)
allowances on lease receivables	(75 355)	(73 524)	(60 091)
Allowances on exposures assessed on a group basis (IBNR), of which:	(585 839)	(551 788)	(668 580)
allowances on lease receivables	(10 898)	(13 456)	(12 102)
Allowances - total	(6 650 780)	(6 776 265)	(5 658 243)
Loans and advances to customers, net	**149 623 262**	**143 483 066**	**141 254 489**

A detailed description of changes in allowances has been presented in the Note 10.

As at 31 December 2013, the share of impaired loans amounted to 8.2% (as at 31 December 2012: 8.9%), whereas the coverage ratio for impaired loans (calculated as total impairment allowances on loans and advances to customers divided by gross carrying amount of impaired loans) amounted to 51.7% (as at 31 December 2012: 50.5%).

As at 31 December 2013, the share of loans overdue by more than 90 days in the gross amount of loans and advances was 5.9% (as at 31 December 2012: 6.1%).

As at 31 December 2013 and as at 31 December 2012 the Group did not have transferred financial assets, which are derecognised from the financial statements, for which the Group would continue involvement in those assets.

(IN PLN THOUSAND)

Finance lease agreements

Finance lease – lessor

The Group conducts lease activities through the entities from the PKO Leasing SA Group.

The value of gross investments in leases and the minimal lease payments resulting from finance lease agreements amounted to:

as at 31 December 2013

Finance lease receivables	Gross lease investment	Present value of the minimal lease payments	Unrealised income
Gross lease investment value and minimal lease payments			
Gross lease receivables:			
up to 1 year	1 702 323	1 505 045	197 278
from 1 year to 5 years	2 526 276	2 241 693	284 583
over 5 years	572 804	490 432	82 372
Gross total	**4 801 403**	**4 237 170**	**564 233**
Impairment allowances	(132 683)	(132 683)	-
Net total	**4 668 720**	**4 104 487**	**564 233**

as at 31 December 2012

Finance lease receivables	Gross lease investment	Present value of the minimal lease payments	Unrealised income
Gross lease investment value and minimal lease payments			
Gross lease receivables:			
up to 1 year	1 462 138	1 262 959	199 179
from 1 year to 5 years	2 174 787	1 887 736	287 051
over 5 years	510 712	421 684	89 028
Gross total	**4 147 637**	**3 572 379**	**575 258**
Impairment allowances	(122 144)	(122 144)	-
Net total	**4 025 493**	**3 450 235**	**575 258**

As at 31 December 2013 and 31 December 2012, there are no unguaranteed residual values attributable to the lessor.

(IN PLN THOUSAND)

22. Investment securities available for sale

	31.12.2013	31.12.2012
Debt securities available for sale, gross	**13 870 733**	**12 049 073**
issued by the State Treasury	8 818 500	7 902 479
Treasury bonds PLN	8 616 517	7 697 426
Treasury bonds USD	181 823	125 253
Treasury bonds UAH	20 160	79 800
issued by local government bodies, municipal bonds PLN	3 440 753	2 780 212
issued by non-financial institutions	1 000 549	1 315 490
corporate bonds PLN	1 000 549	1 315 490
issued by banks, corporate bonds	610 931	50 892
corporate bonds PLN	558 814	50 892
corporate bonds UAH	52 117	-
Impairment allowances of debt securities available for sale	**(3 296)**	**(5 536)**
corporate bonds PLN	(3 296)	(5 536)
Total net debt securities available for sale	**13 867 437**	**12 043 537**
Equity securities available for sale, gross	**235 800**	**179 300**
Equity securities not admitted to public trading	161 514	129 653
Equity securities admitted to public trading	74 286	49 647
Impairment allowances of equity securities available for sale	**(30 159)**	**(17 707)**
Total net equity securities available for sale	**205 641**	**161 593**
Total net investment securities available for sale	**14 073 078**	**12 205 130**

Debt securities by nominal value	31.12.2013	31.12.2012
Treasury bonds PLN	8 499 608	7 461 361
municipal bonds PLN	3 361 853	2 740 590
corporate bonds PLN	1 579 343	1 514 084
Treasury bonds UAH	21 147	81 699
Treasury bonds USD	182 768	124 433
corporate bonds UAH	50 329	-
The average yield on debt securities	**3.35%**	**3.24%**

Change in investment securities available for sale	2013	2012
Balance at the beginning of the period	**12 205 130**	**14 393 276**
Currency translation differences	(7 575)	(21 591)
Increases	45 177 267	38 667 521
of which change in impairment allowance (Note 10)	-	2 680
Decreases	(43 222 205)	(40 907 752)
of which change in impairment allowance (Note 10)	10 212	-
Changes in the fair value recognised in other comprehensive income (Note 8)	(79 539)	73 676
Balance at the end of the period	**14 073 078**	**12 205 130**

Details on risk related to investment securities available for sale has been described in Note 49 ‘Credit risk management’.

(IN PLN THOUSAND)

Investment debt securities available for sale by carrying amount - maturities

As at 31 December 2013	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
Debt securities						
issued by the State Treasury	3 563	17 658	345 879	6 939 901	1 511 499	**8 818 500**
issued by local government bodies	-	4 523	127 574	999 750	2 308 906	**3 440 753**
issued by non-financial institutions	68 085	16 566	62 536	685 456	164 610	**997 253**
issued by banks	19 543	989	31 585	509 284	49 530	**610 931**
Total	**91 191**	**39 736**	**567 574**	**9 134 391**	**4 034 545**	**13 867 437**

As at 31 December 2012	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
Debt securities						
issued by the State Treasury	5 792	58 410	203 120	5 608 719	2 026 438	**7 902 479**
issued by local government bodies	15 057	1 207	179 792	916 763	1 667 393	**2 780 212**
issued by non-financial institutions	313 747	32 310	108 514	669 685	185 698	**1 309 954**
issued by banks	-	-	-	-	50 892	**50 892**
Total	**334 596**	**91 927**	**491 426**	**7 195 167**	**3 930 421**	**12 043 537**

As at 31 December 2013 and as at 31 December 2012 the Group did not have transferred financial assets, which are derecognised from the financial statements, for which the Group would continue involvement in those assets.

Bank Deposit Guarantee Fund

The Parent Company of the Group contributes to the Bank Deposit Guarantee Fund in accordance with Article 25 of the Act on the Bank Guarantee Fund (Bankowy Fundusz Gwarancyjny) dated 14 December 1994 (Journal of Laws 2009, No. 84, item 711 with subsequent amendments).

	31.12.2013	31.12.2012
Value of the fund	800 545	798 974
Nominal value of the pledge	830 000	850 000
Type of the pledge	Treasury bonds	Treasury bonds
Maturity of the pledge	25.01.2015	25.01.2015
Carrying amount of the pledged asset	839 777	873 707

The Bank's contribution to the Bank Guarantee Fund is secured by Treasury bonds with maturities sufficient to secure their carrying amount over the period defined by the Act. The Fund is increased or decreased on 1 July of each year, in proportion to the amount providing the basis for calculation of mandatory reserve deposits. Those funds are treated as assets held as collateral for own liabilities.

23. Investments securities held to maturity

	31.12.2013	31.12.2012
Debt securities		
issued by the State Treasury	26 886	27 843
issued by banks	11 119	19 128
Total	38 005	46 971

Debt securities by nominal value	31.12.2013	31.12.2012
Treasury bonds UAH (PLN equivalent)	26 364	27 210
corporate bonds UAH (PLN equivalent)	11 118	19 125
The average yield on debt securities issued by the State Treasury	9.00%	8.99%

(IN PLN THOUSAND)

Change in investment securities held to maturity	2013	2012
Balance at the beginning of the period	**46 971**	**-**
Increases	138 650	49 132
Decreases (redemption)	(146 519)	-
Currency translation differences	(1 097)	(2 161)
Balance at the end of the period	**38 005**	**46 971**

Debt securities in the portfolio held to maturity by carrying amount - maturities

As at 31 December 2013	up to 1 month	3 months - 1 year	1 - 5 years	Total
Debt securities				
issued by the State Treasury	-	7 195	19 691	26 886
issued by banks	11 119	-	-	11 119
Total	**11 119**	**7 195**	**19 691**	**38 005**

As at 31 December 2012	up to 1 month	3 months - 1 year	1 - 5 years	Total
Debt securities				
issued by the State Treasury	-	370	27 473	27 843
issued by banks	19 128	-	-	19 128
Total	**19 128**	**370**	**27 473**	**46 971**

24. Investments in associates and jointly controlled entities

1) the value of the Group's investments in jointly controlled entities (i.e. the acquisition cost adjusted to share in the change in the net assets after acquisition date and impairment allowances)

Entity name	31.12.2013	31.12.2012
The CENTRUM HAFFNERA Sp. z o.o. Group	**-**	**5 935**
Purchase price	44 371	44 371
Change in valuation with equity method	(38 136)	(27 890)
Impairment allowance	(6 235)	(10 546)
Centrum Obsługi Biznesu Sp. z o.o.	**5 380**	**6 113**
Purchase price	17 498	17 498
Change in valuation with equity method	(12 118)	(11 385)
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	**197 592**	**-**
Fair value of the remaining part of share	197 592	-
Total	**202 972**	**12 048**

(IN PLN THOUSAND)

2) the value of the Group's investments in associates (i.e. the acquisition cost adjusted to share in net assets change and impairment allowances)

Entity name	31.12.2013	31.12.2012
The Bank Pocztowy SA Group	**106 720**	**106 720**
Purchase price	146 500	146 500
Change in valuation with equity method	65 013	57 428
Impairment allowance	(104 793)	(97 208)
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	**-**	**-**
Purchase price	1 500	1 500
Change in valuation with equity method	4 004	3 972
Impairment allowance	(5 504)	(5 472)
Agencja Inwestycyjna CORP-SA SA*	**-**	**443**
Purchase price	-	29
Change in valuation with equity method	-	414
Total	**106 720**	**107 163**

* In 2013, shares of the entity have been reclassified to non-current assets held for sale and sold.

Selected information on jointly controlled entities accounted for using the equity method

Entity name	Total assets	Total liabilities	Total revenue	Net profit/loss	% share
31.12.2013					
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.[1]	145 552	41 391	333 353	46 506	34.00
Centrum Obsługi Biznesu Sp. z o.o.	109 067	95 903	20 488	(4 062)	41.44
The CENTRUM HAFFNERA Sp. z o.o. Group	284 394	271 345	49 074	(14 270)	49.43
Total	**539 013**	**408 639**	**402 915**	**28 174**	X
31.12.2012					
Centrum Obsługi Biznesu Sp. z o.o.	115 420	98 924	22 391	3 688	41.44
The CENTRUM HAFFNERA Sp. z o.o. Group	293 421	266 636	48 886	5 944	49.43
Total	**408 841**	**365 560**	**71 277**	**9 632**	X

1) The entity until 30 December 2013 was a direct subsidiary of PKO Bank Polski SA

Financial data concerning Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. presented in the above table are derived from financial statements prepared in accordance with the IFRS/IAS. Financial data about other companies are derived from financial statements prepared in accordance with the Polish Accounting Standards. According to the Group's estimates, differences between the above mentioned financial statements and the financial statements prepared in accordance with IFRS/IAS are not significant from the perspective of the financial statements of the Group. Data of entities for the year 2012 are derived from audited financial statements.

Selected information on associates accounted for using the equity method

Entity name	Total assets	Total liabilities	Total revenue	Net profit	% share
31.12.2013					
The Bank Pocztowy SA Group	7 409 080	7 005 931	562 468	35 744	25.0001
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	20 465	4 049	257	1	33.33
Total	**7 429 545**	**7 009 980**	**562 725**	**35 745**	X
31.12.2012					
The Bank Pocztowy SA Group	7 132 308	6 759 184	588 787	45 386	25.0001
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	19 770	3 356	402	1 492	33.33
Agencja Inwestycyjna CORP-SA SA	3 976	1 990	12 587	1 180	22.31
Total	**7 156 054**	**6 764 530**	**601 776**	**48 058**	X

Financial data concerning Bank Pocztowy SA, presented in the table above are derived from consolidated financial statements prepared in accordance with the IFRS/IAS. Data about other companies are derived from financial statements prepared in accordance with the Polish Accounting Standards. According to the Group's estimates, differences between the above mentioned financial statements and the financial statements prepared in accordance with IFRS/IAS are not significant from the perspective of the financial statements of the Group. Data for the year 2012 are derived from audited financial statements.

(IN PLN THOUSAND)

In the consolidated financial statements for the year ended 31 December 2013, all associates and jointly controlled entities are accounted for using the equity method.

	2013	2012
Investments in jointly controlled entities at the beginning of the period	12 048	15 972
Share in profit/loss	(10 979)	6 622
Change in impairment allowances of investment	4 311	(10 546)
Fair value of the remaining part of share of Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	197 592	-
Investments in jointly controlled entities at the end of the period	**202 972**	**12 048**

In 2013, the Group took into account in the valuation of the shares of CENTRUM HAFFNERA Sp. z o.o., a share of this Company in the loss of the Group for 2013, and for remaining value recognised 100% impairment allowances – as a result, impairment allowances decreased by PLN 4 311 thousand compared to 2012. Impairment allowances on shares of CENTRUM HAFFNERA Sp. z o.o. were recognised on the basis of assessment of value in use of the Company's shares, calculated based on the discounted cash flow model.

	2013	2012
Investments in associates at the beginning of the period	107 163	107 147
Net impairment allowances	(7 617)	(13 727)
Share of profit / loss	9 001	12 403
Share in other comprehensive income of an associate	(1 384)	1 587
Dividends paid	-	(247)
Sale of Agencja Inwestycyjna CORP-SA SA's shares	(443)	-
Investment in associates at the end of the period	**106 720**	**107 163**

In 2013, the Group increased impairment allowances against shares of Bank Pocztowy SA by PLN 7 585 thousand and increased by PLN 32 thousand impairment allowances against shares of Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.

Impairment allowances on shares of Bank Pocztowy SA were recognised on the basis of the estimation of the recoverable amount of the Company's shares, i.e. value in use calculated based on the discounted cash flows model and fair value estimated based on market indicators of the comparable group of banks.

As at 31 December 2013 and 31 December 2012, the parent company had no share in contingent liabilities of associates acquired jointly with other investor.

In 2013, PKO Bank Polski SA did not make any direct investments in jointly controlled entities or associates. On 31 December 2013, as a result of sale of 66% shares of Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. and the conclusion of the partners' agreement governing principles of cooperation between the Bank, the Investor and the Company, Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. was classified as a jointly controlled entity.

(IN PLN THOUSAND)

25. Non-current assets held for sale

	2013	2012
Gross value of non-current assets held for sale at the beginning of the period	**23 316**	**23 368**
Increases, of which:	539 672	1 512
reclassification from tangible fixed assets to non-current assets held for sale, of which:	101 135	1 512
land and buildings	101 022	1 512
reclassification of assets of Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. to non-current assets held for sale	438 220	-
reclassification of assets of Inter Risk Ukraina Additional liability company to non-current assets held for sale	317	-
Decreases, of which:	(25 429)	(1 564)
sale	(21 845)	(946)
reclassification from non-current assets held for sale to tangible-fixed assets	(3 584)	(618)
Gross value of non-current assets held for sale at the end of the period	**537 559**	**23 316**
Impairment allowances at the beginning of the period	**(2 906)**	**(2 958)**
Increases, of which	**(365 077)**	**-**
recognised during the period	(1 634)	-
reclassification of impairment allowances on loans and receivables to customers Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. to non-current assets held for sale	(363 443)	-
Decreases, of which:	**2 643**	**52**
released during the period	-	-
decreases of write-downs of assets	963	52
other	1 680	
Impairment allowances at the end of the period	**(365 340)**	**(2 906)**
Net carrying amount at the beginning of the period	**20 410**	**20 410**
Net carrying amount at the end of the period	**172 219**	**20 410**

Details on assets held for sale are described in Note 45 'Investments in subsidiaries, jointly controlled entities and associates, and a description of changes to the entities of the Group'.

26. Inventories

Carrying amount of inventories by kind	31.12.2013	31.12.2012
Finished goods – construction investments	313 470	317 593
Supplies	212 970	104 739
Work-in-progress – construction investments	168 152	154 056
Materials	8 854	8 650
Impairment allowances on inventories	(53 805)	(31 504)
Total	**649 641**	**553 534**

Inventories in the Group relate mainly to expenses on real estate development incurred by the Group entities whose scope of activity relates to real estate development.

(IN PLN THOUSAND)

27. Intangible assets

For the year ended 31 December 2013	Development costs	Software	Goodwill acquired as a result of business combinations (including subsidiaries' goodwill)	Other, including capital expenditure	Total
Gross carrying amount at the beginning of the period	3 486	2 805 760	346 993	369 780	3 526 019
Accumulated amortisation and impairment allowances at the beginning of the period	-	(1 359 404)	(124 555)	(108 060)	(1 592 019)
Net carrying amount at the beginning of the period	**3 486**	**1 446 356**	**222 438**	**261 720**	**1 934 000**
Taking control of a subsidiary	-	-	39	-	**39**
Purchases	-	11 185	-	548 445	**559 630**
Sales and disposal	-	(645)	-	(98)	**(743)**
Impairment allowances	(3 076)	-	(3 627)	(4 318)	**(11 021)**
Currency translation differences from foreign operations	-	(917)	-	(6)	**(923)**
Transfers	-	551 635	-	(551 635)	**-**
Classification to non-current assets held for sale	-	(3)	-	(384)	**(387)**
Amortisation	-	(257 897)	-	(8 706)	**(266 603)**
Other value changes	(410)	13 861	-	2 779	**16 230**
Net carrying amount at the end of the period	**-**	**1 763 575**	**218 850**	**247 797**	**2 230 222**
Gross carrying amount at the end of the period	3 076	3 355 468	347 032	369 549	**4 075 125**
Accumulated amortisation and impairment allowances at the end of the period	(3 076)	(1 591 893)	(128 182)	(121 752)	**(1 844 903)**
Net carrying amount	**-**	**1 763 575**	**218 850**	**247 797**	**2 230 222**

To the Bank, the most significant item of intangible assets relates to expenditures on the Integrated Information System (ZSI). The cumulative capital expenditures incurred for the ZSI system during the years 2003–2013 amounted to PLN 1 265 973 thousand (during the years 2003–2012, it amounted to PLN 1 198 341 thousand).

Net carrying amount of the ZSI amounted to PLN 731 882 thousand as at 31 December 2013 (as at 31 December 2012 it amounted to PLN 709 428 thousand). The expected useful life of the ZSI system is 17 years. As at 31 December 2013, the remaining useful life is 10 years.

The right to manage the fund by the acquisition of OFE POLSAT in 2013 in the net amount of PLN 61 505 thousand is recognised in the position 'Other', including capital expenditure' as at 31 December 2013.

For the year ended 31 December 2012	Development costs	Software	Goodwill acquired as a result of business combinations (including subsidiaries' goodwill)	Other, including capital expenditure	Total
Gross carrying amount at the beginning of the period	3 486	2 859 020	344 865	224 958	**3 432 329**
Accumulated amortisation and impairment allowances at the beginning of the period	-	(1 408 327)	(117 516)	(106 478)	**(1 632 321)**
Net carrying amount at the beginning of the period	**3 486**	**1 450 693**	**227 349**	**118 480**	**1 800 008**
Taking control of a subsidiary	-	-	2 417	-	**2 417**
Purchases	-	12 191	-	349 803	**361 994**
Sales and disposal	-	(209)	-	-	**(209)**
Impairment allowances	-	(314)	(7 328)	(3 695)	**(11 337)**
Currency translation differences from foreign operations	-	(2 149)	-	(10)	**(2 159)**
Transfers	-	203 647	-	(203 647)	**-**
Amortisation	-	(227 346)	-	(4 574)	**(231 920)**
Other value changes	-	9 843	-	5 363	**15 206**
Net carrying amount at the end of the period	**3 486**	**1 446 356**	**222 438**	**261 720**	**1 934 000**
Purchase price (gross carrying amount)	3 486	2 805 760	346 993	369 780	**3 526 019**
Accumulated amortisation and impairment allowances at the end of the period	-	(1 359 404)	(124 555)	(108 060)	**(1 592 019)**
Net carrying amount	**3 486**	**1 446 356**	**222 438**	**261 720**	**1 934 000**

In 2013 the Group generated internally patents and licences in the amount of PLN 830 thousand (PLN 924 thousand in the year 2012). In the period from 1 January 2013 to 31 December 2013, the Group incurred capital expenditures for the purchase of tangible fixed assets and intangible assets in the amount of PLN 1 067 323 thousand (in the period from 1 January 2012 to 31 December 2012 PLN 840 321 thousand).

In the years ended 31 December 2013 and 31 December 2012 respectively, there were no restrictions on the Group's rights to use its intangible assets as a result of pledges.

(IN PLN THOUSAND)

The table below presents data concerning net goodwill included in the Group's statement of financial position as at 31 December 2013 and 31 December 2012.

Net goodwill	31.12.2013	31.12.2012
PKO Towarzystwo Funduszy Inwestycyjnych SA	149 564	149 564
PKO BP BANKOWY PTE SA	51 158	51 158
Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp.k.	10 343	13 931
Goodwill related to assets acquired from Centrum Finansowe Puławska Sp. z o.o.	7 785	7 785
Total	**218 850**	**222 438**

As at 31 December 2013, the Group conducted mandatory goodwill impairment tests in accordance with the models developed on the basis of the guidelines included in IAS 36 taking into consideration the specific nature of operations of particular entities.

Model of the goodwill impairment test of PKO Towarzystwo Funduszy Inwestycyjnych SA was performed using the present value of expected future cash flows for a shareholder, prepared by the Company management on the basis of 3-years financial forecast, discounted at discount rate of the cost of equity valid in the PKO Bank Polski SA. The test takes into account the two variants of cash flows: dividend alone as well as dividend and distribution fee for sale of participation units in funds of PKO TFI SA in PKO Bank Polski SA's network, in both cases, the residual value is taken into account.

Model of the goodwill impairment test of PKO BP BANKOWY PTE SA was performed using the embedded value method, on the basis of which the value in use of PKO Bank Polski SA's share was determined. The key parameters determining the goodwill as at 31 December 2013 were assumptions related to adopted in 2013, and introduced from 1 February 2014 the pension scheme reform, in particular: the transfer of 51.5% of OPFs assets to the Social Insurance Institution, the voluntary continuation of participation of fund members in the second pillar of the system at a conservative level of 25%, a retirement slider mechanism and reduced contribution fees. The discount rate used in predicting future revenues of PKO BP Bankowy PTE SA, which was included in measurement, is equal to the cost of equity valid in PKO Bank Polski SA. The model has a time horizon of 2064.

Model of the goodwill impairment test in respect to assets acquired from Centrum Finansowe Puławska Sp. z o.o. was performed based on the measurement of the fair value of the acquired property as a cash generating unit to which goodwill had been assigned.

The above mentioned tests indicated no need for recognition of impairment allowances.

At the same time, in 2013, an impairment allowances were recorded for the total value of goodwill resulting from the acquisition of shares in limited joint-stock partnership entities controlled by Merkury – fiz an (PLN 39 thousand) and, consistently with the previous years, goodwill impairment allowance was recognised as a result of purchasing shares in Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k. in the amount of PLN 3 588 thousand, i.e. in proportion to the disposed portion of cash generating units, to which the goodwill had been assigned (i.e. stage of the project defined as a separate building or a complex of multi-apartment buildings constructed by the Company).

(IN PLN THOUSAND)

28. Tangible fixed assets

For the year ended 31 December 2013	Land and buildings	Machinery and equipment	Means of transport	Assets under construction	Investment properties	Other	Total
Gross value of tangible fixed assets at the beginning of the period	2 591 395	2 204 711	85 590	269 339	793	480 999	5 632 827
Increases, of which:	7 911	26 872	41 855	342 158	114 402	3 678	536 876
purchase and other changes	7 911	26 733	41 706	341 856	114 402	3 616	536 224
other	-	139	149	302	-	62	652
Decreases, of which:	(222 916)	(405 370)	(25 330)	(19 583)	(590)	(24 167)	(697 956)
disposal and sale	(33 980)	(283 798)	(1 421)	-	(39)	(19 326)	(338 564)
currency translation differences	(3 061)	(2 463)	(207)	(394)	-	(1 019)	(7 144)
classification to non-current assets held for sale	(101 022)	(208)	(215)	(1)	(2)	(81)	(101 529)
other	(84 853)	(118 901)	(23 487)	(19 188)	(549)	(3 741)	(250 719)
Transfers from capital expenditures on tangible fixed assets	145 488	230 694	-	(446 479)	-	70 297	-
Gross value of tangible fixed assets at the end of the period	2 521 878	2 056 907	102 115	145 435	114 605	530 807	5 471 747
Accumulated depreciation at the beginning of the period	(878 618)	(1 710 128)	(24 485)	-	(555)	(354 501)	(2 968 287)
Increases, of which:	(64 111)	(196 008)	(13 046)	-	(10)	(43 108)	(316 283)
depreciation for the period	(62 435)	(194 638)	(13 027)	-	(10)	(42 527)	(312 637)
other	(1 676)	(1 370)	(19)	-	-	(581)	(3 646)
Decreases, of which:	55 607	346 459	11 419	-	549	22 106	436 140
disposal and sale	18 727	277 261	1 271	-	-	18 559	315 818
classification to non-current assets held for sale	-	137	56	-	-	-	193
currency translation differences	591	1 586	110	-	-	652	2 939
other	36 289	67 475	9 982	-	549	2 895	117 190
Accumulated depreciation at the end of the period	(887 122)	(1 559 677)	(26 112)	-	(16)	(375 503)	(2 848 430)
Impairment allowances at the beginning of the period	(7 685)	(301)	(1 283)	(4 674)	-	-	(13 943)
Increases, of which:	(331)	(687)	-	(71)	-	-	(1 089)
classification to non-current assets held for sale	(299)	-	-	-	-	-	(299)
recognised in the period	(32)	(687)	-	(71)	-	-	(790)
Decreases, of which:	569	879	1 283	217	-	-	2 948
released during the period	299	25	6	-	-	-	330
decrease due to write-down of assets	32	623	1 277	-	-	-	1 932
currency translation differences	238	-	-	145	-	-	383
other	-	231	-	72	-	-	303
Impairment allowances at the end of the period	(7 447)	(109)	-	(4 528)	-	-	(12 084)
Net carrying amount at the beginning of the period	1 705 092	494 282	59 822	264 665	238	126 498	2 650 597
Net carrying amount at the end of the period	1 627 309	497 121	76 003	140 907	114 589	155 304	2 611 233

Off-balance sheet value of machinery and equipment used under operating lease agreements and operating leases with purchase options contracts amounted to PLN 59 032 thousand as at 31 December 2013 (as at 31 December 2012: PLN 56 155 thousand). In the years ended 31 December 2013 and 31 December 2012, respectively, there were no restrictions on the Group's right to use its tangible fixed assets as a result of pledges as security for liabilities.
At the balance date, the fair value of assets presented as 'Investment Properties' amounted to PLN 114 589 thousand and was estimated using the comparative method.

(IN PLN THOUSAND)

For the year ended 31 December 2012	Land and buildings	Machinery and equipment	Means of transport	Assets under construction	Investment properties	Other	Total
Gross value of tangible fixed assets at the beginning of the period	2 514 959	2 262 764	89 587	149 975	793	437 268	5 455 346
Increases, of which:	54 744	17 439	19 787	431 623	-	1 240	524 833
purchase and other changes	12 742	17 439	19 787	431 623	-	1 240	482 831
currency translation differences	-	-	-	-	-	-	-
other	42 002	-	-	-	-	-	42 002
Decreases, of which:	(81 291)	(196 628)	(24 589)	(11 913)	-	(32 931)	(347 352)
disposal and sale	(69 953)	(176 080)	(5 568)	(481)	-	(28 775)	(280 857)
currency translation differences	(11 338)	(7 909)	(599)	(1 045)	-	(3 479)	(24 370)
other	-	(12 639)	(18 422)	(10 387)	-	(677)	(42 125)
Transfers from capital expenditure on tangible fixed assets	102 983	121 136	805	(300 346)	-	75 422	-
Gross value of tangible fixed assets at the end of the period	2 591 395	2 204 711	85 590	269 339	793	480 999	5 632 827
Accumulated depreciation at the beginning of the period	(823 477)	(1 702 942)	(26 292)	-	(545)	(354 385)	(2 907 641)
Increases, of which:	(77 062)	(192 224)	(14 268)	-	(11)	(29 984)	(313 549)
depreciation for the period	(72 882)	(192 224)	(14 268)	-	(11)	(29 984)	(309 369)
other	(4 180)	-	-	-	-	-	(4 180)
Decreases, of which:	21 921	185 038	16 075	-	1	29 868	252 903
disposal and sale	18 065	165 519	4 865	-	-	27 209	215 658
classification to non-current assets held for sale	1 922	-	-	-	-	-	1 922
currency translation differences	1 934	4 523	417	-	-	1 988	8 862
other	-	14 996	10 793	-	1	671	26 461
Accumulated depreciation at the end of the period	(878 618)	(1 710 128)	(24 485)	-	(555)	(354 501)	(2 968 287)
Impairment allowances at the beginning of the period	(143)	(95)	(951)	(5 199)	-	-	(6 388)
Increases, of which:	(11 226)	(206)	(638)	-	-	(34)	(12 104)
recognised in the period	(11 226)	(206)	(638)			(34)	(12 104)
Decreases, of which:	3 684	-	306	525	-	34	4 549
released during the period	-	-	305	-	-	-	305
decrease due to write-down of assets	3 332	-	-	-	-	34	3 366
currency translation differences	352	-	1	525	-	-	878
Impairment allowances at the end of the period	(7 685)	(301)	(1 283)	(4 674)	-	-	(13 943)
Net carrying amount at the beginning of the period	1 691 339	559 727	62 344	144 776	248	82 883	2 541 317
Net carrying amount at the end of the period	1 705 092	494 282	59 822	264 665	238	126 498	2 650 597

In 2013 and 2012, the Group received compensation from third parties for impairment or loss of tangible fixed assets in the amount of PLN 12 896 thousand and PLN 14 755 thousand respectively recognised in the income statement.

(IN PLN THOUSAND)

Operating lease – lessor

As at the balance date the total value of future lease receivables within minimal lease payment under operating lease are as follows:

Total value of future lease payments under irrevocable operating lease	31.12.2013	31.12.2012
For the period:		
up to 1 year	5 624	7 176
from 1 year to 5 years	13 847	6 449
above 5 years	8 404	52
Total	27 875	13 677

The average agreement period for operating lease agreements where the Group is a lessor is usually 36 months. The lessee bears service and insurance costs.

As at the balance date the assets in lease under operating lease are as follows:

For the year ended 31 December 2013	Means of transport under operating lease	Properties under operating lease	Machinery and equipment under operating lease	Total
Gross value at the beginning of the period	15 771	6 844	-	22 615
Changes in the period	21 714	(334)	867	22 247
Gross value at the end of the period	37 485	6 510	867	44 862
Accumulated depreciation at the beginning of the period	(5 280)	(404)	-	(5 684)
Depreciation for the period	(4 468)	(95)	(18)	(4 581)
Other changes in depreciation	4 312	(26)		4 286
Accumulated depreciation at the end of the period	(5 436)	(525)	(18)	(5 979)
Impairment allowances at the beginning of the period	-	(1 134)	-	(1 134)
Impairment allowances reversed during the period	-	98	-	98
Impairment allowances at the end of the period	-	(1 036)	-	(1 036)
Net book value	32 049	4 949	849	37 847

For the year ended 31 December 2012	Means of transport under operating lease	Properties under operating lease	Total
Gross value at the beginning of the period	23 538	9 107	32 645
Changes in the period	(7 767)	(2 263)	(10 030)
Gross value at the end of the period	15 771	6 844	22 615
Accumulated depreciation at the beginning of the period	(7 667)	(263)	(7 930)
Depreciation for the period	(4 347)	(97)	(4 444)
Other changes in depreciation	6 734	(44)	6 690
Accumulated depreciation at the end of the period	(5 280)	(404)	(5 684)
Impairment allowances at the beginning of the period	-	-	-
Impairment allowances recorded during the period	-	(1 134)	(1 134)
Impairment allowances reversed during the period	-	-	-
Impairment allowances at the end of the period	-	(1 134)	(1 134)
Net book value	10 491	5 306	15 797

(IN PLN THOUSAND)

29. Other assets

	31.12.2013	31.12.2012
Settlements of payment cards transactions	225 353	426 893
Accruals and prepayments	220 365	223 414
Trade receivables	164 157	106 851
Settlement of financial instruments	149 379	123 077
Receivables from other transactions with financial and non-financial institutions	55 484	59 282
Receivables from unsettled transactions related to derivatives	7 358	8 451
Receivables from the State budget due to court fee stamps' distribution carried out by the Bank	6 632	8 412
Receivables and settlements of investment securities turnover	2 950	25 453
Other*	98 200	72 296
Total	**929 878**	**1 054 129**
of which financial assets**	611 313	758 419

* Item 'Other' includes i.a. 'Receivables from internal operations', 'Receivables from fee and commissions', 'Receivables from bails and guarantees'.
**Financial assets include all items of 'Other assets', with the exception of 'Accruals and prepayments' and 'Other'.

30. Amounts due to the central bank

	31.12.2013	31.12.2012
Up to 1 month	4 065	3 128
Total	**4 065**	**3 128**

31. Amounts due to banks

	31.12.2013	31.12.2012
Loans and advances received	2 606 482	2 542 361
Bank deposits	959 712	1 086 956
Current accounts	116 145	72 676
Amounts due from repurchase agreements	38 628	-
Other money market deposits	26 370	31 954
Total	**3 747 337**	**3 733 947**

32. Amounts due to customers

	31.12.2013	31.12.2012
Amounts due to retail clients	**116 464 089**	**110 866 422**
Term deposits	63 467 675	63 517 469
Current accounts and overnight deposits	52 776 151	47 143 802
Other liabilities	220 263	205 151
Amounts due to corporate entities	**31 966 616**	**31 868 251**
Term deposits	13 426 892	17 171 300
Current accounts and overnight deposits	13 076 978	11 621 112
Loans and advances received	2 863 651	1 557 653
Amounts due from repurchase agreements	1 647 950	851 416
Other liabilities	951 145	666 770
Amounts due to State budget entities	**3 473 476**	**3 458 897**
Current accounts and overnight deposits	3 018 628	2 870 735
Term deposits	430 639	562 397
Other liabilities	24 209	25 765
Total	**151 904 181**	**146 193 570**

(IN PLN THOUSAND)

By client segment	31.12.2013	31.12.2012
Amounts due to customers, of which:		
retail and private banking	111 290 272	106 538 784
corporate	21 062 058	23 586 602
small and medium enterprises	9 792 366	9 008 039
housing market clients	5 247 884	4 651 076
loans and advances received	2 863 651	1 557 653
amounts due from repurchase agreements	1 647 950	851 416
Total	**151 904 181**	**146 193 570**

The structure of liabilities presented in Note 32 'Amounts due to customers' includes the following segmentation:

- amounts due to retail clients include retail and private banking,
- amounts due to corporate entities include corporate client segment (excluding State budget entities), small and medium enterprises segment, housing market clients segment,
- amounts due to State budget entities include corporate client segment – State budget entities.

33. Debt securities in issue

	31.12.2013	31.12.2012
Debt securities in issue		
Financial instruments measured at amortised cost	10 255 937	9 902 161
bonds issued by PKO Finance AB	9 129 100	9 171 845
bonds issued by PKO Bank Polski SA	692 614	497 283
bonds issued by PKO Leasing SA	434 223	233 033
Financial instruments designated at fair value through profit and loss, bank securities issued by PKO Bank Polski SA	290 509	368 622
Total	**10 546 446**	**10 270 783**

	31.12.2013	31.12.2012
Debt securities in issue by remaining maturity:		
up to 1 month	59 874	14 960
from 1 month to 3 months	492 291	754 928
from 3 months to 1 year	831 798	225 156
from 1 year to 5 years	5 954 784	5 990 368
over 5 years	3 207 699	3 285 371
Total	**10 546 446**	**10 270 783**

In 2013 the Parent Company issued bank securities and bank bonds at nominal value of PLN 2 144 258 thousand classified respectively as liabilities designated to be measured at fair value through profit and loss, in accordance with IAS 39.11A.a and measured at amortised cost. In 2013 bank securities and bank bonds at nominal value of PLN 2 032 020 thousand were redeemed.

Date of receiving loan by Bank	Nominal amount	Currency	Maturity date	Carrying value as at 31.12.2013	Carrying value as at 31.12.2012
21.10.2010	800 000	EUR	21.10.2015	3 337 380	3 290 753
07.07.2011	250 000	CHF	07.07.2016	853 657	853 409
25.07.2012	50 000	EUR	25.07.2022	206 677	203 359
21.09.2012	500 000	CHF	21.12.2015	1 690 110	1 694 593
26.09.2012	1 000 000	USD	26.09.2022	3 041 276	3 129 731
Total				**9 129 100**	**9 171 845**

In 2013 PKO Leasing SA issued bonds at a nominal value of PLN 2 045 000 thousand and redeemed bonds at nominal value of PLN 1 965 000 thousand. As at 31 December 2013, the Company's debt in respect of the bonds issued amounted to PLN 475 000 thousand (at nominal value) of which the debt due to the Bank amounted to PLN 33 630 thousand (at nominal value).

(IN PLN THOUSAND)

34. Subordinated liabilities

As at 31 December 2013

Subordinated liabilities	Nominal value	Currency	Interest rate (%)	Maturity date	Carrying amount
Subordinated bonds	1 600 700	PLN	4.37%	14.09.2022	1 620 857

As at 31 December 2012

Subordinated liabilities	Nominal value	Currency	Interest rate (%)	Maturity date	Carrying amount
Subordinated bonds	1 600 700	PLN	6.60%	14.09.2022	1 631 256

On 14 September 2012, the Parent Company issued subordinated bonds with ten-year maturity, with the Bank's right to a premature redemption of all debt securities from this programme, during 5 years from the issue date. A nominal value of the bonds is PLN 1 600 700 thousand. The proceeds obtained from new issue were, with the approval of the Polish Financial Supervision Authority, used for increasing the Bank's supplementary funds.

On 18 September 2012, the Polish Financial Supervision Authority gave its consent for the PKO Bank Polski SA to effect a call option concerning the premature redemption of all subordinated bonds, with a total nominal value of PLN 1 600 700 thousand, issued by the Bank on 30 October 2007 with primary maturity on 30 October 2017. On 30 October 2012, PKO Bank Polski SA performed a premature redemption of all subordinated bonds with a total nominal value of PLN 1 600 700 thousand, issued by PKO Bank Polski SA as a part of 2007 issue.

Change in subordinated liabilities	2013	2012
As at the beginning of the period	1 631 256	1 614 377
Increases (due to):	83 305	1 713 482
issuance	-	1 600 700
accrued interest	83 131	112 782
other	174	-
Decreases (due to):	(93 704)	(1 696 603)
redemption	-	(1 600 700)
repayment of interest	(93 704)	(95 342)
other	-	(561)
As at the end of the period	1 620 857	1 631 256

35. Other liabilities

	31.12.2013	31.12.2012 restated	01.01.2012 restated
Accounts payable	481 836	376 150	291 040
Deferred income	358 464	308 699	312 051
Other liabilities (due to):	**1 706 937**	**1 298 550**	**1 837 754**
liabilities and settlements of security transactions	379 391	148 572	279 204
liabilities relating to investment activities and internal operations	376 362	197 695	182 964
interbank settlements	280 070	280 633	580 998
liabilities due to suppliers	202 492	219 711	195 740
liabilities arising from foreign currency activities	106 138	81 306	140 546
liabilities due to social and legal settlements	93 053	107 821	147 009
financial instruments settlements	73 868	59 547	82 861
liabilities due to transactions with financial and non-financial entities	28 983	18 391	11 949
liabilities due to insurance companies	24 072	19 554	24 821
liabilities from interest temporarily redeemed from the State budget	18 987	26 599	21 764
liabilities due to distribution of court fee stamps	11 483	11 816	12 626
liabilities relating to payment cards	10 541	78 353	27 981
settlement of acquisition of machines, materials, works and services regarding construction of tangible assets and investing activity	10 236	19 236	10 265
other*	91 261	29 316	119 026
Total	**2 547 237**	**1 983 399**	**2 440 845**
of which financial liabilities **	2 004 459	1 537 563	1 862 759

* Item 'other' includes i.a. liabilities related to bails and guarantees.
** Financial liabilities include all items of 'Other liabilities' with the exception of 'Deferred income', 'Social and legal settlements' and 'Other'.

As at 31 December 2013 and as at 31 December 2012 the Group had no overdue contractual liabilities.

(IN PLN THOUSAND)

36. Provisions

Provisions for retirement benefits and anniversary bonuses

In May 2013 the Parent Company introduced changes in the Collective Labour Agreement by removing the provisions on the entitlement to anniversary bonuses and on retirement bonuses not arising from the Labour Code. A one-time policy on payment of awards and retirement bonuses providing rules for payment of certain awards and retirement bonuses to be implemented in July 2013 was launched. Funds in the amount of PLN 193 million were paid out and the provision in the amount of PLN 179 million was released under the policy on payment of awards and retirement bonuses.

At the same time, the Employee Pension Programme ('EPP') was launched. Entry into the EPP register kept by the PFSA was completed on 5 July 2013. According to the provisions of the Company Pension Agreement, employees got an opportunity to join the Programme from 15 July 2013. Principles of the EPP operations in PKO Bank Polski SA were specified in the Company Pension Agreement signed by the Employer with the company trade unions.

Within the EPP (for employees who joined the Programme), the Bank charges a basic fee of 3% of salary components from which social security contributions are calculated. Employees have the right to declare additional contributions that are paid to the Programme through the Employer and deducted from the salary of an Employee. EPP is managed by PKO TFI SA.

A detailed description has been presented in Note 2.14 'Employee benefits'.

Provisions for loan commitments and guarantees granted:

Details on the provisions for off-balance sheet loan commitments granted are described in Note 49.9 'Off-balance sheet provisions' and in Note 2.16 'Off-balance sheet liabilities granted'.

Other provisions:

Other provisions mainly include restructuring provision, the creation of which is presented in detail in Note 2.13 'Restructuring provision' and provisions for potential claims on impaired loans portfolios sold more on which has been presented in Note 65 'Sale of impaired loan portfolios'.

For the year ended 31 December 2013	Provision for legal claims	Provisions for retirement benefits and anniversary bonuses	Provisions for loan commitments and guarantees granted	Other provisions*	Total
As at 1 January 2013 (restated), of which:	22 678	431 210	211 004	72 314	737 206
Short term provision	22 678	36 233	145 066	72 314	276 291
Long term provision	-	394 977	65 938	-	460 915
Increase/reassessment of provisions	13 799	3 669	251 512	48 458	**317 438**
Release of provisions	(1 672)	(180 618)	(347 338)	(195)	**(529 823)**
Use of provisions	(318)	(193 142)	-	(12 432)	**(205 892)**
Currency translation differences	(19)	-	-	-	**(19)**
Other changes and reclassifications	1 821	(25 380)	136	25 383	**1 960**
As at 31 December 2013, of which:	36 289	35 739	115 314	133 528	320 870
Short term provision	36 289	2 458	88 464	133 528	260 739
Long term provision	-	33 281	26 850	-	60 131

* Included in 'Other provisions' are i.a.: restructuring provision of PLN 91 842 thousand and provision of PLN 2 087 thousand for potential claims on impaired loans portfolios sold.

For the year ended 31 December 2012	Provision for legal claims	Provisions for retirement benefits and anniversary bonuses	Provisions for loan commitments and guarantees granted	Other provisions*	Total
As at 1 January 2012 (restated), of which:	20 234	428 299	111 970	75 257	635 760
Short term provision	20 234	38 232	111 970	75 257	245 693
Long term provision	-	390 067	-	-	390 067
Increase/reassessment of provisions	3 825	51 425	250 422	25 229	**330 901**
Release of provisions	(583)	(48 505)	(150 859)	(25 801)	**(225 748)**
Use of provisions	(798)	(9)	-	(2 371)	**(3 178)**
Currency translation differences	-	-	(12)	-	**(12)**
Other changes and reclassifications	-	-	(517)	-	**(517)**
As at 31 December 2012 (restated), of which:	22 678	431 210	211 004	72 314	737 206
Short term provision	22 678	36 233	145 066	72 314	276 291
Long term provision	-	394 977	65 938	-	460 915

* Included in 'Other provisions' are i.a.: restructuring provision of PLN 57 655 thousand and provision of PLN 5 502 thousand for potential claims on impaired loans portfolios sold.

Provisions for legal claims were recognised in the amount of expected outflow of economic benefits.

(IN PLN THOUSAND)

OTHER NOTES

37. Contingent liabilities and off-balance sheet liabilities received

37.1. Securities covered with underwriting agreements (maximum liability of the Group to acquire securities):

Issuer of securities underwritten	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreement	Contract period	Sub-issue type
As at 31 December 2013				
Company A	corporate bonds	1 633 000	15.06.2022	Bonds Issue Agreement*
Company B	corporate bonds	800 000	31.07.2015	Bonds Issue Agreement*
Company C	corporate bonds	50 000	19.12.2022	Bonds Issue Agreement*
Company D	corporate bonds	34 000	31.12.2022	Bonds Issue Agreement*
Company E	corporate bonds	24 238	29.06.2018	Bonds Issue Agreement*
Company F	corporate bonds	13 410	31.10.2017	Bonds Issue Agreement*
Total		2 554 648		
As at 31 December 2012				
Company A	corporate bonds	1 633 000	15.06.2017	Bonds Issue Agreement*
Company B	corporate bonds	537 000	31.07.2013	Bonds Issue Agreement*
Company C	corporate bonds	102 700	31.10.2013	Bonds Issue Agreement*
Company D	corporate bonds	89 749	31.12.2024	Bonds Issue Agreement*
Company E	corporate bonds	67 070	31.10.2017	Bonds Issue Agreement*
Company F	corporate bonds	50 000	19.12.2022	Bonds Issue Agreement*
Company G	corporate bonds	34 000	31.12.2022	Bonds Issue Agreement*
Total		2 513 519		

* Relates to the Agreement for Organisation, Conducting and Servicing of the Bond Issuance Programme.

All securities of the Group under the sub-issue (underwriting) programme have an unlimited transferability, are not listed on the stock exchange and are not traded on a regulated OTC market.

37.2. Contractual commitments

As at 31 December 2013 the value of contractual commitments concerning intangible assets amounted to PLN 347 636 thousand (as at 31 December 2012 amounted to PLN 157 320 thousand).

As at 31 December 2013 the value of contractual commitments concerning tangible fixed assets amounted to PLN 48 629 thousand (as at 31 December 2012 amounted to PLN 71 513 thousand).

37.3. Loan commitments granted

by nominal value	31.12.2013	31.12.2012
to financial entities	737 531	913 713
to non-financial entities	30 203 660	29 137 031
to State budged entities	3 269 584	2 462 680
Total	34 210 775	32 513 424
of which: irrevocable loan commitments	7 708 424	7 871 614

(IN PLN THOUSAND)

37.4. Guarantee liabilities granted

	31.12.2013	31.12.2012
Guarantees in domestic and foreign trading	**6 227 396**	**6 534 174**
to financial entities	64 444	49 575
to non-financial entities	6 151 081	6 471 912
to State budged entities	11 871	12 687
Guarantees and pledge granted – domestic corporate bonds	**3 466 648**	**3 346 209**
to non-financial entities	3 466 648	3 346 209
Letters of credit granted	**491 768**	**372 615**
to financial entities	-	-
to non-financial entities	491 669	372 615
to State budged entities	99	-
Guarantees and pledge granted – payment guarantee	**117 420**	**881**
to financial entities	117 420	881
Guarantees and pledge granted – domestic municipal bonds	**83 773**	**123 256**
to State budged entities	83 773	123 256
Total	**10 387 005**	**10 377 135**

In the years ended 31 December 2013 and 31 December 2012 respectively, the Bank and its subsidiaries did not issue any guarantees in respect of loans or advances and did not issue any guarantees to a single entity or a subsidiary thereof with a total value accounting for 10% of the Group's equity.

Information on provisions for off-balance sheet guarantees and financial liabilities is included in Note 36 'Provisions'.

Liabilities granted by maturity

31 December 2013

	Up to 1 month	From 1 monthts to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
Loan commitments granted	20 719 932	823 022	3 690 204	3 220 801	5 756 816	**34 210 775**
Guarantee liabilities granted	194 722	348 890	2 354 950	6 450 394	1 038 049	**10 387 005**
Total	**20 914 654**	**1 171 912**	**6 045 154**	**9 671 195**	**6 794 865**	**44 597 780**

31 December 2012

	Up to 1 month	From 1 monthts to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
Loan commitments granted	18 666 885	812 123	3 497 042	3 543 538	5 993 836	**32 513 424**
Guarantee liabilities granted	140 931	539 641	2 926 372	6 219 014	551 177	**10 377 135**
Total	**18 807 816**	**1 351 764**	**6 423 414**	**9 762 552**	**6 545 013**	**42 890 559**

37.5. Off-balance sheet liabilities received

	31.12.2013	31.12.2012
Financial	369 303	1 831 357
Guarantees	2 570 701	1 780 305
Total	**2 940 004**	**3 611 662**

Right to sell or pledge collateral established for the Group

As at 31 December 2013 and as at 31 December 2012, there was no collateral established for the Group, which the Group was entitled to sell or encumber with another pledge in the event of fulfilment of all obligations by the owner of the collateral.

38. Legal claims

As at 31 December 2013, the total value of court proceedings in which the PKO Bank Polski SA Group entities (including the Bank) are a defendant was PLN 342 658 thousand, of which PLN 12 134 thousand refers to court proceedings in Ukraine (as at 31 December 2012 the total value of above mentioned court proceedings was PLN 404 689 thousand), while as at 31 December 2013 the total value of court proceedings in which the Group entities (including the Bank) are the plaintiff was PLN 525 949 thousand, of which PLN 218 254 thousand referred to court proceedings in Ukraine, mainly related to collection of dues from loan agreements granted by KREDOBANK SA, (as at 31 December 2012 the total value of above mentioned court proceedings was PLN 335 932 thousand). The information above does not include the value of legal claims of KREDOBANK SA concerning taxes described in Note 12 'Income tax expense'.

The most significant legal claims of the PKO Bank Polski SA Group are described below:

a) **Unfair competition proceedings**

The Bank is a party to proceeding before the Court for the Competition and Consumer Protection (SOKiK) initiated on the basis of a decision dated 23 April 2001 of the President of the Competition and Consumer Protection Office (Urząd Ochrony Konkurencji i Konsumentów - UOKiK) upon request of the Polish Trade and Distribution Organisation – Employers' association (Polska Organizacja Handlu i Dystrybucji - Związek Pracodawców) against the operators of the Visa and Europay payment systems and the banks issuing Visa and Europay/Eurocard/Mastercard banking cards. The claims under these proceedings relate to the use of practices limiting competition on the market of banking card payments in Poland, consisting of applying pre-agreed 'interchange' fees for transactions made using Visa and Europay/Eurocard/Mastercard cards as well as limiting access to this market by external entities. On 29 December 2006, UOKiK decided that the practices, consisting of joint establishment of interchange fee, did limit market competition and ordered that any such practices should be discontinued, and imposed a fine on, among others, PKO Bank Polski SA, in the amount of PLN 16 597 thousand.

The Bank appealed against the decision of the President of UOKiK to SOKiK. On 20 December 2011 a hearing was held during which no factual resolution of the appeals was reached. The Court obligated MasterCard to submit explanations concerning the issue and set the date for another sitting of the Court for 9 February 2012, which upon the application of the plaintiffs' attorney was postponed for 24 April 2012 and afterwards SOKiK postponed announcing the resolution on the request for suspension of the case until 8 May 2012. On 8 May 2012, SOKiK suspended proceedings until the final conclusion of proceedings before the European Union Court in the case MasterCard against the European Commission. On 24 May 2012, the European Union Court upheld the decision of the European Commission banning multilaterally agreed interchange fees applied by MasterCard. On 28 May 2012 the participant to the proceedings, Visa Europe Ltd, and on 29 May 2012 the plaintiffs' attorney, including PKO Bank Polski SA, filed a complaint against the decision of SOKiK dated 8 May 2012. In August 2012, the European Court of Justice received the appeal of MasterCard against the verdict of the EU Court of 24 May 2012 rejecting the appeal of MasterCard. On 25 October 2012, the Court of Appeal in Warsaw changed the decision of 8 May 2012 and dismissed the motion of MasterCard for suspending the proceedings. The court's decision in this case the Bank's attorney received in January 2013 and in February 2013, court files were transferred to the court of first instance. Currently, the case is subject to re-proceeding by SOKiK. The hearing was on 29 October 2013 and on 21 November 2013 the judgement was announced, by which SOKiK reduced the penalty imposed on the Bank to the amount of PLN 10 085 thousand. The judgement is invalid. On 7 February 2014 the judgement was appealed. As at 31 December 2013 the Bank had a provision in the amount of PLN 10 359 thousand (the position 'Provisions' in the statement of financial position).

As at 31 December 2013 the Bank is a party to proceedings before the Court for the Competition and Consumer Protection (SOKiK):

1. appeal proceedings against the decision of the President of UOKiK:

   1) due to the possibility of the use of unfair contractual provisions in forms of individual pension accounts ('IKE') agreements.

      On 19 December 2012, the President of UOKiK imposed a fine on the Bank in a total fine amount of PLN 14 697 thousand, of which:

      - PLN 7 111 thousand for not indicating in the IKE agreements responsibilities of the Bank for timely and proper carrying out the monetary settlements and the amount of compensation for the delay in execution of a holder instruction,
      - PLN 4 741 thousand for application in the form of IKE agreements, an open list of termination conditions,
      - PLN 2 845 thousand for application a clause, entered in the register, defining a court with jurisdiction over the seat of PKO Bank Polski SA's branch, carrying the IKE deposit account.

      Appeal proceedings are pursued on behalf of the Bank by reputable law offices . The Bank appealed against the decision of the President of UOKiK on 2 and 16 January 2013. As at 31 December 2013 the Bank had a provision for the above mentioned amounts in the amount of PLN 4 000 thousand (the position 'Provisions' in the statement of financial position).

   2) due to unfair proceedings violating collective interests of consumers in the presentation in advertising campaigns of consumer loan under the marketing name 'Max pożyczka Mini Ratka' information that might not be clear for an average consumer and mislead him as to the availability of loans on promoted conditions.

      On 28 December 2012, the President of UOKiK imposed a fine on the Bank in the amount of PLN 2 845 thousand, on which the Bank recognised a provision in the same amount on 30 June 2013 (the position 'Provisions' in the statement of financial position).

   3) using of unfair contractual provisions in forms of consumer loan agreements, with the exclusion of credit card agreements.

      By decision of 31 December 2013, the Bank's activities were considered as practices violating collective interests of consumers and a fine in the amount of PLN 17 236 thousand and PLN 11 828 thousand was imposed on the Bank. The Bank has undertaken actions to appeal against this decision.

      Appeal proceedings are pursued on behalf of the Bank by reputable law offices. The Bank appealed against the decision of the President of UOKiK, on 17 January 2014. Proceedings are in progress. As at 31 December 2013 the Bank has a provision for the amount of PLN 10 000 thousand (the position 'Provisions' in the statement of financial position).

(IN PLN THOUSAND)

2. a proceeding initiated by the President of UOKiK to determine the provisions in the form of consumer loan agreements to be illegal.
3. four proceedings initiated by an individual:
    1) on recognition of provisions of housing loan agreements concluded with the Bank in 2001 and in 2003 and the Rules of current account of 1997, modified in 1998 to be abusive. The Bank responded to the lawsuit. The first hearing was held on 2 July 2013. Court judgment of 9 July 2013 dismissed the claim against the Bank in all three cases. The plaintiff filed an appeal against the above mentioned judgment, in these cases there is no risk of imposing financial penalties on the Bank.
    2) the recognition as abusive the Tariff of fees and charges in sections providing for fees for the monitoring and collection activities in relation with customers delaying the repayment of current debt. The Bank responded to the lawsuit and retorted for another pleading of opponent's attorney, in this case there is no risk of imposing financial penalties on the Bank.

Moreover, the Bank is a party to proceedings before the President of UOKiK:

1) concerning practices violating collective interests of consumers, consisting the use of a provision, entered in the register of the agreements form provisions recognised as abusive, in the form of the Tariff of banking fees and charges, with content.
2) determining whether the manner of offering mortgage loans by the Bank under the 'Autumn promotion of mortgage loans' ('Jesienna promocja kredytów hipotecznych') may constitute a practice which violates the collective interests of consumers,
3) preliminary proceedings concerning providing by banks the information constituting the bank secrecy.

Proceedings are in progress

b) Re-privatisation claims relating to properties held by the Group

As at the date of these financial statements, six administrative and court-administrative proceedings are pending to invalidate decisions issued by public administration authorities with respect to properties held by the PKO Bank Polski SA Group entities (including the Bank). These proceedings, in the event of an unfavourable outcome for the Group may result in re-privatisation claims being raised and one administrative proceeding for the establishment of perpetual usufruct right to a property owned by the Bank. Given the current status of these proceedings as regards stating the invalidity of decisions and verdicts of public administration bodies, it is not possible to assess their potential negative financial effects for the Bank. Moreover, with respect to four properties of the Bank, claims pertaining to release or return the property and regulation of the legal status of the property, were submitted by their former owners (court and administrative proceedings are pending).

The proceedings concerning a complaint brought by Centrum Finansowe Puławska Sp. z o.o. (CFP) concerning the use of a property located at Puławska and Chocimska street in Warsaw on which the Bank's office is currently located, are pending before the Regional Administrative Court in Warsaw. The proceedings concern rendering invalid the decision of the Local Government Court of Appeal of 10 April 2001, which stated that the decision of the Council of Warsaw of 1 March 1954 was issued in gross violation of the law.

Due to the liquidation of CFP and removing it from the register of companies and then distribution of its assets, the transfer of the right to perpetual usufruct of said plot was issued to the Bank, a motion for participation in the proceedings was filed on 23 May 2012 on behalf of the Bank. During the hearing on 18 December 2012, the Regional Administrative Court in Warsaw granted the Bank the right to participate in the proceedings due to the fact that the rights to the property in question had been transferred to the Bank. After the hearing on 7 May 2013, the Court dismissed the complaint. The judgement may be appealed against to the Supreme Administrative Court. A copy of the judgment together with the explanation was served for the Bank on 20 June 2013. A cassation complaint was prepared and made.

In the opinion of the Management Board of PKO Bank Polski SA, the probability of significant claims arising against the PKO Bank Polski SA Group entities (including the Bank) in relation to the above mentioned proceedings is remote.

39. Supplementary information to the consolidated statement of cash flows

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash on nostro account with the National Bank of Poland, current amounts due from banks, as well as other cash equivalents with maturities up to 3 months from the date of acquisition.

	31.12.2013	31.12.2012
Cash and balances with the central bank	7 246 120	10 289 451
Current receivables from banks	1 638 619	2 206 181
Total	**8 884 739**	**12 495 632**

(IN PLN THOUSAND)

Cash flow from interests and dividends, both received and paid

Interest income - received	2013	2012 restated
Interest income from loans and advances granted	7 197 617	8 935 199
Interest income from investment securities	479 126	905 155
Interest income from securities designated upon initial recognition at fair value through profit and loss	479 110	750 147
Interest income from placements	199 317	285 596
Interest income from securities from held for trading portfolio	64 590	59 633
Interest income from hedging instruments	506 859	825 870
Other interest received	1 285 790	1 639 173
Total	10 212 409	13 400 773

Interest expense – paid	2013	2012
Interest expense on deposits - paid	(3 201 847)	(3 305 169)
Interest expense on debt securities in issue - paid	(469 287)	(372 607)
Interest expense on loans and advances - paid	(69 672)	(224 754)
Other interest paid (mainly interest expense on current account, premium from debt securities, interest expense on cash collateral liabilities)	(721 591)	(1 039 745)
Total	(4 462 397)	(4 942 275)

Dividend income - received	2013	2012
Dividends income from subsidiaries, jointly controlled entities and associates	90 283	85 119
Dividends income from other entities	5 766	8 081
Total	96 049	93 200

Cash flow from operating activity – other adjustments

Other adjustments	2013	2012 restated
Interest accrued, discount, premium on debt securities	(935 569)	1 213 288
Fair value of the remaining share of an organised part of a subsidiary sold	(197 592)	-
Hedge accounting	(177 492)	(310 286)
Actuarial gains and losses	(9 477)	64 140
Valuation and impairment allowances for investments in jointly controlled entities and associates	4 166	9 133
Currency translation differences from foreign operations	(8 829)	(25 992)
Disposal and impairment allowances for tangible fixed assets and intangible assets	200 751	52 034
Total	(1 124 042)	1 002 317

Explanation of differences between the consolidated statement of financial position and the cash flow statement changes of items presented under operating activities in the consolidated statement of cash flows

(Gains) losses on sale and disposal of tangible fixed assets and intangible assets under investing activities	2013	2012
Gain on sale of an organised part of a subsidiary	(383 561)	-
Income from sale and disposal of tangible fixed assets and intangible assets	(39 982)	(4 165)
Gain on sale of non-current assets held for sale	(25 450)	-
Costs of sale and disposal of tangible fixed assets and intangible assets	16 188	8 497
Total	(432 805)	4 332

(IN PLN THOUSAND)

Interests and dividends	2013	2012
Interest from investment securities, presented under investing activities	(558 685)	(874 307)
Dividends received, presented under investing activities	(1 888)	(6 190)
Interest paid from loans granted, presented in financing activities	33 923	36 407
Total	**(526 650)**	**(844 090)**

Change in amounts due from banks	2013	2012
Change in the balance of the statement of financial position	1 499 045	(996 259)
Change in impairment allowances on amounts due from banks	799	3 430
Exclusion of a change in the balance of cash and cash equivalents	(567 562)	(74 621)
Total	**932 282**	**(1 067 450)**

Change in loans and advances to customers	2013	2012 restated
Change in the balance of the statement of financial position	(6 140 196)	(2 228 577)
Change in impairment allowances on amounts due from customers	125 485	(1 118 022)
Total	**(6 014 711)**	**(3 346 599)**

Change in amounts due to banks	2013	2012
Change in the balance of the statement of financial position	14 327	(2 505 543)
Recognition of loans and advances received from banks/repayment of these loans and advances in financing activities	(268 701)	1 719 404
Total	**(254 374)**	**(786 139)**

Change in amounts due to customers	2013	2012
Change in the balance of the statement of financial position	5 710 611	(280 327)
Recognition of long-term loans and advances received from financial entities other than banks/repayment of these loans and advances in financing activities	(1 006 223)	323 031
Total	**4 704 388**	**42 704**

Change in impairment allowances and provisions	2013	2012 restated
Change in the balance of the statement of financial position	(416 336)	101 135
Change in the balance of deferred tax provisions related to valuation of an available-for-sale portfolio included in deferred income tax	(56 278)	(58 627)
Change in impairment allowances on amounts due from banks	(799)	(3 430)
Change in impairment allowances on amounts due from customers	(125 485)	1 118 022
Total	**(598 898)**	**1 157 100**

Change in other liabilities and subordinated liabilities	2013	2012 restated
Change in the balance of the statement of financial position	553 439	(440 567)
Recognition of interest paid on own issuance to financing activities	123 748	206 364
Recognition of interests repayments on advances received from financial entities other than banks to financing activities	42 764	42 675
Recognition of inflows/repayment of subordinated liabilities in financing activities	-	95 342
Total	**719 951**	**(96 186)**

(IN PLN THOUSAND)

40. Transactions with the State Treasury and related parties

The State Treasury has control over the parent entity of the Group as it holds a 31.39% interest in the Bank's share capital. The Bank's shareholding structure is described in detail in Note 1 'General Information' to these financial statements.

Receivables, securities and liabilities arising from transactions conducted with the State Treasury and other state budgetary agencies are disclosed in the Group's statement of financial position.

In accordance with the 30 November 1995 Act in relation to State support in the repayment of certain mortgage loans, reimbursement of guarantee premium paid and amendments of several acts (Journal of Laws, 2013, item 763 with subsequent amendments) PKO Bank Polski SA receives payments from the State budget in respect of interest receivable on housing loans.

	2013	2012
Income due to temporary redemption by the State budget of interest on housing loans from the 'old' portfolio recognised for this period	109 478	154 417
Income due to temporary redemption by the State budget of interest on housing loans from the 'old' portfolio received in cash	64 701	108 137
Difference between income recognised for this period and income received in cash – 'Loans and advances to customers'	44 777	46 280

The Act on the coverage of repayment of certain housing loans by State Treasury (Journal of Laws, 2000, No. 122, item 1310 with subsequent amendments) guarantees was passed on 29 November 2000 and came into force on 1 January 2001. In execution of the provisions of the Act, on 3 August 2001 PKO Bank Polski SA signed an agreement with the Minister of Finance acting on behalf of the State Treasury under which the Bank was granted a pledge of repayment of debt arising from housing loans in the so-called 'old' portfolio. On 29 December 2011, the validity period of the agreement (originally until 31 December 2011) was extended until 31 December 2017. The coverage of the so called 'old' portfolio housing loan receivables by the guarantees of the State Treasury results in the neutralisation of the default risk on these loans.

The State Treasury guarantees are realised when a borrower fails to repay the loan on the dates specified in the loan agreement. The responsibility of the State Treasury is of an auxiliary nature and is effective if the recovery of the unpaid part of principal and interest which the Bank is obliged to commence, before the Bank lays claims to the State Treasury, becomes ineffective. The above-mentioned law covers 90% of unpaid loans taken out by housing cooperatives. As a consequence of the realisation of the State Treasury's responsibilities as guarantor, the State Treasury itself enters into the rights of the satisfied creditor (the Bank) and thus becomes a creditor towards the borrower, in line with the concept of guarantee.

PKO Bank Polski SA receives commission for settlements relating to redemption of interest by the State Treasury on housing loans.

	2013	2012
Fee and commission income	4 103	4 536

As of 1 January 1996 the Bank became the general distributor of value marks. The Bank receives commissions in this respect from the State Treasury.

	2013	2012
Fee and commission income	20 927	25 624

The Brokerage House of PKO Bank Polski SA performs the role of an agent for the issue of retail Treasury bonds under the agreement signed with the Ministry of Finance on 11 February 2003. Under this agreement, the Brokerage House of PKO Bank Polski SA receives a fee for providing the services of an agent for the issue of bonds.

	2013	2012
Fee and commission income	29 022	39 295

(IN PLN THOUSAND)

Significant transactions of the PKO Bank Polski SA Group with the State Treasury's related entities

The transactions were concluded on arm's length.

Entity	31.12.2013			2013		
	Total receivables	Total liabilities	Off-balance sheet liabilities granted – guarantee and financial	Interest income	Fee and commission income	Interest expenses
Entity 1	-	-	2 080 000	-	-	-
Entity 2	-	1 749	1 198 324	-	33	(623)
Entity 3	211 048	242 088	333 258	3 139	507	(1 242)
Entity 4	223 340	126 268	176 660	10 543	429	(527)
Entity 5	446 352	65	71 214	12 387	1 161	(573)
Entity 6	-	-	600 000	-	-	-
Entity 7	-	19 299	500 000	-	3	(10 651)
Entity 8	-	14 093	500 000	1	2	(247)
Entity 9	-	574	500 000	5 327	270	(5 681)
Entity 10	16 683	2 178	474 003	45	3	(171)
Entity 11	10 130	84 104	359 382	2 390	15	(1 581)
Entity 12	241 279	17 556	175 722	9 187	131	(1 055)
Entity 13	-	36 096	401 786	-	329	(408)
Entity 14	145 798	46 904	117 590	4 891	235	(126)
Entity 15	109 174	50 249	143 331	7 570	1 510	(1 445)
Other entities	346 488	536 068	511 244	17 099	4 549	(14 907)
Total	**1 750 292**	**1 177 291**	**8 142 514**	**72 579**	**9 177**	**(39 237)**

Entity	31.12.2012			2012		
	Total receivables	Total liabilities	Off-balance sheet liabilities granted – guarantee and financial	Interest income	Fee and commission income	Interest expenses
Entity 1	-	-	2 080 000	-	-	-
Entity 2	-	160	1 953 687	-	93	(938)
Entity 12	-	70 879	1 933 000	-	334	(7 707)
Entity 8	-	412	792 344	343	235	(24 291)
Entity 6	-	33	400 000	-	246	(3 819)
Entity 3	199 718	40 754	359 487	5 382	426	(1 584)
Entity 13	118 919	9 342	266 864	8 244	283	(131)
Entity 10	174 441	47 445	243 054	4 974	15	(7 396)
Entity 11	240 340	27 642	19 000	13 872	69	(2 479)
Entity 9	11	1 887	222 800	631	34	-
Entity 16	-	194 771	-	50	1 248	(4 031)
Entity 5	78 916	32 554	190 500	2 924	95	(2 985)
Entity 14	150 671	79 299	142 499	9 106	2 188	(2 967)
Entity 17	103 321	5 011	16 712	7 007	393	(13)
Entity 15	38 283	8 986	100 000	4 075	404	(334)
Other entities	464 658	436 083	375 437	90 468	10 062	(152 587)
Total	**1 569 278**	**955 258**	**9 095 384**	**147 076**	**16 125**	**(211 262)**

As at 31 December 2013 and 31 December 2012 respectively, no significant impairment allowances were recognised for above-mentioned receivables.

(IN PLN THOUSAND)

41. Related party transactions

Transactions of the parent company with associates and jointly controlled entities valued with the equity method

All transactions with jointly controlled entities and associates presented below were arm's length transactions. Repayment terms are within a range from one month to ten years.

31 December 2013

Entity	Receivables	of which loans	Liabilities	Total income	of which interest and fee and commission	Total expense	of which interest and fee and commission	Off-balance sheet liabilities granted
Bank Pocztowy SA	6	-	1 003	63	56	1 835	-	2 374
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.*	1 100	-	50 551	33 535	32 798	112 864	105 379	5 000
CENTRUM HAFFNERA Sp. z o.o.	-	-	1 234	7	7	-	-	-
Centrum Majkowskiego Sp. z o.o. in liquidation	-	-	38	6	6	-	-	-
Centrum Obsługi Biznesu Sp. z o.o.	29 463	29 463	16 066	905	905	352	352	-
Centrum Operacyjne Sp. z o.o.	-	-	11	3	3	-	-	-
Kamienica Morska Sp. z o.o. in liquidation	-	-	-	6	6	-	-	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	12 555	2	2	724	724	-
Promenada Sopocka Sp. z o.o.	44 377	44 377	4 811	1 000	1 000	32	32	-
Sopot Zdrój Sp. z o.o.	219 698	219 698	-	4 847	4 847	84	84	-
Total	**294 644**	**293 538**	**86 269**	**40 374**	**39 630**	**115 891**	**106 571**	**7 374**

*Amounts related to the income statement were consolidated using the full method.

31 December 2012

Entity	Receivables	of which loans	Liabilities	Total income	of which interest and fee and commission	Total expense	of which interest and fee and commission	Off-balance sheet liabilities granted
Agencja Inwestycyjna CORP-SA SA	61	-	-	690	-	86	-	-
Bank Pocztowy SA	-	-	91	93	78	1 160	285	1 409
CENTRUM HAFFNERA Sp. z o.o.	-	-	296	7	7	-	-	-
Centrum Majkowskiego Sp. z o.o.	-	-	593	6	6	-	-	-
Centrum Obsługi Biznesu Sp. z o.o.	30 010	30 010	18 975	1 015	1 015	626	569	144
Centrum Operacyjne Sp. z o.o.	-	-	21	3	3	-	-	-
Kamienica Morska Sp. z o.o.	-	-	11	6	6	-	-	-
Kolej Gondolowa Jaworzyna Krynicka SA	4 235	4 235	343	291	291	50	43	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	19 402	2	2	299	299	-
Promenada Sopocka Sp. z o.o.	43 857	43 857	5 225	1 205	1 205	721	152	-
Sopot Zdrój Sp. z o.o.	212 691	212 691	1 816	5 911	5 911	2 785	3	-
Total	**290 854**	**290 793**	**46 773**	**9 229**	**8 524**	**5 727**	**1 351**	**1 553**

Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o. was not presented in the table due to lack of mutual transactions with the Bank.

42. Personal related party transactions

As at 31 December 2013, two entities were related to the Bank through the key management personnel of PKO Bank Polski SA or the close family members of the key management personnel (as at 31 December 2012 - three entities).

In 2013 and 2012 no intercompany transactions were concluded with these entities.

43. Remuneration – PKO Bank Polski SA key management

a) short-term employee benefits

Remuneration received from PKO Bank Polski SA

Short-term employee benefits	2013	2012
The Management Board of the Bank	11 579	11 692
The Supervisory Board of the Bank	1 222	1 225
Total	12 801	12 917

Remuneration received from related companies (other than the State Treasury and entities related to the State Treasury)

Short-term employee benefits	2013	2012
The Management Board of the Bank*	40	39
Total	40	39

* The amount includes remuneration from associates.

(IN PLN THOUSAND)

Short-term employee benefits are employee benefits, which fall due fully within 12 months after the end of the reporting period in which the employees render the related service. As described in Note 44 'The principles for determining the variable salary components policy for persons holding managerial position in the Group' as from 2012 the variable salary component for Group's key management, including the Management Board, is granted in:

- not deferred form (in the first year after the calendar year constituting a period of assessment),
- deferred form (for the next three years after the first year of the assessment period).

Accordingly, the remuneration for 2013 includes the part of the variable salary component, which was paid out in July 2013.

b) other long-term benefits (in terms of variable salary components)

In the year ended 31 December 2013 and 31 December 2012 no other long-term benefits were paid. Remuneration presented below include deferred salary component paid in cash in accordance with the principles described in Note 44.

Salary (in cash) potentially payable from PKO Bank Polski SA to the Bank's Management Board Members	2013	2012
The Management Board	1 053	-
Total	**1 053**	**-**

c) share-based payments settled in cash (in terms of variable salary components)

In the year ended 31 December 2013 and 31 December 2012 respectively, no share-based payments which are settled in cash were paid.

Share-based payments settled in cash for the Management Board	2013	2012
payable	1 639	-
potentially payable	1 053	-
Total	**2 692**	**-**

Above mentioned remuneration include deferred salary component granted in the form of the financial instrument, i.e. the phantom shares (for which conversion into cash is carried out after an additional period of retention) in accordance with the rules described in Note 44. Payment of phantom shares (due part) was made in January 2014.

d) post-employment benefits

In the year ended 31 December 2013 and 31 December 2012 no post-employment benefits were paid

e) benefits due to termination of employment

In the year ended 31 December 2013 no benefits due to termination of employment were paid, and in the year ended 31 December 2012 respectively benefits paid due to termination of employment amounted to PLN 1 760 thousand.

f) Loans, advances, guarantees and other advances provided by the Bank to the management

	31.12.2013	31.12.2012
Members of the Management Board	74	149
Members of the Supervisory Board	2 241	2 314
Total	**2 315**	**2 463**

Interest conditions and repayment periods differ neither from arm's length nor from repayment periods set up for similar bank products.

Remuneration received by members of the Management Boards and the Supervisory Boards of the PKO Bank Polski SA Group subsidiaries

Short-term employee benefits	2013	2012
The Management Board	15 347	19 195
The Supervisory Board	177	181
Total	**15 524**	**19 376**

44. The principles for determining the variable salary components policy for persons holding managerial positions in the Group

In order to fulfil the requirements of the Resolution No 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 on detailed principles for functioning of risk management system and internal control system and detailed terms of estimating internal capital by banks and reviewing the process of estimating and maintaining internal capital, and the principles for determining the variable salary components policy for persons holding managerial positions in the Bank, the Bank implemented by resolutions of:

- the Supervisory Board: 'The variable salary components policy for persons holding managerial positions in the Bank' (constituting the basis of further regulation issue) and 'The variable salary components policy for the Management Board's members',
- the Management Board: 'The variable salary components policy for persons holding managerial positions',
- Supervisory Boards of selected subsidiaries of the PKO Bank Polski SA Group (PKO Leasing SA, PKO TFI and PTE): 'The variable salary components policy for the Management Board's members'.

Cited Principles and Regulations issued on their basis, describe the procedure of granting variable salary components associated with the results and effects of work to the above mentioned persons. In accordance with the requirements of the cited resolution of the PFSA and in proportion specified in it, the variable salary components are granted in the form of:

- not deferred (in the first year after the calendar year constituting a period of assessment),
- deferred (for the next three years after the first year of the assessment period),

and both the not deferred and deferred salary, is granted in equal parts in cash and in the form of a financial instrument, i.e. the phantom shares (in which conversion into cash is carried out after an additional period of retention).

Component of salary in the form of a financial instrument is converted into phantom shares after granting a particular component - including the median of the daily average prices of the Bank's shares (Volume Weighted Average Price) on the Warsaw Stock Exchange, published in the Thomson Reuters or Bloomberg information system - from the fourth quarter of the assessment period. Next, after a period of retention and deferral period, shares are converted into cash - including the median of the daily average prices of the Bank's shares (Volume Weighted Average Price) on the Warsaw Stock Exchange from the period of a third quarter preceding the payment (the Management Board) and a third quarter of a calendar year, in which the payment is made (other persons on managerial positions), published in the Thomson Reuters or Bloomberg information system.

The deferral salary may be reduced in the event of deterioration in the financial performance of the Bank or a Group Entity respectively, the loss of the Bank / Company or deterioration of other variables related to the effects of work during the evaluation of persons holding managerial positions and results of the performance of organisational units/cells supervised or managed by these persons, which revealed after a period of evaluation.

As at 31 December 2013 a provision for variable salary components for 2012 and 2013 amounted to PLN 28.5 million, of which PLN 16 million for persons holding managerial positions except from the Bank's Management Board, PLN 9 million for the Bank's Management Board, and PLN 3.5 million for the entities of the Group. As at 31 December 2012 the provision for variable salary components in 2012 amounted to PLN 15.7 million, of which for Management Board amounted to PLN 4.1 million and for the entities of the Group it amounted to PLN 2.4 million.

Under current regulations, in 2013, not deferred component was paid out - cash for persons holding managerial positions except for the Bank's Management Board in the amount of PLN 3 million, for the Bank's Management Board in the amount of PLN 1.6 million, and PLN 1 million for the entities of the Group.

Payment of phantom shares, calculated in accordance with law provisions, based on the share price for the third quarter of 2013 in the amount of PLN 36.93, was made in November 2013 for persons holding managerial positions except for the Bank's Management Board in the amount of PLN 3.3 million, in January 2014 for the Bank's Management Board (PLN 1.6 million), and PLN 0.7 million for the entities of the Group.

45. Changes to the entities of the Group

In 2013 the following events affecting the structure of the PKO Bank Polski SA Group took place:

1. Changes in the PKO Leasing SA Group

Bankowy Fundusz Leasingowy SA (a subsidiary of the Bank) changed its name to PKO Leasing SA - the change was registered with the National Court Register on 27 March 2013.

Bankowy Leasing Sp. z o.o. (a subsidiary of PKO Leasing SA) changed its name to PKO Bankowy Leasing Sp. z o.o. - the change was registered with the National Court Register on 28 March 2013.

On 19 March 2013 an increase in the share capital of PKO Leasing SA of PLN 20 000 thousand was registered with the National Court Register. As a result of the above mentioned increase, the Company's share capital amounts to PLN 90 000 thousand and consists of 9 000 000 shares, each of PLN 10 nominal value. All the shares in the increased Company's share capital were acquired by PKO Bank Polski SA for a price equal to the nominal value of the shares taken up. As a result of the above mentioned transactions PKO Bank Polski SA still remains the sole shareholder of PKO Leasing SA.

PKO Leasing Sverige AB with registered office in Stockholm was registered with the Swedish Register of Businesses on 18 September 2013. Share capital of the Company amounts to EUR 6 thousand and consists of 600 shares at nominal value of EUR 10 each. All shares of the above mentioned Company were taken up by PKO Leasing SA. The Company's activity is provision of leasing services.

On 19 December 2013 PKO Leasing SA made an additional contribution to PKO Leasing Sverige AB in the amount of EUR 994 thousand (i.e. PLN 4 145 thousand at the average NBP exchange rate as at the date of contribution).

2. Acquisition of a share in the increased share capital of Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. by PKO Bank Polski SA

An increase in the share capital of Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. of UAH 484 000 thousand, carried out by increasing the nominal value of the Company's share and acquired by PKO Bank Polski SA, was registered with the Ukrainian Register of Businesses on 11 September 2013. As a result of the above mentioned increase, share capital of the Company amounts to UAH 530 101 thousand and comprises 1 share with the above mentioned value.

3. Sale of the package of shares in Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.

On 7 November of 2013 PKO Bank Polski SA entered into an agreement with EVO Payments International Acquisition, GmbH with registered office in Germany (the 'Investor'), a subsidiary of EVO Payments International LLC with registered office in the United States of America ('EVO') and with EVO relating to the acquisition by the Investor shares in the limited liability company which will be incorporated as a result of the transformation of the joint stock Centrum Elektronicznych Usług Płatniczych eService Spółka Akcyjna into a limited liability company ('the Company').

In December 2013 the Bank received a decision of the European Commission in which the EC decided not to oppose to the exercise of the joint control over the Company by Bank and by EVO. Also, in December 2013 the Company was transformed into limited liability company.

On 31 December 2013 shares representing 66% of the share capital of the Company. and giving right to 66% of the votes at the General Shareholders Meeting of the Company, were transferred to the Investor.

At the same time the following agreements were executed and entered in force as of 31 December 2013:

- a shareholders' agreement governing the rules of cooperation, including decision making, by the Bank, the Investor and the Company in connection with the equity interests held by the shareholders,
- an alliance agreement setting forth the rules for business cooperation, between the Bank and the Company.

As at 31 December 2013 Bank holds shares of above mentioned Company constituting 34% of the Company's share capital which entitles to 34% of the votes at General Shareholders' Meeting. Due to the Bank beginning to hold joint control of the Company, the Company became jointly controlled entity of PKO Bank Polski SA.

Net income from sale transaction was presented in Note 9 'Other operating income and expense'.

4. Capital contribution to KREDOBANK SA by providing financial donation

On 29 November 2013 PKO Bank Polski SA has made a capital contribution to KREDOBANK SA by providing financial donation in the amount of USD 20 681 thousand (i.e. PLN 63 793 thousand according to the average NBP exchange rate as at the date of funds transfer).

Above mentioned donation increases the purchase price in the statement of financial position of PKO Bank Polski SA.

5. Acquisition of the investment certificates

In October 2013 PKO Bank Polski SA acquired 12 000 000 units of investment certificates in the Mercury Fund – the non-public asset closed investment fund with the total value of PLN 120 000 thousand. The above mentioned Fund is managed by PKO TFI SA.

The principal activity of the Fund is to invest funds collected through non-public offering of investment certificates in securities, money market instruments and other property rights set out in the Memorandum of Association of the Fund and in the Investment Funds Act. The Fund conducts investment activity through 8 commercial companies.

As at 31 December 2013, the Fund and 8 companies of the Fund, as entities controlled by PKO Bank Polski SA, are fully consolidated in the financial statements of the PKO Bank Polski SA Group.

6. Changes to the Qualia Development Sp. z o.o. Group

➢ concerning Qualia Development Sp. z o.o.

a) An increase in the share capital of Qualia Development Sp. z o.o. of PLN 20 348 thousand was registered with the National Court Register on 24 September 2013. Shares in the increased share capital of the Company were acquired by PKO Bank Polski SA and paid for in cash.

b) An increase in the share capital of Qualia Development Sp. z o.o. of PLN 215 460 thousand was registered with the National Court Register on 20 December 2013. Shares in the increased share capital were fully paid in cash contributed by offsetting amounts due from PKO Bank Polski SA to Qualia Development Sp. z o.o. for the reimbursement of capital contribution made in the Company by the Bank in the total amount of PLN 215 460 thousand.

c) On 20 December 2013, the Extraordinary General Shareholders' Meeting of Qualia Development Sp. z o.o. passed a resolution on share capital increase of Qualia Development Sp. z o.o. of PLN 106 800 thousand by issuing new shares. Shares in the increased share capital were fully covered by non-cash contribution in the form of 77 474 shares of Fort Mokotów Inwestycje Sp. z o.o. owned by PKO Bank Polski SA. The above-mentioned increase requires registration with the National Court Register.

According to resolution on share capital increase from 20 December 2013, the share capital of Qualia Development Sp. z o.o. amounts to PLN 347 108 thousand and consists of 694 215 shares, each of PLN 500 nominal value.

As at 31 December 2013 PKO Bank Polski SA is the sole shareholder of the Company.

➢ concerning Fort Mokotów Inwestycje Sp. z o.o.

d) On 19 April 2013 an increase in the share capital of Fort Mokotów Inwestycje Sp. z o.o. of PLN 4 194 thousand was registered with the National Court Register. As a result of the above mentioned increase, the share capital of the Company amounts to PLN 77 483 thousand and consists of 77 483 shares, each of PLN 1 thousand nominal value.

PKO Bank Polski SA acquired 4 193 shares with the total nominal value of PLN 4 193 thousand, and Qualia Development Sp. z o.o. acquired 1 share in the increased share capital.

e) On 20 December 2013 Qualia Development Sp. z o.o. concluded an agreement with PKO Bank Polski SA, according to which all shares of Fort Mokotów Inwestycje Sp. z o.o. held by the Bank were transferred to Qualia Development Sp. z o.o. in exchange for acquisition of shares in the increased share capital of Qualia Development Sp. z o.o. The transfer of shares ownership was effective on 31 December 2013.

As a result of the above mentioned transaction, since 31 December 2013 Qualia Development Sp. z o.o. is the sole shareholder of Fort Mokotów Inwestycje Sp. z o.o. (the change was registered with the National Court Register on 3 February 2014).

➢ concerning Qualia spółka z ograniczoną odpowiedzialnością – Zakopane Sp. k.

f) By the Partners' Resolution of Qualia spółka z ograniczoną odpowiedzialnością - Zakopane Sp. k. the amount of limited partner's (Qualia Development Sp. z o.o.) contribution and the limited partnership amount was increased from PLN 1 thousand to PLN 1 139 thousand (including the increase to the amount of PLN 441 thousand by the resolution of 17 January 2013 and to the amount of PLN 1 139 thousand by the resolution of 17 October 2013). The above mentioned changes were registered with the National Court Register on 13 February and on 29 November 2013.

➢ concerning Qualia spółka z ograniczoną odpowiedzialnością – Jurata Sp. k.

g) On 17 January 2013 by the Partners' Resolution of Qualia spółka z ograniczoną odpowiedzialnością - Jurata Sp. k. the amount of limited partner's contribution (Qualia Development Sp. z o.o.) and the limited partnership amount was increased from PLN 1 thousand to PLN 2 551 thousand. The above mentioned changes were registered with the National Court Register on 13 February 2013.

➢ concerning Sarnia Dolina Sp. z o.o.

h) On 12 April 2013 all the terms and conditions of the agreement relating to the purchase of 44% of shares in the share capital of Sarnia Dolina Sp. z o.o. by Qualia Development Sp. z o.o. from Przedsiębiorstwo Robót Inżynieryjnych 'Pol-Aqua' SA were met;: thus Qualia Development Sp. z o.o. became the sole shareholder of Sarnia Dolina Sp. z o.o. The above mentioned change was registered with the National Court Register on 16 May 2013.

i) On 16 May 2013 an increase in the share capital of Sarnia Dolina Sp. z o.o. of PLN 6 924 thousand was registered with the National Court Register. As a result of the above mentioned increase, the share capital of the Company amounts to PLN 6 974 thousand and consists of 13 948 shares, each of PLN 500 nominal value. The shares in the increased Company's share capital were acquired by Qualia Development Sp. z o.o.

➢ concerning Giełda Nieruchomości Wartościowych Sp. z o.o.

j) On 17 April 2013 Giełda Nieruchomości Wartościowych Sp. z o.o. was registered with the National Court Register. The Company's share capital amounts to PLN 5 thousand and consists of 100 shares each of PLN 50 nominal value. On the day of issuance ; shares in the Company with a nominal value of PLN 4 950 thousand were taken up by Qualia Development Sp. z o.o., and 1 share with a nominal value of PLN 50 was taken up by Qualia Sp. z o.o. As of 17 October 2013 the sole shareholder of the Company is Qualia Development Sp. z o.o., which bought 1 share with a price equal to the nominal value of the share.

➢ concerning Qualia – Rezydencja Flotylla Sp. z o.o.

k) An increase in the share capital of Qualia – Rezydencja Flotylla Sp. z o.o. of PLN 9 026 thousand was registered with the National Court Register on 24 September 2013. As a result of the above mentioned increase, the share capital of the Company amounts to PLN 11 526 thousand and is divided into 11 526 shares at nominal value of PLN 1 thousand each.

In 2013 Qualia Development Sp. z o.o. made an additional contribution to Qualia - Residence Sp. z o.o. in the total amount of PLN 3 127 thousand and made an additional contribution to Sarnia Dolina Sp. z o.o. in the total amount of PLN 18 750 thousand.

7. Reclassification of shares to non-current assets held for sale

In December 2013, PKO Bank Polski SA reclassified, in accordance with IFRS 5, shares in Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. and in 'Inter-Risk Ukraina' Additional Liability Company to the position 'Non-current assets held for sale' - the Bank intends to recover the value of the above mentioned shares through a sale transaction.

8. Events, which will result in changes in the PKO Bank Polski SA Group in the following quarters

a) On 12 June 2013 PKO Bank Polski SA and Nordea Bank AB (publ) signed an agreement setting out the terms of an acquisition from Nordea Bank AB (publ) and other entities from the Nordea Group of:

- shares of Nordea Bank Polska SA representing 99.21% of the Company's share capital together with a portfolio of corporate loans to customers of Nordea Bank AB (publ),
- shares of Nordea Polska Towarzystwo Ubezpieczeń na Życie SA representing 100% of the Company's share capital,
- shares of Nordea Finance Polska SA representing 100% of the Company's share capital.

Detailed information regarding above mentioned agreement is included in Note 45.1.

b) On 9 October 2013 the National Court Register received a request to amend the Memorandum of Association of CENTRUM HAFFNERA Sp. z o.o. (the entity jointly controlled by the Bank) in terms of reduction of the share capital through redemption of shares owned by the Shareholder – the City of Sopot. On 20 January 2014 the National Court Register registered the above mentioned reduction of the share capital and since 20 January 2014 CENTRUM HAFFNERA Sp. z o.o. became a subsidiary of PKO Bank Polski SA.

In 2013, the following events concerning jointly controlled entities and associates took place.

9. Changes to the CENTRUM HAFFNERA Sp. z o.o. Group

On 1 June 2013 the liquidation of Kamienica Morska Sp. z o.o. (a subsidiary of CENTRUM HAFFNERA Sp. z o.o.) in connection with the completion of the project was commenced. On 24 January 2014 the Company was removed from the National Court Register.

On 1 December 2013 the liquidation of Centrum Majkowskiego Sp. z o.o. (a subsidiary of CENTRUM HAFFNERA Sp. z o.o) in connection with the completion of the project was commenced.

10. The sale of Kolej Gondolowa Jaworzyna Krynicka SA's shares

On 24 September 2013, PKO Bank Polski SA sold the entire block of shares of Kolej Gondolowa Jaworzyna Krynicka SA (an associate of the Bank) to Polskie Koleje Górskie SA. These shares were recognised as non-current assets held for sale.

11. The sale of shares of Agencja Inwestycyjna CORP-SA SA's shares

On 31 October 2013 PKO Bank Polski SA sold its entire block of shares of Agencja Inwestycyjna CORP-SA SA (an associate of the Bank). These shares were recognised as non-current assets held for sale.

45.1. Acquisition of the Nordea Bank AB (publ) Group entities by PKO Bank Polski SA

On 12 June 2013 PKO Bank Polski SA concluded an agreement with Nordea Bank AB (publ) ('Agreement'), a company registered in Sweden, which determined the terms and conditions of the acquisition from Nordea Bank AB (publ) and other Nordea Group entities:

1. Nordea Bank Polska SA

The subject of the transaction is the acquisition of 55 061 403 shares of the Company, with a nominal value of PLN 5 each, constituting 99.21% of the share capital of the Company, through a public tender offer for a sale of shares. The price of shares determined in the Agreement is PLN 2 642 million and will be adjusted with respect to the results of Nordea Bank Polska SA.

2. Nordea Polska Towarzystwo Ubezpieczeń na Życie SA

The subject of the transaction is the acquisition of 1 725 329 shares of the Company, with a nominal value of PLN 111.59 each, constituting 100% of the share capital of the Company. The price of shares determined in the Agreement is PLN 180 million and will be adjusted with respect to the results of Nordea Polska Towarzystwo Ubezpieczeń na Życie SA.

3. Nordea Finance Polska SA

The subject of the transaction is the acquisition of 4 100 000 shares of the Company, with a nominal value of PLN 1 each, constituting 100% of the share capital of the Company. The price of shares determined in the Agreement is PLN 8 million and will not be adjusted.

The Agreement also concerns the acquisition of the portfolio of dues to corporate clients of Nordea Bank AB (publ) with a nominal value of PLN 3 604 million as at 31 December 2012.

One of the elements of the above transaction ('the Transaction') is continued financing of mortgage loan portfolios granted by Nordea Bank Polska SA ('the Mortgage Loan Portfolios') by the Nordea Group. The financing will be ensured by Nordea Bank AB (publ) granting PKO Bank Polski SA a credit facility up to: CHF 3 869.4 million, EUR 501.0 million and USD 4.5 million for a period not exceeding 7 years, with a three-year grace period ('the Credit Facility'). The Credit Facility agreement is to be concluded by Nordea Bank AB (publ) and PKO Bank Polski SA as at the date of closing the Transaction. The Credit Facility is to be secured by a transfer to secure the dues in respect of the Mortgage Loan Portfolio on behalf of Nordea Bank AB (publ) by Nordea Bank Polska SA. The average effective margin in the maximum financing period under the Credit Facility is 63 b.p. above the relevant reference rate. The Credit Facility does not provide for commission on granting the financing.

PKO Bank Polski SA will re-lend the funds acquired under the Credit Facility to Nordea Bank Polska SA in the form of a push-down credit facility up to the amount of: CHF 3 869.4 million, EUR 501.0 million and USD 4.5 million for a period not exceeding 7 years, with a three-year grace period. The push-down credit facility will not be secured. Financial terms and conditions of the above mentioned credit facility (lending margin, commission) are determined at market conditions.

Moreover, under the Transaction the Nordea Group committed to participate in the risk of impairment of the Mortgage Loan Portfolio on the terms and conditions specified in the agreement relating to dividing the credit risk, which will be signed by Nordea Bank AB (publ) and PKO Bank Polski SA as at the transaction closing date ('the Risk-Sharing Agreement'). In accordance with the Risk-Sharing Agreement, Nordea Bank AB (publ) will incur 50% of excess costs of Mortgage Loan Portfolio risk over the annual level of risk costs determined at 40 b.p. per each year of the four years of the term of the Risk-Sharing Agreement for a period of four years after the closing of the Transaction.

Nordea Bank AB (publ) also commits to maintain the subordinated loans granted to Nordea Bank Polska SA of CHF 68.0 million and CHF 224.0 million, which mature in 2019 and 2022 respectively ('the Subordinated loans'). In accordance with the Agreement both the Subordinated Loans are to be repaid 5 years before the maturity specified in respective Subordinated Loans Agreements, on condition that appropriate regulatory consents required for each repayment are obtained.

Moreover, under the Transaction, Nordea Bank AB (publ) committed to cause that Nordea Bank Polska SA will offer to PKO Bank Polski SA, as at the date of closing the Transaction, subscription warrants authorising PKO Bank Polski SA to take up the new issue shares of Nordea Bank Polska SA ('the New Shares') at the issue price reflecting the price offered in the public tender offer for Nordea Bank Polska SA shares. The objective of taking up the New Shares by PKO Bank Polski SA is to ensure the Bank's appropriate capital adequacy ratio in connection with the Transaction.

Closing of the Transaction is dependent on the closing terms and condition specified in the Agreement (conditions precedent), which include specifically:

- obtaining the consent of the President of the Competition and Consumer Protection Office by PKO Bank Polski SA to take control over Nordea Bank Polska SA, Nordea Polska Towarzystwo Ubezpieczeń na Życie SA and Nordea Finance Polska SA,
- obtaining the consent of the Ukrainian Antimonopoly Committee (Antymonopolnyj Komitet Ukrainy) by PKO Bank Polski SA to take control over Nordea Bank Polska SA, Nordea Polska Towarzystwo Ubezpieczeń na Życie SA and Nordea Finance Polska SA,
- the Polish Financial Supervision Authority issuing a decision on determining no grounds for vetoing the acquisition of Nordea Bank Polska SA's shares and Nordea Polska Towarzystwo Ubezpieczeń na Życie SA's shares by PKO Bank Polski SA in amounts ensuring share exceeding 50% in the share capital and total number of votes at General Shareholders' Meetings of those companies,
- providing IT services by the Nordea Group under an outsourcing agreement so as to ensure the safe operation of Nordea Bank Polska SA in the period preceding migration to IT systems of PKO Bank Polski SA,
- registering the conditional capital increase of Nordea Bank Polska SA by the relevant registration court so as to enable PKO Bank Polski SA to take up the New Shares.

PKO Bank Polski SA intends – after closing the transaction – to repurchase shares from other minority shareholders of Nordea Bank Polska SA to acquire the remaining shares of Nordea Bank Polska SA and to undertake the necessary actions to abolish the dematerialisation of the shares and to withdraw the shares of Nordea Bank Polska SA from trading in the regulated market maintained by the Warsaw Stock Exchange, and to merge Nordea Bank Polska SA with PKO Bank Polski SA by transferring all the assets of Nordea Bank Polska SA to PKO Bank Polski SA (merger by acquisition).

As part of the work related to implementation of the agreement of the share purchase of entities: Nordea Bank Polska SA, Nordea Polska Towarzystwo Ubezpieczeń na Życie SA and Nordea Finance Polska SA:

✓ PKO Bank Polski SA submitted applications to the Competition and Consumer Protection Office (11 July 2013), the Polish Financial Supervision Authority (11 July 2013) and the Ukrainian Antimonopoly Committee (12 July 2013),

✓ on 8 August 2013, the Extraordinary General Shareholders' Meeting of Nordea Bank Polska SA passed a resolution i.a.:

- on the single issue of 20 million registered subscription warrants of A series entitling its holder to take up, on terms specified in the resolution, a total of not more than 20 million registered ordinary shares of N series of this Bank at total nominal value of PLN 100 million and a conditional increase of share capital of Nordea Bank Polska SA by an amount not higher than PLN 100 million through the issue of N series shares to grant rights to take up shares of this series for holders of subscription warrants that will be issued pursuant to this Resolution: entitled to take up subscription warrants of A series will be only the entity on whose demand to subscribe for sale of Nordea Bank Polska SA shares, shareholders of this Bank, holding not less than 99% of votes at the General Shareholders' Meeting (Resolution No. 3) will answer,
- on the conditional appointment to the Supervisory Board of Nordea Bank Polska SA of the representatives of PKO Bank Polski SA: Zbigniew Jagiełło, Jakub Papierski, Bartosz Drabikowski, Piotr Alicki, Paweł Borys and Jarosław Orlikowski, with effect at 12.00 AM on the last day call for subscribe for sale of shares of the above mentioned Bank, announced by PKO Bank Polski SA (Resolution No. 2),

✓ on 6 September 2013, PKO Bank Polski SA obtained a clearance from the Ukrainian Antimonopoly Committee (Antymonopolnyj Komitet Ukrainy) to take control over above mentioned Companies,

✓ on 15 October 2013, PKO Bank Polski SA obtained a clearance from the President of the Competition and Consumer Protection Office to carry out a concentration involving the PKO Bank Polski SA taking control over above mentioned Companies.

✓ on 21 November 2013, a registration of nominal value of a conditional increase of share capital of Nordea Bank Polska SA in the amount of PLN 100 million, in accordance with Resolution No. 3 of the Extraordinary General Shareholders' Meeting of the Company dated 8 August 2013.

Moreover, PKO Bank Polski SA submitted twice- through the Brokerage House of PKO Bank Polski SA, to Polish Financial Supervision Authority, Warsaw Stock Exchange and Polish Press Agency, the content of the public tender offer for the sale of 55 498 700 shares in Nordea Bank Polska SA with a registered office in Gdynia, representing 100 % votes at the General Shareholders' Meeting of this entity. The first Public Tender Offer was submitted on 19 June 2013, and the repeated public tender offer – on 3 December 2013.

Public Tender Offers were announced pursuant to Art. 74.1 of the Act on Public Offering in connection with the agreement relating to the acquisition by the Bank of 99.21% of the shares in Nordea Bank Polska SA from Nordea Bank AB (publ).

Information regarding the Transaction and the first and repeated announcement of a public tender offer were communicated in current reports (respectively No. 37/2013 of 12 June 2013, No. 40/2013 of 19 June 2013 and No. 84/2013 of 3 December 2013).

The Transaction is in line with the strategy of PKO Bank Polski SA for the years 2013-2015 and is aimed at strengthening the position of PKO Bank Polski SA as the leader of the Polish banking sector, extending the distribution channels and improving service quality. As a result of executing this transaction, the Bank will significantly improve its position in the private banking segment, enhance its competences in the corporate banking segment and ensure growth in the area of bancassurance.

(IN PLN THOUSAND)

46. Fair value of financial assets and financial liabilities

46.1. Categories of fair value valuation of financial assets and liabilities measured at fair value in the consolidated statement of financial position

The Group classifies particular components of financial assets and liabilities designated at fair value to the following categories:

- Level 1: Prices quoted on the active markets
- Level 2: Valuation techniques based on observable market data
- Level 3: Other valuation techniques

The table below presents a classification of financial assets and liabilities presented in the financial statements at fair value divided into 3 levels as at 31 December 2013:

Assets and liabilities measured at fair value as at 31.12.2013	Note	Carrying amount	Level 1	Level 2	Level 3
			Prices quoted on the active markets	Valuation techniques based on observable market data	Other valuation techniques
Trading assets	17	**479 881**	**475 339**	**4 542**	**-**
Debt securities		467 931	463 389	4 542	-
Shares in other entities		10 799	10 799	-	-
Investment certificates		1 151	1 151	-	-
Derivative financial instruments	18	**3 000 860**	**1 015**	**2 999 845**	**-**
Hedging instruments		361 639	-	361 639	-
Trade instruments		2 639 221	1 015	2 638 206	-
Financial instruments designated upon initial recognition at fair value through profit and loss	20	**15 204 756**	**931 325**	**14 273 431**	**-**
Debt securities		15 204 756	931 325	14 273 431	-
Investment securities available for sale	22	**14 067 356**	**8 679 109**	**5 250 921**	**137 326**
Debt securities		13 867 437	8 616 516	5 250 921	-
Equity securities*		199 919	62 593	-	137 326
Financial assets at fair value - total		**32 752 853**	**10 086 788**	**22 528 739**	**137 326**
Derivative financial instruments	18	**3 328 211**	**912**	**3 327 299**	**-**
Hedging instruments		414 804	-	414 804	-
Trade instruments		2 913 407	912	2 912 495	-
Debt securities in issue	33	**290 509**	**-**	**290 509**	**-**
Financial instruments designated at fair value through profit and loss		290 509	-	290 509	-
Financial liabilities at fair value - total		**3 618 720**	**912**	**3 617 808**	**-**

*In 2013 the Group discontinued classification of shares in companies valued at cost price less impairment to financial instruments measured at fair value (classified at Level 3).

Trading assets as at 31.12.2013 (Note 17)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	467 931	463 389	4 542	-
Treasury bonds	390 660	390 660	-	-
Treasury bonds EUR	4 542	-	4 542	-
municipal bonds	41 907	41 907	-	-
corporate bonds	24 026	24 026	-	-
bonds issued by WSE	6 628	6 628	-	-
bonds issued by banks, of which:	168	168	-	-
BGK bonds	158	168	-	-
Shares in other entities	10 799	10 799	-	-
Investment certificates	1 151	1 151	-	-
TOTAL	**479 881**	**475 339**	**4 542**	**-**

(IN PLN THOUSAND)

Financial instruments designated upon initial recognition at fair value through profit and loss as at 31.12.2013 (Note 20)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	15 204 756	931 325	14 273 431	-
NBP money market bills	13 997 228	-	13 997 228	-
Treasury bonds PLN	931 325	931 325	-	-
municipal bonds EUR	136 700	-	136 700	-
municipal bonds PLN	113 935	-	113 935	-
Treasury bonds UAH	25 568	-	25 568	-
TOTAL	15 204 756	931 325	14 273 431	-

Investment securities available for sale as at 31.12.2013 (Note 22)	Carrying amount	Level 1	Level 2	Level 3
Debt securities available for sale	13 867 437	8 616 517	5 250 920	-
Treasury bonds PLN	8 616 517	8 616 517	-	-
Treasury bonds USD	181 823	-	181 823	-
Treasury bonds UAH	20 160	-	20 160	-
municipal bonds	3 440 753	-	3 440 753	-
corporate bonds PLN	1 556 067	-	1 556 067	-
corporate bonds UAH	52 117	-	52 117	-
Equity securities	199 919	62 593	-	137 326
TOTAL	14 067 356	8 679 110	5 250 920	137 326

The table below presents a classification of financial assets and liabilities presented in the financial statements at fair value divided into 3 levels as at 31 December 2012:

Assets and liabilities measured at fair value as at 31.12.2012	Note	Carrying amount	Level 1	Level 2	Level 3
			Prices quoted on the active markets	Valuation techniques based on observable market data	Other valuation techniques
Trading assets	17	277 566	277 566	-	-
Debt securities		273 576	273 576	-	-
Shares in other entities		3 237	3 237	-	-
Investment certificates		713	713	-	-
Rights issues		40	40	-	-
Derivative financial instruments	18	3 860 561	1 486	3 859 075	-
Hedging instruments		498 130	-	498 130	-
Trade instruments		3 362 431	1 486	3 360 945	-
Financial instruments designated upon initial recognition at fair value through profit and loss	20	12 629 711	1 322 226	11 307 485	-
Debt securities		12 629 711	1 322 226	11 307 485	-
Investment securities available for sale	22	12 197 963	7 763 609	4 346 111	88 243
Debt securities		12 043 537	7 697 426	4 346 111	-
Equity securities		154 426	66 183	-	88 243
Financial assets at fair value - total		28 965 801	9 364 887	19 512 671	88 243
Derivative financial instruments	18	3 964 098	696	3 963 402	-
Hedging instruments		224 373	-	224 373	-
Trade instruments		3 739 725	696	3 739 029	-
Debt securities in issue	33	368 622	-	368 622	-
Financial instruments designated at fair value through profit and loss		368 622	-	368 622	-
Financial liabilities at fair value - total		4 332 720	696	4 332 024	-

Trading assets as at 31.12.2012 (Note 17)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	273 576	273 576	-	-
Treasury bonds	216 521	216 521	-	-
municipal bonds	26 673	26 673	-	-
corporate bonds	15 141	15 141	-	-
bonds issued by WSE	13 880	13 880	-	-
BGK bonds	1 361	1 361	-	-
Shares in other entities	3 237	3 237	-	-
Investment certificates	713	713	-	-
Rights issues	40	40	-	-
TOTAL	277 566	277 566	-	-

(IN PLN THOUSAND)

Financial instruments designated upon initial recognition at fair value through profit and loss as at 31.12.2012 (Note 20)	Carrying amount	Level 1	Level 2	Level 3
Debt securities				
NBP money market bills	9 995 300	-	9 995 300	-
Treasury bonds PLN	1 322 226	1 322 226	-	-
Treasury bills	1 040 863	-	1 040 863	-
municipal bonds EUR	145 343	-	145 343	-
municipal bonds PLN	111 185	-	111 185	-
Treasury bonds UAH	14 794	-	14 794	-
TOTAL	**12 629 711**	**1 322 226**	**11 307 485**	**-**

Investment securities available for sale as at 31.12.2012 (Note 22)	Carrying amount	Level 1	Level 2	Level 3
Debt securities available for sale	12 043 537	7 697 426	4 346 111	-
Treasury bonds PLN	7 697 426	7 697 426	-	-
Treasury bonds USD	125 253	-	125 253	-
Treasury bonds UAH	79 800	-	79 800	-
municipal bonds	2 780 212	-	2 780 212	-
corporate bonds	1 360 846	-	1 360 846	-
Equity securities	154 426	66 183	-	88 243
TOTAL	**12 197 963**	**7 763 609**	**4 346 111**	**88 243**

Depending on the category of classification of financial assets and liabilities to the hierarchy, different methods of fair value valuation are used:

Level 1: Prices quoted on the active markets

Financial assets and liabilities whose fair value is stated directly at prices quoted (not adjusted) from active markets for identical assets and liabilities. The Group classifies to this category financial and equity instruments designated at fair value through profit and loss and available for sale, for which there is an active market and for which the fair value is determined with reference to market value which is a bid price:

- debt securities valued at fixing from Bondspot platform,
- debt and equity securities which are traded on regulated market, including the Brokerage House of PKO Bank Polski portfolio,
- derivative instruments.

Level 2: Valuation techniques based on observable market data

Financial assets and liabilities whose fair value is determined with use of valuation models where all significant entry data are observable on the market directly (as prices) or indirectly (based on prices). The Group classifies to this category financial instruments for which there is no active market:

Financial assets and liabilities measured at fair value	Valuation methods (technique)	Observable inputs
Trading assets - Treasury bonds in EUR	Market price of Polish Treasury securities in foreign currency is obtained from information services, in which quotations of such securities are included (Bloomberg or brokerage websites in the Reuters system). This is not a regulated market.	The market price of securities obtained from information services.
Derivative financial instruments - hedging instruments	Valuation of derivatives: CIRS, IRS is made in accordance with the discounted future cash flows model. Discounting is based on the yield curves.	Yield curves are built based on market rates, market data of the money market, market transactions of FRA, IRS, basis swap.
Derivative financial instruments - trade instruments	Valuation of derivatives: CIRS, IRS and FRA is made in accordance with the discounted future cash flows model. Discounting is based on the yield curves. Valuation of currency options is made in accordance with specified valuation models for a given type of a currency option. The prices of exotic options embedded in structured products are obtained from the market (they are market prices).	Yield curves are built based on market rates, market data of the money market, market transactions of FRA, IRS, basis swap. Inputs to currency options valuation models are yield curves built based on money market rates, market rate of swap points, volatility levels for specific currency pairs, NBP fixing exchange rates. For the purpose of valuation of exotic options embedded in structured products, market prices of these options are obtained.
Financial assets designated upon initial recognition at fair value through profit and loss		
- NBP money market bills	Yield curve valuation method.	Yield curve for money market bills is built based on market prices, money market data and OIS transactions market.
- municipal bonds EUR	Valuation in accordance with an accepted valuation model.	Inputs to a valuation model are: market rates, market data: money market, IRS transactions market, CDS transactions market, volatility of interest rate options market.
- municipal bonds PLN	Valuation in accordance with a yield curve and a risk margin.	Yield curve is built based on market rates, money market data, IRS transactions market.
Investment securities available for sale		
- municipal bonds	Valuation in accordance with a yield curve and a risk margin.	Yield curve is built based on market rates, money market data, IRS transactions market.
- corporate bonds	Valuation in accordance with a yield curve and a risk margin.	Yield curve is built based on market rates, money market data, IRS transactions market.
Debt securities in issue - financial instruments designated at fair value through profit and loss	Bank securities valuation is made in accordance with a yield curve and the prices of exotic options embedded in these securities.	Yield curve is built based on market rates, money market data, IRS transactions market. For the purpose of valuation of exotic options embedded in structured products, market prices of these options are obtained.

(IN PLN THOUSAND)

Level 3: Other valuation techniques

Financial assets and liabilities whose fair value is determined with use of valuation models, for which available data is not derived from observable markets (unobservable entry data).

The Group classified to that category shares not listed on WSE, which are valued with internal valuation models. The fair value of these securities (the Fund) is determined based on the net asset value of the fund, i.e. the fair value of investment projects (of the companies) in the fund, which are subject to semi-annual examination by the registered auditor. If the Group used the values of the unobservable parameters, that are extreme values from the range of possible values, the fair value of the equity financial instruments could be PLN 6 866 thousand higher or PLN 6 866 thousand lower as at 31 December 2013.

The impact of parameters estimated on measurement of financial instruments at fair value, for which the Group uses fair value measurement on Level 3 as at 31 December 2013 is as follows.

Financial instrument	Valuation technique	Unobservable factor	Impact on fair value	
			positive scenario	negative scenario
Investment securities available for sale				
Equity securities	Net Asset Value (NAV) method	price for a participation unit	7	(7)

The Group does not disclose in the fair value hierarchy shares in companies, which are measured at acquisition price less impairment allowances, previously presented in Level 3. Comparable data were appropriately restated.

In the fourth quarter of 2013, a single measurement of Finansowa Kompania ‘Prywatne Inwestycje’ Sp. z o.o. at fair value of PLN 48 532 thousand and a reclassification of a share in the above mentioned company to non-current assets held for sale were made.

Instruments transfers between Level 1 and Level 2 are based on the availability of quotations in an active market at the end of the reporting period. Transfer from Level 2 to Level 3 occurs in the situation of the conversion an observable factor for an unobservable in the valuation or applying a new unobservable risk factor to the valuation, which also results in a significant impact on the valuation of the instrument. Transfer from Level 3 to Level 2 occurs in the situation of the conversion an unobservable factor for an observable in the valuation or when an impact of an unobservable factor on the instrument valuation ceases to be relevant. Transfers between levels of valuation occur at the date and at the end of the reporting period.

In the period from 1 January to 31 December 2013, there were no transfers between levels in the fair value hierarchy used in measuring financial instruments at fair value.

The tables below present reconciliation during the periods of measurement from 1 January 2013 to 31 December 2013 and from 1 January 2012 to 31 December 2012 at fair value at level 3 of fair value hierarchy:

	Investment securities available for sale	Investment securities available for sale
Opening balance	**88 243**	**29 063**
Total gains or losses	4 455	(19 431)
recognised in the income statement	4 455	(5 404)
recognised in other comprehensive income		(14 027)
Purchases (take up of shares in the increased share capital) and translation differences	44 628	78 611
Closing balance	**137 326**	**88 243**
Total gains or losses for the period in the financial result for assets held at the end of the reporting period	**-**	**(5 404)**

46.2. Financial assets and liabilities not presented at fair value in the consolidated statement of financial position

The Group holds financial instruments which are not presented at fair value in the consolidated statement of financial position.

Where there is no market value of financial instruments available, their fair values have been estimated with use of various valuation techniques. The fair value of financial instruments was measured using a model based on estimating the present value of future cash flows by discounting them using relevant interest rates.

All model calculations include certain simplifying assumptions and therefore are sensitive to those assumptions. Set out below is a summary of the main methods and assumptions used for estimation of fair values of financial instruments which are not presented at fair value.

For certain categories of financial instruments it has been assumed that their carrying amount equals approximately their fair values, which is due to lack of expected material differences between their carrying amount and their fair value resulting from the features of these groups (such as short term character, high correlation with market parameters, unique character of the instrument). This applies to following groups of financial instruments:

- loans and advances granted by the Group to its customers: a portion of the housing loans portfolio ('old' housing loans portfolio), loans with no specified repayment schedule, which are due at the moment of valuation,
- amounts of the Group due to clients: liabilities with no specified payment schedule, other specific products for which no active market exists,
- deposits and interbank placements with maturity date up to 7 days or with a variable interest rate,
- loans or advances granted and taken on interbank market at a floating interest rate (change of interest rate maximum on a 3 month basis),
- cash and balances with the central bank and amounts due to the central bank,
- other financial assets and liabilities.

With regard to loans and advances to customers, a model based on estimates of present value of future cash flows through discounting future cash flows, and applying current interest rates plus a credit risk margin and relevant scheduled repayment dates were used. The current margin level has been established based on transactions on instruments with similar credit risk concluded in the last quarter of the year.

The fair value of deposits and other amounts due to customers other than banks, with specified maturities, has been calculated using the discounted expected future cash flows and applying current interest rates for given deposit products.

The fair value of the subordinated debt of the Bank has been estimated based on the expected future cash flows discounted using the yield curve.

The fair value of debt securities issued by PKO Bank Polski SA has been estimated based on expected future cash flows discounted using the current interbank interest rates.

The fair value of debt securities issued by PKO Finance AB has been estimated using Bloomberg data.

Interbank placements and deposits have been estimated based on the expected future cash flows discounted using the current interbank interest rates.

Receivables on financial lease have been estimated based on expected cash flows discounted using internal rate of return for lease transactions of the same kind, concluded by the Group in the period directly preceding the balance date.

(IN PLN THOUSAND)

	level of fair value hierarchy	valuation method	31.12.2013 carrying amount	31.12.2013 fair value
Cash and balances with the central bank	n/a	value at cost to pay including impairment allowance	7 246 120	7 246 120
Amounts due from banks	3	discounted cash flows	1 893 441	1 889 160
Loans and advances to customers			149 623 262	154 648 148
housing loans	3	discounted cash flows	74 900 220	75 071 455
corporate loans	3	discounted cash flows	51 576 141	55 944 670
consumer loans	3	discounted cash flows	19 213 873	19 699 100
receivables due from repurchase agreements	3	discounted cash flows	2 144 088	2 144 088
debt securities	3	discounted cash flows	1 788 940	1 788 835
Investment securities held to maturity	3	discounted cash flows	38 005	37 699
Other financial assets	3	value at cost to pay including impairment allowance	611 313	612 779
Amounts due to the central bank	3	value at cost to pay including impairment allowance	4 065	4 065
Amounts due to other banks	3	discounted cash flows	3 747 337	3 747 311
Amounts due to customers			151 904 181	151 901 068
due to corporate entities	3	discounted cash flows	31 966 616	31 966 755
due to State budget entities	3	discounted cash flows	3 473 476	3 473 476
due to retail clients	3	discounted cash flows	116 464 089	116 460 837
Debt securities in issue	1,3	market quotations / discounted cash flows	10 255 937	10 488 746
Subordinated debt	2	discounted cash flows	1 620 857	1 605 265
Other financial liabilities	3	value at cost to pay including impairment allowance	2 004 459	2 004 459

	level of fair value hierarchy	valuation method	31.12.2012 restated carrying amount	31.12.2012 restated fair value
Cash and balances with the central bank	n/a	value at cost to pay including impairment allowance	10 289 451	10 289 451
Amounts due from banks	3	discounted cash flows	3 392 486	3 387 187
Loans and advances to customers			143 483 066	141 410 681
housing loans	3	discounted cash flows	70 419 098	69 519 990
corporate loans	3	discounted cash flows	50 654 164	50 398 091
consumer loans	3	discounted cash flows	20 335 853	19 421 917
debt securities	3	discounted cash flows	2 073 951	2 070 684
Investment securities held to maturity	3	discounted cash flows	46 971	46 687
Other financial assets	3	value at cost to pay including impairment allowance	758 419	758 419
Amounts due to the central bank	3	value at cost to pay including impairment allowance	3 128	3 128
Amounts due to other banks	3	discounted cash flows	3 733 947	3 733 701
Amounts due to customers			146 193 570	146 188 433
due to corporate entities	3	discounted cash flows	31 868 251	31 868 263
due to State budget entities	3	discounted cash flows	3 458 897	3 458 897
due to retail clients	3	discounted cash flows	110 866 422	110 861 273
Debt securities in issue	1,3	market quotations / discounted cash flows	9 902 161	10 369 806
Subordinated debt	2	discounted cash flows	1 631 256	1 638 663
Other financial liabilities	3	value at cost to pay including impairment allowance	1 537 563	1 537 563

(IN PLN THOUSAND)

	level of fair value hierarchy	valuation method	01.01.2012 restated	
			carrying amount	fair value
Cash and balances with the central bank	n/a	discounted cash flows	9 142 168	9 142 168
Amounts due from banks	3	discounted cash flows	2 396 227	2 395 600
Loans and advances to customers			141 254 489	134 342 881
housing loans	3	discounted cash flows	69 685 703	64 902 196
corporate loans	3	discounted cash flows	48 823 923	47 229 078
consumer loans	3	discounted cash flows	22 639 623	22 211 607
receivables due from repurchase agreements	3	discounted cash flows	105 240	105 240
Other financial assets	3	discounted cash flows	431 144	431 144
Amounts due to the central bank	3	value at cost to pay including impairment allowance	3 454	3 454
Amounts due to banks	3	discounted cash flows	6 239 164	6 234 511
Amounts due to customers			146 473 897	146 495 779
due to corporate entities	3	discounted cash flows	38 468 560	38 468 586
due to State budget entities	3	discounted cash flows	3 822 243	3 822 243
due to retail clients	3	discounted cash flows	104 183 094	104 204 950
Debt securities in issue	3	market quotations / discounted cash flows	7 771 779	7 773 693
Subordinated debt	2	discounted cash flows	1 614 377	1 618 446
Other financial liabilities	3	discounted cash flows	1 862 759	1 862 759

47. Fiduciary activities

The Parent Company is a direct participant in the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych) and the Securities Register (at the National Bank of Poland). The Bank maintains securities accounts, services transactions on the domestic and foreign markets, and provides fiduciary services and performs depository role for pension and investment funds. Assets placed in the Bank within fiduciary services are not included in these financial statements as they do not meet the criteria of an asset.

Moreover, as a member of the Council of Depositary Banks and the Council of Non-treasury Debt Securities by the Polish Bank Association, PKO Bank Polski SA takes part in developing regulations and market standards.

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS

48. Risk management in the Group

Risk management is one the most important internal processes both in PKO Bank Polski SA and in other entities of the PKO Bank Polski SA Group. Risk management aims at ensuring profitability of business activity, with ensuring control of risk level and maintaining it within the risk tolerance and limits system applied by the Bank, in the changing macroeconomic and legal environment. The level of the risk plays an important role in the planning process.

In the PKO Bank Polski SA Group, the following types of banking risk have been identified, which are subject to management: credit risk, interest rate risk, currency risk, liquidity risk, commodity price risk, price risk of equity instruments, derivative instruments, operational risk, compliance risk, macroeconomic changes risk, model risk, business risk (including strategic risk), and reputation risk.

48.1. Elements of banking risk management process

The process of banking risk management in the Group consists of the following stages:

- risk identification:

  – the identification of actual and potential sources of risk and estimation of the significance of the potential influence of a given type of risk on the financial situation of the Group. Within the risk identification process, types of risk perceived as material in the Bank's activity, the entities of the Group and the whole Group's activity are identified,

- risk measurement and assessment:

  – defining risk assessment measures adequate to the type and significance of the risk, data availability and quantitative risk assessment by means of determined measures, as well as risk assessment aimed at identifying the scale or scope of risk, taking into account the achievement of goals of risk management. Within risk measurement, stress-test are being conducted on the basis of assumption providing a fair risk assessment,

- risk forecasting and monitoring:

  – preparing risk level forecasts and monitoring deviations from forecasts or adopted reference points (e.g. limits, thresholds, plans, measurements from the previous period, issued recommendations and suggestions). Risk monitoring is performed with the frequency adequate to the materiality and volatility of a specific risk type,

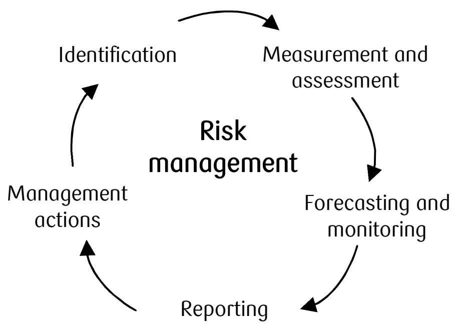
- risk reporting:

  – periodic informing the authorities of the Bank about the results of risk measurement, taken actions and actions recommendations. Scope, frequency and the form of reporting are adjusted to the managing level of the recipients,

- management actions:

  – including, particularly, issuing internal regulations, establishing the level of risk tolerance, establishing limits and thresholds, issuing recommendations, making decisions about the use of tools supporting risk management. The objective of taking management actions is to form the risk management and the risk level.

The risk management process is described on the chart below:



48.2. Main principles of risk management

Risk management in the Group is based especially on the following principles:

- the Group manages all of the identified types of banking risk,
- the risk management process is appropriate to the scale of the operations and to the materiality, scale and complexity of a given risk and tailored to new risk factors and sources on a current basis,
- the risk management methods (in particular the models and their assumptions) and the risk measurement systems are tailored to the scale and complexity of the risk and verified and validated on a periodical basis,
- the area of risk and debt recovery remains organisationally independent from business activities,
- risk management is integrated with the planning and controlling systems,
- the risk level is monitored on a current basis,

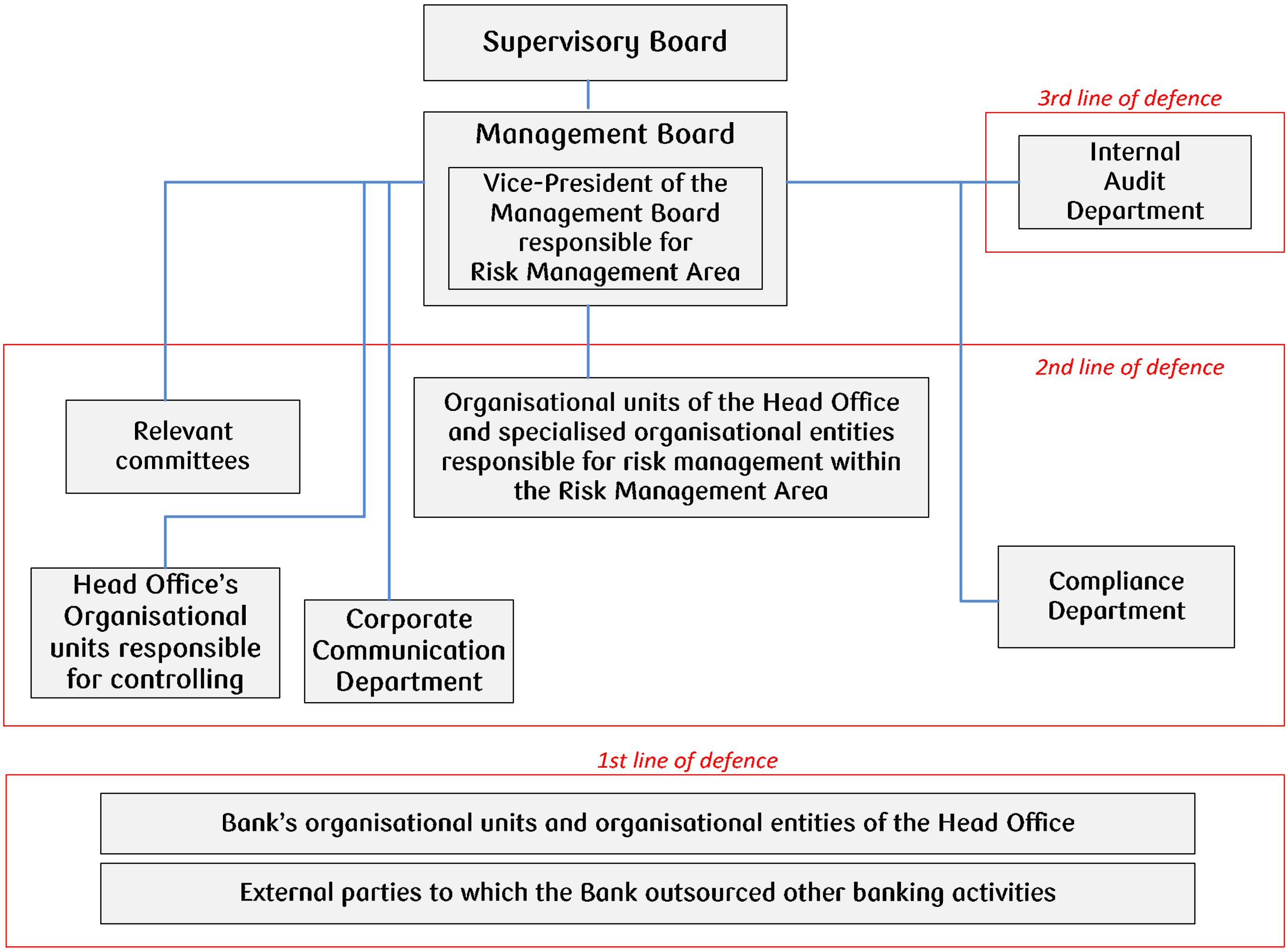
- the risk management process supports the implementation of the Group's strategy in keeping with the risk management strategy, in particular with regard to the level of tolerance of the risk.

48.3. The organisation of risk management in the Bank

Risk management in the Bank takes place in all of the organisational units of the Bank.

The organisation of risk management is presented in the chart below:

The organisation of risk management chart



The risk management process is supervised by the Supervisory Board of the Bank, which is informed on a regular basis about the risk profile of the Bank as well as of the PKO Bank Polski SA Group and the most important activities taken in the area of risk management.

The Bank's Management Board is responsible for the risk management, including supervising and monitoring of activities taken by the Bank in the area of risk management. The Bank's Management Board takes the most important decisions affecting the risk profile of the Bank and adopts internal regulations defining the risk management system.

The risk management process is carried out in three, mutually independent lines of defence:

1) the first line of defence, which is functional internal control that ensures using risk controls mechanisms and compliance of the activities with the generally applicable laws,
2) the second line of defence, which is the risk management system, including risk management methods, tools, process and organisation of risk management,
3) the third line of defence, which is an internal audit.

The independence of the lines of defence consists of preserving organisational independence in the following areas:

- the function of the second line of defence as regards creating system solutions is independent of the function of the first line of defence,
- the function of the third line of defence is independent of the functions of the first and second lines of defence,
- the function of managing the compliance risk reports directly to the President of the Management Board.

The first line of defence is being performed in the organisational units of the Bank, the organisational units of the Head Office and entities of the Group and concerns the activities of those units, cells and entities which may generate risk. The units, cells and entities of the Group are responsible for identifying risks, designing and implementing appropriate controls, including in the external entities, unless controls have been implemented as part of the measures taken in the second line of defence. At the same time the Group entities are obliged to have comparable and cohesive systems of risk evaluation and control in the Bank and in the Group entities, taking into account the specific business characteristic of each entity and the market on which it operates.

The second line of defence is being performed, in particular, in the Risk and Debt Collection Area, the specialised organisational units of the Bank responsible for credit analyses, the organisational unit of the Head Office managing the compliance risk, as well as the organisational units of the Head Office responsible for controlling.

The third line of defence is being performed as part of internal audit, including the audit of the effectiveness of the system of managing the risk relating to the Bank's activities.

The organisational units of the Head Office of the Bank that are grouped within the Banking Risk Division, the Restructuring and Debt Collection Division, and the Analysis and Credit Risk Assessment Centre manage risk within the limits of competence assigned to them.

The Banking Risk Division is responsible for:

- identifying risk factors and sources,
- measuring, assessing, monitoring and reporting risk levels (material risks) on a regular basis,
- measuring and assessing capital adequacy,
- preparing recommendations for the Management Board or committees regarding the acceptable level of risk,
- creating internal regulations on managing risk and capital adequacy,
- developing IT systems designated to supporting risk and capital adequacy management.

The Model Validation Office is responsible for:

- validation of risk measurement models,
- creating an effective system of the model risk management at the Bank, measurement and reporting of risk of the models,
- supporting risk management.

The Restructuring and Debt Collection Centre and the Department of Restructuring and Debt Collection of the Corporate Client are responsible for:

- recovering receivables from difficult clients effectively and increasing the effectiveness of such actions,
- effective intervention activities within the effective and early monitoring of delays in the collection of receivables from retail market clients,
- effective outsourcing of the tasks carried out, as well as effective management of assets taken over as a result of recovering the Bank's receivables,
- selling difficult receivables effectively.

Analysis and Credit Risk Assessment Centre is responsible for the reduction of the credit risk of individual credit exposures of the Bank's retail and corporate market clients and ensuring effective credit analyses in respect of mortgage loans granted to individual clients through the Bank's retail network and loans granted to small and medium enterprises clients evaluated with rating methods, as well as taking credit decisions in this regard.

Risk management is supported by the following committees:

Risk Committee (RC):

- monitors the integrity, adequacy and efficiency of the bank risk management system, as well as capital adequacy and implementation of the risk management policies binding in the Bank consistent with the Bank's Strategy,
- analyses and evaluates the application of strategic risk limits specified in the PKO Bank Polski SA's Bank Risk Management Strategy,
- supports the Supervisory Board in the bank risk management process by formulating recommendations and making decisions concerning capital adequacy and the efficiency of the bank risk monitoring system.

Assets & Liabilities Committee (ALCO),

- makes decisions within the scope of limits and thresholds on particular kinds of risks, issues related to transfer pricing and risk models and their parameters,
- gives recommendations to the Management Board i.a. with regard to determining the structure of the Bank's assets and liabilities, managing different types of risk, equity and price policy.

Bank's Credit Committee (BCC),

- makes loan decisions with regard to significant individual loan exposures,
- issues recommendations in respect to the mentioned above to the Management Board.

Central Credit Committee (CCC) and credit committees which operate in the regional retail and corporate branch offices.

- supports the decisions taken by the relevant Division directors and the Bank's Management Board members with its recommendations and the credit committees operating in the regions support branch directors and directors of the Regional Corporate Branches in matters bearing a higher risk level.

Operating Risk Committee (ORC),

- takes decisions, issues recommendations and opinions regarding i.a. strategic tolerance limits and loss limit for operational risk, key risk indicators (KRI), assumptions of stress tests, results of validation of operational risk measurement models and changes in AMA approach,
- prepares operating risk management recommendations for entities of the PKO Bank Polski SA Group, which are submitted to the Group entities as a part of the Bank's corporate governance over those entities.

ALCO, RC, ORC, BCC, the Management Board and the Supervisory Board are recipients of cyclic reports concerning the individual risk types.

48.4. Activities in the area of risk management in the Bank

The Bank supervises activities of the individual subsidiaries of the PKO Bank Polski SA Group. As part of this supervision, the Bank sets out and approves their development strategies, including the level of the risk. The Bank also supervises the entities' risk management systems and provides support in the development of these systems. Additionally, it reflects business risk of the particular Group entities in the risk reporting and risk monitoring system of the entire Group.

The internal regulations concerning management of certain types of risk in the entities of the Group are defined by internal regulations implemented by those entities, after consulting the Bank's opinion and having taken into account the recommendations issued to the entities by the Bank. The internal regulations of the entities concerning risk management allow for consistent and comparable assessment of particular types of risk within the Bank and entities of the Group, as well as reflect the specific nature of the entity's activity and the market on which it operates.

The PKO Bank Polski SA Group's top priority is to maintain its strong capital position and to further increase its stable sources of financing underlying the stable development of business activity, while maintaining the priorities of efficiency and effective cost control and appropriate risk assessment.

In this respect, the Bank took the following actions in 2013:

- rolled forward short-term bonds in the amount from PLN 500 to 850 million, while extending the maturity date of the securities from three to six months,
- it transferred part of the Bank's profit for 2012 to equity,
- acquired in September 2013, financing in the form of a loan in the amount of EUR 75 million and in November 2013 ca. CHF 185 million.

On 12 June 2013, the Bank signed an agreement to purchase Nordea Bank Polska SA, Nordea Finance Polska SA, Nordea Polska Towarzystwo Ubezpieczeń na Życie SA, and the corporate loan portfolio serviced directly by the Seller – the Scandinavian financial Group Nordea. The above mentioned acquisition shall have no impact on the change in the risks identified in the business of PKO Bank Polski SA or Nordea Bank Polska SA.

In the first half of 2013 in respect of operational risk, the Bank endeavoured to adapt to the requirements of Recommendation M of the Polish Financial Supervision Authority amended in January 2013 relating to operational risk management in banks. The Bank complied with all the recommendations by 30 June 2013, and complied with the recommendation relating to disclosure of information on operational losses – in accordance with Recommendation M – in the third quarter of 2013.

In the second half of 2013, the Bank implemented the process of incorporating counterparty credit risk in the valuation of financial instruments in accordance with the best practices in the market and internal conditions.

In 2013, works aimed at optimising the lending process and increasing its efficiency through the improvement of the Management Information System (MIS) and optimisation of the lending process dedicated to individuals, small and medium enterprises (SME) and corporate clients were carried out at KREDOBANK SA. Furthermore, internal regulations concerning the basic principles of the lending process organisation and regulations relating to the process of lending to individuals and legal persons were amended.

In 2013, the PKO Leasing SA Group focused mainly on building a safe lease portfolio to guarantee positive consolidated financial results of the PKO Leasing SA Group, safety of the capital and reduction in the share of irregular receivables in the portfolio.

48.5. Identification of significant types of risk

The significance of the individual types of risk is established at the Bank's and Group entities level. When determining criteria of classifying a given type of risk as significant, an influence of a given type of risk on the Bank's, Group entities and whole Group's activities is taken into account, whereas three types of risk are recognised:

- considered as significant a priori – being managed actively,
- potentially significant – for which significance monitoring is being made,
- other non-defined or non-occurring in the Bank or Group types of risk (insignificant and non-monitored).

Based on quantitative and qualitative information, an assessment of significance of given types of risk is performed in the Bank periodically. As a result of assessment, a given type of risk is being classified as significant/insignificant. Similar assessment is concluded periodically in the Group entities. Monitoring is conducted if significant change in activities took place or the profile of the Bank or the Group changed.

49. Credit risk management

Credit risk is defined as a risk of occurrence of losses due to counterparty's default of payments to the Bank or as a risk of decrease in economic value of amounts due to the Bank as a result of deterioration of counterparty's ability to repay amounts due to the Bank.

The objective of credit risk management is to minimise losses on the credit portfolio as well as to minimise the risk of occurrence of loans threatened with impairment exposure, while keeping expected level of profitability and value of credit portfolio at the same time.

The Bank and subsidiaries of the Group apply the following principles of credit risk management:

- each loan transaction is a subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
- credit risk relating to potential and concluded loan transactions is measured on a cyclical basis, taking into consideration changes in external conditions and in the financial standing of the borrowers,
- credit risk assessment of exposures which are significant due to their risk levels is subject to additional verification by credit risk assessment teams, which are independent of the business teams,
- terms of loan contracts that are offered to a client depend on the credit risk generated by the contract,
- loan granting decisions are made only by authorised persons,
- credit risk is diversified particularly by geographical location, by industry, by product and by clients,
- expected credit risk level is mitigated by collateral received by the Bank, margins from clients and allowances (provisions) for credit losses.

The above mentioned policies are executed by the Bank through the use of advanced credit risk management methods, both on the level of individual exposures and on the level of the whole credit portfolio of the Bank. These methods are verified and developed to ensure compliance with the internal ratings based requirements (IRB) i.e. advanced credit risk management method, which can be used while calculating capital requirements for credit risk after being approved by the Polish Financial Supervision Authority.

The Group entities, which have significant credit risk levels (the KREDOBANK SA Group, the PKO Leasing SA Group, the BTK SA Group, subsidiary: Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.) manage their credit risk individually, but the methods used by them for credit risk assessment and measurement are adjusted to the methods used by PKO Bank Polski SA, taking into account the specific nature of the activities of these companies.

Any changes to the solutions used by the Group's subsidiaries are agreed every time with the Bank's units responsible for risk management.

The PKO Leasing SA Group, the BTK SA Group and the KREDOBANK SA Group and subsidiary: Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. measure credit risk regularly and the results of such measurements are submitted to the Bank.

The KREDOBANK SA Group, the PKO Leasing SA Group and the BTK Group have units responsible for risk in their organisational structures, which are in particular responsible for:

- developing methods of credit risk assessment, recognising provisions and allowances,
- controlling and monitoring credit risk during the lending process,
- the quality and efficiency of restructuring and enforcement of the amounts due from clients.

In these companies, the credit decision limits depend primarily on: the amount of the exposure to a given client, the amount of an individual credit transaction and the period of credit transaction.

The process of credit decision-making at the KREDOBANK SA Group, the PKO Leasing SA Group and the BTK SA Group is supported by credit committees, which are involved in the case of transactions which generate increased credit risk.

Appropriate organisational units of the Banking Risk Division participate in managing the credit risk in the Group companies by giving their opinions on projects and periodically reviewing internal regulations of these companies relating to the assessment of credit risk and preparation of recommendations relating to amendments in the drafts of regulations. The Bank supports implementation of the recommended changes in principles for assessing credit risk in the Group entities.

49.1. Measurement and assessment of credit risk

Credit risk measurement and assessment methods

In order to assess the level of credit risk and profitability of loan portfolios, the Bank uses different credit risk measurement and valuation methods, including:

- Probability of Default (PD),
- Expected Loss (EL),
- Credit Value at Risk (CVaR),
- effectiveness measures used in scoring methodologies (Accuracy Ratio),
- share and structure of impaired loans (according to IAS),
- coverage ratio of impaired loans with impairment (according to IAS) allowances (coverage ratio),
- cost of risk.

Bank extends regularly the scope of credit risk measures used, taking into account the internal rating-based method (IRB) requirements, and extends the use of risk measures to cover the whole Bank's loan portfolio with these methods.

The portfolio credit risk measurement methods allow i.a. to reflect the credit risk in the price of products, determine the optimum conditions of financing availability and determine impairment allowances.

The Bank performs analysis and stress-tests regarding the influence of potential changes in macroeconomic environment on the quality of the Bank's loan portfolio. The test results are reported to the Bank's authorities. The above mentioned information enables the Bank to identify and take measures to limit the negative influence of unfavourable market changes on the Bank's performance.

The Bank assesses the risk of individual credit transactions with the use of scoring and rating methods, which are created, developed and supervised by the Banking Risk Division. The assessment methods are supported by specialist application software. The scoring method is defined by Bank's internal regulations whose main aim is to ensure uniform and objective assessment of credit risk during the credit process.

Rating models for corporate clients

In 2013 the Bank implemented new rating models for corporate clients, including entrepreneurs keeping books of account in accordance with the Accounting Act or in accordance with IAS and keeping tax book of revenues and expenses, and entrepreneurs credited in the formula of specialist financing. The implementation of the evaluation model of entrepreneurs credited in the formula of specialist financing will particularly allow adequate assessment of the credit risk of large projects involving the financing of real estate held for rental or sale (e.g. office space, retail areas, industrial areas) and infrastructure projects (e.g. telecommunications; industrial; public utility infrastructure).

These models were prepared using internal data of the Bank which ensures that they are tailored to the risk profile of the Bank's clients. Models are based on a statistical dependence analysis between the default and a customer's risk scoring. Scoring includes an assessment of the financial indicators, qualitative factors and evaluation of behavioural factors. In addition, the client's risk assessment depends on the size of the enterprise for which risk analysis is made.

The above mentioned models were implemented in a new IT tool that supports the Bank's credit risk assessment related to financing corporate clients.

The evaluation of retail clients credit risk

The assessment of the credit risk of retail clients on two levels: the client's borrowing capacity and his creditworthiness. The assessment of borrowing capacity involves an examination of the client's financial situation, whereas the creditworthiness assessment involves scoring and evaluating the client's credit history obtained from internal records of the Bank and external sources.

In the first half of 2013 in respect of credit risk, the Bank endeavoured to adapt to the requirements of Recommendation T of the Polish Financial Supervision Authority amended in February 2013, relating to best practice in respect of management of risk arising from retail loan exposures. All recommendations have been implemented in the Bank in accordance with the expected date, i.e. to 31 July 2013. In the second half of 2013, the Bank endeavoured to adapt to the requirements of Recommendation S of the PFSA amended in June 2013, relating to best practice in respect of management of mortgage-secured loan exposures. A part of recommendations have been implemented in the end of 2013, in accordance with the PFSA's expectations, the work on the full adaptation of the Bank to the provisions of this Recommendation will also be continued in the first half of 2014 (a part of recommendations should be implemented no later than to 1 July 2014).

Assessment of credit risk relating to the financing of corporate clients

The evaluation of credit risk related to financing institutional clients is performed in two dimensions: in respect of the client and of the transaction. The assessment measures comprise ratings of clients and transactions. The comprehensive measure of credit risk which reflects both risk factors is the aggregate rating.

In the case of corporate customers from the small and medium enterprise segment that meet certain criteria, the Bank assesses credit risk using the scoring method. Such assessment refers to low-value, uncomplicated loan transactions and it is performed in two dimentions: clients' borrowing capacity and his creditworthiness. The borrowing capacity assessment involves examination of the client's economic and financial situation, whereas the creditworthiness assessment involves scoring and evaluation of the client's credit history obtained from internal records of the Bank and external sources.

The information about ratings and scoring is widely used at the Bank for the purposes of credit risk management, the system of credit decision-making powers, determining the amounts above which independent credit assessment services are activated and in the credit risk assessment and reporting system.

With regard to institutional clients and the small and medium enterprises segment, the Bank implemented a number of improvements in respect of the ongoing portfolio monitoring, which allows for faster response to changes in the existing portfolio of the Bank and the use of an adequate policy and tools for new customers.

In June 2013, the Bank implemented a new methodology for the estimation of portfolio parameters used in the calculation of impairment allowances on credit exposure and provisions for off-balance sheet credit exposures. This methodology uses elements of the modelling portfolio parameters for determining capital requirements with the IRB method. Provides tracking the reaction of the loan portfolio in a more homogeneous groups, and more precise information on the ongoing recoveries.

(IN PLN THOUSAND)

49.2. Forecasting and monitoring of credit risk

The Group's exposure to credit risk divided into impaired and not impaired, and into not past due and past due

Amounts due from banks	Exposure 31.12.2013	Exposure 31.12.2012
Amounts due from banks impaired, of which:	28 891	29 373
assessed on an individual basis	28 543	29 373
Amounts due from banks not impaired, of which:	1 893 133	3 392 495
not past due	1 893 133	3 392 495
Gross total	**1 922 024**	**3 421 868**
Impairment allowances	**(28 583)**	**(29 382)**
Net total by carrying amount	**1 893 441**	**3 392 486**

Loans and advances to customers	Exposure 31.12.2013	Exposure 31.12.2012 restated	Exposure 01.01.2012 restated
Loans and advances impaired, of which:	12 861 352	13 416 970	11 773 800
assessed on an individual basis	5 532 429	6 505 083	5 700 627
Loans and advances not impaired, of which:	143 412 690	136 842 361	135 138 932
not past due	139 700 612	131 994 970	131 131 657
past due	3 712 078	4 847 391	4 007 275
past due up to 4 days	1 081 196	1 791 011	855 403
past due over 4 days	2 630 882	3 056 380	3 151 872
Gross total	**156 274 042**	**150 259 331**	**146 912 732**
Impairment allowances	**(6 650 780)**	**(6 776 265)**	**(5 658 243)**
Net total by carrying amount	**149 623 262**	**143 483 066**	**141 254 489**

Investment securities available for sale – debt securities	Exposure 31.12.2013	Exposure 31.12.2012
Debt securities impaired, of which:	6 160	5 536
assessed on an individual basis	6 160	5 536
Debt securities not impaired, of which:	13 864 573	12 043 537
not past due	13 864 573	12 043 537
with external rating	9 429 681	7 953 371
with internal rating	4 434 892	4 090 166
Gross total	**13 870 733**	**12 049 073**
Impairment allowances	**(3 296)**	**(5 536)**
Net total by carrying amount	**13 867 437**	**12 043 537**

Investment securities held to maturity – debt securities	Exposure 31.12.2013	Exposure 31.12.2012
Debt securities impaired, of which:	-	-
assessed on an individual basis	-	-
Debt securities not impaired, of which:	38 005	46 971
not past due	38 005	46 971
with external rating	38 005	46 971
Gross total	**38 005**	**46 971**
Impairment allowances	**-**	**-**
Net total by carrying amount	**38 005**	**46 971**

Other assets – other financial assets	Exposure 31.12.2013	Exposure 31.12.2012
Other assets impaired	65 209	72 579
Other assets not impaired, of which:	609 904	753 653
not past due	601 289	752 633
past due	8 615	1 020
Gross total	**675 113**	**826 232**
Impairment allowances	**(63 800)**	**(67 813)**
Net total by carrying amount	**611 313**	**758 419**

(IN PLN THOUSAND)

Maximum exposure to credit risk

Items of the statement of financial position	31.12.2013	31.12.2012 restated	01.01.2012 restated
Current account in the central bank	**4 018 340**	**7 550 898**	**6 845 759**
Amounts due from banks	**1 893 441**	**3 392 486**	**2 396 227**
Trading assets – debt securities	**467 931**	**273 576**	**1 300 164**
issued by the State Treasury	395 202	216 521	1 268 471
issued by local government bodies	41 907	26 673	14 783
issued by non-financial institutions	23 892	15 064	14 947
issued by financial institutions	6 762	13 947	239
issued by banks	168	1 371	1 724
Derivative financial instruments	**3 000 860**	**3 860 561**	**3 064 733**
Financial instruments designated upon initial recognition at fair value through profit and loss - debt securities	**15 204 756**	**12 629 711**	**12 467 201**
issued by central banks	13 997 228	9 995 300	8 593 791
issued by the State Treasury	956 893	2 377 883	3 620 515
issued by local government bodies	250 635	256 528	252 895
Loans and advances to customers	**149 623 262**	**143 483 066**	**141 254 489**
financial sector (excluding banks)	2 981 207	720 944	1 215 310
corporate loans	942 784	720 944	1 121 411
receivables from repurchase agreements	2 038 423	-	93 899
non-financial sector	139 434 111	135 097 482	134 977 188
housing loans	74 900 220	70 419 098	69 685 703
corporate loans	44 508 259	43 441 269	42 651 862
consumer loans	19 213 873	20 335 853	22 639 623
debt securities	811 759	901 262	-
public sector	7 207 944	7 664 640	5 061 991
corporate loans	6 125 098	6 491 951	5 050 650
debt securities	977 181	1 172 689	-
receivables from repurchase agreements	105 665	-	11 341
Investment securities - debt securities	**13 867 437**	**12 043 537**	**14 307 525**
issued by the State Treasury	8 818 500	7 902 479	8 679 028
issued by local government bodies	3 440 753	2 780 212	3 458 356
issued by non-financial institutions	997 253	1 309 954	2 119 271
issued by banks	610 931	50 892	50 870
Investment securities held to maturity	**38 005**	**46 971**	-
issued by the State Treasury	26 886	27 843	-
issued by banks	11 119	19 128	-
Other assets - other financial assets	**611 313**	**758 419**	431 144
Total	**188 725 345**	**184 039 225**	**182 067 242**

Off-balance sheet items	31.12.2013	31.12.2012
Irrevocable liabilities granted	7 708 424	7 871 614
Guarantees granted	6 344 816	6 535 055
Guarantees of issuance	3 550 421	3 469 465
Letters of credit granted	491 768	372 615
Total	**18 095 429**	**18 248 749**

Credit quality of financial assets - neither past due nor impaired

Internal rating classes

Taking the type of Group's business activity and the amount of credit and leasing debts into consideration, the most important portfolios are managed by the Bank and PKO Leasing SA. Information about credit quality of loans granted by the Bank and PKO Leasing SA Group is presented below.

Exposures to corporate clients which are not individually impaired are classified according to customer rating as part of the internal rating classes, from A to G (in respect of financial institutions from A to F).

The following loan portfolios are covered by the rating system:

- corporate clients,
- housing market corporate clients,
- small and medium enterprises (excluding certain product groups which are assessed in a simplified manner).

(IN PLN THOUSAND)

Financial assets neither past due nor impaired	31.12.2013	31.12.2012 restated	01.01.2012 restated
Amounts due from banks	1 893 133	3 392 495	2 396 540
of which:			
with internal rating	1 518 290	3 064 734	2 070 945
without rating	374 843	327 761	325 595
Loans and advances to customers	**139 700 612**	**131 994 970**	**131 131 657**
with rating	125 199 355	119 799 020	123 173 721
without rating	14 501 257	12 195 950	7 957 936
PKO Bank Polski SA	**135 300 966**	**128 413 204**	**128 236 734**
with internal rating – financial, non-financial and public sector (corporate loans)	38 313 981	36 992 554	38 595 846
A (first rate)	1 414 115	1 346 291	1 269 043
B (very good)	1 247 527	1 639 493	2 377 152
C (good)	4 164 801	3 596 148	4 248 073
D (satisfactory)	5 803 780	7 125 127	8 937 711
E (average)	9 869 180	10 473 404	9 791 398
F (acceptable)	7 012 781	8 314 985	9 244 208
G (poor)	8 801 797	4 497 106	2 728 261
with internal rating – non-financial sector (consumer and housing loans)	84 848 494	81 322 095	83 438 089
A (first rate)	59 604 586	39 329 628	39 006 051
B (very good)	13 546 734	25 229 102	28 255 664
C (good)	5 261 693	6 162 155	6 770 389
D (average)	4 648 762	4 297 993	3 224 042
E (acceptable)	1 786 719	6 303 217	6 181 943
without internal rating – financial, non-financial and public sector (consumer, housing and other loans)	12 138 491	10 098 555	6 202 799
The PKO Leasing SA Group	**3 534 099**	**2 812 871**	**2 307 463**
with internal rating	2 036 880	1 484 371	1 139 786
A2 (first rate)	9 317	5 597	4 574
A3 (very good)	111 924	93 150	71 872
A4 (good)	262 562	154 228	147 577
A5 (satisfactory)	552 834	352 991	354 505
A6 (average)	868 695	741 302	477 485
B1 (acceptable)	187 170	119 614	61 132
B2 (poor)	38 060	10 021	19 117
C (bad)	6 318	7 468	3 524
without internal rating	1 497 219	1 328 500	1 167 677
without rating – customers of non-financial and financial sector of other the PKO Bank Polski SA Group entities	865 547	768 895	587 460
Trading assets – debt securities – with internal rating	10	-	-
C (good)	10	-	-
Financial instruments measured at fair value through profit and loss - debt securities – with internal rating	-	111 185	108 922
C (good)	-	-	108 922
D (satisfactory)	-	111 185	-
Investment securities available for sale – debt securities – with internal rating	4 434 892	4 090 166	5 577 627
A (first rate)	53 776	13 370	25 293
B (very good)	336 547	370 368	341 104
C (good)	1 026 669	772 269	758 732
D (satisfactory)	912 529	1 010 451	2 320 579
E (average)	1 277 585	954 548	1 241 433
F (acceptable)	755 984	902 211	602 792
G (poor)	71 802	59 669	84 180
G3 (low)	-	7 280	-
H (bad)	-	-	203 514
Other assets – other financial assets	601 289	752 633	420 251
Total	**142 195 034**	**136 140 098**	**133 948 448**

Loans and advances which are not individually impaired and are not rated, are characterised with a satisfactory level of the credit risk. It concerns, in particular, retail loans (including housing loans) which are not individually significant and thus do not create significant credit risk.

(IN PLN THOUSAND)

External rating classes

Structure of debt securities, amounts due from banks, neither past due nor impaired by external rating class is presented in the table below:

31 December 2013

Portfolio/Rating	AAA	AA- to AA+	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	CCC- to CCC+	B3*	Caa2*	without rating	31.12.2013
Amounts due from banks	-	140 193	1 210 067	118 302	1 230	42 963	5 535	-	-	374 843	1 893 133
Trading assets – debt securities	-	-	395 587	21 031	-	-	-	-	-	51 303	467 921
of which:											-
issued by the State Treasury	-	-	395 202	-	-	-	-	-	-	-	395 202
issued by local government bodies	-	-	227	-	-	-	-	-	-	41 680	41 907
issued by banks	-	-	158	-	-	-	-	-	-	-	158
issued by other financial institutions	-	-	-	-	-	-	-	-	-	6 762	6 762
issued by non-financial institutions	-	-	-	21 031	-	-	-	-	-	2 861	23 892
Financial instruments measured at fair value through profit and loss - debt securities	-	-	15 042 488	136 700	-	-	-	25 568	-	-	15 204 756
of which											
issued by central bank	-	-	13 997 228	-	-	-	-	-	-	-	13 997 228
issued by the State Treasury	-	-	931 325	-	-	-	-	25 568	-	-	956 893
issued by local government bodies	-	-	113 935	136 700	-	-	-	-	-	-	250 635
Investment securities available for sale – debt securities	-	-	9 125 800	49 530	-	-	-	216 575	11 131	26 645	9 429 681
of which:											-
issued by the State Treasury	-	-	8 616 516	-	-	-	-	201 984	-		8 818 500
issued by local government bodies	-	-	-	-	-	-	-	-	-	250	250
issued by banks	-	-	509 284	49 530	-	-	-	14 591	11 131	26 395	610 931
Investment securities held to maturity – debt securities	-	-	-	-	-	-	-	38 005	-	-	38 005
of which:											
issued by the State Treasury	-	-	-	-	-	-	-	26 886	-	-	26 886
issued by banks	-	-	-	-	-	-	-	11 119	-	-	11 119
Total	-	140 193	25 773 942	325 563	1 230	42 963	5 535	280 148	11 131	452 791	27 033 496

*Relates to securities of KREDOBANK SA Group – according to Moody's rating

31 December 2012

Portfolio/Rating	AAA	AA- to AA+	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	CCC- to CCC+	B3*	Caa2*	without rating	31.12.2012
Amounts due from banks	247 969	270 787	1 903 607	527 291	101 193	11 812	2 075	-	-	327 761	3 392 495
Trading assets – debt securities	-	-	216 521	-	-	-	-	-	-	57 055	273 576
of which:											
issued by the State Treasury	-	-	216 521	-	-	-	-	-	-	-	216 521
issued by local government bodies	-	-	-	-	-	-	-	-	-	26 673	26 673
issued by banks	-	-	-	-	-	-	-	-	-	1 371	1 371
issued by other financial institutions	-	-	-	-	-	-	-	-	-	13 947	13 947
issued by non-financial institutions	-	-	-	-	-	-	-	-	-	15 064	15 064
Financial instruments measured at fair value through profit and loss - debt securities	-	-	12 503 732	-	-	-	-	14 794	-	-	12 518 526
of which											
issued by central bank	-	-	9 995 300	-	-	-	-	-	-	-	9 995 300
issued by the State Treasury	-	-	2 363 089	-	-	-	-	14 794	-	-	2 377 883
issued by local government bodies	-	-	145 343	-	-	-	-	-	-	-	145 343
Investment securities available for sale – debt securities	-	-	7 697 426	50 892	-	-	-	205 053	-	-	7 953 371
of which:											
issued by the State Treasury	-	-	7 697 426	-	-	-	-	205 053	-	-	7 902 479
issued by local government bodies	-	-	-	-	-	-	-	-	-	-	-
issued by banks	-	-	-	50 892	-	-	-	-	-	-	50 892
Investment securities held to maturity – debt securities	-	-	-	-	-	-	-	46 971	-	-	46 971
of which:											
issued by the State Treasury	-	-	-	-	-	-	-	27 843	-	-	27 843
issued by banks	-	-	-	-	-	-	-	19 128	-	-	19 128
Total	247 969	270 787	22 321 286	578 183	101 193	11 812	2 075	266 818	-	384 816	24 184 939

*Relates to securities of KREDOBANK SA Group – according to Moody's rating

(IN PLN THOUSAND)

49.3. Concentration of credit risk within the Group

The Group defines credit concentration risk as one of arising from a considerable exposure to single entities or to group of entities whose repayment capacity depends on a common risk factor. The Group analyses the risk of credit risk concentration in respect of:

- the largest business entities,
- the largest capital groups,
- industries,
- geographical regions,
- currencies,
- exposures with established mortgage collateral.

Concentration by the largest business entities

The Banking Law specifies maximum concentration limits for the Bank, which has an influence upon the Group. According to Article 71.1 of the Banking Law, the total value of the Bank's exposures, off-balance sheet liabilities and commitments granted or shares held by the Bank directly or indirectly in another entity, additional payments into a limited liability company as well as contributions or limited partnership sums - whichever higher - in a limited partnership or limited joint-stock partnership with a risk of one entity or a group of entities related by capital or management, cannot exceed concentration limit, which is 25% of the Bank's own consolidated funds.

As at 31 December 2013 and as at 31 December 2012, those concentration limits had not been exceeded. As at 31 December 2013, the level of concentration risk in Group with respect to individual exposures was low – the largest exposure to a single entity was equal to 5.1% of the Bank’s own consolidated funds. Among 20 largest borrowers of the Group there are exclusively clients of PKO Bank Polski SA.

Total exposure of the Group towards the 20 largest non-banking sector clients:

31.12.2013			31.12.2012		
No.	Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees and interest receivable	Share in credit portfolio, which does not include off-balance sheet and capital exposures	No.	Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees and interest receivable	Share in credit portfolio, which does not include off-balance sheet and capital exposures
1.	929 786	0.59%	1.	1 022 563	0.69%
2.	673 507	0.43%	2.	532 590	0.36%
3.	556 154	0.36%	3.	520 228	0.35%
4.	464 144	0.30%	4.	487 000	0.33%
5.	441 634	0.28%	5.	321 896	0.22%
6.	356 875	0.23%	6.	296 218	0.20%
7.	329 657	0.21%	7.	292 045	0.20%
8.	307 240	0.20%	8.	280 166	0.19%
9.	299 405	0.19%	9.	251 472	0.17%
10.	282 069	0.18%	10.	247 297	0.17%
11.	275 920	0.18%	11.	244 592	0.16%
12.	274 024	0.18%	12.	244 417	0.16%
13.	263 134	0.17%	13.	241 373	0.16%
14.	260 022	0.17%	14.	241 000	0.16%
15.	256 352	0.16%	15.	238 652	0.16%
16.	240 597	0.15%	16.	227 296	0.15%
17.	231 002	0.15%	17.	220 575	0.15%
18.	227 778	0.15%	18.	220 032	0.15%
19.	223 309	0.14%	19.	215 473	0.14%
20.	221 412	0.14%	20.	210 919	0.14%
Total	**7 114 021**	**4,55%**	**Total**	**6 555 804**	**4.41%**

Concentration by the largest groups

The greatest exposure of the PKO Bank Polski SA Group towards a group of borrowers amounted to 1.72%. The 5 largest capital groups include only clients of PKO Bank Polski SA.

As at 31 December 2013 and 31 December 2012, the concentration of credit risk by the largest capital groups was low. The greatest exposure of the Group towards a group amounted to 16.6% and 19.9% of the Group’s own consolidated funds.

(IN PLN THOUSAND)

Total exposure of the Group towards the 5 largest capital groups:

31.12.2013			31.12.2012		
No.	Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees and interest receivable	Share in credit portfolio, which does not include off-balance sheet and capital exposures	No.	Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees and interest receivable	Share in credit portfolio, which does not include off-balance sheet and capital exposures
1	3 536 942	2.26%	1	4 021 399	2.03%
2	2 790 997	1.79%	2	2 992 512	1.52%
3	2 056 058	1.32%	3	1 957 102	0.99%
4	1 960 687	1.25%	4	1 638 882	0.83%
5	1 446 402	0.93%	5	1 589 974	0.80%
Total	11 791 086	7,55%	Total	12 199 869	6.17%

Concentration by industry

As compared with 31 December 2012 the exposure of the Group in industry sectors has increased by nearly PLN 977 million. The total exposure in the four largest industry sectors: 'Industrial processing', 'Maintenance of real estate', 'Wholesale and retail trade (...)'and 'Construction' amounted to approx. 60% of the total loan portfolio covered by an analysis of the sector.

Analysis of exposure by industry segments as at 31 December 2013 and as at 31 December 2012 is presented in the table below:

Section	Section name	31.12.2013		31.12.2012	
		Exposure	Number of entities	Exposure	Number of entities
C	Industrial processing	18.45%	10.68%	18.18%	10.81%
L	Maintenance of real estate	15.89%	15.69%	15.90%	15.33%
G	Wholesale and retail trade; repair of motor vehicles	15.43%	22.52%	15.21%	22.31%
F	Construction	10.53%	10.92%	11.38%	11.06%
O	Public administration and national defence, obligatory social security	9.08%	0.38%	9.67%	0.48%
D	Electricity, gas, water vapour, hot water and air conditioning production and supply	2.06%	0.17%	2.03%	0.16%
Other exposure		28.56%	39.64%	27.63%	39.85%
Total		100.00%	100.00%	100.00%	100.00%

The above mentioned structure does not include a exposure arising from debt securities reclassified from the category 'available for sale' to 'loans and advances'.

Concentration by geographical regions

The Group's loan portfolio is diversified in terms of geographical location.

The structure of the loan portfolio by geographic regions is identified in the Group due to the Bank's client area – a separate area for the retail client (ORD) a separate area for the corporate client (ORK).

Within ORD 11 geographical regions are distinguished. As at 31 December 2013, the largest concentration of the ORD loan portfolio occurs in region of Katowice and Warsaw (ca. 23% of the ORD portfolio).

Within ORK, the Bank distinguish 7 macro-regions and the headquarter. As at 31 December 2013, the largest concentration of the ORK loan portfolio occurs in the Bank's headquarter and in the central macro region (20% and 17% of the ORK loan portfolio, respectively).

Concentration of credit risk by currency

As at 31 December 2013, the share of exposure in convertible currencies, other than PLN, in the total loan portfolio of the Group amounted to 20.4%.

A decrease in share of loans denominated in foreign currencies in 2013 is a result of a decrease in USD and CHF exchange rates in comparison to 2012. Moreover, a steady growth in new sales of loans offered to corporate clients granted in foreign currencies was observed, offset by a decrease in the involvement of currency portfolio of individual clients, as a result of lack of currency loans for these clients in the Bank's offer.

The greatest part of the Group's currency exposures are those in CHF and they relate mainly to the currency loan portfolio of the Bank. In case of particular Group entities, the situation is different, i.e. for the PKO Leasing SA Group and BTK SA, the greatest currency exposures are those in EUR (96% and 91% of currency loan portfolio of these Groups, respectively). Whereas, for the KREDOBANK SA Group and in the company Finansowa Kompania 'Prywatne Inwestycje' (i.e. entities operating in Ukraine) - USD denominated loans constitute the largest part (54% and 80% of the currency loan portfolio of these entities, respectively).

(IN PLN THOUSAND)

Concentration of credit risk by currency	31.12.2013	31.12.2012
PLN	79.59%	78.63%
Foreign currencies, of which:	20.41%	21.37%
CHF	12.64%	14.17%
EUR	5.65%	5.32%
USD	1.46%	1.21%
UAH	0.65%	0.66%
GBP	0.01%	0.01%
Total	100.00%	100.00%

Other types of concentration

In accordance with the Recommendation S and T of the Polish Financial Supervision Authority, the Bank uses internal limits on credit exposures related to the Bank's customers defining the appetite for the credit risk.

As at 31 December 2013, these limits have not been exceeded.

49.4. Forbearance practices

Bank takes as forbearance actions aiming at making changes in the contract terms agreed with a debtor or an issuer, forced by his difficult financial situation (restructuring activities). The aim of the forbearance is to restore a debtor or an issuer the ability to correct execution of the agreement and to maximise the efficiency of non-performing loans management, i.e. obtaining the highest recoveries while minimising the incurred costs, related to these recoveries, which are very high in case of executive proceedings.

Forbearance activities include a change in payment terms which is individually agreed on an each contract basis. Such changes may concern:

1) restoration of original terms,
2) repayment schedule,
3) spreading of payments into instalments,
4) interest rate,
5) loans reduction,
6) payment formulas (annuity instalments, diminishing instalment)

As a result of signing and a timely service of forbearance agreement, the loan being restructured is reset from overdue to current. Evaluation of the ability of a debtor to fulfil the forbearance agreement conditions (debt repayment according to the agreed schedule) constitutes an element of the forbearance process. Concluded forbearance agreements are monitored on an on-going basis. Signing of the forbearance agreement, amending the contractual terms due to the financial difficulties of a debtor or an issuer, is one of indications of individual impairment and results in the necessity of analysing the situation in terms of recording impairment charges or provisions revaluating the exposure value (provisions) resulting from this fact.

Loans and advances cease to be subject of forbearance if the following conditions are met simultaneously:

- 3 consecutive payments under the forbearance agreement schedule were settled,
- at least 60 days from the date of the first instalment determined in accordance with the forbearance agreement schedule have elapsed,
- other contractual arrangements are realised on a regular basis and not raising concerns,
- a loan is not covered by the outsourcing of debt collection activities.

	Carrying amount	
	31.12.2013	31.12.2012
Loans and advances to customers, gross	156 274 042	150 259 331
of which forbearance:	4 318 155	3 987 760
financial sector	183	523
corporate loans	183	523
non-financial sector	4 317 682	3 987 035
corporate loans	2 439 686	2 024 274
housing loans	1 437 655	1 512 753
consumer loans	440 341	450 008
public sector	290	202
corporate loans	290	202
Impairment allowances on loans and receivables to forbearance customers	(991 371)	(919 156)
Loans and advances to customers, net forbearance	3 326 784	3 068 604

(IN PLN THOUSAND)

Loans and advances to customers subjected to forbearance by geographical region	31.12.2013	31.12.2012
Poland		
mazowiecki	1 772 532	1 792 783
wielkopolski	434 487	392 709
śląsko-opolski	401 978	382 422
małopolsko-świętokrzyski	337 180	270 874
pomorski	242 532	246 339
podlaski	233 365	176 330
łódzki	206 303	173 453
dolnośląski	205 842	148 733
kujawsko-pomorski	160 294	114 211
zachodnio-pomorski	157 392	100 260
lubelsko-podkarpacki	101 949	94 389
warmińsko-mazurski	64 301	95 257
Total	**4 318 155**	**3 987 760**

Loans and advances to customers subjected to forbearance	Exposure by gross carrying amount		Collateral value	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Loans and advances impaired	3 107 480	3 519 311	173 583	209 507
Loans and advances not impaired, of which:	1 210 675	468 449	83 947	41 679
not past due	880 476	284 734	18 220	31 691
past due	330 199	183 715	65 727	9 988
Total gross	**4 318 155**	**3 987 760**	**257 530**	**251 186**

Change in carrying amount of loans and advances to customers subjected to forbearance at the beginning and at the end of the period

For the year ended 31 December 2013	Total
Carrying amount at the beginning of the period, net	3 068 604
Impairment allowance	(72 215)
Loans and advances derecognised in the period, gross	(2 124 716)
Loans and advances recognised in the period, gross	2 630 100
Other changes/repayment	(174 989)
Carrying amount at the end of the period, net	**3 326 784**

For the year ended 31 December 2012	Total
Carrying amount at the beginning of the period, net	3 304 253
Impairment allowance	299 277
Loans and advances derecognised in the period	(2 722 631)
Loans and advances recognised in the period	2 349 200
Other changes/repayment	(161 495)
Carrying amount at the end of the period, net	**3 068 604**

Loans and advances to customers gross by applied changes in terms of repayment for forbearance	Gross carrying amount	
	31.12.2013	31.12.2012
Restoration of original terms	2 482 200	2 500 962
Repayment schedule	1 540 718	745 498
Spreading of payments into instalments (introducing of payment schedule)	808 174	753 493
Change in interest rate	586 314	419 250
Loans reduction	307 501	272 539
Change in payments formulas (annuity instalments, diminishing instalments)	702 804	332 546

For a given loan exposure subject to forbearance more than one change in terms of repayment may be applied.

The amount of recognised interest income related to loans and advances to customers, which are subject to forbearance amounted to PLN 391 983 thousand as at 31 December 2013 (as at 31 December 2012 amounted to PLN 398 125 thousand).

(IN PLN THOUSAND)

49.5. Past due of financial assets

Financial assets which are past due but not impaired include the following financial assets:

Financial Assets	31.12.2013			
	up to 1 month	1 - 3 months	over 3 months	Total
Loans and advances to customers	2 529 235	885 979	296 864	3 712 078
financial sector	14	273	-	287
non-financial sector	2 466 927	875 420	296 864	3 639 211
public sector	62 294	10 286	-	72 580
Other assets – other financial assets	934	361	7 320	8 615
Total	2 530 169	886 340	304 184	3 720 693

Financial Assets	31.12.2012			
	up to 1 month	1 - 3 months	over 3 months	Total
Loans and advances to customers	3 445 601	1 226 842	174 948	4 847 391
financial sector	601	225	-	826
non-financial sector	3 365 019	1 222 405	174 948	4 762 372
public sector	79 981	4 212	-	84 193
Other assets – other financial assets	666	-	354	1 020
Total	3 446 267	1 226 842	175 302	4 848 411

Collateral for the above receivables includes: mortgages, registered pledges, transfers of property rights, account lock-ups, loan exposure insurances, warranties and guarantees.

The conducted assessment proved that for the above mentioned financial assets the expected cash flows fully cover the carrying amount of these exposures.

49.6. Financial assets assessed on an individual basis for which individual impairment allowance has been recognised by carrying amount gross

	31.12.2013	31.12.2012 restated	01.01.2012 restated
Amounts due from banks	28 543	29 373	32 385
Loans and advances to customers	5 532 429	6 505 083	5 700 627
Financial sector	3 927	36 113	44 757
corporate loans	3 927	36 113	44 757
Non-financial sector	5 522 293	6 462 761	5 648 319
corporate loans	4 049 698	4 594 172	4 302 318
housing loans	1 371 261	1 766 160	1 262 257
consumer loans	101 334	102 429	83 744
Public sector	6 209	6 209	7 551
corporate loans	6 209	6 209	7 551
Financial assets held for sale	6 260	5 639	18 058
issued by financial entities	8	8	9
issued by non-financial entities	6 252	5 631	18 049
Total	5 567 232	6 540 095	5 751 070

Financial assets for which individual objective evidence of impairment was identified were secured by the following collaterals established for the Group:

- for loans and advances to customers: ceiling mortgages and ordinary mortgages, registered pledges, promissory notes and transfers of receivables and property right for cash. The financial effect of the collateral held in respect of the amount that best represents the maximum exposure to credit risk as at 31 December 2013 amounted to PLN 4 022 319 thousand (as at 31 December 2012 the amount was PLN 4 203 045 thousand).
- for investment securities available for sale: blank promissory notes, guarantee, registered pledges on the bank account and on debtor's shares.

In determining impairment allowances for the above assets, the Group considered the following factors:

- delay in payment of the amounts due by the debtor,
- the debt being declared as due and payable,
- enforcement proceedings against the debtor,
- declaration of the debtor's bankruptcy or filling a petition to declare bankruptcy,
- the amount of the debt being challenged by the debtor,
- commencement of corporate recovery proceedings against the debtor,
- establishing imposed administration over the debtor or suspending the debtor's activities,
- a decline in debtor's rating to a level indicating a significant threat to the repayment of debt,
- restructuring actions taken and payment reliefs applied,
- additional impairment indicators identified for exposures to housing cooperatives arising from housing loans of the so called 'old portfolio', covered by State Treasury guarantees,
- expected future cash flows from the exposure and the related collateral,
- expected future economic and financial position of the client,
- the extent of execution of forecasts by the client.

49.7. Allowances for credit losses

The PKO Bank Polski SA Group performs a monthly review of loan exposures in order to identify loan exposures threatened with impairment, measure the impairment of loan exposures and record impairment charges or provisions. The process of determining the impairment charges and provisions consists of the following stages:

- identifying the indications of impairment and events significant from the point of view of identifying those indications,
- registering in the Group's IT systems the events that are material from the point of view of identifying indications of impairment of credit exposures,
- determining the method of measuring impairment,
- measuring impairment and determining an impairment charge or provision,
- verifying and aggregating the results of the impairment measurement,
- recording the results of impairment measurement.

The method of determining the amount of impairment charges is dependent on the type of indications of impairment identified and the individual significance of a credit exposure. The events considered as indications of individual impairment are, in particular, as follows:

- a loan being overdue for at least 3 months,
- a significant deterioration in a customer's internal rating,
- entering into restructuring agreement or granting a discount concerning debt repayment (the indication of impairment is recognised, if the convenience granted to the consumer are forced by economic or legal considerations arising from its financial situation).

When determining the overdue period of a loan, the amounts of interest not paid according to the schedule or instalment payments exceeding accepted thresholds are taken into account.

49.8. Impairment estimating methods

The PKO Bank Polski SA Group applies three methods of estimating impairment:

- the individualised method applied in respect of individually significant loans, for which the objective evidence of impairment was identified or requiring individual assessment due to the transactions specifics and resulting from events determining the repayment of exposure,
- the portfolio method applied in respect of individually insignificant loans, for which the objective evidence of impairment was identified,
- the group method (IBNR) applied in respect of the loans for which no objective evidence of impairment was identified, but there is a possibility of losses incurred but not recognised occurring.

Impairment allowances in respect of a loan exposure correspond to the difference between the carrying amount of the exposure and the present value of the expected future cash flows from a given exposure:

- while calculating impairment allowances under the individualised method, the expected future cash flows are estimated for each loan exposure individually, taking into account the possible scenarios relating to contract execution, weighted by the probability of their realisation,
- an impairment charge in respect of loan exposures under the portfolio method or the group method corresponds to the difference between the carrying amount of the exposures and the present value of the expected future cash flows estimated using statistical methods, based on historic observations of exposures from homogenous portfolios.

(IN PLN THOUSAND)

49.9. Off-balance sheet provisions

With regard to off-balance sheet credit exposures, the provision is determined as the difference between the expected amount of exposure in the statement of financial position, which will arise as a result of an off-balance sheet liabilities (from the date at which the assessment is performed till the date of overdue amounts due arising considered as constituting an indication of individual impairment) and the present value of the expected future cash flows obtained from the exposure in the statement of financial position arising out of the off-balance sheet liability.

When determining a provision under the individualised method, the expected future cash flows are estimated for each loan exposure separately.

When determining a provision under the portfolio method or the group method, the portfolio parameters are used, estimated using statistical methods, based on the historic observation of exposures with the same features.

In the second half of 2013, PKO Bank Polski SA implemented the results of work on more consistent methodology for estimating portfolio parameters used in the process of estimation of impairment allowances and write-downs with the methodology used for the purposes of determining capital requirements using internal rating based method (IRB). Standardised definition of default, including all indications of individual impairment, was included in the new methodology. Methods for portfolio parameters estimation depend on the characteristics of the distinguished portfolios and the possibility of using elements of modelling parameters in accordance with IRB.

Separate sub-portfolios of exposures without default history (FirstDefault) and with default history (ReDefault) were distinguished in PD model, making their further granulation as a result of overdue and client's rating class or score level. The methodology for estimating recovery rates ensures distinguishing their components, resulting from the recovery, restructuring and debt collection.

Introduced changes improved the impairment measurement accuracy and adequacy of impairment allowances recognised on distinguished loan sub-portfolios. At the level of the entire portfolio they did not cause significant changes in the amount of impairment allowances.

The structure of the loan portfolio and loan impairment allowances of the PKO Bank Polski SA Group are presented in Note 21 'Loans and advances to customers'.

49.10. Credit risk of financial institutions

As at 31 December 2013, the largest exposures of the PKO Bank Polski SA Group presents the table below:

Interbank exposure*			
Counterparty	Type of instrument		Total
	Deposits	Derivatives	
Counterparty 1	325 000	(48 464)	325 000
Counterparty 2	200 000	4 706	204 706
Counterparty 3	-	74 384	74 384
Counterparty 4	-	58 479	58 479
Counterparty 5	-	56 339	56 339
Counterparty 6	50 000	(4 830)	50 000
Counterparty 7	-	46 844	46 844
Counterparty 8	-	39 817	39 817
Counterparty 9	22 349	15 318	37 667
Counterparty 10	-	33 641	33 641
Counterparty 11	5 000	18 131	23 131
Counterparty 12	20 000	1 601	21 601
Counterparty 13	-	18 806	18 806
Counterparty 14	12 600	-	12 600
Counterparty 15	12 528	-	12 528
Counterparty 16	12 204	-	12 204
Counterparty 17	11 118	-	11 118
Counterparty 18	10 377	-	10 377
Counterparty 19	-	9 617	9 617
Counterparty 20	-	9 583	9 583

* Excluding exposure to the State Treasury and the National Bank of Poland.

(IN PLN THOUSAND)

For comparison, the largest exposures of the PKO Bank Polski SA Group on the interbank market as at 31 December 2012 presents the table below:

Counterparty	Interbank exposure*		
	Type of instrument		Total
	Deposits	Derivatives	
Counterparty 2	407 450	1 271	408 721
Counterparty 1	272 470	(60 011)	272 470
Counterparty 7	185 976	66 456	252 432
Counterparty 21	247 968	-	247 968
Counterparty 22	224 980	10 391	235 371
Counterparty 23	123 984	-	123 984
Counterparty 5	100 000	22 617	122 617
Counterparty 3	-	119 742	119 742
Counterparty 24	98 117	-	98 117
Counterparty 25	87 676	(31 447)	87 676
Counterparty 30	81 764	-	81 764
Counterparty 4	-	74 106	74 106
Counterparty 26	-	56 531	56 531
Counterparty 10	-	50 834	50 834
Counterparty 9	-	38 843	38 843
Counterparty 27	30 000	(9 060)	30 000
Counterparty 28	-	29 495	29 495
Counterparty 29	-	25 023	25 023
Counterparty 11	10 000	2 694	12 694
Counterparty 6	10 000	(20 957)	10 000

* Excluding exposure to the State Treasury and the National Bank of Poland.

For the purpose of determining exposures: placements and securities issued by the counterparties are stated at nominal values, while derivative instruments are stated at market values, excluding the collateral established by the counterparty. Total exposure to each counterparty (column 'Total') is the sum of exposures arising from placements and securities, increased by the exposure arising from derivative instruments, if it is positive (otherwise the exposure arising from derivatives is not included in total exposure). Exposure arising from all instruments is calculated from the moment of entering into transaction.

As at 31 December 2013 the Bank had signed master agreements (in accordance with ISDA/Polish Banks Association standards) with 26 local banks and 56 foreign banks and credit institutions. Additionally the Bank was a party of 63 CSA agreements (CreditSupportAnnex)/Polish Banks Association Agreements with established collateral and 7 ISMA agreements (International Securities Market Association).

Geographical localisation of counterparties

The counterparties generating the 20 largest exposures as at 31 December 2013 come from the following countries (classified by location of registered office):

No.	Country	Counterparty
1	Belgium	Counterparty 13
2	Denmark	Counterparty 5
3	France	Counterparty 2; Counterparty 7
4	The Netherlands	Counterparty 4
5	Germany	Counterparty 8
6	Poland	Counterparty 1, Counterparty 11, Counterparty 12, Counterparty 19, Counterparty 9, Counterparty 6
7	Switzerland	Counterparty 20
8	Sweden	Counterparty 16
9	Ukraine	Counterparty 14, Counterparty 15, Counterparty 17, Counterparty 18
10	The United Kingdom	Counterparty 10, Counterparty 3

Counterparty structure by rating

Exposure structure by rating is presented in the table below. The ratings were determined based on external ratings granted by Moody's, Standard&Poor's and Fitch (when a rating was granted by two agencies, the lower rating was applied, whereas when a rating was granted by three agencies, the middle rating was applied). Rating for counterparties 1 to 20 was accepted as at 31 December 2013.

Rating	Counterparty
AA	Counterparty 10
A	Counterparty 1, Counterparty 2, Counterparty 3, Counterparty 4, Counterparty 5, Counterparty 7, Counterparty 8, Counterparty 13, Counterparty 16, Counterparty 20, Counterparty 11
BBB	Counterparty 6, Counterparty 9, Counterparty 19
BB	Counterparty 12
CCC	Counterparty 14
without rating	Counterparty 15, Counterparty 17, Counterparty 18

49.11. Credit risk of financial institutions on retail markets

In addition to the interbank market exposure discussed above, as at 31 December 2013 the Group had an exposure to financial institutions on the retail market. The structure of this exposure (over PLN 10 million) is presented in the table below:

	Nominal value of exposure (in thousand PLN)		Country of the counterparty
	Statement of financial position item	Off-balance	
Counterparty 12	500 000	-	Poland
Counterparty 27	50 000	-	Poland

49.12. Management of foreclosed collateral

Foreclosed collaterals as a result of restructuring or debt collection activities are either used by the Group for internal purposes or designated for sale. Details of the foreclosed assets are analysed in order to determine whether they can be used or sale by the Group for internal purposes. All of the assets taken over as a result of restructuring and debt collection activities in the years ended 31 December 2013 and 31 December 2012, respectively, were designated for sale.

Activities undertaken by the Group are aimed at selling assets as soon as possible. In individual and justified cases, assets may be withheld from sale. This occurs only if circumstances indicate that the sale of the assets at a later date is likely to generate greater financial benefits. The primary procedure for a sale of assets is open auction. Other procedures are acceptable in cases where they provide a better chance of finding a buyer and generate higher proceeds for the Group.

The Group takes steps to disseminate broadly to the public the information about assets being sold by publishing it on the Group's website, placing announcements in the national press, using internet portals i.a. carried out internet auctions and sending offers. In addition, the Group cooperates with external firms operating all over Poland in respect of collection, transportation, storage and intermediation in the sale of assets taken over by the Group as a result of restructuring and debt collection activities. The Group has also entered into cooperation agreements with external companies, which perform valuations of the movable and immovable properties that the Group has foreclosed or would like to foreclose in the course of realisation of collateral.

The carrying amounts of non-financial assets held by the Group, taken over in exchange for debts as at 31 December 2013 amounted to PLN 118 131 thousand and as at 31 December 2012 amounted to PLN 76 818 thousand. The above mentioned amounts are presented in Note 29 'Other assets', in line item 'Other' (PLN 12 346 thousand and PLN 12 779 thousand respectively), in Note 26 'Inventories', in line item 'Supplies' (PLN 105 785 thousand and PLN 64 039 thousand respectively).

49.13. Credit risk reporting

The Bank prepares monthly and quarterly credit risk reports. The reporting of credit risk covers specifically cyclic information on the scale of risk exposure of the credit portfolio. In addition to the information concerning the Bank, the reports also contain information about the credit risk level for Group's subsidiaries (i.a. KREDOBANK SA and the PKO Leasing SA Group), which have significant credit risk levels.

49.14. Management actions concerning credit risk

Basic credit risk management tools used by the Bank include:

- minimum transaction requirements (risk parameters) determined for a given type of transaction (e.g. minimum LTV amount, maximum loan amount, required collateral),
- the principles of defining credit availability, including cut-offs – the minimum number of points awarded in the process of creditworthiness assessment with the use of a scoring system (for retail clients) or the client's rating class or cumulative rating class (for corporate clients), which a client must obtain to receive a loan,
- concentration limits – the limits defined in the Article 71, clause 1 of the Banking Law,
- industry-related limits – limits which reduce the risk level related to financing institutional clients that conduct business activities in industries characterised by high level of credit risk,
- limits on credit exposures related to the Bank's customers – the limits defining the appetite for credit risk as result of i.a. the recommendations S and T,

- credit limits defining the Bank's maximum exposure to a given client or country in respect of wholesale operations and settlement limits and limits for the period of exposure,
- competence limits – they define the maximum level of credit decision-making powers with regard to the Bank's clients, the limits depend primarily on the amount of the Bank's exposure to a given client (or a group of related clients) and the loan transaction period; the competence limit depends on the credit decision-making level (in the Bank's organisational structure),
- minimum credit margins – credit risk margins relating to a given credit transaction concluded by the Bank with a given corporate client but the interest rate offered to a client cannot be lower than the reference rate plus credit risk margin.

Collateral management policy plays a significant role in establishing minimum transaction terms as regards credit risk. The Bank's and the Group entities collateral management is meant to secure properly the credit risk to which the Group is exposed, including first of all the fact of establishing collateral that will ensure the highest possible level of recovery in the event of realisation of collateral.

The Bank applies the following rules with respect to accepting legal collateral for loans:

- in the case of substantial loans (in terms of value), several types of collateral are established, if possible, personal guarantees are combined with collateral established on assets,
- liquid types of collateral i.e. collateral established on tangible assets, in which the disposal is possible without a substantial reduction in their prices at a time, which does not expose the Bank to change the value of the collateral because of the appropriate prices fluctuation of a particular collateral are preferred,
- when an asset is accepted as collateral, an assignment of rights from the insurance policy relating to this asset or the insurance policy issued to the Bank are accepted as additional collateral,
- collateral is assessed in terms of the actual possibility of their use as a potential source of the Bank's claim. The basis of the value assessment of the collateral established on tangible assets is the market value,
- effective establishment of collateral in compliance with the loan agreement is necessary to make the funds available.

The policy regarding legal collateral is defined by internal regulations of Group's subsidiaries.

The type of collateral depends on the product and the type of the client. With regard to real estate financing products, collateral is required to be established as mortgage on the property. Until an effective mortgage is established, the following types of collateral are used (depending on type and amount of loan): an increased credit margin or/and a collateral in the form of a cession of receivables related to the construction agreement, a cession of a development contract and an open/closed fiduciary account/guarantee, bill of exchange or warranty.

With regard to retail banking loans for individuals, usually personal guarantees are used (a civil law surety/guarantee, a bill of exchange) or collateral is established on the client's bank account, car or securities.

With regard to loans for the financing of small and medium enterprises and corporate clients, collateral can be established on i.a.: trade receivables, bank accounts, movable property, real estate or securities.

When signing a leasing agreement, the PKO Leasing SA Group, as a proprietor of leased objects, treats them as collateral.

50. Interest rate risk management

The interest rate risk is a risk of incurring losses on the Bank's balance and off-balance sheet items sensitive to interest rate fluctuations, as a result of changes in the interest rates on the market.

The objective of interest rate risk management is to mitigate the risk of incurring losses arising from market interest rate changes to an acceptable level by shaping the structure of balance and off-balance sheet items.

50.1. Measurement of interest rate risk

In the process of interest rate risk management, the Group uses, in particularly, the Value at Risk (VaR) model, interest income sensitivity measure, stress tests and a repricing gap.

The value at risk (VaR) is defined as a potential loss arising from the maintained structure of balance and off-balance sheet items and the volatility of interest rates, with the assumed probability level and taking into account the correlation between the risk factors.

The sensitivity of interest income is a measure showing changes in interest income resulting from abrupt changes in the interest rates. This measure takes into account the diversity of revaluation dates of the individual interest-bearing items in each of the selected time horizons.

Stress-tests are used to estimate potential losses arising from a held structure of the statement of financial position and off-balance sheet items under market conditions that cannot be described in a standard manner using statistical measures. Two types of scenarios are used by the Bank:

1) hypothetical scenarios – which are based on arbitrary interest rate fluctuations: a parallel move in interest rate curves for the particular currencies by ±50 b.p., ±100 b.p., ±200 b.p. and bend of yield curve scenarios (non-parallel fluctuations of peak and twist types),
2) historical scenarios – in which interest rate fluctuations are adopted based on the behaviour of interest rates in the past, including: the highest historical change, a bend of a yield curve along with portfolio positions, the largest historical non-parallel fluctuation of the interest rate curves for securities and derivative instruments that hedge them.

The repricing gap shows the difference between the present value of assets and liabilities exposed to interest rate risk, subject to revaluation in a given time range, and these balances are recognised on the transaction date.

Repricing Gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
PLN (in PLN thousand)								**31.12.2013**
The Group - Periodic gap	33 399 912	65 145 339	(21 487 204)	(58 287 987)	(3 477 566)	4 653 403	385 740	**20 331 637**
The Group - Cumulative gap	33 399 912	98 545 251	77 058 047	18 770 060	15 292 494	19 945 897	20 331 637	-
PLN (in PLN thousand)								**31.12.2012**
The Group - Periodic gap	29 517 774	65 951 390	(69 387 571)	(12 609 541)	3 899 546	1 247 440	730 988	**19 350 026**
The Group - Cumulative gap	29 517 774	95 469 164	26 081 593	13 472 052	17 371 598	18 619 038	19 350 026	-
USD (in USD thousand)								**31.12.2013**
The Group - Periodic gap	(65 294)	422 848	(2 714)	(439 140)	42 353	33 150	(187 419)	**(196 216)**
The Group - Cumulative gap	(65 294)	357 554	354 840	(84 300)	(41 947)	(8 797)	(196 216)	-
USD (in USD thousand)								**31.12.2012**
The Group - Periodic gap	55 168	680 179	(397 882)	(376 860)	27 308	16 128	(249 901)	**(245 860)**
The Group - Cumulative gap	55 168	735 347	337 465	(39 395)	(12 087)	4 041	(245 860)	-
EUR (in EUR thousand)								**31.12.2013**
The Group - Periodic gap	93 870	758 029	(95 955)	(680 969)	(468 390)	130 175	(8 733)	**(271 973)**
The Group - Cumulative gap	93 870	851 899	755 944	74 975	(393 415)	(263 240)	(271 973)	-
EUR (in EUR thousand)								**31.12.2012**
The Group - Periodic gap	616 887	217 275	(773 599)	87 721	(27 993)	(337 913)	(47 618)	**(265 240)**
The Group - Cumulative gap	616 887	834 162	60 563	148 284	120 291	(217 622)	(265 240)	-
CHF (in CHF thousand)								**31.12.2013**
The Group - Periodic gap	(745 852)	1 194 522	(1 700)	(40 300)	(500 000)	(7 700)	17 700	**(83 330)**
The Group - Cumulative gap	(745 852)	448 670	446 970	406 670	(93 330)	(101 030)	(83 330)	-
CHF (in CHF thousand)								**31.12.2012**
The Group - Periodic gap	(595 388)	1 034 428	(43 057)	(1 977)	1 030	(492 069)	20 183	**(76 850)**
The Group - Cumulative gap	(595 388)	439 040	395 983	394 006	395 036	(97 033)	(76 850)	-

At the end of 2013 and 2012 the Group had a positive cumulative gap in PLN in all time horizons.

50.2. Forecasting and monitoring of interest rate risk

As at 31 December 2013 and 31 December 2012, the exposure of the PKO Bank Polski SA Group to the interest rate risk comprised mainly of the exposure of the Bank. Interest rate risk generated by the Group entities with regard to PLN, EUR and CHF did not have a significant effect on the interest rate risk of the entire Group and therefore did not significantly affect its risk profile. Interest rate risk with regard to USD was significantly altered by exposure of the Group entities, in which the biggest part has the exposure of KREDOBANK SA.

VaR of the Bank and stress-tests analysis of the Group's exposure to the interest rate risk are presented in the following table:

Name of sensitivity measure	31.12.2013	31.12.2012
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)*	54 930	64 451
Parallel movement of interest rate curves by 200 b.p. (in PLN thousand) (stress test)**	495 858	270 818

* Due to the nature of the activities carried out by the other Group entities generating significant interest rate risk as well as a the specific nature of the market on which they operate, the Group does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. KREDOBANK SA uses the 10-day interest rate VaR for the main currencies, which amounted to approx. PLN 10 686 thousand as at 31 December 2013 and PLN 14 287 thousand as at 31 December 2012, respectively.
** The table presents the value of the most adverse stress-test of the scenarios: movement of interest rate curves in PLN by 200 b.p. up and by 200 b.p. down.

As at 31 December 2013 the interest rate VaR for a 10-day time horizon (10-day VaR) amounted to PLN 54 930 thousand, which accounted for approximately 0.27% of the value of the Bank's own funds. As at 31 December 2012, VaR for the Bank amounted to PLN 64 451 thousand, which accounted for approximately 0.33% of the Bank's own funds*.

50.3. Reporting of the interest rate risk

The Bank prepares daily, weekly, monthly and quarterly reports addressing interest rate risk. The quarterly reports are also applicable to the Group. Reports present the information on interest rate risk exposure and usages of available limits regarding the risk.

50.4. Management decisions as regards interest rate risk

The main tools used in interest rate risk management in the Group include:

- procedures for interest rate risk management,
- limits and thresholds for interest rate risk,
- defining allowable transactions based on interest rates.

The Group established limits and thresholds for interest rate risk comprising the following: price sensitivity, interest income sensitivity, limits and threshold for losses and limits on instruments sensitive to interest rate fluctuations.

Methods of interest rate risk management in the Group subsidiaries are defined by internal regulations implemented by those entities which are characterised by significant values of interest rate risk measure outcomes. These regulations are developed after consultation with the Bank and include recommendations issued by the Bank for Group entities.

51. Currency risk management

Currency risk is the risk of incurring losses due to unfavourable exchange rate changes. The risk is generated by maintaining open currency positions in a given foreign currency.

The objective of currency risk management is to mitigate the risk of incurring losses arising from exchange rate fluctuations to an acceptable level by shaping the structure of balance and off-balance sheet positions.

51.1. Measurement of the currency risk

The Bank measures currency risk using the Value at Risk (VaR) model and stress-tests.

The Value at Risk (VaR) is defined as a potential loss arising from currency position and foreign exchange rate volatility under the assumed confidence level and taking into account the correlation between the risk factors.

Stress-tests and crash-tests are used to estimate potential losses arising from currency position under extraordinary market conditions that cannot be described in a standard manner using statistical measures. Two types of scenarios are used by the Bank:

1) hypothetical scenarios – which assume a hypothetical appreciation or depreciation of currency rates (by 20 percent and 50 percent),
2) historical scenarios – based on the behaviour of currency rates observed in the past.

* Own funds calculated in accordance with regulations concerning calculation of the capital adequacy ratio.

51.2. Forecasting and monitoring of currency risk

VaR of the Bank and stress-testing of the Group's exposure to currency risk are stated cumulatively for all currencies in the table below:

Name of sensitivity measure	31.12.2013	31.12.2012
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)*	2 443	628
Change in CUR/PLN by 20% (in PLN thousand) (stress-test)**	21 428	3 869

* Due to the nature of the activities carried out by the other Group entities generating significant currency risk as well as the specific nature of the market on which they operate, the Bank does not calculate consolidated VaR. These companies apply their own risk measures in the currency risk management. KREDOBANK SA uses the 10-day VaR, which amounted to approx. PLN 906 thousand as at 31 December 2013 and approx. PLN 614 thousand as at 31 December 2012.
** The table presents the value of the most adverse stress-test of the scenarios: PLN appreciation by 20% and PLN depreciation by 20%.

The level of currency risk was low both as at 31 December 2013 and as at 31 December 2012.

The Group's currency positions are presented in the table below:

Currency position	31.12.2013	31.12.2012
EUR	13 010	(11 933)
USD	79 507	(8 277)
CHF	6 526	(20 127)
GBP	3 673	4 611
Other (Global Net)	6 020	12 395

The volume of currency positions is a key factor determining the level of currency risk on which the Group is exposed (except for volatility of foreign exchange rates). The level of currency positions is determined by all foreign currency transactions, which are concluded by the Group, both in the statement of financial position and off-balance sheet transactions. The Bank's exposure to currency risk is low (with reference to own funds, VaR for a 10-day time horizon for the Bank's currency position at the end of 2013 amounted to ca. 0.004%).

51.3. Currency structure

The tables below present currency exposure by the specific types of assets, liabilities and off-balance sheet liabilities:

	Currency translated into PLN – 31.12.2013				
	PLN	EUR	CHF	Others	Total
Assets, of which:					
Cash and balances with the central bank	6 359 564	581 510	39 657	265 389	**7 246 120**
Amounts due from banks	805 314	574 672	13 862	528 176	**1 922 024**
Loans and advances to customers	125 394 275	8 444 323	19 931 944	2 503 500	**156 274 042**
Securities	29 365 544	145 846	-	317 785	**29 829 175**
Tangible assets	9 727 792	-	-	245 304	**9 973 096**
Other assets and derivatives	5 333 488	255 297	27 576	482 956	**6 099 317**
Total assets (gross)	176 985 977	10 001 648	20 013 039	4 343 110	**211 343 774**
Depreciation/amortisation/impairment	(10 570 899)	(173 928)	(614 275)	(753 562)	**(12 112 664)**
Total assets (net)	**166 415 078**	**9 827 720**	**19 398 764**	**3 589 548**	**199 231 110**
Liabilities and equity, of which:					
Amounts due to the central bank	4 065	-	-	-	**4 065**
Amounts due to banks	1 256 472	811 344	1 389 847	289 674	**3 747 337**
Amounts due to customers	139 590 140	6 495 989	1 430 741	4 387 311	**151 904 181**
Debt securities in issue	1 422 185	3 538 895	2 545 438	3 039 928	**10 546 446**
Subordinated liabilities	1 620 857	-	-	-	**1 620 857**
Provisions	306 107	9 107	467	5 189	**320 870**
Other liabilities and derivatives and deferred tax liability	5 558 145	259 237	1 471	114 176	**5 933 029**
Equity	25 154 325	-	-	-	**25 154 325**
Total liabilities and equity	**174 912 296**	**11 114 572**	**5 367 964**	**7 836 278**	**199 231 110**
Off-balance sheet liabilities granted	**39 453 333**	**3 101 545**	**88 784**	**1 954 118**	**44 597 780**

(IN PLN THOUSAND)

	Currency translated into PLN – 31.12.2012 restated				
	PLN	EUR	CHF	Others	Total
Assets, of which:					
Cash and balances with the central bank	9 368 406	674 288	33 045	213 712	**10 289 451**
Amounts due from banks	617 044	653 886	113 550	2 037 388	**3 421 868**
Loans and advances to customers	118 589 986	7 849 595	21 431 995	2 387 755	**150 259 331**
Securities	24 675 645	240 044	-	266 932	**25 182 621**
Tangible assets	9 133 765	-	-	257 518	**9 391 283**
Other assets and derivatives	5 717 705	338 477	80 187	165 570	**6 301 939**
Total assets (gross)	168 102 551	9 756 290	21 658 777	5 328 875	**204 846 493**
Depreciation / amortisation / impairment	(10 239 991)	(188 214)	(587 468)	(680 145)	**(11 695 818)**
Total assets (net)	**157 862 560**	**9 568 076**	**21 071 309**	**4 648 730**	**193 150 675**
Liabilities and equity, of which:					
Amounts due to the central bank	3 128	-	-	-	**3 128**
Amounts due to banks	975 425	1 088 997	1 426 514	243 011	**3 733 947**
Amounts due to customers	134 365 900	6 274 670	1 254 119	4 298 881	**146 193 570**
Debt securities in issue	1 100 846	3 498 295	2 548 618	3 123 024	**10 270 783**
Subordinated liabilities	1 631 256	-	-	-	**1 631 256**
Provisions	715 143	15 076	379	6 608	**737 206**
Other liabilities and derivatives and deferred tax liability	5 748 402	272 522	2 079	121 374	**6 144 377**
Equity	24 436 408	-	-	-	**24 436 408**
Total liabilities and equity	**168 976 508**	**11 149 560**	**5 231 709**	**7 792 898**	**193 150 675**
Off-balance sheet liabilities granted	**37 739 286**	**3 094 483**	**99 935**	**1 956 855**	**42 890 559**

	Currency translated into PLN – 01.01.2012 restated				
	PLN	EUR	CHF	Others	Total
Assets, of which:					
Cash and balances with the central bank	8 468 498	365 266	28 741	279 663	**9 142 168**
Amounts due from banks	366 793	1 070 348	219 257	772 641	**2 429 039**
Loans and advances to customers	111 233 124	8 295 725	24 625 849	2 758 034	**146 912 732**
Securities	27 626 050	309 552	-	256 527	**28 192 129**
Tangible assets	8 535 276	-	-	352 399	**8 887 675**
Other assets and derivatives	4 955 728	260 814	41 031	186 993	**5 444 566**
Total assets (gross)	161 185 469	10 301 705	24 914 878	4 606 257	**201 008 309**
Depreciation / amortisation / impairment	(9 044 071)	(227 207)	(538 972)	(756 557)	**(10 566 807)**
Total assets (net)	**152 141 398**	**10 074 498**	**24 375 906**	**3 849 700**	**190 441 502**
Liabilities and equity, of which:					
Amounts due to the central bank	3 454	-	-	-	**3 454**
Amounts due to banks	1 626 266	963 916	3 503 896	145 086	**6 239 164**
Amounts due to customers	132 464 871	6 852 350	1 306 358	5 850 318	**146 473 897**
Debt securities in issue	3 294 783	3 555 738	921 258	-	**7 771 779**
Subordinated liabilities	1 614 377	-	-	-	**1 614 377**
Provisions	617 968	13 843	434	3 516	**635 761**
Other liabilities and derivatives and deferred tax liability	4 772 826	324 797	4 523	92 154	**5 194 300**
Equity	22 508 770	-	-	-	**22 508 770**
Total liabilities and equity	**166 903 315**	**11 710 644**	**5 736 469**	**6 091 074**	**190 441 502**
Off-balance sheet liabilities granted	**32 000 400**	**3 321 411**	**128 614**	**1 439 963**	**36 890 388**

51.4. Reporting of the currency risk

The Bank prepares daily, weekly, monthly, and quarterly reports addressing currency risk. The quarterly reports are also applicable to the Group. Reports gather the information on currency risk exposure and updates on available limits regarding the risk.

51.5. Management decisions concerning currency risk

Main tools used in currency risk management in the Group include:

- procedures for currency risk management,
- limits and thresholds for currency risk,
- defining allowable types of transactions in foreign currencies and the exchange rates used in such transactions.

The Group has set limits and threshold values for currency risk for i.a.: currency positions, Value at Risk calculated for a 10-day time horizon and daily loss from transactions on currency market.

Methods of currency risk management in the Group's subsidiaries are defined by internal regulations implemented by these entities, which are characterised by high level of currency risk measure outcomes. The regulations are defined after consultation with the Bank and take into account recommendations issued by the Bank to the entities.

52. Liquidity risk management

The liquidity risk is defined as the lack of possibility to pay the debts on time due to the lack of liquid assets. Lack of liquidity may arise from inappropriate structure of statement of financial position, misfit of cash flows, not received payments from contractors, sudden withdrawal of cash by clients or other market events.

The objective of liquidity risk management is to pay present and future debts (also potential) on time, taking into account the nature of performed activities and requirements which may occur due to changes in market environment, by shaping the structure of statement of financial position and off-balance sheet liabilities.

The Group's policy concerning liquidity is based on keeping a portfolio of liquid securities and increasing stable sources of financing (stable deposits, in particular). In its liquidity risk management policy, also uses money market instruments, including NBP open market operations.

52.1. Measurement of the liquidity risk

The Group makes use of the following liquidity risk measures:

- the contractual liquidity gap method and the liquidity gap in real terms,
- liquidity reserve,
- measure of stability of deposit and loan portfolios,
- stress tests (liquidity stress tests).

52.2. Forecasting and monitoring of liquidity risk

Liquidity gaps presented below include the sum of Bank's adjusted liquidity gap (adjusted in terms of the following: core balances on deposits of non-financial sector and their maturity, core balances on loans in current accounts for non-financial entities and their maturity and liquid securities and their maturity) and contractual liquidity gap of other Group entities.

	a'vista	0 - 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 24 months	24 - 60 months	over 60 months
31.12.2013								
The Group - adjusted gap in real terms	6 980 540	13 323 611	(10 261 085)	(843 470)	1 710 668	5 611 828	18 606 239	(35 128 331)
The Group - cumulative adjusted gap in real terms	6 980 540	20 304 151	10 043 066	9 199 596	10 910 264	16 522 092	35 128 331	-
31.12.2012								
The Group - adjusted gap in real terms	10 386 244	6 857 506	25 124	3 044 679	2 005 333	9 159 462	11 851 101	(43 329 449)
The Group - cumulative adjusted gap in real terms	10 386 244	17 243 750	17 268 874	20 313 553	22 318 886	31 478 348	43 329 449	-

In all time horizons, the Group's cumulative adjusted liquidity gap in real terms , which has been determined as a sum of adjusted gap in real terms and contractual liquidity gaps of the remaining entities of the Group, as at 31 December 2013 and as at 31 December 2012 was positive. This means a surplus of assets receivable over liabilities payable.

The table below presents liquidity reserve of the Bank as at 31 December 2013 and as at 31 December 2012:

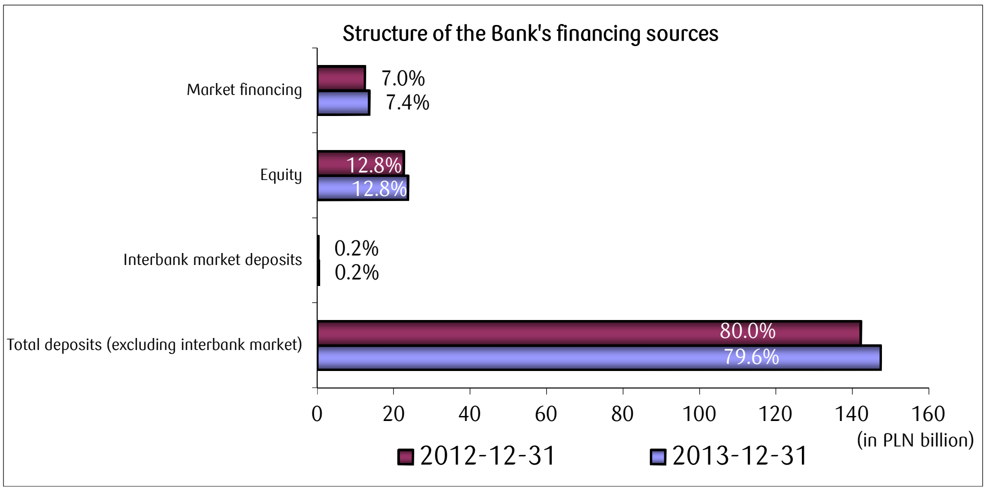
Name of sensitivity measure	31.12.2013	31.12.2012
Liquidity reserve up to 1 month* (in PLN million)	17 816	13 568

*Liquidity reserve equals the gap between the most liquid assets and expected and potential liabilities which mature in a given period of time.

As at 31 December 2013 the level of core balances on deposits constituted approx. 95.9% of all deposits in the Bank (excluding interbank market), which means an increase by approximately 2.6 pp. as compared to the end of 2012.

(IN PLN THOUSAND)

The chart below presents the structure of the Bank's sources of financing as at 31 December 2013 and as at 31 December 2012.



52.3. The contractual flows of the Group's liabilities excluding derivative financial instruments as at 31 December 2013 and as at 31 December 2012 respectively, by maturity.

The tables below show the contractual maturity analysis presenting the outstanding contractual maturity dates by individual categories of balance sheet and off-balance sheet liabilities, excluding derivative financial instruments as at 31 December 2013 and as at 31 December 2012 respectively.

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2013 and as at 31 December 2012. The amounts disclosed comprise non-discounted future flows, both in respect of principal and interest (if applicable), in accordance with the contract, for the entire period to the date of the liability's maturity. In situations where the party to whom the Group has a liability is able to select the settlement deadline, it has been assumed that the earliest date on which the Group is obliged to settle the liability shall be taken into account. In situations where the Group is obliged to settle the liabilities in instalments, each instalment is allocated to the earliest period in which the Group might be obligated to settle. In the case of liabilities where the instalment date is not fixed, the terms binding as at the reporting date have been adopted.

Contractual flows of the Group's liabilities as at 31 December 2013 by maturity

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value	Carrying amount
Liabilities:							
Amounts due to the central bank	4 065	-	-	-	-	4 065	**4 065**
Amounts due to banks	1 236 481	81 002	361 143	2 232 178	-	3 910 804	**3 747 337**
Amounts due to customers	94 883 152	16 098 647	26 106 968	14 389 798	2 550 664	154 029 229	**151 904 181**
Debt securities in issue	-	140 689	1 063 632	6 786 712	3 810 765	11 801 798	**10 546 446**
Subordinated liabilities	-	34 688	35 292	348 471	2 013 270	2 431 721	**1 620 857**
Other liabilities	1 993 874	76 367	514 047	37 010	35 514	2 656 812	**2 547 237**
Off-balance sheet financial liabilities – granted	2 941 472	600 751	1 704 497	3 246 161	26 644 294	35 137 175	-
Off-balance sheet guarantee liabilities – granted	55 886	22 331	356 419	179 882	276 513	891 031	-

Contractual flows of the Groups liabilities as at 31 December 2012 by maturity

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value	Carrying amount
Liabilities:							
Amounts due to the central bank	3 128	-	-	-	-	3 128	**3 128**
Amounts due to banks	1 158 279	85 999	273 388	2 244 275	151 976	3 913 918	**3 733 947**
Amount due to customers	87 314 644	16 314 368	41 024 818	1 121 055	1 467 708	147 242 593	**146 193 570**
Debt securities in issue	-	573 132	449 472	7 024 373	3 990 913	12 037 889	**10 270 783**
Subordinated liabilities	-	52 389	53 257	422 874	2 129 220	2 657 741	**1 631 256**
Other liabilities	1 517 843	49 496	404 524	29 760	109 182	2 110 805	**1 983 399**
Off-balance sheet financial liabilities – granted	18 171 700	812 123	3 992 227	3 543 538	5 733 236	32 252 824	-
Off-balance sheet guarantee liabilities – granted	10 377 135	-	-	-	-	10 377 135	-

(IN PLN THOUSAND)

52.4. The contractual flows related to derivative financial instruments as at 31 December 2013 and as at 31 December 2012 respectively, by maturity dates

Derivative financial instruments settled in net amounts

Derivative financial instruments settled by the Group on a net basis include:

- interest rate swaps (IRS),
- Forward Rate Agreements (FRA),
- Non Deliverable Forwards (NDF),
- options.

The tables below show the contractual maturity analysis presenting the outstanding contractual maturity dates by individual categories of derivative financial instruments in respect of which the balance date valuation was negative (a liability) as at 31 December 2013 and as at 31 December 2012 respectively.

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2013 and as at 31 December 2012. In case of IRS transactions, non-discounted future net cash flows in respect of interest have been presented and in case of the remaining derivative instruments settled on a net basis, the amount of the valuation as at 31 December 2013 and as at 31 December 2012 respectively was adopted as the value of cash flows.

Moreover, in the table the cash flows from IRS transactions which constitute cash flow hedges in respect of loans with variable interest rates are shown separately.

31 December 2013	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value
Derivative financial instruments - liabilities:						
- Interest Rate Swap (IRS) transactions, of which:	90 370	(57 992)	111 747	111 310	(10 916)	244 519
- derivative hedging instruments	49 757	14 229	48 532	150 395	-	262 913
- other derivative hedging instruments: options, FRA, NDF	(41 165)	(8 319)	(48 048)	(41 165)	-	(138 697)

31 December 2012	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value
Derivative financial instruments - liabilities:						
- Interest Rate Swap (IRS) transactions, of which:	(23 128)	(277 200)	(535 706)	(742 846)	(86 351)	(1 665 231)
- derivative hedging instruments	-	(534)	24	(1 023)	-	(1 533)
- other derivative hedging instruments: options, FRA, NDF	(5 871)	(9 398)	(129 056)	(45 167)	-	(189 492)

Derivative financial instruments settled in gross amounts

Derivative financial instruments settled by the Group on a gross basis include:

- foreign currency swaps,
- foreign currency forwards,
- Cross Currency IRS (CIRS).

The tables below show the contractual maturity analysis, presenting the outstanding contractual maturity dates by individual categories of derivative financial instruments (inflows and outflows) in respect of which the balance date valuation was negative (a liability) as at 31 December 2013 and as at 31 December 2012 respectively. The amounts denominated in foreign currencies have been translated using the average NBP rate as at 31 December 2013 and as at 31 December 2012. The amounts disclosed comprise non-discounted future cash flows, both in respect of principal and interest (if applicable).

(IN PLN THOUSAND)

In the table below cash flows from CIRS transactions which constitute cash flow hedges in respect of mortgage loans denominated in CHF and deposits negotiated in PLN are shown separately.

31 December 2013	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value
Derivative financial instruments:						
- outflows, of which:	(1 849 706)	(450 043)	(1 495 046)	(3 028 734)	(1 071 151)	(7 894 680)
- derivative hedging instruments	(9 510)	(104 562)	(76 941)	(762 546)	(799 481)	(1 753 040)
- inflows, of which:	2 667 156	660 715	1 277 266	4 458 373	1 601 828	10 665 338
- derivative hedging instruments	16 525	376 723	249 269	2 611 406	1 320 615	4 574 538

31 December 2012	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value
Derivative financial instruments:						
- outflows, of which:	(2 350 423)	(1 591 595)	(5 724 512)	(3 204 947)	(379 212)	(13 250 689)
- derivative hedging instruments	(6 951)	(233 496)	(960 036)	(1 003 916)	(103 629)	(2 308 028)
- inflows, of which:	2 297 344	1 682 011	6 008 299	5 019 833	658 357	15 665 844
- derivative hedging instruments	34 379	256 053	2 618 093	3 280 754	373 846	6 563 125

52.5. Current and non-current assets and liabilities

31 December 2013

	Short-term	Long-term	Impairment allowances	Total carrying amount
Assets				
Cash and balances with the central bank	7 246 120	-	-	**7 246 120**
Amounts due from banks	1 827 492	94 532	(28 583)	**1 893 441**
Trading assets	479 881	-	-	**479 881**
Derivative financial instruments	822 349	2 178 511	-	**3 000 860**
Financial assets designated upon initial recognition at fair value through profit and loss	14 186 661	1 018 095	-	**15 204 756**
Loans and advances to customers	41 294 317	114 979 725	(6 650 780)	**149 623 262**
Investment securities available for sale	698 501	13 408 032	(33 455)	**14 073 078**
Securities held to maturity	18 314	19 691	-	**38 005**
Inventories	425 298	278 148	(53 805)	**649 641**
Other assets	2 199 584	5 628 201	(805 719)	**7 022 066**
Total assets	**69 198 517**	**137 604 935**	**(7 572 342)**	**199 231 110**
Liabilities				
Amounts due to the central bank	4 065	-	-	**4 065**
Amounts due to banks	2 279 311	1 468 026	-	**3 747 337**
Derivate financial instruments	1 065 920	2 262 291	-	**3 328 211**
Amounts due to customers	135 360 982	16 543 199	-	**151 904 181**
Debt securities in issue	1 383 963	9 162 483	-	**10 546 446**
Subordinated liabilities	-	1 620 857	-	**1 620 857**
Other liabilities	2 749 043	176 645	-	**2 925 688**
Total liabilities	**142 843 284**	**31 233 501**	**-**	**174 076 785**
Equity	**-**	**25 154 325**	**-**	**25 154 325**
Total liabilities and equity	**142 843 284**	**56 387 826**	**-**	**199 231 110**

(IN PLN THOUSAND)

31 December 2012 restated

	Short-term	Long-term	Impairment allowances	Total carrying amount
Assets				
Cash and balances with the central bank	10 289 451	-	-	10 289 451
Amounts due from banks	3 417 883	3 985	(29 382)	3 392 486
Trading assets	277 566	-	-	277 566
Derivative financial instruments	1 138 254	2 722 307	-	3 860 561
Financial assets designated upon initial recognition at fair value through profit and loss	11 050 957	1 578 754	-	12 629 711
Loans and advances to customers	39 611 445	110 647 886	(6 776 265)	143 483 066
Investment securities available for sale	918 134	11 310 239	(23 243)	12 205 130
Investment securities held to maturity	19 498	27 473	-	46 971
Inventories	551 302	33 736	(31 504)	553 534
Other assets	2 147 806	4 681 824	(417 431)	6 412 199
Total assets	**69 422 296**	**131 006 204**	**(7 277 825)**	**193 150 675**
Liabilities				
Amounts due to the central bank	3 128	-	-	3 128
Amounts due to banks	1 691 722	2 042 225	-	3 733 947
Derivative financial instruments	1 276 016	2 688 082	-	3 964 098
Amounts due to customers	134 488 990	11 704 580	-	146 193 570
Debt securities in issue	995 044	9 275 739	-	10 270 783
Subordinated liabilities	-	1 631 256	-	1 631 256
Other liabilities	2 357 801	559 684	-	2 917 485
Total liabilities	**140 812 701**	**27 901 566**	**-**	**168 714 267**
Equity	**-**	**24 436 408**	**-**	**24 436 408**
Total liabilities and equity	**140 812 701**	**52 337 974**	**-**	**193 150 675**

1 January 2012 restated

	Short-term	Long-term	Impairment allowances	Total carrying amount
Assets				
Cash and balances with the central bank	9 142 168	-	-	9 142 168
Amounts due from banks	2 425 344	3 695	(32 812)	2 396 227
Trading assets	638 321	672 768	-	1 311 089
Derivative financial instruments	1 304 726	1 760 007	-	3 064 733
Financial assets designated upon initial recognition at fair value through profit and loss	11 666 896	800 305	-	12 467 201
Loans and advances to customers	37 254 731	109 658 001	(5 658 243)	141 254 489
Investment securities available for sale	2 116 703	12 297 136	(20 563)	14 393 276
Inventories	493 481	106 453	(33 088)	566 846
Other assets	1 626 436	4 636 471	(417 434)	5 845 473
Total assets	**66 668 806**	**129 934 836**	**(6 162 140)**	**190 441 502**
Liabilities				
Amounts due to the central bank	3 454	-	-	3 454
Amounts due to banks	5 513 385	725 779	-	6 239 164
Derivative financial instruments	883 657	1 761 624	-	2 645 281
Amounts due to customers	141 686 933	4 786 964	-	146 473 897
Debt securities in issue	3 160 479	4 611 300	-	7 771 779
Subordinated liabilities	-	1 614 377	-	1 614 377
Other liabilities	3 102 852	81 928	-	3 184 780
Total liabilities	**154 350 760**	**13 581 972**	**-**	**167 932 732**
Equity	**-**	**22 508 770**	**-**	**22 508 770**
Total liabilities and equity	**154 350 760**	**36 090 742**	**-**	**190 441 502**

52.6. Reporting of the liquidity risk

The Bank prepares daily, weekly, monthly, and quarterly reports addressing liquidity risk. The quarterly reports are also applicable to the Group. Reports present the information on liquidity risk exposure and usages of available limits regarding the risk.

52.7. Management decisions concerning liquidity risk

The main tools for liquidity risk management in the PKO Bank Polski SA Group are as follows:

- procedures for liquidity risk management, in particular emergency plans,
- limits and thresholds mitigating liquidity risk,
- deposit, investment and derivative transactions, including structural currency transactions and transactions for sale or purchase of securities,
- transactions ensuring long-term financing of Bank's lending activities.

To ensure an adequate liquidity level, the Bank and subsidiaries of the PKO Bank Polski SA Group have accepted limits and thresholds for liquidity risk. The limits and thresholds were set for current liquidity measures , medium and long-term liquidity measures.

Methods of liquidity risk management in subsidiaries of the Group are defined by internal regulations implemented by the Group entities which are characterised by high levels of liquidity risk measure outcomes.

These regulations are developed after consultation with the Bank and take into account recommendations issued by the Bank to the entities.

53. Commodity price risk management

Commodity price risk is the risk of incurring a loss due to changes in commodity prices, generated by maintaining open positions on particular types of goods.

The objective of commodity price risk management is to reduce potential losses resulting from changes in commodity prices to the acceptable level by influencing the structure of balance sheet and off-balance sheet commodity positions.

Commodity price risk is managed by imposing limits on instruments generating the commodity price risk, monitoring their use and reporting the risk level.

The effect of commodity price risk on the Group's financial position is immaterial.

54. Price risk of equity securities management

The price risk of equity securities is the risk of incurring a loss due to changes in the prices of equity securities on the public market or stock exchange indices, generated by maintaining open positions in instruments sensitive to changes in these market parameters.

The price risk of equity securities results from operations conducted as part of trading activities (the Brokerage House of PKO Bank Polski SA), investing activities and from other operations as part of banking activities generating a position in equity securities.

Managing the equity securities risk is aimed at limiting possible losses due to changes in the prices of equity securities on the public market or stock exchange indices to a level acceptable to the Bank, by optimising the positions taken in instruments sensitive to changes in these market parameters.

The risk is managed by imposing limits on the activities of the Brokerage House of PKO Bank Polski SA divided into the banking portfolio and the trading portfolio, and by monitoring the utilisation thereof.

The effect of the price risk of equity securities on the financial position of the Bank was assessed as immaterial. The positions taken in equity securities and index instruments are limited, and the Bank does not expect them to increase significantly.

The Bank prepares monthly and quarterly reports addressing equity securities price risk. Reports comprise the information on equity securities price risk exposure and usage of available limits regarding the risk.

55. Other price risks

Taking into consideration other price risks, at the end of the year 2013, the Bank was exposed to price risk of investment fund participation units in collective investment funds.

Influence of this risk to the Bank's financial situation is also immaterial – a capital requirement, pursuant to the Resolution No. 76/2010 (with subsequent amendments), to cover the above mentioned risk amounted to approximately PLN 60 thousand at the end of the 2013.

56. Derivative instruments risk management

The risk of derivative instruments is a risk resulting from the Bank's taking up a position in financial instruments, which meet all of the following conditions:

1) the value of an instrument changes with the change of the underlying instrument,
2) it does not require any initial net investment or requires only a small initial net investment compared with other types of contracts which similarly respond to changes in market terms,
3) it is to be settled at a future date.

The derivative risk management process is integrated with the management of the following types of risk: interest rate, currency, liquidity and credit risk management. However, due to the specific nature of derivatives it is subject to special control specified in the internal regulations of the Bank.

56.1. Measurement of the derivative instruments risk

The Bank measures the derivative instrument risk using, among others, the Value at Risk (VaR) model described in the section on interest rate risk or currency risk, depending on the risk factor which affects the value of the instrument.

In the measurement of other Group members' derivative-related risk, information on the companies' positions in specific instruments is used, as indicated by the Bank.

56.2. Forecasting and monitoring of the derivative instruments risk

Monitoring the risk of derivative instruments takes place as part of monitoring of other types of financial and credit risk. The Bank pays particular emphasis to monitor financial risk related to the maintenance of currency options portfolio and customer credit risk resulting from amounts due to the Bank in respect of derivative instruments.

56.3. Reporting of the derivative instruments risk

The Bank prepares daily, weekly, monthly, and quarterly reports addressing the risk of derivative instruments. The quarterly reports are also applicable to the Group. Reports present the information on the derivative risk exposure and updates on available limits regarding the risk.

56.4. Management decisions concerning risk of derivative instruments

The main tools used in derivative risk management are as follows:

- written procedures for derivative risk management,
- limits and thresholds set for the risk related to derivative instruments,
- master agreements specifying, i.a. settlement mechanisms.

Risk management is carried out by imposing limits on the derivative instruments divided into the Bank's trading and banking portfolios, monitoring limits and reporting risk level.

Master agreements concluded by the Bank with the major business partners based on the standards developed by the Polish Bank Association (domestic banks) and ISDA (foreign banks and credit institutions), which allow offsetting mutual liabilities, both due (mitigation of settlement risk) and not yet due (mitigation of pre-settlement risk), are particularly important for mitigating the risk associated with derivative instruments. Additional collateral for exposures, resulting from derivative instruments are collateral deposits escrowed by counterparties as a part of CSA agreement (Credit Support Annex).

Methods of derivative risk management in the Group subsidiaries are defined by internal regulations implemented by these entities which take up a position in financial instruments or plan to take positions in such instruments. These regulations are developed after consultation with the Bank and take into account the recommendations issued by the Bank for the Group entities.

Positions taken by the other Group entities in particular derivative instruments are determined using similar methods to those used for positions taken by the Bank in such instruments, taking into account the specific nature of the business conducted by the Group entities.

57. Operational risk management

Operational risk is defined as the risk of occurrence of a loss due to non-compliance or unreliability of internal processes, people and systems or external events.

The objective of operational risk management is to optimise operational efficiency by reducing operating losses, costs streamlining and improving the timing and adequacy of the response of the Group to events which are beyond its control.

57.1. Measurement of the operational risk

Measurement of operational risk at the Bank aims at defining the scale of threats related to the existence of operational risk with the use of defined risk measures. The measurement of operational risk comprises:

- calculation of Key Risk Indicators (KRI),
- calculation of the AMA results,
- stress-tests,
- calculation of capital requirements and internal capital.

Identification and assessment of operational risk comprises operational risk appearing in the existing products, processes and IT applications of the Bank, the above is conducted with the use of:

- accumulation of data on operational events,
- inspections, proceedings and functional internal control,
- Key Risk Indicators (KRI).

57.2. Forecasting and monitoring of operational risk

The Bank regularly monitors:

- utilisation level of strategic tolerance limits and loss limits on operational risk,
- effectiveness and timeliness of actions taken to reduce or transfer the operational risk,
- setting threshold and critical values of Key Risk Indicators (KRI),
- operating events and their effects.

In 2013, the dominant impact on the operational risk profile of the Group was exercised by the following 3 entities: PKO Bank Polski SA, the PKO Leasing SA Group and KREDOBANK SA. Other Group subsidiaries, considering their significantly smaller scale and type of activity, generate only reduced operational risk. The Group subsidiaries manage operational risk according to principles of risk management in PKO Bank Polski SA, considering their specific nature and scale of activity.

57.3. Reporting of operational risk

The Bank prepares reports concerning operational risk of the Bank and the Group's subsidiaries on a quarterly basis. The reports contain among others information on:

- the results of measuring and monitoring operational risk,
- the operational risk profile of the Bank resulting from the process of identifying and assessing the threats for products, processes and IT software of the Bank,
- actions taken to reduce operational risk and evaluate the effectiveness of actions taken to reduce operational risk level,
- recommendation and decision for the Operational Risk Committee or the Management Board.

Each month, information on operational risk is prepared and forwarded to members of the Management Board and organisational units of the Bank responsible for system-based operating risk management. The scope of information is diversified and tailored to the scope of responsibilities of individual recipients of the information.

57.4. Management decisions concerning operational risk

Operational risk management is performed through systemic solutions as well as regular ongoing management of the risk. Systemic operational risk management is centralised at the PKO Bank Polski SA Head Office level. The ongoing operational risk management is conducted by every organisational unit of the Bank.

In order to manage the operational risk, the Bank gathers internal and external data about operating events and their causes, data on the operating environment, and data related to the quality of internal functional controls.

In order to mitigate exposure to operational risk, the following tools are used by the Bank:

1) control instruments,
2) human resources management instruments (staff selection, enhancement of professional qualification of employees, motivation packages),
3) setting threshold values of Key Risk Indicators (KRI),
4) tolerance and operational risk limits,
5) contingency plans,
6) insurance,
7) outsourcing.

In order to manage the operational risk, the Bank gathers internal and external data about operating events and their causes, data on the operating environment, and data related to the quality of internal functional controls.

If the risk level is elevated or high, the Bank uses the following approach:

- risk reduction – mitigating the impact of risk factors or consequences of its materialisation,
- risk transfer – transfer of responsibility for covering potential losses on a third-party,
- risk avoidance – resignation from activity that generates risk or elimination the probability of the occurrence of a risk factor.

The Group entities manage the operational risk in accordance with the rules implemented by the PKO Bank Polski SA, taking into account the specific nature and scale of the business conducted by individual entities.

58. Compliance risk management

Compliance risk is defined as the risk of legal sanctions, incurring financial losses or losing reputation or reliability due to failure of the Group, its employees or entities acting on its behalf to comply with the provisions of the law, internal regulations, standards adopted by the Group, including ethical standards.

The objective of the compliance risk management is:

1) to prevent the occurrence of cases of non-compliance and establish among shareholders, customers, employees, business partners and other market participants, the Bank's image as an institution acting in accordance with the law and accepted standards of conduct, reliable, fair and honest,
2) preventing the possibility of losing reputation or reliability of the Group, as a result of failure to comply or improper application the provisions of the law, internal regulations, standards adopted by the Bank, including ethical standards,
3) preventing the risk of occurring financial losses or legal sanction risk, which may result from breach of above mentioned regulations and standards of conduct.

Appropriate organisational units or designated employees are responsible for finding systemic solutions in the area of ensuring the Group entities compliance with the binding regulations and operating standards. Compliance Department is responsible for finding such solutions and development of the methods for evaluation, monitoring and reporting the Bank's compliance risk. The Compliance Department is a unit which was granted independence and which, in the area of compliance risk management, reports directly to the President of the Bank's Management Board.

In all entities in the PKO Bank Polski SA Group consistent principles of compliance risk management exist.

Identification and assessment of compliance risk is carried out cyclically by the entities of the Group, in collaboration with the Compliance Department and includes in particular:

1) estimating the potential severity of the cases of non-compliance as a:
   - financial losses, particularly administrative penalties or damages,
   - losing reputation or reliability,
2) carrying out an in-depth assessment of the process in accordance with the law regulations, using information on the findings of external controls and internal audits, formulated post-control recommendations and degree of their implementation.

58.1. Monitoring of compliance risk includes in particular:

1) the results of the identification and assessment of compliance risk,
2) instances of non-compliance – their origins and effects caused,
3) actions undertaken by the Bank as part of:
   - managing the compliance risk,
   - execution of internal audits, functional controls and external controls recommendations,
   - adapting to the new law regulations and standards of conduct,
   - execution of the recommendations of the Bank,
4) assessment the effectiveness of control mechanisms associated with reducing the compliance risk.

Compliance risk management in the Group involves in particular the following:

1) preventing involvement of the Bank in illegal activities,
2) ensuring data protection,
3) development of ethical standards and monitoring of their application,
4) conflict of interest management,
5) preventing situations where the Bank's employees could be perceived as pursuing their own interest in the professional context,
6) professional, fair and transparent formulation of product offers, advertising and marketing messages,
7) prompt, fair and professional consideration of complaints, requests and quality claims of clients.

The entities of the Group have adopted a zero tolerance policy against compliance risk, which means that the entities of the Group focus their actions towards preventing cases of materialisation of this risk.

59. Business risk management

Business risk is understood as the risk of incurring losses due to adverse changes in the business environment, taking bad decisions, the incorrect implementation of decisions taken, or not taking appropriate actions in response to changes in the business environment; this includes in particular strategic risk.

Managing the business risk is aimed at maintaining, on an acceptable level, the potential negative financial consequences resulting from adverse changes in the business environment, making adverse decisions, improper implementation of adopted decisions or lack of appropriate actions, which would be a response to changes in the business environment.

59.1. Business risk measurement

Business risk identification is to recognise and determine factors both current and potential, resulting from current and planned activities of the Bank and which may significantly affect the financial position of the Bank, generating or change in the Bank's income and expense. Business risk identification is made through the analysis of selected items from the income statement related to the Bank's income and expense.

Measurement of business risk is aimed at defining the scale of threats related to the existence of business risk with the use of defined risk measures. The measurement of business risk is conducted quarterly and comprises:

- calculation of selected business risk indicators,
- conducting stress-tests,
- calculation of internal capital.

The internal capital for covering business risk of the Bank is determined on the basis of analysis of historical volatility of selected items of the income statement, related to the Bank's income and expense in accordance with the earnings at risk concept (*Earnings at Risk*).

The internal capital for covering business risk of the Group entities is determined as the product of:

- ratio of internal capital calculation for covering business risk, and
- results on banking activities.

A ratio of internal capital calculation for covering business risk for the Group entities is determined as the relation of internal capital for covering business risk of the Bank to total internal capital of the Bank.

59.2. Forecasting and monitoring of business risk

Forecasting of business risk in the Bank is conducted once a quarter on a yearly basis and includes forecast of the level of business risk and internal capital. Once a quarter, the verification of business risk forecast (*so-called backtesting*) is also performed.

Monitoring of business risk includes in particular:

- strategic levels of business risk tolerance – on a quarterly basis,
- stress-tests results – on an annual basis,
- internal capital level – on a quarterly basis,
- deviations from the implementation of business risk forecast – on a quarterly basis.

59.3. Reporting of business risk

Business risk reporting of the Group is conducted quarterly. Reports on business risk are prepared for the ALCO, the RC and the Management Board. Reports contain i.a. information on the internal capital level, stress-tests results, results of a survey conducted among senior management staff of the Bank, utilisation of strategic risk limits on business risk, business risk forecast and forecast backtesting.

59.4. Management decisions concerning business risk

The main tools used in business risk management in the Bank include: procedures for business risk management and limits and thresholds for business risk.

60. Reputation risk management

The reputation risk is defined as the risk related to a possibility of negative variations from the planned financial results of the Bank due to the deterioration of the Bank's image. The objective of managing the reputation risk is to protect the Bank's image and limit the probability of the occurrence and level of reputation loss.

Reputation risk management in the Bank involves in particular:

- execution of communication protective measures,
- media monitoring: television, radio, press, Internet in terms of identifying image-related events effects and distribution of information in this regard,
- recording image-related events effects,
- analysing and evaluation of image-related events effects and determining the level of reputation risk.

The main tools for the execution of activities related to the assessment of the Bank's reputation risk level are:

- a catalogue of image-related events categories containing a list of image-related events categories with appropriate weights assigned. A catalogue defines the risk profile by assigning appropriate weights to particular categories of image-related events.
- a register of image-related events effects used to recording identified image-related events effects – media monitoring result and complaints and requests.

The reports on the level of reputation risk are prepared in the Bank on an annual basis. The reports are addressed to the Management Board, the Supervisory Board and organisational units of the Banking Risk Division.

61. Model risk management

Model risk is the risk of incurring negative financial or reputation effects as a result of making incorrect business decisions on the basis of the models operating within the Bank.

The objective of models management and model risk management is to mitigate the level of model risk in the Group.

Within the Group, model risk is managed both on the part of a given company (an owner of a model) and at the level of the Bank. In December 2013, a new department - one of whose tasks is to ensure greater standardisation and integration of management methods of model risk within the Group - was appointed by a resolution of the Management Board.

61.1. Identification and assessment of model risk

Identification of model risk in the Bank mainly consists of:

- gathering information on all existing, built and planned to be build models,
- cyclical determining the relevance of models,
- determining potential threats that may occur during the life cycle of the model.

All models relevant to the Bank are covered by the regular independent validation process.

The model risk evaluation is aimed at determining the scale of threats associated with the occurrence of the model risk. Assessment of the risk level of particular elements important from the model's point of view, risk assessment on the level of a single model and aggregate assessment of the model risk level is carried out in the Bank.

Ratings may be aggregated mainly at the level of the Bank, particular risk types or classes of models, particular processes of model life-cycle. The model risk assessment is performed at least once a year and at the moment of appearing of new models, change the scale or business profile of the Bank.

61.2. Model risk monitoring

The purpose of model risk monitoring is to control model risk and diagnose areas for management actions. Model risk monitoring process contains, in particular: the level of model risk, the status of implementation of the proposed recommendations and the effectiveness of implementation of the recommendations on mitigation of model risk.

61.3. Model risk reporting

Model risk reporting is conducted in the Bank on a quarterly and annual basis. Reports contain, in particular:

- results of model risk monitoring,
- information on the level of model risk and model risk map,
- potential proposed management actions reducing the model risk,
- evaluation of effectiveness of the recommendations made to reduce the model risk level,
- conclusions, reports or summaries resulting from the model management process.

61.4. Management actions concerning model risk

The purpose of management actions is to form a model risk management process and a level of this risk in the Bank.

Management actions in particular consist of:

- issuing internal regulations,
- determining acceptable levels of risk,
- issuing recommendations,
- making decisions about the use of tools supporting model risk management.

62. Macroeconomic changes risk management

Risk of macroeconomic changes is a risk of deterioration of the financial situation of the Bank as a result of the adverse impact of changes in macroeconomic conditions.

The purpose of risk of macroeconomic changes management is to identify macroeconomic factors having a significant impact on the Bank's activities and taking actions to reduce the adverse impact of potential changes in the macroeconomic situation on the financial situation of the Bank.

62.1. Identification and assessment of risk of macroeconomic changes

Identification of risk of macroeconomic changes is to determine scenarios of the potential macroeconomic changes and to determine risk factors having the greatest impact on the financial situation of the Bank. Risk of macroeconomic changes results from interaction of factors dependent and independent of the Bank's activities. The Bank identifies the factors affecting the level of risk of macroeconomic changes during carrying out comprehensive stress-tests.

The risk of macroeconomic changes materialises indirectly through other risks affecting the Bank's operations by:

- credit losses,
- losses arising from adverse changes in market situation (changes in exchange rates, changes in interest rates),
- a decrease in the liquidity of the Bank,
- losses arising from the operational risk realisation,
- other losses.

For the purpose of measuring the risk of macroeconomic changes the Bank uses risk measures based on the results of comprehensive stress-tests, in particular:

- financial result and its components,
- capital adequacy measures and their components,
- selected liquidity measures.

62.2. Macroeconomic changes risk monitoring

A process of risk of macroeconomic changes monitoring includes monitoring of:

- changes in the macroeconomic situation,
- macroeconomics factors on which the Bank is sensitive,
- results of stress-tests,
- level of risk of macroeconomic changes.

62.3. Macroeconomic changes risk reporting

Risk of macroeconomic changes reporting is realised in the form of reports summarising the results of each stress-tests. Reports are addressed to ALCO and the Management Board. Reports include information i.a.:

- summary of the results of stress-tests,
- in case of elevated or high level of risk of macroeconomic changes: an analysis of reasons which led to an increase in the risk level, assessment of the potential consequences of this situation for the Bank, prediction of possible outcomes, proposals of actions aimed at reducing the level of risk, an initial assessment of their effectiveness.

62.4. Management actions concerning risk of macroeconomic changes

Management actions in particular consist of:

- issuing internal regulations of the Bank,
- determining acceptable levels of risk,
- proposals of actions aimed at reducing the level of risk in the event of elevated or high risk of macroeconomic changes occurrence.

63. Complex stress-tests

Complex stress-tests are an integral part of the PKO Bank Polski SA Group's risk management and are complementary for stress-test-specific to particular types of risks.

Complex stress-tests collectively include the following risks considered by the the PKO Bank Polski SA Group to be relevant, including:

- credit risk,
- market risk,
- liquidity risk,
- operational risk,
- business risk.

Complex stress-tests include an analysis of the impact of changes in the environment and the functioning of the Bank on the financial position of the PKO Bank Polski SA Group, in particular on:

- income statement,
- statement of financial position,
- own funds,
- the capital adequacy, including capital requirements, internal capital, measures of capital adequacy,
- selected liquidity measures.

Complex stress-tests for the own use of the Group are carried out at least once a year in the three-year horizon, taking into account changes in the value and structure of the statement of financial position and income statement items (dynamic tests). Supervisory tests are carried out at the request of the supervisory authorities in accordance with the assumptions provided by supervisory authorities.

64. Capital adequacy

Capital adequacy is the maintenance of a level of capital by the PKO Bank Polski SA Group exceeds the higher of: the sum of regulatory capital requirements (the so-called pillar 1) and the sum of internal capital requirements (the so-called pillar 2).

The objective of capital adequacy management is to continuously maintain capital on a level that is adequate to the risk scale and profile of the Group's activities.

The process of managing the Group's capital adequacy comprises:

- identifying and monitoring of all of significant risks,
- assessing internal capital to cover the individual risk types and total internal capital,
- monitoring, reporting, forecasting and limiting of capital adequacy,
- performing internal capital allocations to business segments, client segments and entities of the Group in connection with profitability analyses,
- using tools affecting the capital adequacy level (including: tools affecting the level of equity, the scale of equity item reductions and the level of the loan portfolio).

The main measures of capital adequacy are:

- the capital adequacy ratio whose minimum level in accordance with the Banking Law is 8%,
- the ratio of equity to internal capital whose acceptable minimum level in accordance with the Banking Law is 1.0,
- the capital adequacy ratio of common equity Tier 1 (Common Equity Tier 1 Ratio).

As at 31 December 2013 compared with 31 December 2012, the Group's capital adequacy ratio increased by 0.69 pp. to the level of 13.58%, mainly due to an increase in the Group's own funds for the purposes of capital adequacy.

The level of the Group's capital adequacy in 2013 remained at a safe level, significantly above the statutory limits.

64.1. Own funds for capital adequacy purposes

Own funds for the purposes of capital adequacy are calculated in accordance with the provisions of the Banking Law and Resolution of the Polish Financial Supervision Authority No. 325/2011 of 20 December 2011 on deductions from own funds, their amount, their scope and conditions of their deduction from a bank's own funds, other statement of financial position items included in supplementary funds, their amount, their scope and conditions of inclusion in the bank's supplementary funds, deductions from supplementary funds, their amount, their scope and conditions of their deduction from supplementary funds and the scope and manner of treating the activity of banks that are members of holdings in calculating own funds (Official Journal of PFSA No. 13, item 49).

Own funds comprise basic funds, supplementary funds and short-term capital.

Basic funds (so-called Tier 1) are comprised of the following items:

1) principal funds comprising: share capital, reserve capital, other reserve capital,
2) general banking risk fund,
3) unappropriated profits from previous years,
4) net profit prior to approval and net profit for the current reporting period, calculated based on appropriate accounting standards, decreased by any expected charges and dividends, in amounts not exceeding amounts audited by certified public accountants, in accordance with the Banking Law, Article 127.2, Point 2c.

Basic funds are reduced by deducting the following items:

1) intangible assets stated at carrying amount,
2) the Bank's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies – in the amount of 50% of the value of such exposures,
3) unrealised losses on debt, equity instruments and other receivables classified as available for sale,
4) negative currency translation differences from foreign operations,
5) negative amounts in respect of adjustments on revaluation of assets in the trading portfolio.

Supplementary funds (so-called Tier 2) are comprised of the following items:

1) subordinated liabilities,
2) unrealised gains on debt and equity instruments classified as available for sale – in the amount of 80% of their pre-tax value,
3) positive currency translation differences from foreign operations.

Moreover, the supplementary funds are reduced by 50% of the value of the Bank's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies. If the amount of reduction would result in supplementary funds falling below nil, the excess above the value of the supplementary funds is subtracted from the basic funds.

The own funds of the Group include also short-term capital.

In addition, the following items are included in the calculation of consolidated own funds of the Group:

1) goodwill of subsidiaries,
2) non-controlling interests in equity.

(IN PLN THOUSAND)

Information on the structure of the Group's own funds is presented in the table below:

GROUP'S OWN FUNDS	31.12.2013	31.12.2012 restated
Basic funds (Tier 1)	**19 611 274**	**18 474 861**
Share capital	1 250 000	1 250 000
Reserve capital	16 760 686	15 364 728
Other reserves	3 469 107	3 437 957
General banking risk fund for unidentified banking activities risk	1 070 000	1 070 000
Unappropriated profits from previous years	(306 230)	(416 554)
Unrealised losses on debt and equity instruments and other receivables classified as available for sale	(141 815)	(77 104)
Assets valuation adjustments in trading portfolio	(5 656)	(504)
Intangible assets, of which:	(2 230 222)	(1 934 000)
goodwill of subordinated entities	(218 850)	(222 438)
Equity exposures	(121 930)	(98 115)
Negative currency translation differences from foreign operations	(134 175)	(121 209)
Non-controlling interest	1 509	(338)
Supplementary funds (Tier 2)	**1 539 670**	**1 573 276**
Subordinated liabilities classified as supplementary funds	1 600 700	1 600 700
Unrealised profits on debt and equity instruments classified as available for sale (up to 80% of their values before tax)	56 145	69 787
Positive currency translation differences from foreign operations	4 755	904
Equity exposures	(121 930)	(98 115)
Short-term equity (Tier 3)	**154 112**	**129 641**
TOTAL OWN FUNDS	**21 305 056**	**20 177 778**

64.2. Capital requirements (Pillar 1)

The Group calculates capital requirements in accordance with the Resolution No. 76/2010 of the Polish Financial Supervision Authority dated 10 March 2010 on scope and detailed principles of setting capital requirements in connection with the individual risk types (Official Journal of PFSA No. 2, item 11 dated 9 April 2011 with subsequent amendments):

- in respect of credit risk – using the standard method,
- in respect of the Bank's operational risk – using the advanced method (AMA), and for Group entities - the basic index approach (BIA),
- in respect of market risk - using the basic methods.

The scale of the Bank's and the Group's trading activities is significant, therefore the total capital requirements constitute sum of the capital requirements for:

1) credit risk – including credit risk of the banking book and counterparty credit risk,
2) market risk – including foreign exchange risk, commodities price risk, equity securities price risk, specific risk of price of debt instruments, general risk of interest rates,
3) operational risk,
4) other types of capital requirements in respect of:
   a) settlement and delivery risk,
   b) the risk of exceeding the exposure concentration limit and the large exposure limit,
   c) the risk of exceeding the capital concentration threshold.

The table below presents the Group's exposure to particular types of risk.

Capital requirements	31.12.2013	31.12.2012 restated
Credit risk	**11 593 995**	**11 370 948**
credit risk (banking book)	11 439 347	11 207 116
counterparty risk (trading book)	154 648	163 832
Market risk	**327 321**	**494 551**
equity securities price risk	17 507	586
specific risk of price of debt instruments	213 734	412 110
general risk of interest rates	96 060	81 855
settlement and delivery risk	20	0
Operational risk	**630 884**	**659 587**
Total capital requirements	**12 552 200**	**12 525 086**
Capital adequacy ratio	**13.58%**	**12.89%**

(IN PLN THOUSAND)

An increase in the capital requirement in 2013 in respect of credit risk resulted from a significant increase in the volume of loan portfolio (statement of financial position and off-balance-sheet exposures) by approx. 4%.

A decrease in the capital requirement in respect of market risk by approx. 34% to the level of PLN 327 million includes mainly issue of corporate bonds underwriting and a corporate bonds portfolio (total decrease in the requirements on these bonds amounted to approx. by 57%).

The Bank's capital requirement in respect of operating risk for both 2013 and 2012 was calculated under the advanced measurement approach (AMA), and a requirement on operating risk of the Group entities was calculated under the basic index approach (BIA). A slight decrease of the requirement in respect of operating risk from PLN 660 million (as at 31 December 2012) to PLN 631 million (as at 31 December 2013) occurred.

The Group calculates capital requirements on account of credit risk according to the following formula:

- in case of statement of financial position items – a product of a carrying amount, a risk weight of the exposure calculated according to the standardised method of credit risk requirement and 8% (considering recognised collaterals),
- in case of granted off-balance sheet liabilities – a product of nominal value of liability (considering value of provisions for the liability), a risk weight of the product, a risk weight of off-balance sheet exposure calculated according to the standardised method of credit risk requirement and 8% (considering recognised collaterals),
- in case of off-balance sheet transactions (derivative instruments) – a product of risk weight of the off-balance sheet exposure calculated according to the standardised method of credit risk requirement, equivalent in the statement of financial position of off-balance sheet transactions and 8% (the value of the equivalent in the statement of financial position is calculated in accordance with the mark-to-market method).

Risk-weighted amounts divided into portfolios (on account of credit risk of instruments included into banking portfolio, counterparty credit risk and specific risk of instruments from the trading portfolio) as at 31 December 2013 and as at 31 December 2012 are as follows:

Statement of financial position instruments	Carrying amount	Risk - weighted value	Carrying amount	Risk - weighted value
	31.12.2013		31.12.2013 restated	
Banking book	192 154 296	128 102 508	188 747 032	125 271 020
Trading book	7 076 814	1 840 860	4 403 643	1 877 606
Total instruments in the statement of financial position	**199 231 110**	**129 943 368**	**193 150 675**	**127 148 626**

Off-balnce sheet liabilities granted (financial and guarantees)	Nominal value	Statement of financial position equivalent	Risk - weighted value	Nominal value	Statement of financial position equivalent	Risk - weighted value
	31.12.2013			31.12.2013 restated		
Banking book	41 047 359	15 739 582	14 243 755	39 421 096	15 533 996	14 208 338
Trading book	3 550 421	3 550 421	1 049 653	3 469 463	3 469 463	3 281 094
Total	**44 597 780**	**19 290 003**	**15 293 408**	**42 890 559**	**19 003 459**	**17 489 432**

Derivative financial instruments	Nominal value	Statement of financial position equivalent	Risk - weighted value	Nominal value	Statement of financial position equivalent	Risk - weighted value
	31.12.2013			31.12.2013 restated		
Banking book	44 466 935	1 550 249	645 573	54 389 358	1 938 105	810 449
Trading book	219 020 395	4 490 514	1 933 103	238 244 490	4 181 788	2 047 906
Total	**263 487 330**	**6 040 763**	**2 578 676**	**292 633 848**	**6 119 893**	**2 858 355**

64.3. Internal capital (Pillar 2)

The Group calculates internal capital in accordance with the Resolution No 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 on detailed principles for functioning of risk management system and internal control system and detailed terms of estimating internal capital by banks and reviewing the process of estimating and maintaining internal capital and the principles for determining the variable salary components policy for persons holding managerial positions in the Bank (Official Journal of PFSA No. 11, item 42 as at 23 November 2011). Internal capital is the amount of capital estimated by the Group that is necessary to cover all of the identified significant risks characteristic of the Group's activities and the effect of changes in the business environment, taking account of the anticipated risk level.

The internal capital in the PKO Bank Polski SA Group is intended to cover each of the significant risk types:

- credit risk (including default and concentration risk),
- currency risk,
- interest rate risk,
- liquidity risk,
- operational risk,
- business risk (taking into consideration strategy risk).

Materialisation of macroeconomic changes risk, model risk and compliance risk is reflected in the estimates of internal capital for covering the types of risk: credit, interest rate, currency, operational and business.

The Bank regularly monitors the significance of the individual risk types relating to the activities of the Bank and other Group's subsidiaries.

The internal capital for covering the individual risk types is determined using the methods specified in the internal regulations. In the event of performing internal capital estimates based on statistical models, the annual forecast horizon is adopted and a 99.9% confidence level. The total internal capital of each entity of the Group is the sum of internal capital amount necessary to cover all of the significant risks for the entity. The total internal capital of the Group is the sum of internal capital amount of the Bank and all Group entities. The correlation coefficient for different types of risk and different Group entities used in the internal capital calculation is equal to 1.

In 2013, the relation of the Group's own funds to its internal capital remained on a level exceeding both the threshold set by the law and the Group's internal limits.

64.4. Disclosures (Pillar 3)

In accordance with § 6 of the Resolution No. 385/2008 of the Polish Financial Supervision Authority dated 17 December 2008, on the detailed principles and methods for banks to disclose qualitative and quantitative information concerning capital adequacy and the scope of the information to be announced (Official Journal of PFSA of 2008, No. 8, item 39 with subsequent amendments). The PKO Bank Polski SA, which is the parent company within the meaning of § 3 of the resolution, publishes information about capital adequacy in a separate document on an annual basis, not later than within 30 days of the date of authorisation of the annual financial statements by the Ordinary General Shareholders' Meeting.

Details of the scope of capital adequacy information disclosed, the method of its verification and publication are presented in the PKO Bank Polski SA Capital Adequacy Information Policies, which are available on the Bank's website (www.pkobp.pl).

65. Information on loan bundle sale

The Bank did not enter any securitisation transactions, although:

1) in 2012, the Bank performed a bundle sale of 99 thousand retail loans classified as 'loss' in relation to individuals who do not conduct business activities. The debt portfolio amounted to PLN 1 133 million and over 2 thousand loans from institutional clients classified as 'loss', with a total value of PLN 288.2 million,

2) in 2013, the Bank carried out the subsequent bundle sales:

   - in the first quarter, over 3 thousand retail loans classified as 'loss' in relation to individuals who do not conduct business activities, with a total debt of PLN 60.8 million, over 580 corporate loans classified as 'loss' with a total debt of PLN 47 million and 53 loans from institutional clients classified as 'loss', with a total debt of PLN 88.8 million,

   - in the second quarter, over 8.3 thousand retail loans classified as 'loss' in relation to individuals who do not conduct business activities, with a total debt of PLN 212 million and over 116 corporate loans (mortgage-secured) classified as 'loss'. The sale covered a portfolio with a total debt of PLN 118 million,

   - in the third quarter, nearly 15 thousand retail loans (including mortgage-secured loans, credit cards loans and loans in which debtors were convicted for an offence as a result of a valid criminal court judgment) classified as 'loss' in relation to individuals who do not conduct business activities, with a total debt of PLN 321.5 million, CHF 14.3 million and EUR 298 thousand, over 3.1 thousand corporate loans classified as 'loss' with a total debt of PLN 296 million, EUR 2.4 million, CHF 6.1 million, and 75 loans from institutional clients classified as 'loss', with a total debt of PLN 270 million,

   - in the fourth quarter, over 9.8 thousand retail loans (including credit cards loans) classified as 'loss' in relation to individuals who do not conduct business activities, with a total debt of PLN 155 million, over 730 corporate loans classified as 'loss' with a total debt of PLN 63.7 million, and 90 loans from institutional clients classified as 'loss', with a total debt of PLN 272 million and USD 4.5 million.

The total carrying amount of the provision for potential claims on impaired loan portfolios sold as at 31 December 2013 amounted to PLN 2 087 thousand (as at 31 December 2012 it was PLN 5 502 thousand).

The Bank did not receive any securities on account of the above mentioned transactions.

OTHER ADDITIONAL NOTES, INCLUDING INFORMATION ON THE ENTITY AUTHORISED TO AUDIT FINANCIAL STATEMENTS AND EVENTS AFTER THE REPORTING PERIOD

66. Influence of macroeconomic situation on the Group's financial results

The global macroeconomic situation had a significant influence on the activities and financial situation of the Group in 2013. In the first half of the year the financial markets participants were again focused on the problems of the euro zone's banking sectors in relation to the aid package for Cyprus. Agreement on the rules of financial support for Cypriot banks (in particular the project for a 'tax on deposits') increased uncertainty in the financial markets and negatively affected the deposit base of banks in the euro zone, which in turn had a negative effects on the liquidity situation and the willingness of banks to grant loans. In response to low economic activity in the euro zone and worsening projections for inflation (risk of price dynamics staying below the ECB's stability criterion in a long term), the ECB council decided to decrease basic interest rate (repo) from 0.75% as at the beginning of the year to 0.25% at the end of 2013. Parallel to the decision on the level of interest rates, the ECB was preparing to take over the role of the regulator of the banking sector in the euro zone, including carrying out another round of stress tests (stress-test) in cooperation with the European Banking Authority (EBA) and was considering a new custom tool aimed at further easing financial conditions in the euro zone. Announced in 2012 the OMT programme (buying euro zone bonds by the ECB) was not launched. An important role in determining the behavior of financial market participants in 2013 had also the intensification of expectations of a gradual reduction of the scale of the quantitative programme of easing of monetary policy (QE) in the U.S. Starting from May, when the federal open market committee FED (FOMC) signaled willingness to reduce the dynamics of the asset purchase, there has been an outflow of capital from emerging markets, including Poland, despite the continuation of quantitative expansion in the U.S. and Japan. Considering improvement in the U.S. labor market and the reduction of the negative risks to economic growth in the U.S., in December 2013 FOMC has decided, starting from January 2014, to reduce the pace of assets purchase within the QE programme.

In 2013, GDP growth in Poland amounted to 1.6% compared with 1.9% in 2012. After reaching a cyclical 'low point' in the first quarter (GDP growth by 0.5% y/y), a slight acceleration in the second quarter (to 0.8% y/y), as expected, in the second half of the year, the economy entered the path of recovery (growth in the third quarter by 1.9% y/y and in fourth quarter by ~ 3.0% y/y). Together with the improvement in activity in the second half of the year, the change of the economic growth factors had been continued. In the second half of the year, the role of domestic demand increased, as a result of a gradual improvement in consumer and investment demand. Despite an increase in the import-intensive component of the domestic sale, sustained (throughout the year) strong exports favored positive contribution of net exports to growth. Due to inflation remaining below the lower bracket of fluctuations, in 2013 the Monetary Policy Council ('RPP') decided to decrease interest rates by total of -175 b.p. (and -225 b.p. in the whole cycle), which brought the reference rate to the level of 2.50%. In November was announced that interest rates will remain at this level at least until mid-2014.

PKO Bank Polski SA has positively passed the stress tests carried out in the second half of 2013 by Polish Financial Supervision Authority. Tests results confirm the high resistance of the Bank to the occurrence of macroeconomic shocks. In each scenario the Bank records a net profit and value of capital adequacy measures remains above the internal and external limits.

Taking into account the impact of the macroeconomic situation on the condition of the customers of the PKO Bank Polski SA Group, the Group strictly follows a conservative approach to credit risk by recognising impairment losses whose scale and structure reflects the impact of the current macroeconomic situation on the Group's financial statements.

The financial results achieved by the Group in 2013 shaped up on a high level, and loan and deposit volumes were the highest among institutions in Polish banking sector. In 2013, the Group developed its business activities based on a safe and effective structure of financing.

Despite the negative growth in net profit on an annual basis, very good financial results were achieved in 2013. Compared to last year, in the structure of profit, a decrease in net interest income was recorded as a result of a strong reduction in market interest rates, which was partially offset by an increase in net fee and commission income, high operating income and an improvement in net impairment allowance. In addition, the discipline in terms of administrative expenses, despite the negative growth in the Group's income items, helped to maintain the high efficiency of the Group's activity measured with the C/I ratio.

Achieved financial results of the Group are an important element of the strategy 'PKO Bank Polski. Codziennie Najlepszy' ('PKO Bank Polski. Daily the Best') implementation for the years 2013-2015. Strategic objectives were implemented within 6 long-term strategic levers: 'Satysfakcja klienta' ('Customer satisfaction'), 'Doskonałość dystrybucyjna' ('Distribution excellence'), 'Innowacje i technologie' ('Innovation and technology'), 'Efektywność organizacji' ('Organisational effectiveness'), 'Rozwój kompetencji' ('Development of competencies'), 'Akwizycje i alianse' ('Acquisitions and alliances'). Key strategic initiatives focused on increasing value for shareholders, as well as strengthening the brand in areas such as: professionalism and flexibility of customer service, modern product offer, innovation and mobile technologies and branch network standards. The strategic objective was also to ensure a high profitability and operating efficiency, while maintaining safe levels of capital adequacy and liquidity ratios.

Due to the exposure in Ukrainian companies, in particular KREDOBANK SA, the Bank is exposed to the effects of risks characteristic to the Ukrainian market. In 2013, the Ukraine's economy was in stagnation (GDP growth amounted to 0.0% y/y after a decline of 0.2% y/y in 2012), which was due to a decline in investment demand, slowdown in private consumption and a decline in demand for primary export goods of Ukraine.

In the last months of 2013 and at the beginning of 2014, the political and social situation in Ukraine significantly deteriorated, which generate risks to the economic environment (risk of macroeconomic instability and insolvency of Ukraine, availability of foreign financing, risk of financial market and hryvnia exchange rate instability, risk to the stability of banking sector and regulatory uncertainty).

As a result of the rapid pace of running out foreign currency reserves, in February 2014, the National Bank of Ukraine (NBU) departed from the intervention policy in order to maintain a stable foreign exchange rate by introducing a variable rate regime. Administrative restrictions on the use of currencies by legal entities other than banks (e.g. prohibition of prepayment of foreign currency liabilities to non-residents). The scale of financing of banks by the NBU was also reduced. It intensified depreciation of the Ukrainian currency towards other main foreign currencies. Attempts to maintain hryvnia exchange rate resulted in reduction of currency reserves which have decreased to the lowest level for the last eight years.

Rating of Ukraine was decreased to Caa2 with negative perspective (Moody's as at 31 January 2014), CCC with negative perspective (S&P's and Fitch in February 2014). This led to the reduction in the rating of banks operating in Ukraine including KREDOBANK SA to CCC level.

There is a risk of intensification of macroeconomic instability in Ukraine, especially in case of lack of rapid solution of the ongoing political crisis.

PKO Bank Polski SA continues to implement measures aimed at ensuring the safe functioning of its companies in Ukraine in the environment of the current political and macroeconomic situation. These measures include strengthening supervisory activities, including i.a. monitoring funds transferred to the Companies by the Bank and the development of the regulatory requirements determined by the National Bank of Ukraine. The Bank is continuously analysing macroeconomic risks for KREDOBANK SA activities. Further developments of the situation in Ukraine may have significant impact on operating on that market entities of the Group.

67. Information on the entity authorised to audit financial statements

Entity authorised to audit financial statements with which PKO Bank Polski SA concluded an agreement is PricewaterhouseCoopers Sp. z o.o. The agreement concerns auditing the financial statements of PKO Bank Polski SA as well as auditing the consolidated financial statements of the PKO Bank Polski SA Group. The above agreement was concluded on 14 April 2011.

Total net remuneration of PricewaterhouseCoopers Sp. z o.o. for the audit of the separate financial statements and consolidated financial statements of PKO Bank Polski SA in 2013 amounted to PLN 1 140 thousand (2012: PLN 1 140 thousand), total net remuneration for the certifying services, including the review of the financial statements amounted in 2013 to PLN 1 731 thousand (2012: PLN 2 795 thousand).

Total net remuneration of PricewaterhouseCoopers Sp. z o.o. related to rendering PKO Bank Polski SA other services in 2013 amounted to PLN 341 thousand (2012: PLN 438 thousand).

68. Events after the reporting period

1. On 8 January 2014 the Supervisory Board of PKO Bank Polski SA passed the Resolutions appointing again:
   - Mr Zbigniew Jagiełło for the position of the President of the Management Board of the Bank,
   - Mr Piotr Alicki for the position of the Vice-President of the Management Board of the Bank,
   - Mr Bartosz Drabikowski for the position of the Vice-President of the Management Board of the Bank,
   - Mr Piotr Mazur for the position of the Vice-President of the Management Board of the Bank,
   - Mr Jarosław Myjak for the position of the Vice-President of the Management Board of the Bank,
   - Mr Jacek Obłękowski for the position of the Vice-President of the Management Board of the Bank,
   - Mr Jakub Papierski for the position of the Vice-President of the Management Board of the Bank.

According to the passed Resolutions, the above mentioned persons have been appointed to perform indicated functions in the PKO Bank Polski SA for the joint term of the Management Board of the Bank which commence with the end of the current joint term of the Management Board of the Bank.

2. On 13 January 2014, a new company – Polski Standard Płatności Sp. z o.o. was registered with the National Court Register. The share capital of the Company amounts to PLN 2 271 thousand. All shares of the Company were acquired by PKO Bank Polski SA. The Company was established as part of the project for building a new mobile payments standard in Poland.
3. On 20 January 2014, a decrease in share capital of CENTRUM HAFFNERA Sp. z o.o., through redemption of shares owned by the Shareholder – the City of Sopot, was registered with the National Court of Register, and on 20 January 2014, CENTRUM HAFFNERA Sp. z o.o. became a subsidiary of PKO Bank Polski SA.
4. On 23 January 2014, PKO Finance issued, under the Programme, another series of bonds with a total nominal value of EUR 500 000 000, the terms of which were regulated in a supplement to the loan agreement dated 20 January 2014 and the Terms of Issue (Final Terms) constituting a part of the issue documentation, including the prospectus of the EMTN programme dated 8 May 2013, together with supplements. Issued bonds at a fixed interest rate of 2.324% per annum, payable annually, with the maturity of 5 years. The bonds are listed on the LSE in Luxembourg. In connection with the issue on 23 January 2014, PKO Finance granted to the Bank a cash loan, in an amount corresponding to the amount of proceeds received from the bonds issue, for general financing purposes of the Bank. The interest rate on the loan is fixed and corresponds to the interest rate on the bonds issued. The loan is unsecured and has been granted for a period of five years. The loan granted to the Bank by PKO Finance is not subordinated.
5. On 5 February 2014, PKO Bank Polski SA make a capitalisation to KREDOBANK SA through a financial donation in the amount of USD 6 020 thousand (i.e. PLN 18 656 thousand at the average NBP exchange rate as at the date of funds transfer).
6. In February 2014, there was a fulfilment of the following suspense conditions, relating to the completion of the acquisition transaction of the Nordea Group entities:
   - a condition involving the uninterrupted (significantly) provision, by the entity from the Nordea Group (i.e. Nordea IT Polska Sp. z o.o.) in favour of Nordea Bank Polska SA, within the contractual period, of IT services, defined in the outsourcing agreement, enabling the safe operation of Nordea Bank Polska SA prior to migration of data, customer data, services and systems of Nordea Bank Polska SA to the Bank systems,
   - issuing by the PFSA a decision declaring no grounds for objections against acquisition by PKO Bank Polski SA of shares of Nordea Bank Polska Towarzystwo Ubezpieczeń na Życie SA in a number resulting in exceeding a 50% share in the share capital and in the total number of votes at the general meeting of this Company.

(IN PLN THOUSAND)

7. On 3 March 2014 the Polish Financial Supervision Authority issued a decision stating that there were no grounds for objections against the acquisition by the Bank of shares of Nordea Bank Polska ("Nordea Bank Polska Decision") in a number resulting in exceeding a 50% stake in the share capital and the total number of votes at the general meeting of Nordea Bank Polska. Obtaining the Nordea Bank Polska Decision satisfies the last condition precedent for the closing of the Transaction set out in the Agreement. Additionally, obtaining the Nordea Bank Polska Decision satisfies the condition determined in item 24 of the tender offer for the sale of shares of Nordea Bank Polska announced by the Bank on 3 December 2013 (the "Tender Offer").

   At the same time, subject to technical capability, the Bank will take actions aimed at settling the transaction of acquisition of shares of Nordea Bank Polska under the Tender Offer on 4 April 2014. If technical considerations prevent the settlement of this transaction on 4 April 2014, it will be settled on 9 April 2014 at the latest.

Signatures of all Members of the Management Board of the Bank

04.03.2014	Zbigniew Jagiełło	President of the Management Board	.... (signature)
04.03.2014	Piotr Alicki	Vice-President of the Management Board	.... (signature)
04.03.2014	Bartosz Drabikowski	Vice-President of the Management Board	.... (signature)
04.03.2014	Piotr Mazur	Vice-President of the Management Board	.... (signature)
04.03.2014	Jarosław Myjak	Vice-President of the Management Board	.... (signature)
04.03.2014	Jacek Obłękowski	Vice-President of the Management Board	.... (signature)
04.03.2014	Jakub Papierski	Vice-President of the Management Board	.... (signature)

Signature of person responsible for
maintaining the books of account

04.03.2014

Danuta Szymańska
Director of the Accounting Division

....
(signature)