Bank Polski

Consolidated Financial Statements of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group for the year ended 31 December 2012

Report publication date:
04 March 2013

Bank Polski

SELECTED FINANCIAL DATA DERIVED FROM THE FINANCIAL STATEMENTS

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	period from 01.01.2012 to 31.12.2012	period from 01.01.2011 to 31.12.2011	period from 01.01.2012 to 31.12.2012	period from 01.01.2011 to 31.12.2011
Net interest income	7 882 786	7 609 116	1 888 726	1 837 906
Net fee and commission income	3 071 202	3 101 444	735 864	749 123
Operating profit	4 626 236	4 800 512	1 108 452	1 159 516
Profit before income tax	4 645 261	4 780 860	1 113 011	1 154 769
Net profit (including non-controlling shareholders)	3 747 443	3 804 745	897 892	918 998
Net profit attributable to equity holders of the parent company	3 748 621	3 807 195	898 174	919 590
Earnings per share for the period – basic (in PLN/EUR)	3.00	3.05	0.72	0.74
Earnings per share for the period – diluted (in PLN/EUR)	3.00	3.05	0.72	0.74
Net comprehensive income	3 472 272	3 937 416	831 961	951 044
Net cash flow from / used in operating activities	1 405 075	5 556 998	336 658	1 342 238
Net cash flow from / used in investing activities	1 024 477	(3 630 127)	245 466	(876 821)
Net cash flow from / used in financing activities	(1 356 890)	1 057 418	(325 113)	255 409
Total net cash flows	1 072 662	2 984 289	257 011	720 825

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	as at 31.12.2012	as at 31.12.2011	as at 31.12.2012	as at 31.12.2011
Total assets	193 479 628	190 748 037	47 326 361	43 186 931
Total equity	24 707 650	22 821 984	6 043 650	5 167 086
Capital and reserves attributable to equity holders of the parent company	24 707 988	22 823 274	6 043 733	5 167 378
Share capital	1 250 000	1 250 000	305 758	283 010
Number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Book value per share (in PLN/EUR)	19.77	18.26	4.83	4.13
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)	19.77	18.26	4.83	4.13
Capital adequacy ratio	13.07%	12.37%	13.07%	12.37%
Basic funds (Tier 1)	18 788 075	16 664 233	4 595 684	3 772 920
Supplementary funds (Tier 2)	1 573 276	1 545 549	384 833	349 925
Short-term equity (Tier 3)	129 641	133 134	31 711	30 143

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

- income statement, statement of comprehensive income and 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 2012 and 2011: EUR 1 = PLN 4.1736 and EUR 1 = PLN 4.1401,
- statement of financial position items – average NBP exchange rate as at 31 December 2012: EUR 1 = PLN 4.0882 and as at 31 December 2011: EUR 1 = PLN 4.4168.

.

TABLE OF CONTENTS

CONSOLIDATED INCOME STATEMENT

for the years ended 31 December 2012 and 31 December 2011 respectively

	Note	2012	2011
Continuing operations			
Interest and similar income	4	12 991 737	12 037 762
Interest expense and similar charges	4	(5 108 951)	(4 428 646)
Net interest income		**7 882 786**	**7 609 116**
Fee and commission income	5	3 837 303	3 837 165
Fee and commission expense	5	(766 101)	(735 721)
Net fee and commission income		**3 071 202**	**3 101 444**
Dividend income	6	8 081	6 800
Net income from financial instruments designated at fair value	7	94 188	(75 056)
Gains less losses from investment securities	8	79 813	20 179
Net foreign exchange gains		256 137	337 296
Other operating income	9	563 369	451 723
Other operating expense	9	(385 715)	(309 186)
Net other operating income and expense		**177 654**	**142 537**
Net impairment allowance and write-downs	10	(2 325 228)	(1 930 447)
Administrative expenses	11	(4 618 397)	(4 411 357)
Operating profit		**4 626 236**	**4 800 512**
Share of profit (loss) of associates and jointly controlled entities		19 025	(19 652)
Profit before income tax		**4 645 261**	**4 780 860**
Income tax expense	12	(897 818)	(976 115)
Net profit (including non-controlling shareholders)		**3 747 443**	**3 804 745**
Profit (loss) attributable to non-controlling shareholders		(1 178)	(2 450)
Net profit attributable to equity holders of the parent company		**3 748 621**	**3 807 195**
Earnings per share	13		
– basic earnings per share for the period (PLN)		3.00	3.05
– diluted earnings per share for the period (PLN)		3.00	3.05
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 2012 and 2011 the PKO Bank Polski SA Group did not carry out discontinued operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the years ended 31 December 2012 and 31 December 2011 respectively

	Note	2012	2011
Net profit (including non-controlling shareholders)		**3 747 443**	**3 804 745**
Other comprehensive income		**(275 171)**	**132 671**
Cash flow hedges (gross)	19	(383 069)	178 100
Deferred tax on cash flow hedges	12	72 783	(33 839)
Cash flow hedges (net)		(310 286)	144 261
Unrealised net gains on financial assets available for sale (gross)	8; 22	73 676	(33 649)
Deferred tax on unrealised net gains on financial assets available for sale	12	(14 156)	6 398
Unrealised net gains on financial assets available for sale (net)		59 520	(27 251)
Currency translation differences from foreign operations		(25 992)	16 894
Share in other comprehensive income of an associate	24	1 587	(1 233)
Total net comprehensive income		**3 472 272**	**3 937 416**
Total net comprehensive income, of which attributable to:		**3 472 272**	**3 937 416**
equity holders of PKO Bank Polski SA		3 473 339	3 940 696
non-controlling shareholders		(1 067)	(3 280)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2012 and as at 31 December 2011

	Note	31.12.2012	31.12.2011
ASSETS			
Cash and balances with the central bank	15	10 289 451	9 142 168
Amounts due from banks	16	3 392 486	2 396 227
Trading assets	17	277 566	1 311 089
Derivative financial instruments	18	3 860 561	3 064 733
Financial assets designated upon initial recognition at fair value through profit and loss	20	12 629 711	12 467 201
Loans and advances to customers	21	143 875 644	141 634 494
Investment securities available for sale	22	12 205 130	14 393 276
Investment securities held to maturity	23	46 971	-
Investments in associates and jointly controlled entities	24	119 211	123 119
Non-current assets held for sale		20 410	20 410
Inventories	25	553 534	566 846
Intangible assets	26	1 934 000	1 800 008
Tangible fixed assets, of which:	27	2 650 597	2 541 317
investment properties		238	248
Current income tax receivables	12	5 713	5 957
Deferred income tax asset	12	564 514	543 922
Other assets	28	1 054 129	737 270
TOTAL ASSETS		**193 479 628**	**190 748 037**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the central bank	29	3 128	3 454
Amounts due to banks	30	3 733 947	6 239 164
Derivative financial instruments	18	3 964 098	2 645 281
Amounts due to customers	31	146 193 570	146 473 897
Debt securities in issue	32	10 270 783	7 771 779
Subordinated liabilities	33	1 631 256	1 614 377
Other liabilities	34	2 057 707	2 450 763
Current income tax liabilities	12	155 580	78 810
Deferred income tax liability	12	41 300	29 364
Provisions	35	720 609	619 164
TOTAL LIABILITIES		**168 771 978**	**167 926 053**
Equity			
Share capital		1 250 000	1 250 000
Other capital		19 933 012	17 881 264
Currency translation differences from foreign operations		(120 305)	(92 023)
Unappropriated profits		(103 340)	(23 162)
Net profit for the year		3 748 621	3 807 195
Capital and reserves attributable to equity holders of the parent company		**24 707 988**	**22 823 274**
Non-controlling interest		(338)	(1 290)
TOTAL EQUITY		**24 707 650**	**22 821 984**
TOTAL LIABILITIES AND EQUITY		**193 479 628**	**190 748 037**

Capital adequacy ratio	64	13.07%	12.37%
Book value (in PLN thousand)		24 707 650	22 821 984
Number of shares (in thousand)	1	1 250 000	1 250 000
Book value per share (in PLN)		19.77	18.26
Diluted number of shares (in thousand)		1 250 000	1 250 000
Diluted book value per share (in PLN)		19.77	18.26

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the years ended 31 December 2012 and 31 December 2011 respectively

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							
As at 1 January 2012	1 250 000	13 041 390	1 070 000	3 460 368	(257)	(52 422)	362 185	17 881 264	(92 023)	(23 162)	3 807 195	22 823 274	(1 290)	22 821 984
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	-	3 807 195	(3 807 195)	-	-	-
Total comprehensive income, of which:	-	-	-	-	1 587	59 520	(310 286)	(249 179)	(26 103)	-	3 748 621	3 473 339	(1 067)	3 472 272
Net profit	-	-	-	-	-	-	-	-	-	-	3 748 621	3 748 621	(1 178)	3 747 443
Other comprehensive income	-	-	-	-	1 587	59 520	(310 286)	(249 179)	(26 103)	-	-	(275 282)	111	(275 171)
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	1 250 000	15 364 728	1 070 000	3 437 957	1 330	7 098	51 899	19 933 012	(120 305)	(103 340)	3 748 621	24 707 988	(338)	24 707 650

for the year ended 31 December 2011	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							
As at 1 January 2011	1 250 000	12 212 177	1 070 000	3 412 239	976	(25 171)	217 924	16 888 145	(109 747)	112 297	3 216 883	21 357 578	1 990	21 359 568
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	-	3 216 883	(3 216 883)	-	-	-
Total comprehensive income, of which:	-	-	-	-	(1 233)	(27 251)	144 261	115 777	17 724	-	3 807 195	3 940 696	(3 280)	3 937 416
Net profit	-	-	-	-	-	-	-	-	-	-	3 807 195	3 807 195	(2 450)	3 804 745
Other comprehensive income	-	-	-	-	(1 233)	(27 251)	144 261	115 777	17 724	-	-	133 501	(830)	132 671
Transfer from unappropriated profits	-	829 213	-	48 129	-	-	-	877 342	-	(877 342)	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	(2 475 000)	-	(2 475 000)	-	(2 475 000)
As at 31 December 2011	1 250 000	13 041 390	1 070 000	3 460 368	(257)	(52 422)	362 185	17 881 264	(92 023)	(23 162)	3 807 195	22 823 274	(1 290)	22 821 984

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

CONSOLIDATED STATEMENT OF CASH FLOWS

for the years ended 31 December 2012 and 31 December 2011 respectively

	Note	2012	2011
Net cash flow from operating activities			
Profit before income tax		**4 645 261**	**4 780 860**
Adjustments:		**(3 240 186)**	**776 138**
Amortisation and depreciation		541 289	520 161
(Gains) losses from investing activities	40	4 332	(7 330)
Interest and dividends	40	(844 090)	(423 475)
Change in amounts due from banks	40	(1 067 450)	(68 549)
Change in trading assets and financial assets designated upon initial recognition at fair value through profit and loss		871 013	(1 516 310)
Change in derivative financial instruments (asset)		(795 828)	(1 345 648)
Change in loans and advances to customers	40	(3 359 172)	(11 767 948)
Change in other assets and non-curent assets held for sale		(303 547)	(160 586)
Change in amounts due to banks	40	(786 139)	1 199 747
Change in derivative financial instruments (liability)		1 318 817	240 486
Change in amounts due to customers	40	42 704	13 548 699
Change in debt securities in issue		(154 829)	78 094
Change in provisions and impairment allowances	40	1 157 410	868 375
Change in other liabilities and subordinated liabilities	40	(31 796)	518 496
Income tax paid		(771 077)	(946 199)
Other adjustments	40	938 177	38 125
Net cash from / used in operating activities		**1 405 075**	**5 556 998**
Net cash flow from investing activities			
Inflows from investing activities		**39 654 856**	**8 294 680**
Proceeds and interest from sale of investment securities		39 643 046	8 271 568
Proceeds from sale of intangible assets and tangible fixed assets		5 620	16 584
Other investing inflows (dividends)		6 190	6 528
Outflows from investing activities		**(38 630 379)**	**(11 924 807)**
Purchase of a subsidiary, net of cash acquired		(2 500)	(1 482)
Purchase of investment securities		(37 781 332)	(11 426 990)
Purchase of intangible assets and tangible fixed assets		(846 547)	(496 335)
Net cash from / used in investing activities		**1 024 477**	**(3 630 127)**
Net cash flow from financing activities			
Proceeds from debt securities in issue		10 905 223	5 925 568
Proceeds from subordinated bonds		1 600 700	-
Redemption of subordinated bonds		(1 696 042)	-
Redemption of debt securities in issue		(8 251 390)	(1 951 454)
Dividends paid		(1 587 500)	(2 475 000)
Repayment of interest from issued debt securities and subordinated loans		(206 364)	(108 743)
Long-term borrowings		2 506 054	969 487
Repayment of long-term borrowings		(4 627 571)	(1 302 440)
Net cash generated from financing activities		**(1 356 890)**	**1 057 418**
Net cash flow		**1 072 662**	**2 984 289**
of which currency translation differences on cash and cash equivalents		(196 850)	347 178
Cash and cash equivalents at the beginning of the period		11 422 970	8 438 681
Cash and cash equivalents at the end of the period	40	**12 495 632**	**11 422 970**
of which restricted	37	6 661	3 923

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

TABLE OF CONTENTS

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (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 2012 and include comparative data for the year ended 31 December 2011. Financial data has 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 2012 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 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**
As at 31 December 2011				
The State Treasury	512 406 277	40.99	PLN 1	40.99
Bank Gospodarstwa Krajowego	128 102 731	10.25	PLN 1	10.25
Other shareholders	609 490 992	48.76	PLN 1	48.76
Total	**1 250 000 000**	**100.00**	---	**100.00**

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

On 14 April 2011, the Extraordinary General Shareholders' Meeting adopted the Resolution No. 3/2011 on amending the Memorandum of Association of PKO Bank Polski SA. The proposed amendment to the Bank's Memorandum of Association was presented by the State Treasury – the Bank's shareholder. The amendments in the resolution referred to:

1) the limitation of the voting rights of the shareholders and adopting a policy for accumulation and reduction of votes,

2) the statutory number of members of the Supervisory Board,

3) the subject of the first meeting Supervisory Board after election for the new term,

4) the definition of the parent company and subsidiary.

The amendments to the Memorandum of Association of PKO Bank Polski SA referred to above, implemented by the Extraordinary General Shareholders' Meeting of the Bank on 14 April 2011, were registered with the National Court Register by the District Court for the capital city of Warsaw, the XIII Economic Department of the National Court Register.

As an effect of the above amendments, the announced decrease in share of the State Treasury in the equity of PKO Bank Polski SA, which may reoccur in subsequent years (although the share will not drop below 25%), will not lead to limiting the control of the State Treasury over the Bank's strategic decisions.

On 26 July 2012, PKO Bank Polski SA received a notification from the Minister of the State Treasury of selling off a considerable block of Bank's shares by the State Treasury as a result of which the number of total votes held by the State Treasury in the Bank has changed. On 24 July 2012, 95 000 000 Bank's shares held by the State Treasury were sold off in block transactions. Prior to the sell-off transaction conducted, the State Treasure held the total number of 512 406 277 Bank's shares giving the same number of votes at the General Shareholders' Meeting. These shares amounted to 40.99% of the share capital and the same share in the total number of votes in the Bank.

As a result of the above sell-off transaction as at 31 December 2012 the State Treasury held 417 406 277 Bank's shares giving the same number of votes at the General Shareholders' Meeting of the Bank. These shares amounted to 33.39% of the share capital and the same share in the total number of votes in the Bank.

Moreover, Bank Gospodarstwa Krajowego ('BGK') wholly controlled by the State Treasury, held the total number of 128 102 731 bearer shares giving the same number of votes at the General Shareholders' Meeting of the Bank. These shares amounted to 10.25% of the Bank's share capital and the same share in the total number of votes in the Bank.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

On 27 July 2012, the Bank received a notification from ING Otwarty Fundusz Emerytalny about increasing the stake in PKO Bank Polski SA shares exceeding the threshold 5% of total number of votes at the General Shareholders' Meeting of the Bank. As a result of the acquisition of the PKO Bank Polski SA shares, cleared on 24 July 2012, ING Otwarty Fundusz Emerytalny increased its stake in the Bank's shares to 64 594 448, representing 5.17% of share capital and of total number of votes at the General Shareholders' Meeting of the Bank. Prior to the purchase transaction ING Otwarty Fundusz Emerytalny held 53 631 448 shares of PKO Bank Polski SA, representing 4.29% of share capital and of total number of votes at the General Shareholders' Meeting of the Bank.

On 31 January 2013, PKO Bank Polski SA received a notification from BGK and the Minister of the State Treasury of selling off a considerable block of Bank's shares as a result of which the number of total votes held by BGK and the State Treasury at the General Shareholders' Meeting of the Bank has changed. On 24 January 2013, according to the notifications received, through Warsaw Stock Exchange SA ('WSE') in block transactions:

- Bank Gospodarstwa Krajowego sold 128 102 731 Bank's shares held, which amounted to 10.25% of the share capital and the total number of votes at the General Shareholders' Meeting of the Bank
- the State Treasury sold 25 000 000 Bank's shares held, which amounted to 2.00% of the share capital and the total number of votes at the General Shareholders' Meeting of the Bank

Prior to conclusion and settlement of the above mentioned transactions, BGK and the State Treasury held 128 102 731 and 417 406 277 Bank's shares, respectively. After the transaction settlement on 29 January 2013 BGK did not hold any Bank's shares, and the State Treasury held 392 406 277 shares, which represent 31.39% of the share capital and the total number of votes at the General Shareholders' 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 threshold 5% of total number of votes in the Bank as the result of the purchase transactions concluded on 24 January 2013.

Prior to the settlement of the above mentioned transactions Aviva OFE on 28 January 2013 held 57 152 447 Bank's shares representing 4.57% of the share capital and the total number of votes at the Bank's General Shareholders' Meeting. After conclusion and the settlement of the above mentioned transactions on 29 January 2013 Aviva OFE held 83 952 447 the Bank's shares representing 6.72% of the Bank's share capital and the total number of votes at the Bank's General Shareholders' Meeting.

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'.

The structure of PKO Bank Polski SA share capital:

Series	Type of shares	Number of shares	Nominal value of 1 share	Issue 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 2012, 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 conducts activities relating to leasing, factoring, investment funds, pension funds, Internet banking as well as servicing and settlement of card transactions and real estate development. The Group also consists of KREDOBANK SA that conducts banking activity in Ukraine and also a factoring and debt collection company in Ukraine.

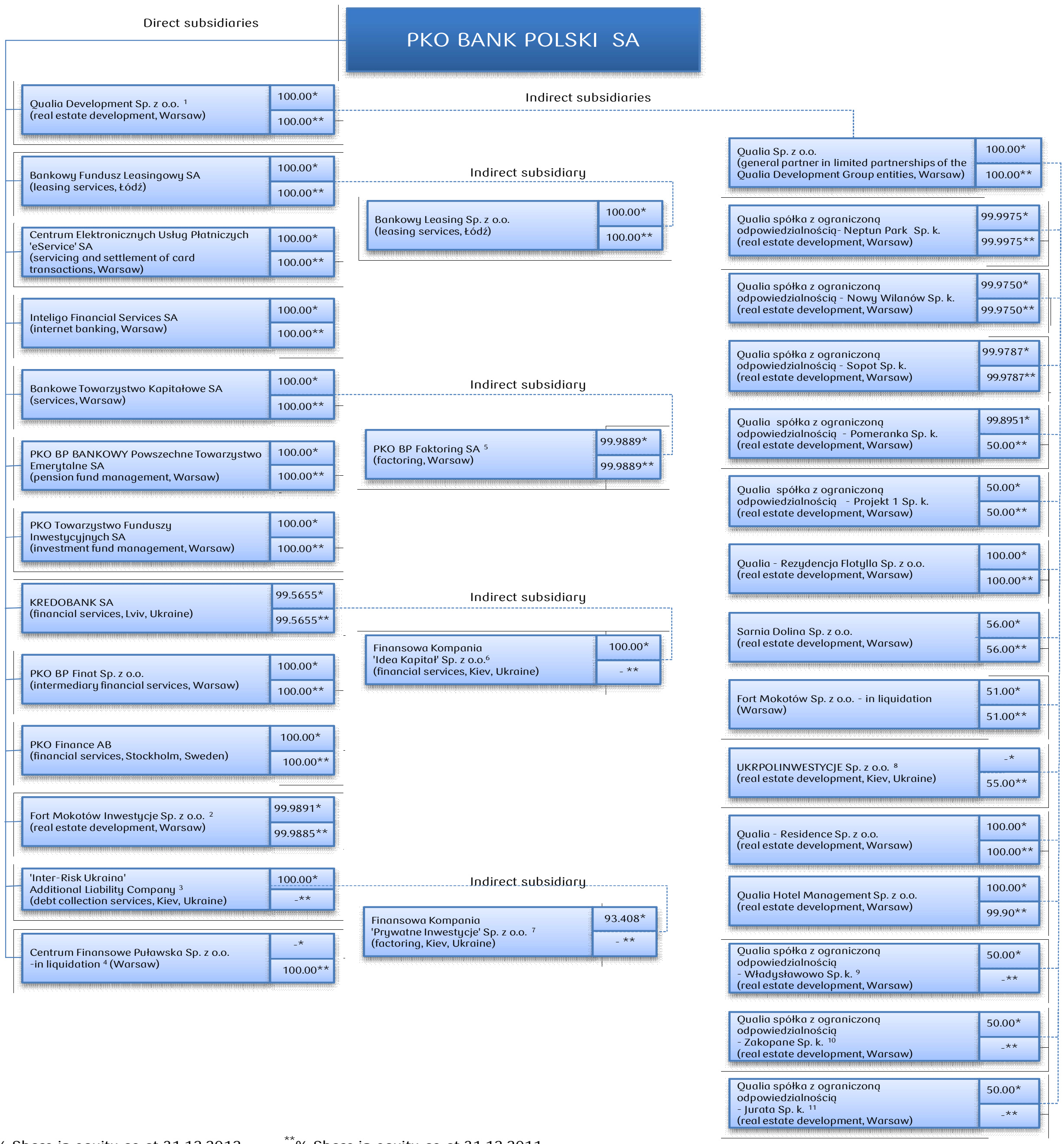
The scope of activities of each of the Group entities is set out in the position 'Structure of the PKO Bank Polski SA Group'.

The Group in 2012 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 and until 14 November 2012 through UKRPOLINWESTYCJE Sp. z o.o. – in Ukraine as well as through its subsidiary PKO Finance AB in Sweden.

Structure of the PKO Bank Polski SA Group

The PKO Bank Polski SA Group consists of the following entities:

Subsidiaries

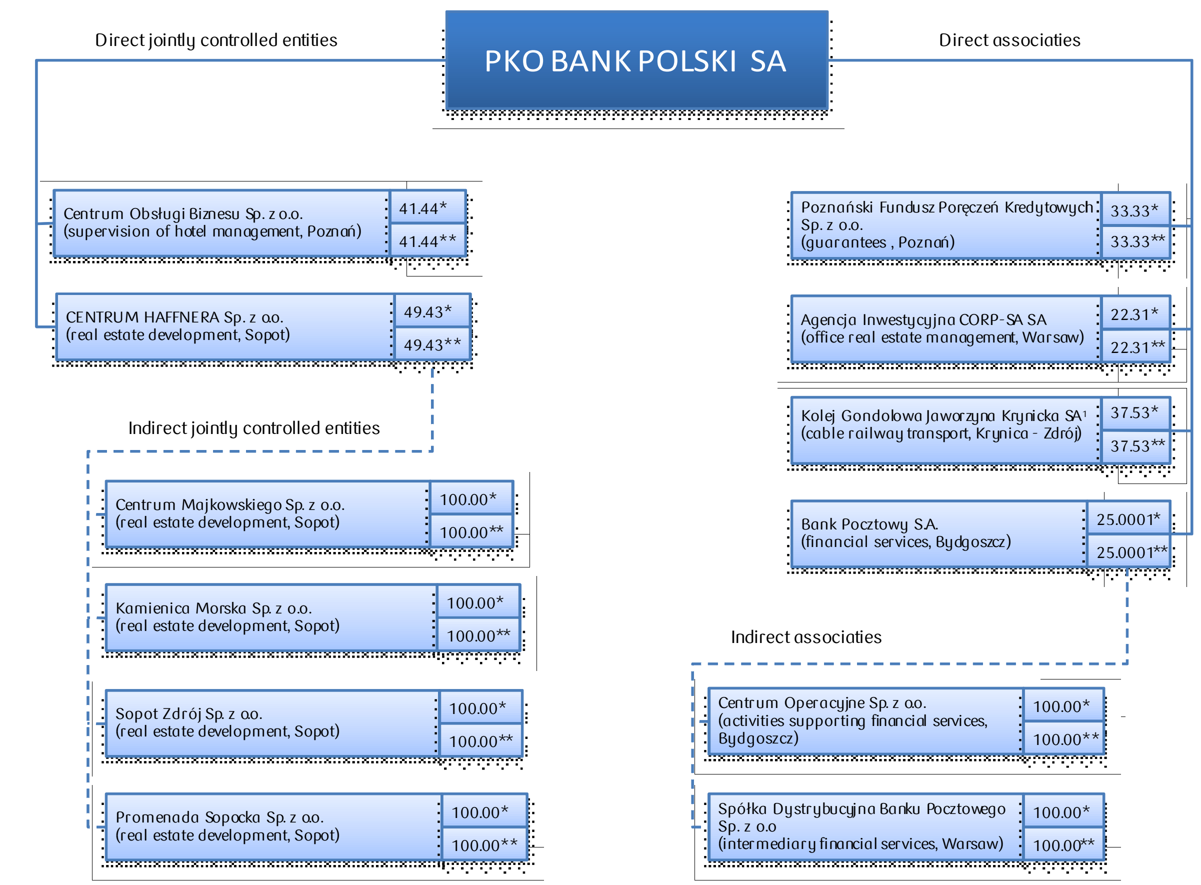


* % Share in equity as at 31.12.2012   **% Share in equity as at 31.12.2011

1) in limited partnerships of the Qualia Development Group the limited partner is Qualia Development Sp. z o.o. and the general partner is Qualia Sp. z o.o.; in the position of share capital, the total contribution made by the limited partner is presented
2) the second shareholder of the Entity is Qualia Development Sp. z o.o.
3) acquiring of the Company by PKO Bank Polski SA was registered with the Ukrainian Register of Businesses on 16 January 2012
4) the Company was removed from the National Court Register effective on 28 May 2012, on the basis of a decision dated 7 May 2012
5) PKO Bank Polski SA holds 1 share in the Entity
6) acquiring of the Company by KREDOBANK SA was registered with the Ukrainian Register of Businesses on 23 March 2012
7) from 29 November 2011 until 26 February 2012 the Company was a direct subsidiary of PKO Bank Polski SA
8) the Company's shares were sold; ownership changes were registered with the Ukrainian Register of Businesses on 15 November 2012
9) the Company was registered with the National Court Register on 14 February 2012
10) the Company was registered with the National Court Register on 15 March 2012
11) the Company was registered with the National Court Register on 27 March 2012

Jointly controlled entities and associates included in the consolidated financial statements:

Jointly controlled entities and associates



* % share in equity as at 31.12.2012 ** % share in equity as at 31.12.2011

1) Shares of the Entity are recognised in non-current assets held for sale

Information on changes in the participation in the share capital of the subsidiaries is set out in Note 46 'Changes to the entities of the Group'.

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

As at 31 December 2012 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
- 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 2012 the following changes took place in the composition of the Bank's Management Board:

1. on 13 July 2012 Mr Andrzej Kołatkowski resigned from performing the function of Vice-President of the Management Board of PKO Bank Polski SA as of the 13 July 2012;
2. on 26 September 2012 the Supervisory Board of PKO Bank Polski SA appointed as of 1 January 2013 Mr Piotr Mazur to the position of the Vice-President of the Management Board for the joint term which commenced on 30 June 2011. On 8 January 2013 the Polish Financial Supervision Authority has approved Mr Piotr Mazur as a member of the Management Board.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

As at 31 December 2012, 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
• Jan Bossak	Member of the Supervisory Board
• Zofia Dzik	Member of the Supervisory Board
• Krzysztof Kilian	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

During the year ended 31 December 2012, on 6 June 2012 the General Shareholders' Meeting of PKO Bank Polski SA dismissed the member of the Supervisory Board – Ms Ewa Miklaszewska from the Supervisory Board of PKO Bank Polski SA and appointed Ms Zofia Dzik.

Approval of financial statements

These consolidated financial statements, reviewed by the Bank's Supervisory Board's Audit Committee on 27 February 2013, have been approved for issue by the Bank's Management Board on 26 February 2013 and will be accepted by the Bank's Supervisory Board on 27 February 2013.

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 2012, 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 2009, no. 152, item 1223 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.AG99C 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 4 March 2013. 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 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 with an allowance for impairment losses or at cost with an allowance for impairment losses.

Non-current assets are stated at acquisition cost less accumulated depreciation and impairment allowances. The Group measures 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.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

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 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 value in use 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, including the KREDOBANK SA Group, the 'Inter-Risk Ukraina' Additional Liability Company Group and PKO Finance AB 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 the KREDOBANK SA Group, the 'Inter-Risk Ukraina' Additional Liability Company Group and PKO Finance AB is the Polish zloty. The functional currency of the KREDOBANK SA Group, the 'Inter-Risk Ukraina' Additional Liability Company Group is the Ukrainian hrivna and the functional currency of PKO Finance AB is Euro.

Consolidated financial statements are presented in the Polish zloty, which is the functional and presentation currency of the Group.

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 are translated into Polish zloty using a closing rate i.e. the average rate communicated by the National Bank of Poland for a given currency prevailing as at the balance date,
2) non-monetary assets measured at historical cost in foreign currency are translated into Polish zloty using exchange rate as of the date of the transaction,
3) non-monetary assets designated at fair value through profit and loss in foreign currency are translated into Polish zloty using exchange rates 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	2012	2011
Rate prevailing on the last day of the period	0.3825	0.4255
Rate representing the arithmetical mean of the rates prevailing on the last day of each month of the period	0.4001	0.3716
The highest rate in the period	0.4383	0.4267
The lowest rate in the period	0.3825	0.3330

EUR	2012	2011
Rate prevailing on the last day of the period	4.0882	4.4168
Rate representing the arithmetical mean of the rates prevailing on the last day of each month of the period	4.1736	4.1401
The highest rate in the period	4.3889	4.5494
The lowest rate in the period	4.0882	3.9345

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 meets 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-taking. 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:

a) at fair value through profit and loss (designated by the Group upon initial recognition);
b) held-to-maturity;
c) 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.

As at 31 December 2011, the Group did not hold any assets classified to this category.

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, advances and other receivables, can be reclassified by the Group from the category of financial assets available for sale to the category of loans, advances and other receivables, 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.

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 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) the Group 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, 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, 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.

2.6.4.5. Method of establishing fair value and categories of valuation at fair value of financial assets and liabilities designated at fair value in the statement of financial position

The Group classifies particular components of financial assets and liabilities designated at fair value to the following categories, using various methods of valuation at fair value:

1) 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 (bid price):

- debt securities valued at fixing from Bondspot platform,
- debt and equity securities which are traded on regulated market, including the Brokerage House portfolio,
- derivative instruments.

2) 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:

a) equity instruments designated at fair value through profit and loss and available for sale whose fair value is estimated in the following manner:
   - price of the last transaction concluded on the market, unless in the period between the date of the transaction and the balance date there were significant changes in market conditions which might affect the price,
   - at valuation performed by a specialised external entity providing services of this kind,

b) debt instruments designated at fair value through profit and loss and whose fair value is estimated in the following manner:
   - the method based on market prices of securities (the market value method),
   - the method based on market interest rate quotation (the yield curve method),
   - the method based on market prices of securities with similar financial characteristics (the reference asset value method),

c) debt instruments available for sale, whose fair value is estimated in the following manner:
   - the method based on market prices of securities (the market value method),
   - the method based on market interest rate quotation (the yield curve method), adjusted for a risk margin equal to the margin specified in the issue terms. Material change in the market interest rates is reflected in the change in the fair value of such instruments,
   - the method based on market prices of securities with similar financial characteristics (the reference asset value method),
   - in the case of securities whose fair value cannot be established with the use of the methods mentioned above, the fair value is determined based on the internal valuation model.

d) derivative instruments for which fair value is estimated using techniques based on i.a. discounted cash flows models, options and yield curves models,

e) debt securities in issue – financial instruments designated at fair value through profit and loss.

This group includes:

- debt securities valuated to the curve or those whose price comes from Bloomberg platform or brokerage pages in Reuters system but for which market is not active,
- non-treasury debt securities issued by other financial entities, local government bodies, non-financial entities traded on regular market and not traded on a regulated market,
- securities issued by Ministry of Finance of Ukraine in KREDOBANK SA portfolio,
- derivative instruments.

3) 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 measured at acquisition cost, less impairment allowances and debt and equity securities of KREDOBANK SA portfolio, measured at internal valuation models.

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.

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 designated 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 ‘Net income from financial instruments designated 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 was 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 2012 and 2011, 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.

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, loan or finance lease receivable, the Group assesses of 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 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,
4) high probability of bankruptcy or reorganisation of the issuer or the debtor,
5) disappearance of trade of a given financial asset on the active market due to financial difficulties of the issuer or the debtor,
6) 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.

The Group firstly assesses impairment on an individual basis for significant assets. If, for a given financial asset assessed individually, there are no objective indications of impairment, the asset is included in a group of financial assets with similar characteristics, which are collectively assessed for impairment on a collective basis.

Loan and lease receivables are classified by the Group on the basis of the amount of exposure into the individual and group portfolios.

In the individual portfolio, each individual loan and lease exposure is analysed for the existence of impairment evidence. If the asset is found to be impaired, an allowance is recognised against the amount of the receivable. If there is no objective evidence of impairment for a given exposure, this exposure is included in the portfolio of loans or lease receivables that are assessed on a collective basis.

Within the group portfolio, groups with similar credit risk characteristics are identified, which are then assessed for impairment on a collective basis.

If there is objective evidence for impairment of financial assets classified as loans and receivables, finance lease receivables or investments held to maturity, the amount of the impairment 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 original effective interest rate as of the date when objective evidence of the impairment 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.

Future cash flows from 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 in 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 set on the 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, 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 finance 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 preparing 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.

2.10.8. Amortisation

Depreciation 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	2-10 years
Means of transport	3-5 years
Intangible assets	**Periods**
Software	2-17 years
Other intangible assets	1-5 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.

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 such indicators exist, 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 Bank recognises an impairment loss in the income statement. The projection for the value in use 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.

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 restructurisation 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.

Legal obligation to recognise a restructuring provision results from the Act dated 13 March 2003 on detailed principles of employment termination from reasons independent from employees (Journal of Laws 2003, No. 90, item 844 with subsequent amendments), according to which an employer is obliged to discuss an intention of mass redundancies with the company's trade unions, in particular with regard to the possibilities of avoidance or reduction of the scale of mass redundancies. An employer is also obliged to discuss employees' issues related to redundancies including, in particular, possibilities of retraining or professional trainings, as well as new job opportunities for dismissed employees.

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 expenses.

2.14. Employee benefits

According to the Collective Labour Agreement (Zakładowy Układ Zbiorowy Pracy), all employees of PKO Bank Polski SA are entitled to anniversary bonuses after completing a specified number of years in service and to retirement or pension bonuses 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 and anniversary bonuses 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 Agreement 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 bonuses and retirement 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 service period beginning on the balance date. Gains or losses resulting from actuarial calculations are recognised in the income statement.

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 periodical settlements for the employee compensation costs incurred in the current period which will be paid out in future periods, including bonuses.

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 purchace 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 in Note 2.17 below, results from the Polish Commercial Companies' Code, the Banking Act 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 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 Polish legislation, 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, as well as the effective part of cash flow hedging resulting from hedge accounting and 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 Act' dated 29 of August 1997 (Journal of Laws 2002, No. 72, item 665 with subsequent amendments), hereinafter referred to 'The Banking Act' 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.

2.18.3. 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. 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 (Polish Financial Supervision Authority's Journal of Laws 2010, No. 2, item 11 with subsequent amendments).

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, 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 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 16% tax rate for entities operating in Ukraine and 26.3% 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’), 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. In the case of a +/- 10% change in the present value of estimated cash flows for the Bank’s loan portfolio individually determined to be impaired, the estimated impairment allowances would decrease by PLN 301 million or increase by PLN 484 million respectively (as at 31 December 2011 would decrease by PLN 212 million or increase by PLN 384 million respectively). 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 and debt securities available for sale not listed on an active market 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 any available data derived from observable markets.

In the valuation of non-listed debt securities available for sale, assumptions are also made about the contractor's credit risk, which may have an impact on the pricing of the instruments. Any change in these assumptions could affect the valuation of the above mentioned financial instruments.

The valuation techniques used by the Group 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.

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

Estimated change in valuation due to parallel movement of yield curve	31.12.2012 +50 pp. scenario	31.12.2012 -50 pp. scenario	31.12.2011 +50 pp. scenario	31.12.2011 -50 pp. scenario
IRS	(45 124)	45 852	(72 594)	63 963
CIRS	(93 837)	98 908	(2 864)	16 181
other derivatives	1 679	(1 698)	(2 041)	2 057
TOTAL	**(137 282)**	**143 062**	**(77 499)**	**82 201**

b) for derivative instruments that are designated to hedge accounting and that willd be designated in the future

Estimated change in valuation due to parallel movement of yield curve	31.12.2012 +50 pp. scenario	31.12.2012 -50 pp. scenario	31.12.2011 +50 pp. scenario	31.12.2011 -50 pp. scenario
IRS	(49 664)	50 656	(79 560)	70 884
CIRS	(94 439)	99 543	(3 505)	16 827
TOTAL	**(144 103)**	**150 199**	**(83 065)**	**87 711**

2.20.3. Calculation of provision for employee benefits

The provision for retirement and pension benefits and anniversary bonuses is created individually for each employee on the basis of an actuarial valuation performed at the balance date by an external independent actuary. The basis for calculation of these provisions are internal regulations and especially the Collective Labour Agreement being in force at the Bank. Valuation of the employee benefit provisions is performed using actuarial techniques and assumptions.

The calculation of the provision includes all jubilee bonuses and retirement benefits expected to be paid in the future. The Bank performed a reassessment of its estimates as at 31 December 2012, 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 and anniversary bonuses is presented in the table below (in million):

Estimated change in provision	31.12.2012 +0.25 pp. scenario	31.12.2012 -0.25 pp. scenario	31.12.2011 +0.25 pp. scenario	31.12.2011 -0.25 pp. scenario
Provision for anniversary bonuses	(6)	6	(5)	5
Provision for retirement and pension benefits	(4)	4	(4)	4
Total	**(10)**	**10**	**(9)**	**9**

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

The Bank 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. If the useful life of assets being subject to depreciation and classified as land and buildings was changed by +/- 10 years, it would influence the financial result as follows: a decrease in depreciation costs by PLN 28 million or an increase in depreciation costs by PLN 155 million respectively (as at 31 December 2011: a decrease in deprecation cost by PLN 27 million or increase in depreciation cost by PLN 137 million respectively).

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

2.21. Changes in accounting policies

The Group prepares its financial statements in accordance with International Financial Reporting Standards as adopted by the European Union in the form of a Decree 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 2012

Standard/ interpretation	Introduction/ publication date	Application date	Description of changes
Decree of the EU Committee No. 1205/2011 of 22.11.2011			
Transfers of Financial Assets - amendments to IFRS 7	October 2010	Financial year starting on or after 1 July 2011	The amendments require additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset, the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remaining in the entity's balance sheet. Disclosures are also required to enable to understand the amount of any associated liabilities, and the relationship between the certain financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. Scale of changes is not significant. Disclosures on transferred financial assets are presented in Note 36 'Transfers of Financial Assets'.

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 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. Additionally, the name of statement of comprehensive income has changed to 'statement of profit or loss and other comprehensive income'. The above change has a presentation character and will not have material impact on the Group's disclosures.
Recovery of Underlying Assets - amendments to IAS 12	12.2010	Financial year starting on or after 1.01.2012 (in the European Union mandatory application from 1.01.2013)	The objective of the amendments to IAS 12 is to introduce an exception to the measurement principle in IAS 12 in the form of a rebuttable presumption that assumes that the carrying amount of an investment property designated at fair value would be recovered through sale and an entity would be required to use the tax rate applicable to the sale of underlying asset. As of today, due to a lack of such transactions in the Group, it is estimated that the above amendments shall not apply to the consolidated financial statements of the Group.
Decree of the EU Committee No. 1255/2012 of 11.12.2012			
Amended IAS 19 'Employee Benefits'	06.2011	Financial year starting on or after 1.01.2013	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. As of today, it is estimated that the amendments will not have material impact on the Group's consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

Standard/ interpretation	Introduction/ publication date	Application date	Description of potential changes
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. These changes will require the Group's broader disclosures in the consolidated financial statements of the Group.
Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – amendments to IFRS 1	12.2010	Financial year starting on or after 1.07.2011 (in the European Union mandatory application from 1.01.2013)	The objective of the amendments to IFRS 1 is to introduce a new exemption in the scope of IFRS 1 – namely, entities that have been subject to severe hyperinflation are allowed to use fair value as the deemed cost of their assets and liabilities in their opening IFRS statement of financial position. These changes do not apply to the Group due to the fact that the Group presents consolidated financial statements in accordance with IFRS from 2005.
IFRIC 20 'Stripping Costs in the Production Phase of a Surface Mine'	10.2011	Financial year starting on or after 1.01.2013	The interpretation clarifies that costs from the stripping activity are accounted for expenses of the current production in accordance with the principles of IAS 2, 'Inventories', to the extent that benefits from the stripping activity are realised in the form of inventory produced. To the extent the stripping activity leads to the benefits representing improved access to ore, the entity should recognise these costs as a 'stripping activity asset' within non-current assets, subject to certain criteria of interpretation being met. In accordance with the range of activity of the Group, IFRIC 20 does not apply.
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 an obligation of new disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. These changes will have a presentation character and will require from the Group additional disclosures, which scale, according to estimates of the Group, will not be significant.

2) 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. Based on preliminary analyses, the new standard does not seem to have a significant influence on the Group's financial statements.
IFRS 11 'Joint Arrangements'	05.2011	Financial year starting on or after 1.01.2013 (in the European Union	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.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

Standard/ interpretation	Introduction/ publication date	Application date	Description of potential changes
		mandatory application from 1.01.2014)	Equity method is mandatory for all participants in joint ventures. In the case of the Group, taking into account the jointly controlled entities are consolidated using the equity method, it is estimated that 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 applied will require additional disclosures to the Group's consolidated financial statements, but it is estimated that due to the current extensive range of disclosures about the Group entities in case of the Group the additional scope of disclosures will not be material.
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 additional scope of disclosures, due to the current extensive range of disclosures about the Group entities 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 Bank, taking into account the jointly controlled entities are consolidated using the equity method, it is estimated that the scope of the changes will not be material.
Decree of the EU Committee No. 1256/2012 of 13.12.2012			

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

Standard/ interpretation	Introduction/ publication date	Application date	Description of potential changes
'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. The above additional explanations do not seem to have material impact on disclosures in the consolidated financial statements of the Group.

3) 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; in 10.2010 supplemented with the issue of classification and measurement of financial liabilities; in 12.2011 changed the application date	Financial year starting on or after 1.01.2015	IFRS 9 replaces those 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. The above changes will possibly apply for the first time to the financial statements of the Group for the year 2015, provided that they are adopted by the European Union. The European Union makes commencing work on the adaptation conditional upon the IASB issuing a version of IFRS 9 which includes Section 2 'Impairment' and Section 3 'Hedge Accounting', which as of today are in the draft phase. Due to lack of a final version of the project Standard, the effect of IFRS 9 on the adopted accounting policies has not yet been evaluated.
Government loans - amendments to IFRS 1	03.2012	Financial year starting on or after 1.01.2013	The amendments, dealing with loans received by an entity from governments on preferential conditions (at a below market rate of interest), give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. These amendments give first-time adopters the same relief as existing preparers. These changes do not apply to the Group due to the fact that the Group presents consolidated financial statements in accordance with IFRS from 2005.
Improvements to IFRSs 2009-2011	05.2012	Financial year starting on or after 1.01.2013	'Improvements to IFRSs 2009-2011', which change 5 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 to the consolidated financial statements of the Group for the year 2013, provided that they are adopted by the European Union. As of today, do not seem to have material impact on the consolidated financial statements of the Group.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

Standard/ interpretation	Introduction/ publication date	Application date	Description of potential changes
Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12	06.2012	Financial year starting on or before 1.01.2014 – if standards, that are their basics (IFRS 10, 11 and 12) was applied with the previous date	The amendments clarify the transition guidance in IFRS 10. Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 and IFRS 12, by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The above changes will possibly apply for the first time to the financial statements of the Group for the year 2014, provided that they are adopted by the European Union. The amendments do not seem to have material impact on the consolidated financial statements of the Group due to the fact that early adoption of these standards is not planned.
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, introducing new disclosures on investment entities. The above changes will possibly apply for the first time to the consolidated financial statements of the Group for the year 2014, provided that they are adopted by the European Union. As of today, do not seem to have material impact on the consolidated financial statements of the Group.

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.

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 – 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 the PKO Bank Polski SA Group. At present, the PKO Bank Polski SA Group comprises three 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.

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: the KREDOBANK SA Group, the 'Inter-Risk Ukraina' Sp. z.d.o Group, PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA, PKO Towarzystwo Funduszy Inwestycyjnych SA, Inteligo Financial Services SA, PKO BP Finat Sp. z o.o., Centrum Elektronicznych Usług Płatniczych eService SA, the Qualia Development Sp. z o.o. Group, Fort Mokotów Inwestycje Sp. z o.o., the Bankowy Fundusz Leasingowy SA Group, the Bankowe Towarzystwo Kapitałowe SA Group, PKO Finance AB and Centrum Finansowe Puławska Sp. z .o.o. – up to day of liquidation (own activities).

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 PKO Bank Polski SA 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 have been assigned assets and liabilities as well as income and expense related to these assets and liabilities.

The current income tax expense in respect of the presentation of the financial result, and deferred income tax assets and current income tax liabilities in respect of the balance sheet presentation were recognised at the Group level.

The tables below present data relating to income and results of individual business segments of the PKO Bank Polski SA Group for the 12-month period ended 31 December 2012 and 31 December 2011 and assets and liabilities as at 31 December 2012 and as at 31 December 2011.

As an additional reporting scheme, the PKO Bank Polski SA Group uses geographical areas. The PKO Bank Polski SA Group conducts its activities in Ukraine – through the KREDOBANK SA Group and the 'Inter – Risk Ukraina' Sp. z d. o. Group.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

For the period ended 31 December 2012	Continuing operations				
	Retail segment	Corporate segment	Investment segment	Transfer centre	Total activity of the PKO Bank Polski SA Group
Net interest income	5 727 774	564 710	254 069	1 336 233	7 882 786
Net fee and commission income	2 405 887	312 124	355 499	(2 308)	3 071 202
Other net income	198 515	83 593	396 892	(63 127)	615 873
Net result from financial operations	1 874	7 806	142 751	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:	(3 708 245)	(261 272)	(648 880)	-	(4 618 397)
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	**3 076 967**	**41 520**	**236 951**	**1 270 798**	**4 645 261**
Income tax expense (tax burden)	-	-	-	-	(897 818)
Profit (loss) attributable to non-controlling shareholders	-	-	-	-	(1 178)
Net profit attributable to the equity holders of the parent company	**3 076 967**	**41 520**	**236 951**	**1 270 798**	**3 748 621**

As at 31 December 2012	Continuing operations				
	Retail segment	Corporate segment	Investment segment	Transfer centre	Total activity of the PKO Bank Polski SA Group
Assets	108 005 298	43 031 211	32 568 811	9 309 794	192 915 114
Unallocated assets	-	-	-	-	564 514
Total assets	**108 005 298**	**43 031 211**	**32 568 811**	**9 309 794**	**193 479 628**
Liabilities	121 365 763	18 739 826	23 724 738	4 786 071	168 616 398
Unallocated liabilities	-	-	-	-	155 580
Total liabilities	**121 365 763**	**18 739 826**	**23 724 738**	**4 786 071**	**168 771 978**

For the period ended 31 December 2011	Continuing operations*				
	Retail segment	Corporate segment	Investment segment	Transfer centre	Total activity of the PKO Bank Polski SA Group
Net interest income	5 653 516	594 704	231 834	1 129 062	7 609 116
Net fee and commission income	2 519 220	274 167	308 057	-	3 101 444
Other net income	236 514	89 162	226 067	(119 987)	431 756
Net result from financial operations	(417)	1 843	14 137	(70 440)	(54 877)
Net foreign exchange gains	206 896	110 475	69 472	(49 547)	337 296
Dividend income	-	-	6 800	-	6 800
Net other operating income and expense	4 001	2 878	135 658	-	142 537
Income/expenses relating to internal customers	26 034	(26 034)	-	-	-
Net impairment allowance and write-downs	(1 487 327)	(283 567)	(159 553)	-	(1 930 447)
Administrative expenses, of which:	(3 618 776)	(233 592)	(558 989)	-	(4 411 357)
amortisation and depreciation	(421 077)	(23 217)	(75 867)	-	(520 161)
Share of profit (loss) of associates and jointly controlled entities	-	-	-	-	(19 652)
Segment gross profit	**3 303 147**	**440 874**	**47 416**	**1 009 075**	**4 780 860**
Income tax expense (tax burden)	-	-	-	-	(976 115)
Profit/loss attributable to non-controlling shareholders	-	-	-	-	(2 450)
Net profit attributable to the equity holders of the parent company	**3 303 147**	**440 874**	**47 416**	**1 009 075**	**3 807 195**

*Data for 2011 has been brought to comparability. Change in presentation consisting of including the results of all the PKO Bank Polski SA Group entities in the investment segment.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

As at 31 December 2011	Continuing operations*				
	Retail segment	Corporate segment	Investment segment	Transfer centre	Total activity of the PKO Bank Polski SA Group
Assets	112 110 669	36 409 011	35 225 587	6 458 848	190 204 115
Unallocated assets	-	-	-	-	543 922
Total assets	**112 110 669**	**36 409 011**	**35 225 587**	**6 458 848**	**190 748 037**
Liabilities	116 479 536	29 026 223	14 963 709	7 377 775	167 847 243
Unallocated liabilities	-	-	-	-	78 810
Total liabilities	**116 479 536**	**29 026 223**	**14 963 709**	**7 377 775**	**167 926 053**

* Data for 2011 has been brought to comparability. Change in presentation consisting of including the results of all the PKO Bank Polski SA Group entities in the investment segment.

3.2. Information about geographical areas

For the period ended 31 December 2012	Poland	Ukraine	Total
Net interest income	7 826 743	56 043	7 882 786
Net fee and commission income	3 013 405	57 797	3 071 202
Other net income	619 775	(3 902)	615 873
Administrative expenses	(4 487 277)	(131 120)	(4 618 397)
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
Segment gross profit	**4 708 020**	**(81 784)**	**4 645 261**
Income tax expense (tax burden)	-	-	(897 818)
Profit (loss) attributable to non-controlling shareholders	-	-	(1 178)
Net profit (loss)	**4 708 020**	**(81 784)**	**3 748 621**

As at 31 December 2012	Poland	Ukraine	Total
Assets of the segment	191 613 212	1 866 416	**193 479 628**
of which:			
non-financial fixed assets	4 438 395	146 202	**4 584 597**
deferred tax assets	498 510	66 004	**564 514**
Liabilities of the segment	167 100 845	1 671 133	**168 771 978**

For the period ended 31 December 2011*	Poland	Ukraine	Total
Net interest income	7 562 457	46 659	7 609 116
Net fee and commission income	3 062 735	38 709	3 101 444
Other net income	429 084	2 672	431 756
Administrative expenses	(4 307 326)	(104 031)	(4 411 357)
Net impairment allowance and write-downs	(1 869 771)	(60 676)	(1 930 447)
Share of profit (loss) of associates and jointly controlled entities	-	-	(19 652)
Segment gross profit	**4 877 179**	**(76 667)**	**4 780 860**
Income tax expense (tax burden)	-	-	(976 115)
Profit (loss) attributable to non-controlling shareholders	-	-	(2 450)
Net profit (loss)	**4 877 179**	**(76 667)**	**3 807 195**

As at 31 December 2011*	Poland	Ukraine	Total
Assets of the segment	188 959 637	1 788 400	**190 748 037**
of which:			
non-financial fixed assets	4 172 734	168 591	**4 341 325**
deferred tax assets	479 363	64 559	**543 922**
Liabilities of the segment	166 417 919	1 508 134	**167 926 053**

* Data for the year 2011 brought to comperability. Change in methodology concerning presentation of mutual transactions.

(IN PLN THOUSAND)

NOTES TO THE CONSOLIDATED INCOME STATEMENT

4. Interest income and expense

Interest and similar income

	2012	2011
Interest income calculated using the effective interest rate method, with respect to financial assets, which are not designated at fair value through profit and loss, of which:	**11 331 159**	**10 586 814**
Income from loans and advances to customers, of which:	10 378 884	9 782 468
from impaired loans	495 396	385 425
Income from investment securities available for sale	695 326	576 630
Income from placements with banks	250 184	218 731
Income from investments securities held to maturity	176	-
Other	6 589	8 985
Other income, of which:	**1 660 578**	**1 450 948**
Income from derivative hedging instruments (Note 19)	870 450	814 275
Income from financial assets designated upon initial recognition at fair value through profit and loss	730 864	561 826
Income from trading assets	59 264	74 847
Total	**12 991 737**	**12 037 762**

Interest expense and similar charges

	2012	2011
Interest expense calculated using the effective interest rate method, with respect to financial liabilities, which are not designated at fair value through profit and loss, of which:	**(5 105 765)**	**(4 426 762)**
Interest expense on amounts due to customers	(4 637 605)	(4 101 578)
Interest expense on debt securities in issue	(431 010)	(278 178)
Interest expense on deposits from banks	(27 239)	(45 684)
Premium expense on debt securities available for sale	(9 911)	(1 322)
Other expense	**(3 186)**	**(1 884)**
Total	**(5 108 951)**	**(4 428 646)**

Net gains and losses from financial assets and liabilities measured at amortised cost

	2012	2011
Net gains and losses from financial assets measured at amortised cost	**9 069 430**	**8 744 562**
Interest income from loans and advances to customers	10 378 884	9 782 468
Fee and commission income from loans and advances	578 521	582 100
Interest income from placements with banks	250 184	218 731
Net impairment allowance on loans and advances to customers and amounts due from banks measured at amortised cost	(2 117 738)	(1 818 641)
Net impairment allowance on finance lease receivables	(20 421)	(20 096)
Losses from financial liabilities measured at amortised cost	**(5 095 854)**	**(4 425 440)**
Interest expense on amounts due to customers	(4 637 605)	(4 101 578)
Interest expense on debt securities in issue	(431 010)	(278 178)
Interest expense on bank deposits	(27 239)	(45 684)
Net result	**3 973 576**	**4 319 122**

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

5. Fee and commission income and expense

Fee and commission income

	2012	2011
Income from financial assets, which are not designated at fair value through profit and loss, of which:	**578 521**	**582 100**
Income from loans and advances granted	578 521	582 100
Other commissions	**3 255 083**	**3 252 259**
Income from payment cards	1 186 733	1 048 720
Income from maintenance of bank accounts	881 286	916 484
Income from loan insurance	415 339	515 499
Income from maintenance of investment and open pension funds (including management fees)	318 208	340 751
Income from cash transactions	136 451	160 451
Income from securities transactions	82 855	70 344
Income from servicing foreign mass transactions	48 785	47 966
Providing the services of an agent for the issue of Treasury bonds	39 295	29 669
Income from sale and distribution of court fee stamps	25 624	18 625
Other*	120 507	103 750
Income from fiduciary activities	**3 699**	**2 806**
Total	**3 837 303**	**3 837 165**

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

Fee and commission expense

	2012	2011
Expenses on payment cards	(420 264)	(320 592)
Expenses on loan insurance	(111 320)	(133 488)
Expenses on acquisition services	(107 140)	(140 216)
Expenses on settlement services	(24 058)	(20 977)
Expenses on fee and commissions for operating services provided by banks	(10 756)	(11 435)
Expenses on asset management fees	(9 971)	(16 158)
Other*	(82 592)	(92 855)
Total	**(766 101)**	**(735 721)**

* 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

	2012	2011
Dividend income from the issuers of:		
Securities classified as available for sale	5 943	6 416
Securities classified as held for trading	2 138	384
Total	**8 081**	**6 800**

7. Net income from financial instruments designated at fair value

	2012	2011
Change in fair value of financial instruments designated at fair value through profit and loss determined using the valuation techniques	(8 120)	(85 075)
Derivative instruments, of which:	3 186	(88 731)
an ineffective portion related to cash flow hedges	7 938	(64 342)
Structured bank securities designated at fair value through profit and loss	(11 306)	3 630
Other	-	26
Debt securities	103 343	10 631
Equity instruments	(1 035)	(612)
Total	**94 188**	**(75 056)**

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

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**

2011	Gains	Losses	Net result
Trading assets	10 504 206	(10 592 619)	(88 413)
Financial assets designated upon initial recognition at fair value through profit and loss	65 089	(51 732)	13 357
Total	**10 569 295**	**(10 644 351)**	**(75 056)**

8. Gains less losses from investment securities

	2012	2011
Losses/gains recognised directly in other comprehensive income	(6 137)	(53 828)
Total result recognised directly in other comprehensive income	**(6 137)**	**(53 828)**
Gains derecognised from other comprehensive income	86 376	21 448
Losses derecognised from other comprehensive income	(6 563)	(1 269)
Total result derecognised from other comprehensive income, recognised in income statement	**79 813**	**20 179**
Total result retained in other comprehensive income	**73 676**	**(33 649)**

9. Other operating income and expense

	2012	2011
Other operating income		
Net income from sale of products and services	331 224	256 051
Sales and disposal of tangible fixed assets, intangible assets and assets held for sale	92 680	76 636
Damages, penalties and fines received	35 368	19 219
Sundry income	21 692	20 630
Sale of shares in subsidiaries, jointly controlled entities and associates	3 118	-
Recovery of expired and written-off receivables	3 062	5 336
Other*	76 225	73 851
Total	**563 369**	**451 723**

* Included in 'Other' are i.a.: sundry income, income from expired and written-off receivables.

	2012	2011
Other operating expense		
Costs of sale of products and services	(221 007)	(171 543)
Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(99 733)	(69 946)
Donations	(12 815)	(11 571)
Sundry expenses	(5 879)	(4 696)
Other*	(46 281)	(51 430)
Total	**(385 715)**	**(309 186)**

* Included in 'Other' are i.a.: donations and sundry expenses.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

10. Net impairment allowance and write-downs

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	Currency translation differences	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 not admitted to public trading		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		**2 958**	**-**	**-**	**-**	**52**	**-**	**-**	**-**	**2 906**	**-**
Tangible fixed assets	**27**	**6 388**	**12 104**	**-**	**-**	**3 366**	**305**	**878**	**-**	**13 943**	**(11 799)**
Intangible assets	**26**	**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)**
Other, of which:		**336 751**	**319 624**	**-**	**6 915**	**62 641**	**193 500**	**551**	**1 005**	**405 593**	**(126 124)**
inventories	25	33 088	10 705	-	-	11 322	967	-	-	31 504	(9 738)
provisions for legal claims and liabilities and guarantees granted	35	115 608	254 247	-	-	798	151 442	12	518	217 085	(102 805)
Total		6 281 963	6 253 913	-	40 246	1 015 489	3 928 685	56 059	69 018	7 506 871	(2 325 228)

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

For the year ended 31 December 2011	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	Currency translation differences	Other	Decrease due to derecognition of assets and settlement	Reversed during the period		
Investment securities available for sale	**22**	**21 909**	**8 439**	**629**	**-**	**645**	**9 769**	**20 563**	**1 330**
Debt securities available for sale		21 259	6 468	614	-	628	9 769	17 944	3 301
Equity securities not admitted to public trading		650	1 971	15	-	17	-	2 619	(1 971)
Amounts due from banks	**16**	**28 925**	**1 471**	**-**	**4 296**	**341**	**1 539**	**32 812**	**68**
Loans and advances to customers measured at amortised cost	**21**	**4 856 670**	**5 518 214**	**69 345**	**63 604**	**1 170 181**	**3 679 409**	**5 658 243**	**(1 838 805)**
Non-financial sector		4 726 693	5 426 314	65 847	63 604	1 166 672	3 618 753	5 497 033	(1 807 561)
corporate loans		2 229 665	2 111 614	53 457	13 027	341 212	1 357 191	2 709 360	(754 423)
consumer loans		1 513 717	2 232 735	1 526	11 802	724 234	1 571 703	1 463 843	(661 032)
housing loans		983 311	1 081 965	10 864	38 775	101 226	689 859	1 323 830	(392 106)
Financial sector		26 938	21 789	3 498	-	1 879	13 288	37 058	(8 501)
corporate loans		26 938	21 789	3 498	-	1 879	13 288	37 058	(8 501)
Public sector		13 134	7 270	-	-	2	4 623	15 779	(2 647)
corporate loans		13 134	7 270	-	-	2	4 623	15 779	(2 647)
Finance lease receivables		89 905	62 841	-	-	1 628	42 745	108 373	(20 096)
Non-current assets held for sale		**2 961**	**-**	**-**	**-**	**3**	**-**	**2 958**	**-**
Tangible fixed assets	**27**	**18 434**	**5 549**	**659**	**-**	**17 254**	**1 000**	**6 388**	**(4 549)**
Intangible assets	**26**	**132 972**	**2 799**	**-**	**-**	**238**	**238**	**135 295**	**(2 561)**
Investments in associates and jointly controlled entities	**24**	**60 138**	**28 815**	**-**	**-**	**-**	**-**	**88 953**	**(28 815)**
Other, of which:		**314 214**	**245 718**	**915**	**266**	**35 759**	**188 603**	**336 751**	**(57 115)**
inventories	25	34 858	8 682	-	-	10 410	42	33 088	(8 640)
provisions for legal claims and liabilities and guarantees granted	35	89 799	168 669	24	261	114	143 031	115 608	(25 638)
Total		**5 436 223**	**5 811 005**	**71 548**	**68 166**	**1 224 421**	**3 880 558**	**6 281 963**	**(1 930 447)**

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

11. Administrative expenses

	2012	2011
Staff costs	(2 508 055)	(2 403 744)
Overheads	(1 352 530)	(1 276 586)
Amortisation and depreciation	(541 289)	(520 161)
Taxes and other charges	(72 535)	(74 129)
Contribution and payments to Bank Guarantee Fund	(143 988)	(136 737)
Total	**(4 618 397)**	**(4 411 357)**

Wages and salaries / Employee benefits

	2012	2011
Wages and salaries, of which:	(2 092 588)	(2 032 341)
actuarial provision for anniversary bonuses and retirement benefits	(2 920)	(16 507)
Social Insurance, of which:	(343 166)	(304 511)
contributions for retirement pay and pensions*	(279 582)	(247 023)
Other employee benefits	(72 301)	(66 892)
Total	**(2 508 055)**	**(2 403 744)**

*Total expense incurred by the Group related to contributions for retirement pay and pensions.

Operating lease agreements

Operating lease – lessee

Lease agreements, under which the lessor retains substantially 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.

	31.12.2012	31.12.2011
Total value of future lease payments under irrevocable operating lease for the period		
up to 1 year	117 968	106 028
from 1 year to 5 years	222 587	173 614
over 5 years	54 450	61 348
Total	**395 005**	**340 990**

Lease and sub-lease payments recognised as an expense of a given period from 1 January 2012 to 31 December 2012 amounted to PLN 157 588 thousand (in the period from 1 January 2011 to 31 December 2011 PLN 129 812 thousand).

12. Income tax expense

	2012	2011
Consolidated income statement		
Current income tax expense	(847 847)	(958 076)
Deferred income tax related to temporary differences	(49 971)	(18 039)
Tax expense in the consolidated income statement	**(897 818)**	**(976 115)**
Tax expense in other comprehensive income related to creating and reversal of temporary differences	58 627	(27 441)
Total	**(839 191)**	**(1 003 556)**

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

	2012	2011
Profit before income tax	**4 645 261**	**4 780 860**
Corporate income tax calculated using the enacted tax rate 19% in force in Poland	(882 600)	(908 363)
Effect of other tax rates of foreign entities	1 422	(2 504)
Permanent differences between profit before income tax and taxable income, of which:	**(63 833)**	**(73 996)**
Recognition/reversal of provisions and revaluation not constituting taxable expense/income	(42 388)	(51 399)
Other non-tax-deductible expenses	(18 627)	203
Other permanent differences	(2 818)	(22 800)
Other differences between profit before income tax and taxable income, including donations	**45 940**	**8 508**
Tax loss settlement	**1 253**	**240**
Income tax in the consolidated income statement	**(897 818)**	**(976 115)**
Effective tax rate	**19.33%**	**20.42%**
Temporary difference due to the deferred tax presented in the consolidated income statement	(49 971)	(18 039)
Current income tax expense in the consolidated income statement, of which:	**(847 847)**	**(958 076)**
Corporate income tax calculated using the enacted tax rate 19% in force in Poland	(847 678)	(958 032)
Effect of other tax rates of foreign entities	(169)	(44)

Current income tax liabilities/receivables

	31.12.2012	31.12.2011
Current income tax receivables	5 713	5 957
Current income tax liabilities	155 580	78 810

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 2012 is made within the statutory deadline of 31 March 2013. 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.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

Deferred tax asset/liability

	Consolidated statement of financial position		Consolidated income statement	
	31.12.2012	31.12.2011	2012	2011
Deferred tax liability				
Interest accrued on receivables (loans)	193 308	176 076	(17 232)	(64 678)
Capitalised interest on performing housing loans	169 830	190 844	21 014	20 732
Interest on securities	14 567	58 187	43 620	(13 650)
Valuation of derivative financial instruments, of which:	18 450	94 471	-	-
transferred to income statement	6 276	9 514	3 238	38 227
transferred to other comprehensive income	12 174	84 957	-	-
Valuation of securities	6 037	16 414	-	-
transferred to income statement	3 889	15 443	11 554	(15 443)
transferred to other comprehensive income	2 148	971	-	-
Difference between carrying amount and tax value of tangible fixed assets and intangible assets	333 554	293 318	(40 236)	(35 291)
Temporary positive differences concerning Group entities, of which:	41 300	29 363	-	-
transferred to income statement	40 749	29 307	(11 442)	(6 795)
transferred to other comprehensive income	551	56	-	-
Gross deferred tax liability, of which:	**777 046**	**858 673**	**-**	**-**
transferred to income statement	762 173	772 689	10 516	(76 898)
transferred to other comprehensive income	14 873	85 984	-	-
Deferred tax asset				
Interest accrued on liabilities	235 244	391 527	(156 283)	(14 837)
Valuation of derivative financial instruments, of which:	10 661	16 093	-	-
transferred to income statement	10 661	16 093	(5 432)	(3 377)
Valuation of securities, of which:	-	24 550	-	-
transferred to income statement	-	11 580	(11 580)	(39 060)
transferred to other comprehensive income	-	12 970	-	-
Provision for employee benefits	131 770	126 714	5 056	8 101
Impairment allowances on credit exposure	494 933	414 558	80 375	79 081
Influence of measurement at amortised cost	187 166	211 011	(23 845)	(6 989)
Other temporary negative differences	44 979	28 991	15 988	(3 010)
Temporary negative differences concerning Group entities, of which:	195 507	159 787	-	-
transferred to income statement	194 445	159 211	35 234	38 950
transferred to other comprehensive income	1 062	576	-	-
Gross deferred income tax asset, of which:	**1 300 260**	**1 373 231**	**-**	**-**
transferred to income statement	1 299 198	1 359 685	(60 487)	58 859
transferred to other comprehensive income	1 062	13 546	-	-
Total deferred tax impact, of which:	523 214	**514 558**	**-**	**-**
transferred to income statement	537 025	586 996	(49 971)	(18 039)
transferred to other comprehensive income	(13 811)	(72 438)	-	-
Deferred income tax asset (presented in statement of financial position)	**564 514**	**543 922**	**-**	**-**
Deferred income tax liability (presented in statement of financial position)	41 300	**29 364**	**-**	**-**
Net deferred tax impact on the income statement	**-**	**-**	**(49 971)**	**(18 039)**

KREDOBANK SA remains in 2 legal claims with the tax authorities in Ukraine.

The first legal claim concerns the possibility of recognition of the loss from previous years as tax deductible expenses. The legal claim concerns tax years 2008-2010, the value of the subject matter of legal claim amounts to UAH 771 437 thousand (i.e. PLN 295 075 thousand at the average NBP exchange rate prevailing as at 31 December 2012). The case was reviewed by the court of the first instance, which on 7 May 2012 took into consideration the petition of KREDOBANK SA. On 14 June 2012, i.e. before the sentence came into legal force, the tax authority appealed to the court of the second instance. On 31 January 2013, the court of the second instance maintained the verdict of the court of the first instance. The verdict is legally valid. The tax authority has 20 days to apply for cassation of the verdict. In the event of another appeal and an unfavourable ruling, the deferred tax asset will be reduced by 16% of the above mentioned loss, i.e. by UAH 123 430 thousand (PLN 47 212 thousand).

The second legal claim concerns 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 for treating the costs related to these transactions as tax deductible costs. The decision of the tax authority results in cancelling the tax losses of KREDOBANK SA for previous years and the losses related to releasing of deferred tax assets and arising of an additional tax liability. In the opinion of KREDOBANK SA – confirmed by legal and tax opinions, the decision of the tax authority was based on an erroneous interpretation of the provisions of the law of Ukraine. On 5 October 2012, KREDOBANK SA filed a claim with the Lviv Regional Administrative Court appealing against the results of the inspection by the tax authority and applying for annulling the decision to pay income tax based on the inspection minutes. On 6 December 2012, the Court granted the complaint of KREDOBANK SA concerning the annulment of a tax inspection decision. The tax authority appealed to the court of the second instance. The date for the next hearing has been set for 21 March 2013. In case the verdict of the court is unfavourable, KREDOBANK SA will be obliged to pay to the State Treasury of Ukraine an amount of UAH 62 909 thousand (i.e. PLN 24 063 thousand at the average NBP rate prevailing as at 31 December 2012).

At the same time, on 19-20 February 2013 fiscal decisions were made on the basis of the next planned tax inspection of KREDOBANK ended 6 February 2013, which covered the period from 1 April 2011 to 30 September 2012. As a result of the above mentioned control the total amount of tax claims has been established at UAH 1 129 thousand (i.e PLN 432 thousand at the average exchange rate as of 31 December 2012) and the amount of reduction in losses from previous periods has been established at UAH 626 282 thousand (i.e. PLN 239 553 thousand). KREDOBANK SA forsees undertaking legal actions appealing the decision of the tax authority.

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

	2012	2011
Profit per ordinary shareholder (in PLN thousand)	3 748 621	3 807 195
Weighted average number of ordinary shares during the period (in thousand)	1 250 000	1 250 000
Earnings per share (in PLN per share)	3.00	3.05

Earnings per share from discontinued operations

In the years ended 31 December 2012 and 31 December 2011 respectively, the Group did not report any 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 in the year 2012 and 2011.

Diluted earnings per share from discontinued operations

During the years ended 31 December 2012 and 31 December 2011 the Group did not report any discontinued operations.

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

Pursuant to the Resolution No. 8/2012 of the Ordinary General Shareholders' Meeting of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna passed on 6 June 2012, the dividend for 2011 amounted to PLN 1 587 500 thousand, i.e. 1.27 per share.

The list of shareholders eligible to receive dividend for 2011 was determined as at 12 June 2012, and the payment was made on 27 June 2012.

As at 31 December 2012, 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.

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

15. Cash and balances with the central bank

	31.12.2012	31.12.2011
Current account in the central bank	7 550 898	6 845 759
Cash	2 738 456	2 295 222
Other funds	97	1 187
Total	**10 289 451**	**9 142 168**

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 2012, this interest rate was 4.05%.

As at 31 December 2012 and 31 December 2011, there were no further restrictions as regards the use of these funds.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

16. Amounts due from banks

	31.12.2012	31.12.2011
Deposits with banks	2 369 774	1 912 647
Current accounts	861 331	405 724
Receivables due from repurchase agreements	149 284	-
Loans and advances granted	38 150	108 868
Cash in transit	3 329	1 800
Total	**3 421 868**	**2 429 039**
Impairment allowances on receivables, of which:	(29 382)	(32 812)
impairment allowances on exposure to a foreign bank	(29 373)	(32 385)
Net total	**3 392 486**	**2 396 227**

Details on risk related to amounts due from banks were presented in Note 52 ‘Credit risk management’.

17. Trading assets

By carrying amount	31.12.2012	31.12.2011
Debt securities	**273 576**	**1 300 164**
issued by the State Treasury, of which:	216 521	1 268 471
Treasury bonds	216 521	1 219 069
Treasury bills	-	49 402
issued by local government bodies, municipal bonds	26 673	14 783
issued by non-financial institution, corporate bonds	15 064	14 947
issued by other financial institution, of which:	13 947	239
bonds issued by WSE	13 880	-
corporate bonds	67	239
issued by banks, of which:	1 371	1 724
BGK bonds	1 361	1 724
Shares in other entities - listed on stock exchange	**3 237**	**10 925**
Investment certificates	**713**	**-**
Rights issues	**40**	**-**
Total	**277 566**	**1 311 089**

Debt securities by nominal value	31.12.2012	31.12.2011
in the parent company		
Treasury bonds	213 650	1 236 644
Treasury bills	-	50 000
corporate bonds	33 157	14 900
municipal bonds	25 678	14 337
BGK bonds	1 308	1 686
The average yield on debt securities issued by the State Treasury	**3.11%**	**4.61%**

As at 31 December 2012, in the trading assets portfolio, there were no assets pledged as collateral for liabilities due to sell-buy-back transactions.

As at 31 December 2011, in the trading assets portfolio, the carrying amount of assets pledged as collateral for liabilities due to sell-buy-back transactions was PLN 643 483 thousand.

As at 31 December 2012 and as at 31 December 2011 the portfolio did not include Treasury securities denominated in foreign currencies.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

Trading assets by carrying amount by maturity as at 31 December 2012 and as at 31 December 2011

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

As at 31 December 2011	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	68 317	50 092	501 826	474 429	173 807	**1 268 471**
issued by local government bodies	-	778	4 623	8 405	977	**14 783**
issued by non-financial institutions	92	821	620	13 414	-	**14 947**
issued by other financial institutions	-	227	-	12	-	**239**
issued by banks	-	-	-	1 465	259	**1 724**
Total	68 409	51 918	507 069	497 725	175 043	1 300 164

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

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 2012 and as at 31 December 2011, the Group held the following types of derivative instruments:

	31.12.2012		31.12.2011	
	Assets	Liabilities	Assets	Liabilities
Hedging instruments	498 130	224 373	516 925	342 598
Other derivative instruments	3 362 431	3 739 725	2 547 808	2 302 683
Total	**3 860 561**	**3 964 098**	**3 064 733**	**2 645 281**

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

Derivative financial instruments as at 31 December 2012

Nominal values of underlying instruments and fair value of derivative financial instruments

	Nominal values of underlying instruments						Fair value/carrying amount of derivative financial instruments	
	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total	Assets	Liabilities
Currency transactions								
FX swap	8 783 322	2 447 344	4 563 639	-	-	**15 794 305**	109 819	207 538
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**	33 190	60 742
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**	63 301	61 932
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**	357 675	370 043
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**	3 221 798	3 183 744
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**	74 608	78 693
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 (including stock market index derivatives)	1 226 253	13 088	5 175	-	-	**1 244 516**	170	1 406
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**	**3 860 561**	**3 964 098**

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

Derivative financial instruments as at 31 December 2011

Nominal values of underlying instruments and fair value of derivative financial instruments

	Nominal values of underlying instruments						Fair value/carrying amount of derivative financial instruments	
	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total	Assets	Liabilities
Currency transactions								
FX swap	21 083 789	9 126 101	10 647 681	137 381	-	**40 994 952**	438 331	139 720
Purchase of currency	10 609 912	4 618 540	5 346 158	66 712	-	**20 641 322**	-	-
Sale of currency	10 473 877	4 507 561	5 301 523	70 669	-	**20 353 630**	-	-
FX forward	1 791 631	2 619 474	3 200 974	426 898	-	**8 038 977**	119 293	56 271
Purchase of currency	898 463	1 312 740	1 614 283	213 824	-	**4 039 310**	-	-
Sale of currency	893 168	1 306 734	1 586 691	213 074	-	**3 999 667**	-	-
Options	1 463 178	3 694 347	5 122 277	3 009 547	-	**13 289 349**	106 492	70 112
Purchase	737 441	1 862 104	2 647 709	1 845 542	-	**7 092 796**	-	-
Sale	725 737	1 832 243	2 474 568	1 164 005	-	**6 196 553**	-	-
Cross Currency (CIRS)	-	-	6 868 896	35 395 814	2 710 629	**44 975 339**	419 640	421 039
Purchase	-	-	3 422 487	17 483 131	1 342 072	**22 247 690**	-	-
Sale	-	-	3 446 409	17 912 683	1 368 557	**22 727 649**	-	-
Interest rate transactions								
Interest Rate Swap (IRS)	35 442 220	41 119 688	135 027 442	156 039 292	23 222 768	**390 851 410**	1 941 309	1 925 161
Purchase	17 721 110	20 559 844	67 513 721	78 019 646	11 611 384	**195 425 705**	-	-
Sale	17 721 110	20 559 844	67 513 721	78 019 646	11 611 384	**195 425 705**	-	-
Forward Rate Agreement (FRA)	42 157 000	48 763 000	65 082 000	2 000 000	-	**158 002 000**	38 117	31 965
Purchase	21 579 000	22 946 000	31 621 000	1 000 000	-	**77 146 000**	-	-
Sale	20 578 000	25 817 000	33 461 000	1 000 000	-	**80 856 000**	-	-
Other transactions								
Other (including stock market index derivatives)	1 682 190	4 114	409 747	36 216	-	**2 132 267**	1 551	1 013
Purchase	644 005	903	208 859	35 586	-	**889 353**	-	-
Sale	1 038 185	3 211	200 888	630	-	**1 242 914**	-	-
Total derivative instruments	**103 620 008**	**105 326 724**	**226 359 017**	**197 045 148**	**25 933 397**	**658 284 294**	**3 064 733**	**2 645 281**

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

19. Derivative hedging instruments

As at 31 December 2012, the Group applies the following hedging strategies:

Hedging 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	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	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	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 mortgage 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.	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.	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.	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	Currency risk and interest rate risk.	Interest rate risk.	Interest rate risk.	Interest rate risk.
Hedging instrument	CIRS transactions where the Bank pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal value defined in CHF and PLN respectively.	IRS transactions where the Bank pays coupons based on variable 3M WIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded.	IRS transactions where the Bank pays coupons based on variable 3M EURIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded.	IRS transactions where the Bank pays coupons based on variable 3M LIBOR CHF rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded.
Hedged position	1) The portfolio of floating rate mortgage loans denominated in CHF. 2) The portfolio of short-term negotiable term deposits, including renewals in the future (high probability of occurrence). The Bank designated the hedged position according to the regulations of IAS 39.AG.99C as adopted by the European Union.	The portfolio of loans in PLN indexed to the variable 3M WIBOR rate.	The portfolio of loans in EUR indexed to the variable EURIBOR rate.	The portfolio of loans in CHF indexed to the variable 3M LIBOR CHF rate.
Periods in which cash flows are expected and in which they should have an impact on the financial result	January 2013 to October 2026	January 2013 to December 2015	January 2013 to June 2016	January 2013 to July 2016

As at 31 December 2012 and 2011, 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. The tests are performed monthly.

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 2012 and as at 31 December 2011:

Type of instrument:	Carrying amount/fair value			
	31.12.2012		31.12.2011	
	Assets	Liabilities	Assets	Liabilities
IRS	256 223	54	175 566	1 643
CIRS	241 907	224 319	341 359	340 955
Total	**498 130**	**224 373**	**516 925**	**342 598**

The nominal value of hedging instruments by maturity.

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	in PLN thousand	1 150 000	60 000	1 816 000	360 000	-	**3 386 000**
IRS							
	in PLN thousand	-	-	-	1 929 630	-	**1 929 630**
	in EUR thousand	-	-	-	472 000	-	**472 000**
IRS							
	in PLN thousand	-	-	-	846 700	-	**846 700**
	in CHF thousand	-	-	-	250 000	-	**250 000**
CIRS							
	in PLN thousand	-	1 196 440	5 095 105	8 084 755	2 010 240	**16 386 540**
	in CHF thousand	-	350 000	1 500 000	2 425 000	575 000	**4 850 000**

Type of instrument:		Nominal value as at 31 December 2011					
		up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
IRS	in PLN thousand	-	500 000	5 330 000	526 000	-	**6 356 000**
IRS							
	in PLN thousand	-	-	-	2 084 730	-	**2 084 730**
	in EUR thousand	-	-	-	472 000	-	**472 000**
IRS							
	in PLN thousand	-	-	-	908 325	-	**908 325**
	in CHF thousand	-	-	-	250 000	-	**250 000**
CIRS							
	in PLN thousand	-	-	1 998 315	15 714 023	1 362 488	**19 074 826**
	in CHF thousand	-	-	550 000	4 325 000	375 000	**5 250 000**

The nominal values were translated using the average NBP rate as at 31 December 2012 and as at 31 December 2011 respectively.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

Other comprehensive income as regards cash flow hedges	31.12.2012	31.12.2011
Other comprehensive income at the beginning of the period, gross	447 142	269 042
Gains transferred to other comprehensive income in the period	913 761	1 290 334
Amount transferred from other comprehensive income to income statement, of which:	(1 296 830)	(1 112 234)
- interest income	(870 450)	(814 275)
- net foreign exchange gains	(426 380)	(297 959)
Accumulated other comprehensive income at the end of the period, gross	64 073	447 142
Tax effect	(12 174)	(84 957)
Accumulated other comprehensive income at the end of the period, net	51 899	362 185
Ineffective part of cash flow hedges recognised through profit and loss	7 938	(64 342)
Effect on other comprehensive income in the period, gross	(383 069)	178 100
Deferred tax on cash flow hedges	72 783	(33 839)
Effect on other comprehensive income in the period, net	(310 286)	144 261

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

By carrying amount	31.12.2012	31.12.2011
Debt securities	12 629 711	12 467 201
issued by central banks, NBP money market bills	9 995 300	8 593 791
issued by the State Treasury, of which:	2 377 883	3 620 515
Treasury bonds PLN	1 322 226	1 318 278
Treasury bills	1 040 863	2 180 148
Treasury bonds UAH	14 794	-
Treasury bonds EUR	-	122 089
issued by local government bodies, of which:	256 528	252 895
municipal bonds EUR	145 343	143 973
municipal bonds PLN	111 185	108 922
Total	12 629 711	12 467 201

As at 31 December 2012, in the financial assets designated upon initial recognition at fair value through profit and loss portfolio, the carrying amount of assets pledged as collateral for liabilities due to sell-buy-back transactions was PLN 850 232 thousand.

As at 31 December 2011, in the financial assets designated upon initial recognition at fair value through profit and loss portfolio there were no assets pledged as collateral for liabilities due to sell-buy-back transactions.

As at 31 December 2012 and as at 31 December 2011, the portfolio of financial instruments designated upon initial recognition at fair value through profit and loss comprised of the following:

Debt securities by nominal value	31.12.2012	Currency	31.12.2011	Currency
NBP money market bills	10 000 000	thousand zloty	8 600 000	thousand zloty
Treasury bills	1 047 510	thousand zloty	2 196 950	thousand zloty
Treasury bonds PLN	1 347 927	thousand zloty	1 361 669	thousand zloty
Treasury bonds EUR	-	thousand zloty	110 420	thousand zloty
municipal bonds EUR	102 205	thousand zloty	110 420	thousand zloty
municipal bonds PLN	100 000	thousand zloty	100 000	thousand zloty
Treasury bonds	35 800	thousand hryvnia	3 128	thousand hryvnia
The average yield on debt securities issued by the State Treasury	3.81%		4.73%	

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

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

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**

As at 31 December 2011	up to 1 month	1 - 3 months	3 months – 1 year	1 - 5 years	over 5 years	Total
Debt securities						
issued by central banks	8 593 791	-	-	-	-	**8 593 791**
issued by the State Treasury	380 714	2 180 148	512 243	547 410	-	**3 620 515**
issued by local government bodies	-	-	-	-	252 895	**252 895**
Total	**8 974 505**	**2 180 148**	**512 243**	**547 410**	**252 895**	**12 467 201**

21. Loans and advances to customers

	31.12.2012	31.12.2011*
Loans and advances to customers, gross, of which:	150 651 909	147 292 737
financial sector	746 320	1 252 368
corporate, of which:	746 320	1 252 368
receivables due from repurchase agreements	-	93 899
deposits of Brokerage House in Stock Exchange Guarantee Fund and initial deposit	8 779	6 891
non-financial sector	142 218 959	140 973 940
corporate, of which:	47 021 975	45 480 936
receivables due from repurchase agreements	-	11 341
housing	72 279 131	71 156 253
consumer	22 014 785	24 336 751
debt securities**	903 068	-
public sector	7 686 630	5 066 429
corporate	6 511 591	5 066 429
debt securities**	1 175 039	-
Impairment allowances on loans and advances	(6 776 265)	(5 658 243)
Loans and advances to customers, net	143 875 644	141 634 494

* Data for 2011 adjusted to comparability due to the change in methodology, i.a. in the scope of the presentation of interests.
**Information about the debt securities portfolio reclassified to the loans and advances to customers portfolio is provided in Note 22 'Investment securities available for sale'.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

	31.12.2012	31.12.2011*
Loans and advances to customers		
Assessed on an individual basis	8 087 968	6 549 383
Impaired, of which:	6 506 653	5 701 547
receivables from finance leases	134 421	142 150
Not impaired, of which:	1 581 315	847 836
receivables from finance leases	128 142	89 493
Assessed on a portfolio basis	6 939 156	6 095 685
Impaired, of which:	6 939 156	6 095 685
receivables from finance leases	132 185	107 903
Assessed on a group basis (IBNR), of which:	135 624 785	134 647 669
receivables from finance leases	3 177 631	2 656 595
Loans and advances to customers, gross	**150 651 909**	**147 292 737**
Allowances on exposures assessed on an individual basis	(2 707 928)	(2 079 621)
Impaired, of which:	(2 647 481)	(2 079 621)
allowances on lease receivables	(35 164)	(36 180)
Allowances on exposures assessed on a portfolio basis, of which:	(3 516 549)	(2 910 042)
allowances on lease receivables	(73 524)	(60 091)
Allowances on exposures assessed on a group basis (IBNR), of which:	(551 788)	(668 580)
allowances on lease receivables	(13 456)	(12 102)
Allowances - total	**(6 776 265)**	**(5 658 243)**
Loans and advances to customers, net	**143 875 644**	**141 634 494**

*Data for 2011 adjusted to comparability due to the change in methodology, i.a. in the scope of the presentation of interests.

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

By client segment	31.12.2012	31.12.2011*
Loans and advances granted, gross, of which:	**150 651 909**	**147 292 737**
mortgage banking	64 199 027	63 446 688
corporate	41 113 192	33 946 284
retail and private banking	22 014 784	24 336 752
small and medium enterprises	16 688 662	17 454 568
housing market clients	6 627 465	7 984 735
receivables due from repurchase agreements	-	105 240
other receivables	8 779	18 470
Impairment allowances on loans and advances	(6 776 265)	(5 658 243)
Loans and advances granted, net	**143 875 644**	**141 634 494**

*Data for 2011 adjusted to comparability due to the change in methodology, i.a. in the scope of the presentation of interest divided by segment.

As a result of re-segmentation of small and medium enterprises and housing market clients to corporate segment performed during 2012, loan volumes of this segment increased by PLN 1 177 153 thousand and PLN 1 756 693 thousand respectively, compared to the end of 2011.

As at 31 December 2012, the share of impaired loans amounted to 8.9% (as at 31 December 2011: 8.0%), 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 50.4% (as at 31 December 2011: 48.0%).

As at 31 December 2012, the share of loans overdue by more than 90 days in the gross amount of loans and advances was 6.1% (as at 31 December 2011: 4.6%).

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

Finance lease agreements

Finance lease – lessor

The Group conducts lease activities through the entities from the Bankowy Fundusz Leasingowy 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 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**

Lease investment	
Present value of the minimal lease payments	3 572 379
of which non guaranteed final amounts due to the lessor	-

as at 31 December 2011

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	1 236 555	1 054 102	182 453
from 1 year to 5 years	1 858 913	1 593 253	265 660
over 5 years	432 391	348 786	83 605
Gross total	**3 527 859**	**2 996 141**	**531 718**
Impairment allowances	(108 373)	(108 373)	-
Net total	**3 419 486**	**2 887 768**	**531 718**

Lease investment	
Present value of the minimal lease payments	2 996 141
of which non guaranteed final amounts due to the lessor	1 216

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

22. Investment securities available for sale

	31.12.2012	31.12.2011
Debt securities available for sale, gross	**12 049 073**	**14 325 469**
issued by the State Treasury	7 902 479	8 679 028
Treasury bonds PLN	7 697 426	8 414 865
Treasury bonds USD	125 253	30 661
Treasury bonds UAH	79 800	220 793
Treasury bills	-	989
Treasury bonds EUR	-	11 720
issued by local government bodies, municipal bonds	2 780 212	3 458 356
issued by non-financial institutions	1 315 490	2 137 215
corporate bonds PLN	1 315 490	2 129 507
corporate bonds UAH	-	4 946
bills of exchange	-	2 762
issued by banks, corporate bonds	50 892	50 870
Impairment allowances of debt securities available for sale	**(5 536)**	**(17 944)**
corporate bonds PLN	(5 536)	(10 236)
corporate bonds UAH	-	(4 946)
bills of exchange	-	(2 762)
Total net debt securities available for sale	**12 043 537**	**14 307 525**
Equity securities available for sale, gross	**179 300**	**88 370**
Equity securities not admitted to public trading	129 653	41 025
Equity securities admitted to public trading	49 647	47 345
Impairment allowances of equity securities available for sale	**(17 707)**	**(2 619)**
Total net equity securities available for sale	**161 593**	**85 751**
Total net investment securities available for sale	**12 205 130**	**14 393 276**

Debt securities by nominal value	31.12.2012	Currency	31.12.2011	Currency
Treasury bonds PLN	7 461 361	thousand zloty	8 433 238	thousand zloty
municipal bonds	2 740 590	thousand zloty	3 402 338	thousand zloty
corporate bonds	1 514 084	thousand zloty	2 316 271	thousand zloty
Treasury bonds EUR	-	thousand zloty	10 600	thousand zloty
bills of exchange	-	thousand zloty	2 762	thousand zloty
Treasury bills	-	thousand zloty	1 000	thousand zloty
Treasury bonds	213 592	thousand hryvnia	506 456	thousand hryvnia
Treasury bonds USD	325 315	thousand hryvnia	71 908	thousand hryvnia
The average yield on debt securities	**3.24%**		**5.23%**	

Securities reclassification

Due to change of intention as regards holding of the selected portfolio of non-Treasury securities classified upon initial recognition as available for sale, in 2012, the Bank reclassified them to loans and advances to customers. As a result of the reclassification of the portfolio, the valuation methods have also changed, i.e. from measured at fair value to measured at amortised cost.

Debt securities (municipal bonds and corporate bonds) 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**

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

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**

Debt securities (municipal bonds and corporate bonds) reclassified from financial assets available for sale to loans and advances to customers as at 31 December 2012

As at 31.12.2012	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**

The securities reclassified are presented in the financial statements in loans and advances to customers.

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 10 850 thousand for the period from the date of reclassification until 31 December 2012.

As at 31 December 2012, the average effective interest rate for the debt securities portfolio is 5.758%.

Change in investment securities available for sale

	2012	2011
Balance at the beginning of the period	**14 393 276**	**10 219 400**
Currency translation differences	(21 591)	32 339
Increases	38 667 521	12 021 060
of which change in impairment allowances (Note 10)	2 680	(1 346)
Decreases	(40 907 752)	(7 845 874)
Changes in the fair value in relation to other comprehensive income (Note 8)	73 676	(33 649)
Balance at the end of the period	**12 205 130**	**14 393 276**

Risk related to investment securities available for sale has been described in the Note 52 'Credit risk management'.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

Investment debt securities available for sale by the maturity date by carrying amount

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 2011	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	135 852	86 232	960 122	5 200 513	2 296 309	**8 679 028**
issued by local government bodies	5 136	7 486	236 506	1 260 119	1 949 109	**3 458 356**
issued by non-financial institutions	376 277	41 698	53 585	1 464 517	183 194	**2 119 271**
issued by banks	-	-	-	-	50 870	**50 870**
Total	517 265	135 416	1 250 213	7 925 149	4 479 482	14 307 525

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

23. Investments securities held to maturity

	31.12.2012	31.12.2011
Investment securities held to maturity - debt securities		
issued by the State Treasury	27 843	-
issued by banks	19 128	-
Investment securities held to maturity	**46 971**	**-**

By nominal value	31.12.2012	Currency
Treasury bonds	71 138	thousand hryvnia
corporate bonds	50 000	thousand hryvnia
The average yield on debt securities issued by the State Treasury	**8.99%**	

	2012	2011
Investment securities held to maturity		
As at the beginning of the period	-	-
Increases	49 132	-
Currency translation differences	(2 161)	-
As at the end of the period	**46 971**	**-**

Debt securities in the portfolio held to maturity by maturity date by carring amount as at 31 December 2012

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	-	-	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

a) the value of the Bank'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	31.12.2012	31.12.2011
The CENTRUM HAFFNERA Sp. z o.o. Group	5 935	10 665
Purchase price	44 371	44 371
Change in valuation with equity method	(27 890)	(33 706)
Impairment allowances	(10 546)	-
Centrum Obsługi Biznesu Sp. z o.o.	6 113	5 307
Purchase price	17 498	17 498
Change in valuation with equity method	(11 385)	(12 191)
Total	**12 048**	**15 972**

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

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

Entity name	31.12.2012	31.12.2011
The Bank Pocztowy SA Group	106 720	106 720
Purchase price	146 500	146 500
Change in valuation with equity method	57 428	44 198
Impairment allowances	(97 208)	(83 978)
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-
Purchase price	1 500	1 500
Change in valuation with equity method	3 972	3 475
Impairment allowances	(5 472)	(4 975)
Agencja Inwestycyjna CORP-SA SA	443	427
Purchase price	29	29
Change in valuation with equity method	414	398
Total	107 163	107 147

Selected data on associates accounted for using the equity method

Entity name	Total assets	Total liabilities	Total revenue	Net profit	% share
31.12.2012					
The Bank Pocztowy SA Group	7 132 308	6 755 187	589 264	45 386	25.0001
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	19 770	129	403	1 493	33.33
Agencja Inwestycyjna CORP-SA SA	3 976	1 828	12 587	1 180	22.31
Total	7 156 054	6 757 144	602 254	48 059	X
31.12.2011					
The Bank Pocztowy SA Group	5 215 801	4 889 578	457 671	29 555	25.0001
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	17 666	137	513	18	33.33
Agencja Inwestycyjna CORP-SA SA	3 874	1 833	12 459	1 109	22.31
Total	5 237 341	4 891 548	470 643	3 682	X

Financial data concerning Bank Pocztowy SA, presented in the table above is derived from consolidated financial statements prepared in accordance with the IFRS/IAS. Data about other companies is 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 statements prepared in accordance with IFRS/IAS are not significant from the perspective of the financial statements of the Group. Data for the year 2011 is derived from audited financial statements.

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

Entity name	Total assets	Total liabilities	Total revenue	Net profit/loss	% share
31.12.2012					
Centrum Obsługi Biznesu Sp. z o.o.	115 291	97 902	22 391	1 942	41.44
The CENTRUM HAFFNERA Sp. z o.o. Group	308 123	269 118	50 108	15 871	49.43
Total	423 414	367 020	72 499	17 813	X
31.12.2011					
Centrum Obsługi Biznesu Sp. z o.o.	122 181	107 918	22 272	(11 314)	41.44
The CENTRUM HAFFNERA Sp. z o.o. Group	313 685	290 102	49 846	(48 450)	49.43
Total	435 866	398 020	72 118	(59 764)	X

The information concerning Centrum Obsługi Biznesu Sp. z o.o. and the Centrum Haffnera Sp. z o.o. Group, presented in the above table is 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 statements prepared in accordance with IFRS/IAS are not significant from the perspective of the consolidated financial statements of the Group. Data of both entities for the year 2011 is derived from audited financial statements.

In the consolidated financial statements for the year ended 31 December 2012, all associates and jointly controlled entities are accounted for using the equity method.

	2012	2011
Investments in associates at the beginning of the period	107 147	131 652
Change in impairment allowances of investment	(13 727)	(28 815)
Share of profit/loss	12 403	5 655
Share in other comprehensive income of associates	1 587	(1 233)
Dividends paid	(247)	(112)
Investment in associates at the end of the period	107 163	107 147

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

In 2012, the Group increased impairment allowances against shares of Bank Pocztowy SA by PLN 13 230 thousand and increased by PLN 497 thousand impairment allowances against shares of Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.

	2012	2011
Investments in jointly controlled entities at the beginning of the period	**15 972**	**41 279**
Share of profit / loss	6 622	(25 307)
Change in impairment allowances of investment	(10 546)	-
Investments in jointly controlled entities at the end of the period	**12 048**	**15 972**

In 2012, the Group recognised an impairment allowances against shares of Centrum Haffnera Sp. z o.o. of PLN 10 546 thousand. Impairment allowances on shares of Centrum Haffnera Sp. z o.o. was recognised on the basis of the Company's shares value in use estimation, calculated on the basis of the discounted cash flows model.

As at 31 December 2012 and 31 December 2011, the parent company had no share in contingent liabilities of associates acquired jointly with other investor. Finished goods – construction investments

In 2012, PKO Bank Polski SA did not make any direct investments in jointly controlled entities or associates.

25. Inventories

Carrying amount of inventories by kind*	31.12.2012	31.12.2011
Finished goods – construction investments	317 593	216 851
Work-in-progress – construction investments	154 056	271 709
Supplies	104 739	102 412
Materials	8 650	8 962
Impairment allowances on inventories	(31 504)	(33 088)
Total	**553 534**	**566 846**

* Item relates mainly to expenses on real estate development incurred by the Group entities whose scope of activity relates to real estate development.

26. Intangible assets

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
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**
Purchase	-	12 191	-	349 803	**361 994**
Sales and disposals	-	(209)	-	-	**(209)**
Impairment allowances	-	(314)	(7 328)	(3 695)	**(11 337)**
Currency translation differences on revaluation of foreign entities' operations results into the presentation currency	-	(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**
As at 1 January 2012 (at the beginning of the period)					
Purchase price (gross carrying amount)	3 486	2 859 020	344 865	224 958	**3 432 329**
Accumulated amortisation and impairment allowances	-	(1 408 327)	(117 516)	(106 478)	**(1 632 321)**
Net carrying amount	**3 486**	**1 450 693**	**227 349**	**118 480**	**1 800 008**
As at 31 December 2012 (at the end of the period)					
Purchase price (gross carrying amount)	3 486	2 805 760	346 993	369 780	**3 526 019**
Accumulated amortisation and impairment allowances	-	(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**

To the Group, 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 2003–2012 amounted to PLN 1 198 341 thousand (during the years 2003–2011, they amounted to PLN 1 134 893 thousand).

Net carrying amount of the ZSI amounted to PLN 709 428 thousand as at 31 December 2012. The expected useful life of the ZSI system is 17 years. As at 31 December 2012, the remaining useful life is 11 years.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

For the year ended 31 December 2011	Development costs	Software	Goodwill acquired as a result of business combinations (including subsidiaries' goodwill)	Other, including capital expenditure	Total
Net carrying amount at the beginning of the period	**3 486**	**1 279 303**	**229 740**	**289 508**	**1 802 037**
Taking control of a subsidiary	-	-	170	-	**170**
Purchase	-	16 226	-	192 367	**208 593**
Sales and disposals	-	(659)	-	(558)	**(1 217)**
Impairment allowances	-	-	(2 561)	-	**(2 561)**
Currency translation differences on revaluation of foreign entities' operations results into the presentation currency	-	2 363	-	-	**2 363**
Transfers	-	358 071	-	(358 071)	**-**
Amortisation	-	(206 598)	-	(4 474)	**(211 072)**
Other value changes	-	1 987	-	(292)	**1 695**
Net carrying amount at the end of the period	**3 486**	**1 450 693**	**227 349**	**118 480**	**1 800 008**
As at 1 January 2011 (at the beginning of the period)					
Purchase price (gross carrying amount)	3 486	2 479 718	344 695	397 155	**3 225 054**
Accumulated amortisation and impairment allowances	-	(1 200 415)	(114 955)	(107 647)	**(1 423 017)**
Net carrying amount	**3 486**	**1 279 303**	**229 740**	**289 508**	**1 802 037**
As at 31 December 2011 (at the end of the period)					
Purchase price (gross carrying amount)	3 486	2 859 020	344 865	224 958	**3 432 329**
Accumulated amortisation and impairment allowances	-	(1 408 327)	(117 516)	(106 478)	**(1 632 321)**
Net carrying amount	**3 486**	**1 450 693**	**227 349**	**118 480**	**1 800 008**

The Group produced independently patents and licences of PLN 924 thousand. In the period from 1 January 2012 to 31 December 2012, the Group incurred capital expenditures for the purchase of tangible fixed assets and intangible assets in the amount of PLN 840 321 thousand (in the period from 1 January 2011 to 31 December 2011 PLN 493 314 thousand).

In the years ended 31 December 2012 and as at 31 December 2011 respectively, there were no restrictions on the Group's rights to use its intangible assets as a result of pledges.

The table below presents data concerning goodwill included in the Group's financial statements as at 31 December 2012 and 31 December 2011.

Net goodwill	31.12.2012	31.12.2011
PKO Towarzystwo Funduszy Inwestycyjnych SA	149 564	149 564
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	51 158	51 158
Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp.k.*	13 931	18 672
Goodwill related to assets acquired from Centrum Finansowe Puławska Sp. z o.o.	7 785	7 785
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	-	170
Total	222 438	227 349

* the Company was established as a result of transformation of the company PKO BP Inwestycje – Nowy Wilanów Sp. z o.o.

As at 31 December 2012, 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, while the goodwill impairment test of PKO BP BANKOWY PTE SA was performed using the embedded value method, according to which the value in use of PKO Bank Polski SA's share was determined and the goodwill impairment test was carried out with respect to assets acquired from Centrum Finansowe Puławska Sp. z o.o. based on the measurement of the fair value of the acquired property as a cash generating unit to which goodwill had been assigned.

As a result of testing an impairment provision was recorded for the total value of goodwill resulting from the acquisition of shares in Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. and the acquisition in 2012 of the shares in 'Inter-Risk Ukraina' Additional LiabilityCompany (PLN 2 172 thousand) and the company Finansowa Kompania 'Idea Kapitał' Sp. z o.o. (PLN 289 thousand).

At the same time, 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 4 741 thousand, i.e. in proportion to the disposed portion of cash generating units, to which the goodwill had been attributed (i.e. the project stage understood as an separate building or a complex of multi-apartment buildings constructed by the Company).

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

27. Tangible fixed assets

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)**
Disposals and sales	(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 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 sales	18 065	165 519	4 865	-	-	27 209	215 658
Classification to fixed 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:	**(10 874)**	**(206)**	**(638)**	**-**	**-**	**(34)**	**(11 752)**
Other	(10 874)	(206)	(638)	-	-	(34)	(11 752)
Decreases, of which:	**3 332**	**-**	**306**	**525**	**-**	**34**	**4 197**
Other	3 332	-	306	525	-	34	4 197
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**

As at 31 December 2012, the off-balance sheet value of machinery and equipment used under operating lease agreements and operating leases with purchase options contracts amounted to PLN 56 155 thousand (as at 31 December 2011: PLN 54 037 thousand). In the years ended 31 December 2012 and 31 December 2011, respectively, there were no restrictions on the Group's right to use its tangible fixed assets as a result of pledges.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

For the year ended 31 December 2011	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	2 485 233	2 314 537	79 982	113 268	793	452 619	5 446 432
Increases, of which:	25 752	52 077	33 247	230 766	-	8 242	350 084
Purchase and other changes	11 644	22 739	32 547	229 491	-	3 940	300 361
Currency translation differences	14 108	9 584	700	1 275	-	4 302	29 969
Other	-	19 754	-	-	-	-	19 754
Decreases, of which:	(35 898)	(202 465)	(26 893)	(45 384)	-	(30 530)	(341 170)
Disposals and sales	(24 612)	(202 465)	(4 351)	(11)	-	(28 423)	(259 862)
Other	(4 958)	-	(22 542)	(45 373)	-	(2 107)	(74 980)
Transfers from fixed assets to fixed assets held for sale	(6 328)	-	-	-	-	-	(6 328)
Transfers from capital expenditure on fixed assets	39 872	98 615	3 251	(148 675)	-	6 937	-
Gross value of tangible fixed assets at the end of the period	2 514 959	2 262 764	89 587	149 975	793	437 268	5 455 346
Accumulated depreciation at the beginning of the period	(761 303)	(1 711 094)	(32 279)	-	(534)	(346 343)	(2 851 553)
Increases, of which:	(80 628)	(192 268)	(14 018)	-	(11)	(34 711)	(321 636)
Depreciation for the period	(76 289)	(186 931)	(13 521)	-	(11)	(32 337)	(309 089)
Currency translation differences	(2 346)	(5 337)	(497)	-	-	(2 374)	(10 554)
Other	(1 993)	-	-	-	-	-	(1 993)
Decreases, of which:	18 454	200 420	20 005	-	-	26 669	265 548
Disposal and sales	15 684	198 806	3 049	-	-	25 358	242 897
Other	777	1 614	16 956	-	-	1 311	20 658
Transfers from fixed assets to fixed assets held for sale	1 993	-	-	-	-	-	1 993
Accumulated depreciation at the end of the period	(823 477)	(1 702 942)	(26 292)	-	(545)	(354 385)	(2 907 641)
Impairment allowances at the beginning of the period	(1 133)	(55)	-	(17 246)	-	-	(18 434)
Increases, of which:	(16)	(42)	(951)	(5 199)	-	-	(6 208)
Other	(16)	(42)	(951)	(5 199)	-	-	(6 208)
Decreases, of which:	1 006	2	-	17 246	-	-	18 254
Other	1 006	2	-	17 246	-	-	18 254
Impairment allowances at the end of the period	(143)	(95)	(951)	(5 199)	-	-	(6 388)
Net carrying amount at the beginning of the period	1 722 797	603 388	47 703	96 022	259	106 276	2 576 445
Net carrying amount at the end of the period	1 691 339	559 727	62 344	144 776	248	82 883	2 541 317

In 2012, the Group received compensation from third parties for impairment or loss of tangible fixed assets of PLN 14 755 thousand recognised in the income statement.
In 2011, the Group did not recognise in the income statement any significant compensation from third parties due to impairment or loss of tangible fixed assets.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (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 non-cancellable operating lease	31.12.2012	31.12.2011
For the period:		
up to 1 year	7 176	11 172
from 1 year to 5 years	6 449	20 988
above 5 years	52	12 531
Total	13 677	44 691

The average agreement period for operating lease agreements where the Group is a lessor amounts from 36 to 44 months. The lessee bears service and insurance costs.

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

Means of transport under operating lease	2012	2011
Gross value as at the beginning of the period	**23 538**	**22 321**
Changes in the period	(7 767)	1 217
Gross value at the end of the period	**15 771**	**23 538**
Accumulated depreciation at the beginning of the period	(7 667)	(8 343)
Depreciation for the period	(4 347)	(6 025)
Other changes in depreciation	6 734	6 701
Accumulated depreciation at the end of the period	**(5 280)**	**(7 667)**
Net book value	10 491	15 871

Investment properties under operating lease	2012	2011
Gross value as at the beginning of the period	**9 107**	**2 327**
Changes in the period	(2 263)	6 780
Gross value at the end of the period	**6 844**	**9 107**
Accumulated depreciation as at the beginning of the period	(263)	(253)
Depreciation for the period	(97)	(48)
Other changes in depreciation	(44)	38
Accumulated depreciation at the end of the period	**(404)**	**(263)**
Impairment allowances as at the beginning of the period	-	-
Impairment allowances recorded in the period	(1 134)	-
Impairment allowances reversed in the period	-	-
Impairment allowances at the end of the period	**(1 134)**	-
Net book value	5 306	8 844

28. Other assets

	31.12.2012	31.12.2011
Accruals and prepayments	223 414	209 379
Settlements of payment cards transactions	426 893	161 552
Settlements of financial instruments	123 077	143 845
Trade receivables	106 851	87 995
Receivables from other transactions with financial, non-financial institutions	59 282	26 538
Receivables and settlements of investment securities turnover	25 453	1 730
Receivables from unsettled transactions related to derivatives	8 451	6 134
Receivables from the State budget due to court fee stamps' distribution carried out by the Bank	8 412	3 350
Other*	72 296	96 747
Total	1 054 129	737 270
including financial assets**	758 419	431 144

* 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'.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

29. Amounts due to the central bank

	31.12.2012	31.12.2011
Up to 1 month	3 128	3 454
Total	**3 128**	**3 454**

30. Amounts due to banks

	31.12.2012	31.12.2011
Loans and advances received	2 542 361	4 360 878
Bank deposits	1 086 956	1 372 635
Current accounts	72 676	422 707
Other money market deposits	31 954	82 944
Total	**3 733 947**	**6 239 164**

31. Amounts due to customers

	31.12.2012	31.12.2011
Amounts due to retail clients	110 866 422	104 183 094
Term deposits	63 517 469	55 523 745
Current accounts and overnight deposits	47 143 802	48 187 307
Other money market deposits	205 151	472 042
Amounts due to corporate entities	31 868 251	38 468 560
Term deposits	17 171 300	23 949 758
Current accounts and overnight deposits	11 621 112	11 399 925
Loans and advances received	1 557 653	1 988 013
Amounts due from repurchase agreements	851 416	644 005
Other money market deposits	666 770	486 859
Amounts due to State budget entities	3 458 897	3 822 243
Current accounts and overnight deposits	2 870 735	2 241 333
Term deposits	562 397	1 516 981
Other money market deposits	25 765	63 929
Total	**146 193 570**	**146 473 897**

By client segment	31.12.2012	31.12.2011*
Amounts due to customers, of which:		
retail and private banking	106 538 784	100 716 862
corporate	23 586 602	28 560 356
small and medium enterprises	9 008 039	9 136 857
mortgage market clients	4 651 076	5 422 557
loans and advances received	1 557 653	1 988 013
amounts due from repurchase agreements	851 416	644 005
other liabilities	-	5 247
Total	**146 193 570**	**146 473 897**

* data for 2011 adjusted to comparability due to the change in methodology, i.a. in the scope of the presentation of interest divided by segment.

As a result of re-segmentation of small and medium enterprises and housing market clients to corporate segment performed during 2012, deposit volumes of this segment increased compared to the end of 2011 by PLN 22 233 thousand and PLN 313 960 thousand respectively.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

32. Debt securities in issue

	31.12.2012	31.12.2011
Debt securities in issue		
Financial instruments measured at amortised cost	9 902 161	7 596 164
bonds issued by PKO Finance AB	9 169 937	4 476 996
bonds issued by PKO Bank Polski SA	497 283	2 929 973
bonds issued by BFL SA	234 941	189 195
Financial instruments designated at fair value through profit and loss, bank securities issued by PKO Bank Polski SA	368 622	175 615
Total	**10 270 783**	**7 771 779**

	31.12.2012	31.12.2011
Debt securities in issue by maturity:		
up to 1 month	14 960	9 957
from 1 month to 3 months	754 928	3 109 211
from 3 months to 1 year	225 156	41 311
from 1 year to 5 years*	5 990 368	4 611 300
over 5 years**	3 285 371	-
Total	**10 270 783**	**7 771 779**

* As at 31 December 2012 significant items of debt securities in issue were Eurobonds in the nominal value of EUR 800 000 thousand and bonds in the nominal value of CHF 750 000 thousand (as at 31 December 2011 Eurobonds in the nominal value of EUR 800 000 thousand and bonds in the nominal value of CHF 250 000 thousand, respectively).
**As at 31 December 2012 significant items of debt securities in issue were Eurobonds in the nominal value of EUR 50 000 thousand and bonds in the nominal value of USD 1 000 000 thousand.

In 2012 the Bank issued bank securities and bank bonds at nominal value of PLN 5 983 075 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 2012 bank securities and bank bonds at nominal value of PLN 8 251 390 thousand were redeemed.

In 2012 BFL SA issued bonds at a nominal value of PLN 1 455 000 thousand and redeemed bonds with a nominal value of PLN 1 405 000 thousand. As at 31 December 2012, the Company's debt in respect of the bonds issued amounted to PLN 395 000 thousand (at nominal value) of which the debt due to the Bank amounted to PLN 158 160 thousand (at nominal value).

In 2012 PKO Finance AB issued bonds in CHF at nominal value of CHF 500 000 thousand, bonds in EUR at nominal value of EUR 50 000 thousand and bonds in USD at nominal value of USD 1 000 000 thousand.

33. Subordinated liabilities

On 14 September 2012, the Bank 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 Bank 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.

As at 31 December 2012

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

As at 31 December 2011

Subordinated liabilities	Nominal value	Currency	Interest rate (%)	Maturity date	Balance
Subordinated bonds	1 600 700	PLN	5.92%	30.10.2017	1 614 377

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

Change in subordinated liabilities

	2012	2011
As at the beginning of the period	**1 614 377**	**1 611 779**
Increases (of which):	**1 713 482**	**87 125**
issue	1 600 700	-
accrued interest	112 782	87 125
Decreases (of which):	**(1 696 603)**	**(84 527)**
redemption	(1 600 700)	-
repayment of interest	(95 342)	(84 527)
other	(561)	-
Subordinated liabilities as at the end of the period	**1 631 256**	**1 614 377**

34. Other liabilities

	31.12.2012	31.12.2011
Accounts payable	376 150	291 040
Deferred income	366 410	305 372
Other liabilities (of which):	**1 315 147**	**1 854 351**
interbank settlements	280 633	580 998
liabilities due to suppliers	219 711	195 740
liabilities relating to investment activities and internal operations	197 695	182 964
liabilities and settlements of security transactions	148 572	279 204
liabilities due to legal settlments	107 821	147 009
liabilities arising from foreign currency activities	81 306	140 546
liabilities relating to payment cards	78 353	27 981
financial instruments settlements	59 547	82 861
liabilities from interest temporarily redeemed from the State budget	26 599	21 764
liabilities due to insurance companies	19 554	24 821
settlement of acquisition of machines, materials, works and services regarding construction of tangible assets and investing activity	19 236	10 265
liabilities arising from transactions with financial and non-financial institutions	18 391	11 949
liabilities due to UOKiK (the Competition and Consumer Protection Office)	16 597	16 597
liabilities due to distribution of court fee stamps	11 816	12 626
other*	29 316	119 026
Total	**2 057 707**	**2 450 763**
including financial liabilities **	1 554 160	1 879 356

* Item 'other' includes i.a. liabilities related to bail, 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 2012 and as at 31 December 2011, the Group had no overdue contractual liabilities.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

35. Provisions

For the year ended 31 December 2012	Provision for legal claims	Provisions for retirement benefits and anniversary bonuses	Provisions for liabilities and guarantees granted	Other provisions*	Total
As at 1 January 2012, of which:	3 638	428 299	111 970	75 257	619 164
Short term provision	3 638	38 232	111 970	75 257	229 097
Long term provision	-	390 067	-	-	390 067
Increase/reassessment of provision	3 825	51 425	250 422	25 229	330 901
Release of provision	(583)	(48 505)	(150 859)	(25 801)	(225 748)
Use of provision	(798)	(9)	-	(2 371)	(3 178)
Currency translation differences	-	-	(12)	-	(12)
Other changes and reclassifications	(1)	-	(517)	-	(518)
As at 31 December 2012, of which:	6 081	431 210	211 004	72 314	720 609
Short term provision	6 081	36 233	145 066	72 314	259 694
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.

For the year ended 31 December 2011	Provision for legal claims	Provisions for retirement benefits and anniversary bonuses	Provisions for liabilities and guarantees granted	Other provisions*	Total
As at 1 January 2011, of which:	7 479	411 792	82 320	82 099	583 690
Short term provision	7 479	29 628	82 320	82 023	201 450
Long term provision	-	382 164	-	76	382 240
Increase/reassessment of provision	399	36 257	168 270	8 656	213 582
Release of provision	(4 126)	(19 750)	(138 905)	(13 224)	(176 005)
Use of provision	(114)	-	-	(2 274)	(2 388)
Currency translation differences	-	-	24	-	24
Other changes and reclassifications	-	-	261	-	261
As at 31 December 2011, of which:	3 638	428 299	111 970	75 257	619 164
Short term provision	3 638	38 232	111 970	75 257	229 097
Long term provision	-	390 067	-	-	390 067

* Included in "Other provisions' are i.a.: restructuring provision of PLN 63 636 thousand and provision of PLN 3 946 thousand for potential claims on impaired loans portfolios sold.

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

OTHER NOTES

36. Transfers of financial assets

The Group can conclude transactions in which it transfers financial assets to third parties for which it can derecognise such financial assets from the statement of financial position in total or in part. The principles of derecognising financial assets are described in Note 2.6.3 'Derecognition of financial instruments from the statement of financial position'.

Transferred financial assets, which have been derecognised from the consolidated statement of financial position in full, but the Group maintains exposure to such assets

As at 31 December 2012 and as at 31 December 2011, the Group had no transferred financial assets which were derecognised from the consolidated statement of financial position in full, but the Group maintained exposure to such assets.

Transferred financial assets, which have not been derecognised from the consolidated statement of financial position

Financial assets which are not derecognised by the Group include assets put up as collateral for liabilities in respect of sell-buy-back transactions (Treasury bonds).

The carrying amounts of transferred financial assets and the related liabilities and their fair values as at 31 December 2012 and 31 December 2011 were as follows:

Carrying amount/fair value	31.12.2012	31.12.2011
Trading assets	-	643 483
Financial assets designated upon initial recognition at fair value through profit and loss	850 232	-
Sell-buy-back liabilities	851 416	644 005
Net position	**(1 184)**	**(522)**

37. Assets pledged as collateral for liabilities

The Group has the following pledged assets:

37.1. Liabilities from negative valuation of derivative instruments

The collateral due to negative valuation of derivative instruments comprises placements with banks. The amount of these assets as at 31 December 2012 amounted to PLN 543 260 thousand (as at 31 December 2011 PLN 435 957 thousand).

37.2. Bank Deposit Guarantee Fund

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 (unified text Journal of Laws 2009, No. 84, item 711 with subsequent amendments).

	31.12.2012	31.12.2011
Value of the fund	798 974	535 226
Nominal value of pledge	850 000	565 000
Type of pledge	Treasury bonds	Treasury bonds
Maturity of pledge	25.01.2015	25.01.2021
Carrying amount of the pledged asset	873 707	555 135

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.

37.3. Guarantee Fund for the Settlement of Stock Exchange Transactions

Cash pledged as collateral for securities' transactions conducted by the Brokerage House of PKO BP SA are deposited in the National Depository for Securities (KDPW SA), as part of the Guarantee Fund for the Settlement of Stock Exchange Transactions.

	31.12.2012	31.12.2011
Guarantee Fund for the Settlement of Stock Exchange Transactions	6 661	3 923

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 SA on a daily basis.

Moreover, KREDOBANK SA – the entity consolidated using full method, had following assets pledged as collateral for own liabilities:

	31.12.2012	31.12.2011
Ukraine's Ministry of Finance bonds pledged as collateral for a loan received from the National Bank of Ukraine		
value in thousand hryvnia	3 548	-
equivalent in thousand zloty	1 357	-

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

38. Contingent liabilities

Securities covered with underwriting agreements (maximum liability of the Bank 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 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**		
As at 31 December 2011				
Company B	corporate bonds	423 000	31.07.2013	Bonds Issue Agreement*
Company D	corporate bonds	136 013	31.12.2024	Bonds Issue Agreement*
Company C	corporate bonds	102 700	31.10.2013	Bonds Issue Agreement*
Company H	corporate bonds	24 900	30.12.2015	Bonds Issue Agreement*
Company I	corporate bonds	20 000	02.01.2012	Bonds Issue Agreement*
Total		**706 613**		

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

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

Contractual commitments

As at 31 December 2012 the value of contractual commitments concerning intangible assets amounted to PLN 157 320 thousand (as at 31 December 2011 amounted to PLN 104 144 thousand).

As at 31 December 2012 the value of contractual commitments concerning tangible fixed assets amounted to PLN 71 513 thousand (as at 31 December 2011 amounted to PLN 20 306 thousand).

Loan commitments granted

By nominal value	31.12.2012	31.12.2011
Financial entities	913 713	1 144 993
Non-financial entities	29 137 031	28 486 768
State budged entities	2 462 680	823 897
Total	**32 513 424**	**30 455 658**
of which: irrevocable loan commitments	7 871 614	5 946 055

Guarantee liabilities granted

	31.12.2012	31.12.2011
Financial entities	50 456	207 156
Non-financial entities	10 190 736	6 053 115
State budged entities	135 943	174 459
Total	**10 377 135**	**6 434 730**

In the years ended 31 December 2012 and 31 December 2011 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 35 'Provisions'.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

Liabilities granted by maturity as at 31 December 2012

	Up to 1 month	From 1 months 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**

Liabilities granted by maturity as at 31 December 2011

	Up to 1 month	From 1 months to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
Loan commitments granted	15 573 751	936 775	4 677 249	3 930 378	5 337 505	**30 455 658**
Guarantee liabilities granted	102 848	80 264	1 776 447	3 962 200	512 971	**6 434 730**
Total	**15 676 599**	**1 017 039**	**6 453 696**	**7 892 578**	**5 850 476**	**36 890 388**

Off-balance sheet liabilities received (by nominal value)

	31.12.2012	31.12.2011
Financial	1 831 357	883 117
Guarantees	1 780 305	1 918 281
Total	**3 611 662**	**2 801 398**

Assets pledged as collateral for contingent liabilities

As at 31 December 2012 and as at 31 December 2011 the Group had no assets pledged as collateral for liabilities.

Right to sell or pledge collateral established for the Group

As at 31 December 2012 and as at 31 December 2011, there was no collateral established for the Group which the Group was entitled to sell or encumber with another pledge in the event of fulfillment of all obligations by the owner of the collateral.

39. Legal claims

As at 31 December 2012, the total value of court proceedings in which the PKO Bank Polski SA Group entities (including the Bank) are a defendant was PLN 404 689 thousand, of which PLN 3 593 thousand refers to court proceedings in Ukraine (as at 31 December 2011 the total value of above mentioned court proceedings was PLN 428 623 thousand), while the total value of court proceedings in which the PKO Bank Polski SA Group entities (including the Bank) are the plaintiff was PLN 360 205 thousand, of which PLN 154 257 thousand referred to court proceedings in Ukraine, mainly related to collection of dues from loan agreements granted by KREDOBANK SA, (as at 31 December 2011 the total value of above mentioned court proceedings was PLN 698 971 thousand).*

The most significant legal claims of the Group are described below:

a) unfair competition proceedings

The Bank is a party to proceedings 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 (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. 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 until 31 January 2012 and set the date for another sitting of the Court for 9 February 2012. Upon the application of the plaintiffs' attorney, the date of hearing was postponed for 24 April 2012, on which the attorney's request for deferment of the case until the end of September 2012 was dismissed. The Court postponed announcing the resolution on the request for suspension of the case until 8 May 2012. On 8 May 2012, the District Court in Warsaw, the Court for Competition and Consumer Protection, 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 the District Court in Warsaw, the Court for Competition and Consumer Protection dated 8 May 2012. In August 2012, the European Court of Justice received the appeal of MasterCard against the verdict of the 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.

* value does not include the value of legal claims of KREDOBANK SA concerning taxes described in the Consolidated Financial Statements in Note 12 concerning the income tax

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

As at 31 December 2012 and 31 December 2011, the Bank had a liability in the amount of PLN 16 597 thousand.

Additionally, the Bank is i.a. a party to unfair proceedings on collective interests of consumers of individual pension accounts ('IKE') and a party to unfair proceedings on 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 the average consumer and mislead as to the availability of loans on promoted conditions. In respect of the first of proceedings, on 19 December 2012, UOKiK imposed a fine on the Bank in the amount of PLN 14 697 thousand, including:

- 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 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 the Bank's branch, carrying the IKE deposit account.

In respect of the second of proceedings, on 28 December 2012, UOKiK imposed a fine on the Bank in the amount of PLN 2 845 thousand, including.

As at 31 December 2012 a provision for these amounts was not recognised. Through external legal offices, the Bank appealed against both UOKiK's decisions, on 2 and 16 January 2013, respectively.

b) legal claims in KREDOBANK SA

KREDOBANK SA in the years 2011 - 2012 was party to a court dispute with its former credit Client. On 31 January 2011 KREDOBANK SA instigated court proceedings against the above-mentioned Client in connection with the commencement of collection of loan dues, as a result of which the Client filed a counter-claim against KREDOBANK SA for annulling the loan agreements and collateral agreements. The court accepted the client's claim and determined the loan agreements invalid, in effect the Client was obliged to return to KREDOBANK SA the amount of loan received (UAH 40 860 thousand, i.e. PLN 15 629 thousand at the average NBP rate as at 31 December 2012), and KREDOBANK SA was obliged to return to the Client the amount of interest received (UAH 4 507 thousand, i.e. PLN 1 724 thousand). At the same time, having obtained a favourable court verdict, on 31 October 2011 the Client filed a claim against KREDOBANK SA for compensation for direct losses, loss of profits and moral losses. The initial amount of the claim was UAH 185 million (i.e. PLN 71 million at the average NBP exchange rate as at 31 December 2012). The Client renounced part of its claims during the proceedings. In order to improve the position of the Group in the court proceedings, in March 2012 the transfer of the said receivable to the company Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. was reversed, and the receivable returned to KREDOBANK SA as a result. The Supreme Business Court of Ukraine found no grounds for taking the cassation appeal brought by KREDOBANK SA in the above-mentioned cases to the Supreme Court. In July 2012, as a result of negotiations with the Client, a settlement and two agreements implementing the terms and conditions of that settlement were signed. These agreements and the motions of the Client and KREDOBANK SA on the renouncement of mutual claims were filed with the Business Court in Kiev. On 24 December 2012, the Court accepted the Client's withdrawal of action and closed the proceedings.

c) re-privatisation claims relating to properties held by the Group

As at the date of these financial statements, six administrative proceedings are pending to invalidate decisions issued by public administration authorities with respect to properties held by the Bank. These proceedings, in the event of an unfavourable outcome for the Bank may result in re-privatisation claims being raised against the Bank and one administrative proceeding for the establishment of perpetual usufruct right to a property owned by the Bank. In one of the cases, by decision of the President of the City of Warsaw of 25 October 2012, the heirs of the former owners were refused the possibility of establishing a right to perpetual usufruct of a property which is currently being used by the Bank; the interested persons did not appeal against this decision. 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 two properties of the Bank claims were submitted by their former owners (court 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, deleting it from the register of companies and distribution of its assets, including the transfer of the right to perpetual usufruct of said plot, a motion for participation in the proceedings was filed on 23 May 2012 on behalf of the Bank. The motion had not been considered, the subsequent hearing was scheduled for 18 December 2012. 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.

In the opinion of the Management Board of PKO Bank Polski SA, in 2013 the probability of significant claims arising against the Bank in relation to the above mentioned proceedings is remote.

40. Supplementary information to the consolidated statement of cash flow

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash on nostro accounts 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.

	31.12.2012	31.12.2011
Cash and balances with the central bank	10 289 451	9 142 168
Current receivables from banks	2 206 181	2 280 802
Total	**12 495 632**	**11 422 970**

(IN PLN THOUSAND)

Cash flow from interests and dividends, both received and paid

Interest income - received	2012	2011
Interest income from loans and advances granted	8 935 199	8 267 884
Interest income from securities designated upon initial recognition at fair value through profit and loss	750 147	596 387
Interest income from investment securities	905 155	469 357
Interest income from placements	285 596	237 962
Interest income from securities from held for trading portfolio	59 633	74 675
Other interest received	1 639 173	1 395 908
Total	12 574 903	11 042 173

Interest expense – paid	2012	2011
Interest expense on deposits - paid	(3 305 169)	(2 899 239)
Interest expense on loans and advances - paid	(224 754)	(183 479)
Interest expense on debt securities in issue - paid	(372 607)	(109 020)
Other interest paid (mainly premium from debt securities, interest expense on cash collateral liabilities, interest expense on current account of special purpose funds)	(1 039 745)	(1 117 954)
Total	(4 942 275)	(4 309 692)

Dividend income - received	2012	2011
Dividend income from subsidiaries, jointly controlled entities and associates	85 119	87 228
Dividend income from other entities	8 081	6 800
Total	93 200	94 028

Dividend expense - paid	2012	2011
Dividend paid to shareholders of the parent company	(1 587 500)	(2 475 000)
Total	(1 587 500)	(2 475 000)

Cash flow from operating activity – other adjustments

Other adjustments	2012	2011
Interest accrued, discount, premium on debt securities*	1 213 288	(181 116)
Hedge accounting	(310 286)	144 261
Valuation and impairment allowances for investments in jointly controlled entities and associates	9 133	54 009
Currency translation differences from foreign operations	(25 992)	16 894
Disposal and impairment allowances for tangible fixed assets and intangible assets	52 034	4 077
Total	938 177	38 125

*Including reclassification of debt securities to loans and advances portfolio.

Reconciliation 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	2012	2011
Income from sale and disposal of tangible fixed assets and intangible assets	(4 165)	(15 087)
Costs of sale and disposal of tangible fixed assets and intangible assets	8 497	7 757
Total	4 332	(7 330)

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

Interests and dividends	2012	2011
Interest from investment securities, presented under investing activities	(874 307)	(450 283)
Interest paid from loans granted, presented in financing activities	36 407	33 336
Dividends received, presented under investing activities	(6 190)	(6 528)
Total	**(844 090)**	**(423 475)**

Change in amounts due from banks	2012	2011
Change in the balance of the statement of financial position	(996 259)	(89 195)
Change in impairment allowances on amounts due from banks	3 430	(3 887)
Exclusion of a change in the balance of cash and cash equivalents	(74 621)	24 533
Total	**(1 067 450)**	**(68 549)**

Change in loans and advances to customers	2012	2011
Change in the balance of the statement of financial position	(2 241 150)	(10 966 375)
Change in impairment allowances on amounts due from customers	(1 118 022)	(801 573)
Total	**(3 359 172)**	**(11 767 948)**

Change in amounts due to banks	2012	2011
Change in the balance of the statement of financial position	(2 505 543)	1 005 373
Recognition of loans and advances received from banks/repayment of these loans and advances - to financing activities	1 719 404	194 374
Total	**(786 139)**	**1 199 747**

Change in amounts due to customers	2012	2011
Change in the balance of the statement of financial position	(280 327)	13 492 682
Recognition of long-term loans and advances received from financial entities other than banks/repayment of these loans and advances - to financing activities	323 031	56 017
Total	**42 704**	**13 548 699**

Change in impairment allowances and provisions	2012	2011
Change in the balance of the statement of financial position	101 445	35 474
Change in impairment allowances on amounts due from banks	(3 430)	3 887
Change in impairment allowances on amounts due from customers	1 118 022	801 573
Change in the balance of deferred tax provisions related to valuation of an available-for-sale portfolio included in deferred income tax	(58 627)	27 441
Total	**1 157 410**	**868 375**

Change in other liabilities and subordinated liabilities	2012	2011
Change in the balance of the statement of financial position	(376 177)	360 527
Transfer of interests payments on advances received from financial entities other than banks to financing activities	42 675	49 226
Transfer of inflows/repayment of subordinated liabilities	95 342	-
Transfer of interest paid on own issue	206 364	108 743
Total	**(31 796)**	**518 496**

41. Transactions with the State Treasury and related parties

The State Treasury has control over the parent entity of the Group as it holds a 33.39% 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.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

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, 2003, No. 119, item 1115 with subsequent amendments) PKO Bank Polski SA receives payments from the State budget in respect of interest receivable on housing loans.

	2012	2011
Income due to temporary redemption by the State budget of interest on housing loans from the 'old' portfolio recognised for this period	154 417	152 960
Income due to temporary redemption by the State budget of interest on housing loans from the 'old' portfolio received in cash	108 137	106 392
Difference between income recognised for this period and income received in cash – 'Loans and advances to customers'	46 280	46 568

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.

	2012	2011
Fee and commission income	4 536	4 578

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.

	2012	2011
Fee and commission income	25 624	18 625

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.

	2012	2011
Fee and commission income	39 295	29 669

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

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

The transactions were concluded on arm's length.

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 3	-	70 879	1 933 000	-	334	(7 707)
Entity 4	-	412	792 344	343	235	(24 291)
Entity 5	-	33	400 000	-	246	(3 819)
Entity 6	199 718	40 754	359 487	5 382	426	(1 584)
Entity 7	118 919	9 342	266 864	8 244	283	(131)
Entity 8	174 441	47 445	243 054	4 974	15	(7 396)
Entity 9	240 340	27 642	19 000	13 872	69	(2 479)
Entity 10	11	1 887	222 800	631	34	-
Entity 11	-	194 771	-	50	1 248	(4 031)
Entity 12	78 916	32 554	190 500	2 924	95	(2 985)
Entity 13	150 671	79 299	142 499	9 106	2 188	(2 967)
Entity 14	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)**

Entity	31.12.2011			2011		
	Total receivables	Total liabilities	Off-balance sheet liabilities granted – guarantee and financial	Interest income	Fee and commission income	Interest expenses
Entity 4	399 939	-	368 959	4 980	909	(301)
Entity 6	178 132	15 474	144 912	3 898	578	(45)
Entity 12	132 802	150 000	477 545	13 039	2 797	(3 182)
Entity 16	130 940	-	-	18 230	245	(6 988)
Entity 13	102 811	-	20 357	6 228	605	(5)
Entity 15	85 306	12 543	60 000	5 731	156	(2 995)
Entity 17	58 103	7 000	136 013	2 923	11	(774)
Entity 18	54 758	11 045	95 264	3 420	783	(1 370)
Entity 19	48 749	45 850	-	565	5	(1 158)
Entity 20	41 060	10 000	50 000	2 927	97	(3 259)
Entity 21	25 048	-	-	1 507	8	(114)
Entity 22	21 700	12 009	100	1 406	116	(1)
Entity 23	20 115	5 105	6 000	1 441	32	(645)
Entity 24	19 556	-	3 434	1 340	76	-
Entity 25	18 207	70 000	-	1 657	10	(17 116)
Other entities	132 392	1 898 747	2 930 663	23 970	3 945	(129 133)
Total	**1 469 618**	**2 237 773**	**4 293 247**	**93 262**	**10 373**	**(167 086)**

As at 31 December 2012 and 31 December 2011, no significant impairment allowances were recognised for above-mentioned receivables.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

42. Related party transactions

Transactions of the parent company with jointly controlled entities and associates 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 2012

Entity	Receivables	including loans	Liabilities	Total income	including interest and fee and commission	Total expense	including 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**

31 December 2011

Entity	Receivables	including loans	Liabilities	Total income	including interest and fee and commission	Total expense	including interest and fee and commission	Off-balance sheet liabilities granted
Agencja Inwestycyjna CORP-SA SA	-	-	76	691	-	2 552	-	-
Bank Pocztowy SA	-	-	983	346	325	486	481	24 974
CENTRUM HAFFNERA Sp. z o.o.	-	-	2 797	18	18	-	-	-
Centrum Majkowskiego Sp. z o.o.	-	-	7 350	13	13	245	245	-
Centrum Obsługi Biznesu Sp. z o.o.	33 625	33 625	21 447	993	993	635	635	-
Centrum Operacyjne Sp. z o.o.	-	-	156	5	5	-	-	-
Kamienica Morska Sp. z o.o.	-	-	-	13	13	-	-	-
Kolej Gondolowa Jaworzyna Krynicka SA	8 479	8 479	217	479	479	58	58	2 976
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	1 047	2	2	907	907	-
Promenada Sopocka Sp. z o.o.	49 162	49 162	1 477	1 496	1 496	20	20	-
Sopot Zdrój Sp. z o.o.	235 466	235 466	3 318	7 322	7 322	71	71	-
Total	**326 732**	**326 732**	**38 868**	**11 378**	**10 666**	**4 974**	**2 417**	**27 950**

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

43. Personal related party transactions

As at 31 December 2012, three 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 (two entities as at 31 December 2011).

In 2012 and 2011 no intercompany transactions were concluded with these entities.

44. Remuneration – PKO Bank Polski SA key management

a) short-term employee benefits

Remuneration received from PKO Bank Polski SA

Short-term employee benefits	2012	2011
The Management Board of the Bank	11 692	10 937
The Supervisory Board of the Bank	1 225	1 088
Total	12 917	12 025

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

Short-term employee benefits	2012	2011
The Management Board of the Bank	39	47
Total	39*	47*

* The amount includes remuneration from associates

b) post-employment benefits

In the years ended 31 December 2012 and 31 December 2011 respectively no post-employment benefits were granted.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

c) other long-term benefits

In the years ended 31 December 2012 and 31 December 2011 respectively no 'other long-term benefits' were granted.

d) benefits due to termination of employment

In the year ended 31 December 2012 benefits paid due to termination of employment amounted to PLN 1 760 thousand, and in the year ended 31 December 2011 respectively benefits paid due to termination of employment amounted to PLN 1 920 thousand.

e) share-based payments

In the years ended 31 December 2012 and 31 December 2011 respectively, benefits in the form of share-based payments were not paid out.

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

	31.12.2012	31.12.2011
The Management Board members	149	130
The Supervisory Board members	2 314	2 415
Total	**2 463**	**2 545**

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

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

Short-term employee benefits	2012	2011
The Management Board	19 195	19 753
The Supervisory Board	181	173
Total	**19 376**	**19 926**

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

In order to fulfill the requirements of the Resolution No 258/2011 of the 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 Group, 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 BP Group (BFL, 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 shares after granting a particular component - including the median of the daily average prices of the Bank's shares on the Warsaw Stock Exchange from the period of 4th quarter of the calendar year preceding the date of the calculation, published in the Thomson Reuters information system. Next, after a period of retention and possible deferral period, including the median of the daily average prices of the Bank's shares on the Warsaw Stock Exchange from the period of a quarter preceding the calculation and payment, published in the Thomson Reuters 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.

In 2012 there were no phanthom options granted under this programme. In 2012, the cost of the variable salary components policy for persons holding managerial positions at the Bank amounted to PLN 15 748 thousand, of which PLN 4 063 thousand for the Management Board's members and PLN 2 428 thousand for the Group entities.

46. Changes to the entities of the Group

In 2012 the following events affecting the structure of the PKO Bank Polski SA Group took place:

1) Purchase of share and capital contribution to new company 'Inter-Risk Ukraina' Additional Liability Company

On 16 January 2012, the Bank was registered with the State Ukrainian Register of Businesses as the sole shareholder of 'Inter-Risk Ukraina' Additional Liability Company ('the Company', 'Inter-Risk Ukraina'). The additional liability means that the Bank as a shareholder of Inter-Risk, in case of insufficient amount of the Company's share capital to fulfil its liabilities, bears additional liability up to 103% in the Company's share capital, i.e. up to UAH 44 573 thousand (PLN 17 049 thousand as at 31 December 2012).

The Bank acquired from Towarzystwo Ubezpieczeniowe 'PZU Ukraina' SA and Towarzystwo Ubezpieczeniowe 'PZU Ukraina Ubezpieczenia na Życie' SA a total of 1 share in the above mentioned Company in the nominal value of UAH 275 thousand, which represents 100% of the Company's share capital and entitles to 100% of the votes at the General Shareholders' Meeting for the price of PLN 2 500 thousand.

On 30 January 2012, the Bank made a capital contribution to the Inter-Risk of UAH 43 million (i.e. PLN 17 213 thousand at the average NBP exchange rate as at 27 January 2012 prevailing in the Bank as at 30 January 2012), conducted by increasing the nominal value of the Company's share. As a result of the above mentioned increase, the Company's share capital amounts to UAH 43 275 thousand.

The main purpose of acquiring and subsequently the operation of the Company is to use it to perform effective debt collection in Ukraine, including the impaired loans portfolio purchased by Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. and the impaired loans portfolio of KREDOBANK SA.

2) Taking control over Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. by 'Inter-Risk Ukraina' Additional Liability Company

In February 2012, PKO Bank Polski SA carried out a transaction of selling 2% interest in Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. to 'Inter-Risk Ukraina' Additional Liability Company for the selling price amounted to PLN 30 thousand.

In February 2012 'Inter-Risk Ukraina' Additional Liability Company made a capital contribution to Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. in the amount of UAH 43 million, conducted by increasing the nominal value of the Company's share. As a result of the above mentioned increase, the Company's share capital amounts to UAH 46 101 thousand. The increase in the Company's share capital was registered with the State Ukrainian Register of Businesses on 27 February 2012.

As a result of the above mentioned changes 'Inter-Risk Ukraina' Additional Liability Company holds part of Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o., constituting 93.408% of the Company's share capital, which entitles to 93.408% of the votes at the General Shareholders' Meeting. The remaining part of the Company's share is owned by PKO Bank Polski SA.

3) Purchase of share in new company Finansowa Kompania 'Idea Kapitał' Sp. z o.o. by KREDOBANK SA

On 23 March 2012 KREDOBANK SA was registered with the State Ukrainian Register of Businesses as a sole shareholder of Finansowa Kompania 'Idea Kapitał' Sp. z o.o. KREDOBANK SA acquired from Towarzystwo Ubezpieczeniowe 'PZU Ukraina' SA 1 share in the above mentioned Company in the nominal value of UAH 4 100 thousand, constituting 100% of the Company's share capital which entitles to 100% of the votes at the General Shareholders' Meeting. The acquisition price amounted to UAH 4 100 thousand. The Company's activities comprise provision of financial services.

4) Completion of the liquidation process of Centrum Finansowe Puławska Sp. z o.o.

As part of the liquidation of the subsidiary Centrum Finansowe Puławska Sp. z o.o. on 1 March 2012, PKO Bank Polski SA took over the assets in bankruptcy of the above mentioned Company, including real estate in Warsaw where the Head Office of the Bank is located.

Centrum Finansowe Puławska Sp. z o.o. in liquidation, on the basis of a decision dated 7 May 2012 of the District Court for the Capital City of Warsaw, XIII Economic Department of the National Court Register, was removed from the National Court Register, effective on 28 May 2012.

5) Increase in the share capital of Bankowy Leasing Sp. z o.o.

In 2012 an increase in the share capital of Bankowy Leasing Sp. z o.o. of total amount of PLN 25 000 thousand was registered in the National Court Register, of which on 31 January of PLN 9 500 thousand, and on 8 August of PLN 15 500 thousand. As a result of the above mentioned increase, the share capital of Bankowy Leasing Sp. z o.o. amounts to PLN 82 414.5 thousand and consists of 164 829 shares, each of PLN 500 nominal value.

All the shares in the increased Company's share capital were acquired by Bankowy Fundusz Leasingowy SA – a subsidiary of 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 Bankowy Fundusz Leasingowy SA remains the sole shareholder of Bankowy Leasing Sp. z o.o.

6) Increase in the share capital of Fort Mokotów Inwestycje Sp. z o.o. and repayment of contribution

In 2012 an increase in the share capital of Fort Mokotów Inwestycje Sp. z o.o. of total amount of PLN 29 738 thousand was registered in the National Court Register of which on 31 August of PLN 21 685 thousand, and on 10 December of PLN 8 053 thousand. As a result of the above mentioned increase, the share capital of Fort Mokotów Inwestycje Sp. z o.o. amounts to PLN 73 289 thousand and consists of 73 289 shares, each of PLN 1 thousand nominal value.

The shares in the increased Company's share capital were acquired by the present shareholders of the Company for the price equal to the nominal value of acquired shares, of which PKO Bank Polski SA acquired 29 735 shares with the total nominal value of PLN 29 735 thousand, and Qualia Development Sp. z o.o. (a subsidiary of PKO Bank Polski SA) acquired 3 shares with the total nominal value of PLN 3 thousand.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

As a result of the above mentioned transactions PKO Bank Polski SA holds a total of 73 281 of the Company's shares with the total nominal value of PLN 73 281 thousand, which represents 99.9891% of share capital and entitles to 99.9891% of the votes at the General Shareholders' Meeting. The rest of the shares are held by Qualia Development Sp. z o.o.

On 26 September 2012, Extraordinary General Shareholders' Meeting of Fort Mokotów Inwestycje Sp. z o.o. passed the Resolution on the repayment of the capital contribution to the Company in the total amount of PLN 8 054 thousand to the shareholders, of which PLN 8 053 thousand to PKO Bank Polski SA and PLN 0.9 thousand to Qualia Development Sp. z o.o. The above mentioned repayment of the capital contribution, in accordance with Code of Commercial Companies, took place on November 2012 i.e. after the Resolution becomes valid.

7) Increase in the share capital of Bankowe Towarzystwo Kapitałowe SA

On 8 November 2012 an increase in the share capital of Bankowe Towarzystwo Kapitałowe SA of PLN 500 thousand was registered in the National Court Register. As a result of the above mentioned increase, the share capital of the Company amounts to PLN 24 743.9 thousand and consists of 247 439 shares, each of PLN 100 nominal value. All the shares in the increased Company's share capital were acquired by the Bank for a price equal to the nominal value of the shares taken up.

As a result of the above mentioned transactions the Bank remains the sole shareholder of Bankowe Towarzystwo Kapitałowe SA.

8) Changes to the Qualia Development Sp. z o.o. Group

In 2012 in the Qualia Development Sp. z o.o. Group:

a) were established:

The established company	Date of registration in the National Court Register	Limited partner/Amount of contribution	General partner/Amount of contribution
Qualia spółka z ograniczoną odpowiedzialnością – Władysławowo Spółka komandytowa	14.02.2012	Qualia Development Sp. z o.o./ PLN 1 000	Qualia Sp. z o.o./ PLN 1 000
Qualia spółka z ograniczoną odpowiedzialnością – Zakopane Spółka komandytowa	15.03.2012	Qualia Development Sp. z o.o./ PLN 1 000	Qualia Sp. z o.o./ PLN 1 000
Qualia spółka z ograniczoną odpowiedzialnością – Jurata Spółka komandytowa	27.03.2012	Qualia Development Sp. z o.o./ PLN 1 000	Qualia Sp. z o.o./ PLN 1 000

b) on 17 April 2012, by the Partners' Resolution of Qualia spółka z ograniczoną odpowiedzialnością – Pomeranka Spółka komandytowa, the limited partner's – Qualia Development Sp. z o.o. amount of contribution was increased from PLN 1 thousand to PLN 20 001 thousand, the general partner's – Qualia Sp. z o.o. amount of contribution was increased from PLN 1 thousand to PLN 21 thousand and the value of limited partnership amount was increased from PLN 1 thousand to PLN 20 001 thousand; above mentioned changes were registered in the National Court Register on 19 June 2012.

c) on 1 June 2012, Qualia Development Sp. z o.o. acquired 1 share in Qualia Hotel Management Sp. z o.o. in the nominal value of PLN 50 from Qualia Sp. z o.o for the price of PLN 50, as a result of the above mentioned transaction Qualia Development Sp. z o.o. holds shares of Qualia Hotel Management Sp. z o.o. constituting 100% of the Company's share capital which entitles to 100% of the votes at the General Shareholders' Meeting,

d) on 23 October 2012 all shareholders of UKRPOLINWESTYCJE Sp. z o.o. with its head office in Kiev, concluded a sales agreement of shares held in this Company, with Finansowa Kompania 'Komfort Capital' Sp. z o.o. with its head office in Kiev. Under the above mentioned agreement, Qualia Development Sp. z o.o. sold a share constituting 55% of share capital of UKRPOLINWESTYCJE Sp. z o.o. for the price of UAH 100 and recognised in consolidated statement discontinued consolidation profit of the above-mentioned Company in the amount of PLN 3.1 million. On 15 November 2012 the subjective agreement and subsequent ownership changes were registered in the State Ukrainian Register of Businesses.

e) the following additional contributions were made:

- PKO Bank Polski SA made additional contributions to Qualia Development Sp. z o.o. in total amount of PLN 35 319 thousand,
- Qualia Development Sp. z o.o. made additional contributions to Qualia-Residence Sp. z o.o. in total amount of PLN 14 354 thousand,
- Qualia Development Sp. z o.o. made additional contributions to Qualia Hotel Management Sp. z o.o. in total amount of PLN 1 898.5 thousand,
- Qualia Development Sp. z o.o. made additional contribution to Qualia Sp. z o.o. in total amount of PLN 35 thousand,
- Qualia Sp. z o.o made additional contributions to Qualia Hotel Management Sp. z o.o. in total amount of PLN 1.5 thousand.

9) Events in the fourth quarter of 2012, which will result in changes in the PKO Bank Polski SA Group in 2013.

On 29 November 2012 PKO Bank Polski SA transferred funds in the amount of PLN 20 million to Bankowy Fundusz Leasingowy SA as the taking up shares in the increased share capital of the Company. The above mentioned increase has to be registered in the National Court Register.

On 21 December 2012, conditional agreement on acquisition of 44% shares in the share capital of Sarnia Dolina Sp. z o.o., by Qualia Development Sp. z o.o. was concluded between Qualia Development Sp. z o.o. – a subsidiary of the Bank – and Przedsiębiorstwo Robót Inżynieryjnych 'Pol-Aqua' SA. After fulfilling all conditions of the agreement, Qualia Development Sp. z o.o. will become the sole shareholder of Sarnia Dolina Sp. z o.o.

In 2012, the Bank carried out works on development and establishing of a strategic alliance model in the area of payments made by the Bank and a subsidiary - Centrum Elektronicznych Usług Płatniczych 'eService' SA. The above mentioned project includes the possibility of selling the control shares block of the above mentioned Company by the Bank. As at the date of the financial statements preparation, no binding decisions were made and no final structure of the transaction was determined.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

47. Fair value of financial assets and financial liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between willing and knowledgeable, but unrelated parties in an arm's length transaction.

47.1. Categories of valuation at fair value of financial assets and liabilities designated at fair value in the consolidated statement of financial position

Note 2.6.4.5 'Method of establishing fair value and categories of valuation at fair value of financial assets and liabilities designated at fair value in the consolidated statement of financial position' provides detailed information on the method of fair value calculation.

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 designated 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	**12 205 130**	**7 763 609**	**4 338 831**	**102 690**
Debt securities		12 043 537	7 697 426	4 338 831	7 280
Equity securities		161 593	66 183	-	95 410
Financial assets at fair value - total		**28 972 968**	**9 364 887**	**19 505 391**	**102 690**
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	32	**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**	**-**	**-**

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (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	4 338 831	7 280
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	-	1 353 566	7 280
Equity securities	161 593	66 183	-	95 410
TOTAL	12 205 130	7 763 609	4 338 831	102 690

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 2011:

Assets and liabilities valued at fair value as at 31.12.2011	Note	Carrying amount	Level 1 Prices quoted on the active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Trading assets	17	1 311 089	1 261 687	49 402	-
Debt securities		1 300 164	1 250 762	49 402	-
Shares in other entities		10 925	10 925	-	-
Derivative financial instruments	18	3 064 733	5 066	3 059 667	-
Hedging instruments		516 925	-	516 925	-
Trade instruments		2 547 808	5 066	2 542 742	-
Financial intruments designated upon initial recognition at fair value through profit and loss	20	12 467 201	1 318 278	11 148 923	-
Debt securities		12 467 201	1 318 278	11 148 923	-
Investment securities available for sale	22	14 393 276	8 465 685	5 891 671	35 920
Debt securities		14 307 525	8 415 854	5 891 671	-
Equity securities		85 751	49 831	-	35 920
Financial assets at fair value - total		31 236 299	11 050 716	20 149 663	35 920
Derivative financial instruments	18	2 645 281	816	2 644 465	-
Hedging instruments		342 598	-	342 598	-
Trade instruments		2 302 683	816	2 301 867	-
Debt securities in issue	32	175 615	-	175 615	-
Financial instruments designated at fair value through profit and loss		175 615	-	175 615	-
Financial liabilities at fair value - total		2 820 896	816	2 820 080	-

Trading assets as at 31.12.2011 (Note 17)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	1 300 164	1 250 762	49 402	-
Treasury bills	49 402	-	49 402	-
Treasury bonds	1 219 069	1 219 069	-	-
corporate bonds	15 186	15 186	-	-
municipal bonds	14 783	14 783	-	-
BGK bonds	1 724	1 724	-	-
Shares in other entities	10 925	10 925	-	-
TOTAL	1 311 089	1 261 687	49 402	-

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

Financial instruments designated upon initial recognition at fair value through profit and loss as at 31.12.2011 (Note 20)	Carrying amount	Level 1	Level 2	Level 3
Debt securities				
NBP money market bills	8 593 791	-	8 593 791	-
Treasury bills	2 180 148	-	2 180 148	-
Treasury bonds PLN	1 318 278	1 318 278	-	-
Treasury bonds EUR	122 089	-	122 089	-
municipal bonds PLN	108 922	-	108 922	-
municipal bonds EUR	143 973	-	143 973	-
TOTAL	12 467 201	1 318 278	11 148 923	-

Investment securities available for sale as at 31.12.2011 (Note 22)	Carrying amount	Level 1	Level 2	Level 3
Debt securities available for sale	14 307 525	8 415 854	5 891 671	-
Treasury bonds PLN	8 414 865	8 414 865	-	-
Treasury bonds EUR	11 720	-	11 720	-
Treasury bonds UAH	220 793	-	220 793	-
Treasury bonds USD	30 661	-	30 661	-
municipal bonds	3 458 356	-	3 458 356	-
corporate bonds	2 170 141	-	2 170 141	-
Treasury bills	989	989	-	-
Equity securities	85 751	49 831	-	35 920
TOTAL	14 393 276	8 465 685	5 891 671	35 920

The tables below present a reconciliation during the periods of measurement: from 1 January 2012 to 31 December 2012 and from 1 January 2011 to 31 December 2011 at fair value in level 3:

	Investment securities available for sale	Total
Opening balance as at 1 January 2012	35 920	35 920
Total gains or losses	(19 121)	(19 121)
in financial result	(5 404)	(5 404)
in other comprehensive income	(13 717)	(13 717)
Purchase	85 891	85 891
Closing balance as at 31 December 2012	102 690	102 690
Total gains or losses for the period in the financial result for assets held at the end of the period	(5 404)	(5 404)

	Financial assets designated at fair value through profit and loss	Investment securities available for sale	Total
Opening balance as at 1 January 2011	-	9 286	9 286
Total gains or losses	3 628	3 994	7 622
in financial result	3 628	3 994	7 622
Purchase	-	25 900	25 900
Sales	(3 628)	(3 260)	(6 888)
Closing balance as at 31 December 2011	-	35 920	35 920
Total gains or losses for the period in the financial result for assets held at the end of the period	3 628	3 994	7 622

47.2. Financial assets and liabilities not presented at fair value in the consolidated statement of financial position

The Group holds certain 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 (the so-called 'old 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, such as housing savings books and bills of savings,
- 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 three month basis),
- cash and balances with the central bank and amounts due to the central bank,
- other financial assets and liabilities,
- debt securities in issue (at floating interest rate), issued by BFL.

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 was used, and applying current interest rates plus a credit risk margin and relevant scheduled repayment dates. The current margin level has been established based on transactions on instruments with similar credit risk 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.

The table below shows a summary of the carrying amounts and fair values for the particular groups of financial instruments which have not been presented at fair value in the Group's statement of financial position as at 31 December 2012 and 31 December 2011:

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

	31.12.2012		31.12.2011	
	carrying amount	fair value	carrying amount	fair value
Cash and balances with the central bank	10 289 451	10 289 451	9 142 168	9 142 168
Amounts due from banks	3 392 486	3 387 187	2 396 227	2 395 600
Loans and advances to customers	143 875 644	141 556 016	141 634 494	134 828 126
housing loans	70 564 433	69 665 325	69 832 423	65 048 916
corporate loans	50 654 164	50 398 091	48 929 163	47 334 318
consumer loans	20 583 096	19 421 917	22 872 908	22 444 892
debt securities	2 073 951	2 070 684	-	-
Investment securities held to maturity	46 971	46 687	-	-
Other financial assets	758 419	758 419	431 144	431 144
Amounts due to the central bank	3 128	3 128	3 454	3 454
Amounts due to other banks	3 733 947	3 733 701	6 239 164	6 234 511
Amounts due to customers	146 193 570	146 188 433	146 473 897	146 495 779
due to corporate entities	31 868 251	31 868 263	38 468 560	38 468 586
due to State budget entities	3 458 897	3 458 897	3 822 243	3 822 243
due to retail clients	110 866 422	110 861 273	104 183 094	104 204 950
Debt securities in issue	9 902 161	10 369 806	7 771 779	7 773 693
Subordinated debt	1 631 256	1 638 663	1 614 377	1 618 446
Other financial liabilities	1 554 160	1 554 160	1 879 356	1 879 356

48. Fiduciary activities

The Bank 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.

49. Sale of impaired loans portfolios

The Bank did not enter any securitisation transactions, although:

- in 2011, the Bank performed a bundle sale of 143 thousand retail loans classified as 'loss' in relation to individuals who do not conduct business activities. Debt portfolio amounted to PLN 1 516 million and over 4 thousand of loans from institutional clients classified as 'loss', with a total value of PLN 520 million.
- in 2012, the Bank carried out the subsequent bundle sales:
  - a) in the first quarter, over 22 thousand retail loans classified as 'loss' in relation to individuals who do not conduct business activities. The sale covered a portfolio with a total debt of PLN 90.9 million,
  - b) in the second quarter, over 49 thousand retail loans classified as 'loss' in relation to individuals who do not conduct business activities. The sale covered a portfolio with a total debt of PLN 720.3 million and over 2 thousand loans from institutional clients classified as 'loss', with a total value of PLN 288.2 million,
  - c) in the fourth quarter, over 28 thousand retail loans classified as 'loss' in relation to individuals who do not conduct business activities. The sale covered a portfolio with a total debt of PLN 321.8 million.

The total carrying amount of the provision for potential claims on loans sold as at 31 December 2012 amounted to PLN 5 502 thousand (as at 31 December 2011 it was PLN 3 945 thousand). The Bank did not receive any securities on account of the above mentioned transactions.

50. Differences between previously published financial statements and these financial statements

In 2012 there were no changes in relation to previously published financial statements.

51. Influence of macroeconomic situation on the Group's results

The macroeconomic situation, including weakening of economic growth in terms of continuing uncertainty related to the fiscal crisis in the euro zone, had a significant effect on the activities and financial standing of the Group in 2012. In 2012, volatility in the financial markets remained at a high level and was associated mainly with the escalation of investors' concerns about the possible disintegration of the euro zone and the uncertainty about the way of fiscal policy tightening in the U.S. The highest level of variation was recorded at the end of the second and at the beginning of third quarter, after the parliamentary elections in Greece, where the results did not ensure determination of the authorities to continue the financial support programme conducted in cooperation the EUR with the International Monetary Fund. In response to the slowdown in the real terms of economic situation, financial markets disorder and insufficient availability of a loan, major central banks have continued easing of monetary policy using non-standard tools. Including, in particular, executing the second long-term operation supplying liquidity (LTRO) by the European Central Bank in February, extending the range of assets that can be used by banks in repo operations, decreasing interest rates (including the deposit rate to 0%) and the announcement of willingness to unlimited bond purchase on the secondary market. The actions of the ECB, which was accompanied by further increasing the expansionary of the FED policy (the programme of the average duration swap of the bonds portfolio, active management of market expectations about the timing of growth of short-term interest rates, announcement of the open asset purchase programme) contributed to a significant reduction of the risk premium in the last months of the year, increasing availability of funding for so-called peripheral countries.

In 2012, GDP growth in Poland amounted to ca. 2.0% compared with 4.3% in 2011 with the decrease in GDP growth rate during the year. This significant slow-down was due to a decreasing growth of capital expenditure, mainly public and a decrease in private consumption which was a result of inflation remaining at an increased level and a gradual deterioration in the situation on the labour market. Net export, which was achieved mainly due to a decrease in the import-intensive domestic demand component, had a positive effect on growth. Due to inflation remaining above the upper bracket of fluctuations, in May 2012 the Monetary Policy Council (‘RPP’) decided to increase interest rates by 25 b.p. to 4.75% (the reference rate). As the GDP growth was becoming slower and the inflation pressure was decreasing, the RPP moved from stricter to less strict monetary policy measures over a period of 6 months. Namely, it decreased the interest rates in November by 25 b.p. and then by another 25 b.p. in December (to 4.25%).

PKO Bank Polski SA has positively passed the stress tests carried out in the second half of 2012 by Polish Financial Supervision Authority. The tests which constituted a theoretical test of resistance in the event of a potential macroeconomic downturn, showed that the Bank considerably exceeded the minimum ratios adopted for the tests.

Taking into account the impact of the macroeconomic situation on the condition of the customers of PKO Bank Polski, the Group strictly follows a conservative approach to 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 PKO Bank Polski SA Group in 2012 shaped up on a high level, and loan and deposit volumes were the highest among major institutions in Polish banking sector. In 2012, the PKO Bank Polski SA Group developed its business activities based on a safe and effective structure of financing.

High financial results were achieved with a positive growth rate, comparing to previous year, in net interest income and a high result on securities portfolio (gains less losses from investment securities and net income from financial instruments designated at fair value) while increasing administrative costs. The aggregate dynamics of the Group’s revenue items was slightly lower than the growth rate of administrative expenses, which resulted in the maintenance of high effectiveness of the Bank's operations, measured by the C/I ratio.

Achieved financial results of the Group are an important element of the execution of the PKO Bank Polski SA’s ‘Lider’ Strategy for the years 2010-2012, adopted by the Management Board of the Bank, which objectives were executed. The main strategic objectives of the ‘Lider’ Strategy were: to maintain stable growth in terms of profitability, efficiency, as well as the capital base, making an identification of the customers’ needs and related segmentation and offer changes in respect of adapting service model to the needs of individual operating segments, development and optimisation of the branches network, while increasing the role of remote access to accounts, centralisation and optimisation of processes, with particular emphasis on the support function, building active relationships with clients based on CRM and development of transaction platforms and alternative forms of funding.

Due to the exposure in Ukrainian companies, in particular KREDOBANK SA, the Group is exposed to the effects of risks characteristic to the Ukrainian market. In 2012, economic growth in the Ukraine decelerated to 0.2% y/y (preliminary data of SSSU). The unfavourable economic situation caused by the continuing shortage of foreign trade (cyclical decline in demand for key export products), and private sector investment slowdown contributed to a decrease in asset value dynamics of the Ukrainian banking sector. However, profitability ratios of banks operating in Ukraine were further slightly improved (though from negative values).

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 macroeconomic situation. These measures include strengthening supervisory activities, monitoring funds transferred to the Companies by the Bank and the development of the regulatory requirements determined by the National Bank of Ukraine in KREDOBANK SA.

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS

52. Risk management in the Group

Risk management is one the most important internal processes both in PKO Bank Polski SA and other entities of the PKO Bank Polski SA Group. Risk management aims at ensuring an appropriate level of security and profitability of business activity in the changing legal and economic environment and the level of the risks plays an important role in the planning process.

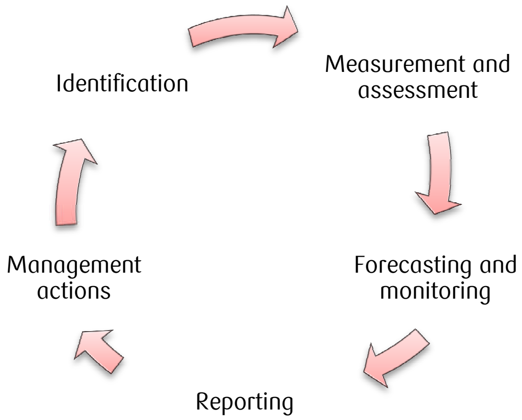
In the PKO Bank Polski SA Group the following types of banking risk have been identified, which are subject to management: credit risk, interest rate risk, currency risk, liquidity risk, price risk of equity instruments, operational risk, compliance risk, business risk (including strategic risk) and reputation risk. Derivatives risk is a subject to a special control due to the specific characteristics of these instruments.

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 tools adequate to the type and significance of the risk, data availability and quantitative risk assessment by means of determined tools, 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 assessment, taken actions and recommendations. Scope, frequency and the form of reporting are adjusted to the managing level of the recipients,
- management actions – including, among others, 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 credit risk level.

The risk management process is described on the chart below.



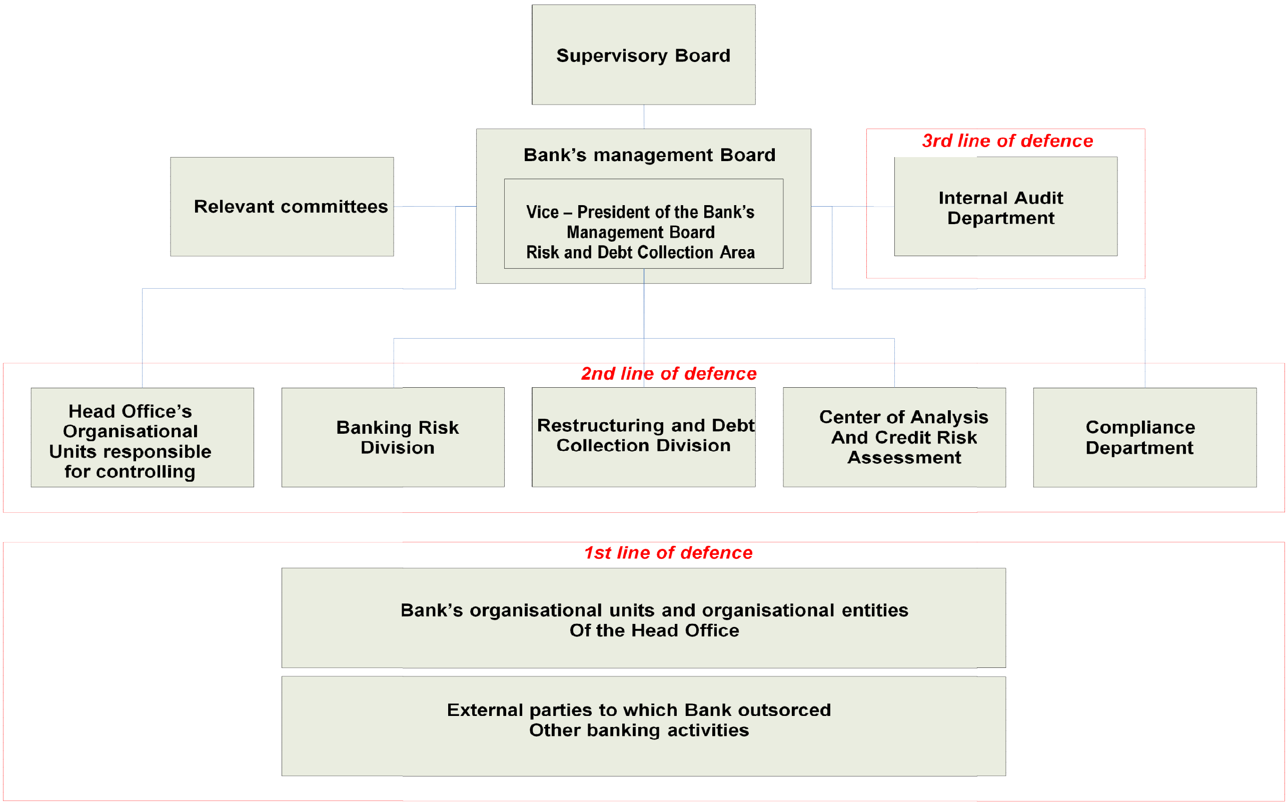
Risk management in the Group is based especially on the following principles:

- 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.

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 approves 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 market conditions.

The second line of defence is being performed, in particular, in the Risk and Debt Collection Area, the specialist 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, and 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 dedicated to supporting risk and capital adequacy management.

The Restructuring and Debt Collection Division is responsible for:

- recovering receivables from difficult clients effectively and increasing the effectiveness of such measures,
- effective intervention activities within the effective and early monitoring of delays in the collection of receivables from retail market clients,
- effective outsourcing 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.

The Analysis and Credit Risk Assessment Centre is responsible for evaluating and verifying the level of credit risk level assessed in respect of individual credit exposures, which due to the scale of the exposure, client's segment or risk level required independent assessment. The Analysis and Credit Risk Assessment Centre takes lending decisions in respect of individual clients and SME customers covered with rating methods.

Risk management is supported by the following committees:
- Risk Committee (RC),
- Assets & Liabilities Committee (ALCO),
- Bank's Credit Committee (BCC),
- Central Credit Committee (CCC),
- the Operating Risk Committee (ORC),
- credit committees which operate in the regional retail and corporate branch offices.

The 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, and analyses and evaluates the application of strategic risk limits specified in the PKO Bank Polski SA's Bank Risk Management Strategy. RC 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.

The ALCO makes decisions within the scope of limits and thresholds on particular kinds of risks and issues related to transfer pricing, as well as gives recommendations to the Management Board i.a. with regard to the Bank's assets and liabilities management, credit risk management, equity and price policy.

The BCC makes loan decisions with regard to significant individual loan exposures, or issues recommendations in this respect to the Management Board.

The CCC supports the decisions taken by the relevant managing 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.

The ORC makes decisions within the scope of i.a. calculations of Key Risk Indicators (KRI), losses limits on operational risk, values of key measurement parameters used to calculate AMA results, assumptions of the stress-test scenarios and results of validation of the operational risk measurement models. Moreover ORC supports the Management Board in the process of managing operational risk by giving recommendations, relating to i.a. strategic levels of operational risk tolerance.

ALCO, RC, ORC, BCC, the Management Board and the Supervisory Board are recipients of cyclic reports concerning the individual risk types.

Moreover, the ORC prepares operating risk management recommendations for member companies of the PKO Bank Polski SA Group, which are submitted to the Group entities as a part of the Bank's corporate governance.

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.

In this respect, the Bank took the following actions in 2012:

- it revolved a part of a syndicated loan in the amount of CHF 410 million repayable in July 2012 (with a new repayment deadline in June 2015) and issued bonds in the amount of: EUR 50 million (as part of the EMTN programme with 10-year maturity), CHF 500 million (as part of the EMTN programme with ca. 3-year maturity) and USD 1 billion (on the American market, with 10-year maturity),
- it transferred part of the Bank's profit for 2011 to equity,

- it executed a call option in the third quarter of 2012 and on 30 October 2012 redeemed subordinated bonds amounting to PLN 1.6 billion, issued in 2007. In place of these funds, the funds from the issue of subordinated bonds issued on 14 September 2012 were recognised in the supplementary funds.

Moreover, in December 2012, the Polish Financial Supervision Authority (PFSA) confirmed that PKO Bank Polski SA met the conditions of high materiality resulting from the PFSA decision issued in June 2011 on conditional consent for applying the AMA method. Therefore, the PFSA allowed, using the AMA method, to calculate the capital requirements in respect of operational risk without limitation relating to a decrease in the capital requirement of up to 75% of the capital requirement calculated using the standard method. As a result, the Bank calculated the capital requirement in respect of operational risk as at the end of 2012 in full compliance with the AMA method.

In 2012, 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 2012, the Bankowy Fundusz Leasingowy SA Group focused mainly on building a safe lease portfolio to guarantee positive consolidated financial results of the Bankowy Fundusz Leasingowy SA Group, safety of the capital and reduction in the share of irregular receivables in the portfolio. Moreover, the internal regulations concerning market risk management were amended.

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 are 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.

53. 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 BFL SA Group, the BTK SA Group, the 'Inter-Risk Ukraina' SA Group) 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 BFL SA Group, the BTK SA Group and the KREDOBANK SA Group and the 'Inter-Risk Ukraina' SA Group measure credit risk regulary and the results of such measurements are submitted to the Bank.

The KREDOBANK SA Group, the BFL 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,

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

– 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 BFL 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.

Measurement of credit risk

Credit risk measurement 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 allowances (coverage ratio),
- cost of risk.

PKO Bank Polski SA 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 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 is dedicated 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.

In May 2012, the behavioural scoring system at the Customer level was implemented productively in the Bank, which replaced the behavioural scoring system at the product level functioning in the Bank. The implementation of that assessment will allow more precise management of the total individual Customer exposure through the mechanisms of a Client comprehensive assessment with regard to loan and deposit products held.

Forecasting and monitoring of credit risk

The Group's exposure to credit risk

Amounts due from banks	Exposure	
	31.12.2012	31.12.2011
Amounts due from banks impaired, of which:	29 373	32 499
assessed on an individual basis	29 373	32 385
Amounts due from banks not impaired, of which:	3 392 495	2 396 540
not past due	3 392 495	2 396 540
Gross total	**3 421 868**	**2 429 039**
Impairment allowances	**(29 382)**	**(32 812)**
Net total by carrying amount	**3 392 486**	**2 396 227**

(IN PLN THOUSAND)

Loans and advances to customers	Exposure	
	31.12.2012	31.12.2011
Loans and advances impaired, of which:	13 445 809	11 797 232
assessed on an individual basis	6 506 653	5 701 547
Loans and advances not impaired, of which:	137 206 100	135 495 505
not past due	132 358 709	131 488 230
past due	4 847 391	4 007 275
past due up to 4 days	1 791 011	855 403
past due over 4 days	3 056 380	3 151 872
Gross total	150 651 909	147 292 737
Impairment allowances	(6 776 265)	(5 658 243)
Net total by carrying amount	143 875 644	141 634 494

Investment securities available for sale – debt securities	Exposure	
	31.12.2012	31.12.2011
Debt securities impaired, of which:	5 536	17 944
assessed on an individual basis	5 536	17 944
Debt securities not impaired, of which:	12 043 537	14 307 525
not past due	12 043 537	14 307 525
with external rating	7 953 371	8 729 898
with internal rating	4 090 166	5 577 627
Gross total	12 049 073	14 325 469
Impairment allowances	(5 536)	(17 944)
Net total by carrying amount	12 043 537	14 307 525

Investment securities held to maturity – debt securities	Exposure	
	31.12.2012	31.12.2011
Debt securities impaired, of which:	-	-
assessed on an individual basis	-	-
Debt securities not impaired, of which:	46 971	-
not past due	46 971	-
with external rating	46 971	-
Gross total	46 971	-
Impairment allowances	-	-
Net total by carrying amount	46 971	-

Other assets – other financial assets	Exposure	
	31.12.2012	31.12.2011
Other assets impaired	72 579	110 826
Other assets not impaired, of which:	753 653	421 244
not past due	752 633	420 251
past due	1 020	993
Gross total	826 232	532 070
Impairment allowances	(67 813)	(100 926)
Net total by carrying amount	758 419	431 144

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

Level of exposure to credit risk

The table below presents maximum exposure to credit risk of the Group as at 31 December 2012 and as at 31 December 2011.

Items of the statement of financial position	31.12.2012	31.12.2011
Current account in the central bank	**7 550 898**	**6 845 759**
Amounts due from banks	**3 392 486**	**2 396 227**
Trading assets – debt securities	**273 576**	**1 300 164**
issued by the State Treasury	216 521	1 268 471
issued by local government bodies	26 673	14 783
issued by non-financial institutions	15 064	14 947
issued by financial institutions	13 947	239
issued by banks	1 371	1 724
Derivative financial instruments	**3 860 561**	**3 064 733**
Financial instruments designated upon initial recognition at fair value through profit and loss - debt securities	**12 629 711**	**12 467 201**
issued by central banks	9 995 300	8 593 791
issued by the State Treasury	2 377 883	3 620 515
issued by local government bodies	256 528	252 895
Loans and advances to customers	**143 875 644**	**141 634 494**
financial sector (other than banks)	720 944	1 215 310
corporate loans	720 944	1 215 310
non-financial sector	135 490 122	135 368 534
housing loans	70 564 433	69 832 423
corporate loans	43 441 331	42 663 203
consumer loans	20 583 096	22 872 908
debt securities	901 262	-
public sector	7 664 578	5 050 650
corporate loans	6 491 889	5 050 650
debt securities	1 172 689	-
Investment securities - debt securities	**12 043 537**	**14 307 525**
issued by the State Treasury	7 902 479	8 679 028
issued by local government bodies	2 780 212	3 458 356
issued by non-financial institutions	1 309 954	2 119 271
issued by banks	50 892	50 870
Securities held to maturity	**46 971**	**-**
issued by the State Treasury	27 843	-
issued by banks	19 128	-
Other assets - other financial assets	**758 419**	**431 144**
Total	**184 431 803**	**182 447 247**

Off-balance sheet items	31.12.2012	31.12.2011
Irrevocable liabilities granted	7 871 614	5 946 055
Guarantees granted	6 535 055	4 939 669
Guarantees of issue	3 469 465	1 074 685
Letters of credit granted	372 615	420 376
Total	**18 248 749**	**12 380 785**

Credit quality of financial assets which are neither past due nor impaired

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 Bankowy Fundusz Leasingowy SA. Information about credit quality of loans granted by the Bank and BFL SA Group is presented below.

Exposures to corporate clients who are not individually impaired are classified according to customer rating as part of the individual 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).

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

Financial assets neither past due nor impaired	31.12.2012	31.12.2011
Amounts due from banks	3 392 495	2 396 540
of which:		
with rating	3 064 734	2 070 945
without rating	327 761	325 595
Loans and advances to customers	132 358 709	131 488 230
with rating	120 121 153	123 173 721
without rating	12 237 556	8 314 509
PKO Bank Polski SA	128 776 943	128 593 307
with rating – financial, non-financial and public sector (corporate loans)	36 992 554	38 595 846
A (first rate)	1 346 291	1 269 043
B (very good)	1 639 493	2 377 152
C (good)	3 596 148	4 248 073
D (satisfactory)	7 125 127	8 937 711
E (average)	10 473 404	9 791 398
F (acceptable)	8 314 985	9 244 208
G (poor)	4 497 106	2 728 261
with rating – non-financial sector (consumer and housing loans)	81 644 228	83 438 089
A (first rate)	39 485 421	39 006 051
B (very good)	25 329 039	28 255 664
C (good)	6 186 565	6 770 389
D (average)	4 315 018	3 224 042
E (acceptable)	6 328 185	6 181 943
without rating – financial, non-financial and public sector (consumer, housing and other loans)	10 140 161	6 559 372
The BFL SA Group	2 812 871	2 307 463
with rating	1 484 371	1 139 786
A2 (first rate)	5 597	4 574
A3 (very good)	93 150	71 872
A4 (good)	154 228	147 577
A5 (satisfactory)	352 991	354 505
A6 (average)	741 302	477 485
B1 (acceptable)	119 614	61 132
B2 (poor)	10 021	19 117
C (bad)	7 468	3 524
without rating	1 328 500	1 167 677
without rating – customers of non-financial and financial sector of other the PKO Bank Polski SA Group entities	768 895	587 460
Other assets – other financial assets	752 633	420 251
Total	136 503 837	134 305 021

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.

Structure of debt securities and inter-bank deposits, neither past due nor impaired by external rating class is presented below:

Debt securities held for trading

Rating/portfolio	31.12.2012					31.12.2011				
	issued by the State Treasury	issued by local government bodies	issued by banks	issued by other financial entities	issued by non-financial entities	issued by the State Treasury	issued by local government bodies	issued by banks	issued by other financial entities	issued by non-financial entities
A- to A+	216 521	-	-	-	-	1 268 471	-	-	-	-
without rating	-	26 673	1 371	13 947	15 064	-	14 783	1 724	239	14 947
Total	216 521	26 673	1 371	13 947	15 064	1 268 471	14 783	1 724	239	14 947

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

Debt securities designated upon initial recognition at fair value through profit and loss

Rating/portfolio	31.12.2012			31.12.2011		
	issued by the State Treasury	issued by local government bodies	issued by central banks	issued by the State Treasury	issued by local government bodies	issued by central banks
A- to A+	2 363 089	145 343	9 995 300	3 620 515	-	8 593 791
without rating	-	-	-	-	143 973	-
B3*	14 794	-	-	-	-	-
Total	2 377 883	145 343	9 995 300	3 620 515	143 973	8 593 791

* Concerns securities of the KREDOBANK SA Group - by Moody's rating.

Debt securities available for sale

Rating/portfolio	31.12.2012		31.12.2011	
	issued by State Treasury	issued by banks	issued by State Treasury	issued by banks
A- to A+	7 697 426	-	8 427 574	-
BBB- to BBB+	-	50 892	-	50 870
B2*	-	-	251 454	-
B3*	205 053	-	-	-
Total	7 902 479	50 892	8 679 028	50 870

* Concerns securities of the KREDOBANK SA Group - by Moody's rating.

Debt securities held to maturity divided into external rating class

Rating/portfolio	31.12.2012		31.12.2011	
	issued by State Treasury	issued by banks	issued by State Treasury	issued by banks
B3*	27 843	19 128	-	-
Total	27 843	19 128	-	-

* Concerns securities of the KREDOBANK SA Group - by Moody's rating.

Amounts due from banks

Rating/portfolio	31.12.2012	31.12.2011
AAA	247 969	8 308
AA - to AA+	270 787	342 293
A - to A+	1 903 607	1 548 405
BBB - to BBB+	527 291	135 933
BB - to BB+	101 193	108
B - to B+	11 812	35 898
CCC- to CCC+	2 075	-
without rating	327 761	325 595
Total	3 392 495	2 396 540

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

Structure of other debt securities issued by other financial entities, non-financial entities and local government bodies by internal rating class is presented in the following table:

Debt securities available for sale

Entities with rating	31.12.2012	31.12.2011
	carrying amount	carrying amount
A (first rate)	13 370	25 293
B (very good)	370 368	341 104
C (good)	772 269	758 732
D (satisfactory)	1 010 451	2 320 579
E (average)	954 548	1 241 433
F (acceptable)	902 211	602 792
G (poor)	59 669	84 180
G3 (low)	7 280	-
H (bad)	-	203 514
Total	**4 090 166**	**5 577 627**

Debt securities designated upon initial recognition at fair value through profit and loss

Entities with rating	31.12.2012	31.12.2011
	carrying amount	carrying amount
C (good)	-	108 922
D (satisfactory)	111 185	-
Total	**111 185**	**108 922**

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 Act 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 2012 and as at 31 December 2011, those concentration limits had not been exceeded. As at 31 December 2012, the level of concentration risk in Group with respect to individual exposures was low – the largest exposure to a single entity was equal to 10.9% and 10.2% of the Bank’s own consolidated funds. Among 20 largest borrowers of the Group there are exclusively clients of PKO Bank Polski SA.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

Total exposure of the Group towards the 20 largest non-banking sector clients:

31.12.2012			31.12.2011		
No.	Exposure*	Share in the loan portfolio**	No.	Exposure*	Share in the loan portfolio**
1.	1.022.563	0,69%	1.	1.258.272	0,85%
2.	532.590	0,36%	2.	541.970	0,37%
3.	520.228	0,35%	3.	484.761	0,33%
4.	487.000	0,33%	4.	399.939	0,27%
5.	321.896	0,22%	5.	342.022	0,23%
6.	296.218	0,20%	6.	325.542	0,22%
7.	292.045	0,20%	7.	323.299	0,22%
8.	280.166	0,19%	8.	313.271	0,21%
9.	251.472	0,17%	9.	294.361	0,20%
10.	247.297	0,17%	10.	293.060	0,20%
11.	244.592	0,16%	11.	262.785	0,18%
12.	244.417	0,16%	12.	244.256	0,17%
13.	241.373	0,16%	13.	237.574	0,16%
14.	241.000	0,16%	14.	236.898	0,16%
15.	238.652	0,16%	15.	235.466	0,16%
16.	227.296	0,15%	16.	220.566	0,15%
17.	220.575	0,15%	17.	213.811	0,15%
18.	220.032	0,15%	18.	212.868	0,14%
19.	215.473	0,14%	19.	206.108	0,14%
20.	210.919	0,14%	20.	203.980	0,14%
Total	**6.555.804**	**4,41%**	**Razem**	**6.850.809**	**4,65%**

* Total exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees and interest receivable.
** Loan portfolio does not include off-balance sheet and capital exposures.

Concentration by the largest capital groups

The greatest exposure of the PKO Bank Polski SA Group towards a group of borrowers amounted to 2.03%. The 5 largest capital groups include only clients of PKO Bank Polski SA.

As at 31 December 2012, the concentration of credit risk by the largest capital groups was low. The greatest exposure of the Group towards a capital group amounted to 19.6% and 14.6% of the Group's own consolidated funds.

Total exposure of the Group towards the 5 largest capital groups:

31.12.2012			31.12.2011		
No.	Exposure*	Share in the loan portfolio**	No.	Exposure*	Share in the loan portfolio**
1	4 021 399	2.03%	1	1 928 808	1.31%
2	2 992 512	1.52%	2	1 725 766	1.17%
3	1 957 102	0.99%	3	1 226 346	0.83%
4	1 638 882	0.83%	4	950 453	0.65%
5	1 589 974	0.80%	5	949 050	0.64%
Total	**12 199 869**	**6.17%**	**Total**	**6 780 423**	**4.60%**

* Total exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposures.
** Loan portfolio does not include off-balance sheet and capital exposures.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

Concentration by industry

As compared with 31 December 2011 the exposure of the Group in industry sectors has increased by near PLN 3.5 billion. The total exposure in the four largest industry sectors: 'Industrial processing', 'Wholesale and retail trade (...)', 'Maintenance of real estate' and 'Construction' amounted to approx. 61% of the total loan portfolio covered by an analysis of the sector.

Analysis of exposure by industry segments as at 31 December 2012 and as at 31 December 2011 is presented in the table below:

Section	Section name	31.12.2012		31.12.2011	
		Exposure	Number of entities	Exposure	Number of entities
C	Industrial processing	18.18%	10.81%	19.19%	11.67%
L	Maintenance of real estate	15.90%	15.33%	15.18%	10.00%
G	Wholesale and retail trade; repair of motor vehicles, including motorcycles	15.21%	22.31%	16.64%	24.52%
F	Construction	11.38%	11.06%	12.17%	13.20%
O	Public administration and national defence, obligatory social security	9.67%	0.48%	8.03%	0.47%
D	Electricity, gas, water vapour, hot water and air conditioning production and supply	2.03%	0.16%	1.49%	0.20%
Other exposure		27.63%	39.85%	27.30%	39.94%
Total		**100.00%**	**100.00%**	**100.00%**	**100.00%**

Concentration by geographical regions

The Group's loan portfolio is diversified in terms of geographical location.

As at 31 December 2012, the largest concentration of the Group's loan portfolio was in the mazowiecki region. Near half of the Group's loan portfolio is concentrated in four regions: mazowiecki, śląsko-opolski, małopolsko-świętokrzyski and wielkopolski, which is consistent with the regions' domination both in terms of population and economy of Poland.

Concentration by geographical regions	31.12.2012	31.12.2011
Poland		
mazowiecki	14.92%	18.12%
śląsko-opolski	11.33%	11.69%
małopolsko-świętokrzyski	9.65%	9.47%
wielkopolski	9.56%	10.44%
łódzki	8.88%	6.43%
dolnośląski	7.88%	7.65%
pomorski	7.39%	6.32%
lubelsko-podkarpacki	7.26%	7.04%
kujawsko-pomorski	7.12%	5.02%
zachodnio-pomorski	6.56%	6.68%
podlaski	6.02%	3.21%
warmińsko-mazurski	0.86%	3.61%
other	1.59%	3.26%
Ukraine	0.98%	1.06%
Total	**100.00%**	**100.00%**

Concentration of credit risk by currency

As at 31 December 2012, the share of exposure in convertible currencies, other than PLN, in the total loan portfolio of the Group amounted to 21.4%. Decrease of loans denominated in foreign currencies in 2012 results from concentration of new sales of housing loans in Polish currency.

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 BFL SA Group and BTK SA, the greatest currency exposures are those in EUR (95% and 84% of currency loan portfolio of these Groups, respectively). Whereas, for the KREDOBANK SA Group and the Inter-Risk SA Group - USD denominated loans constitutes the largest part (66% and 84% of the currency loan portfolio of these Groups, respectively).

Significant concentration risk was identified in the Inter-Risk SA Group, and resulted from the character of the Ukrainian market, where due to weak local currency the majority of loans are granted in a foreign currency.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

Concentration of credit risk by currency

Concentration of credit risk by currency	31.12.2012	31.12.2011
PLN	78.63%	75.76%
Foreign currencies, of which:	21.37%	24.24%
CHF	14.17%	16.46%
EUR	5.32%	5.71%
USD	1.21%	1.41%
UAH	0.66%	0.64%
GBP	0.01%	0.02%
Total*	100.00%	100.00%

* It does not include the capital exposure due to debt securities reclassified out of “available for sale” category to “loans and advances” category.

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 2012, these limits have not been exceeded.

Renegotiation of receivables’ terms

The purpose of the restructuring activity of the Group is to maximise the effectiveness of non-performing loan management. The aim is to receive the highest possible recoveries and, at the same time, incur the minimal costs relating to these recoveries which in the case of debt collection activities, are very high.

The restructuring activities include a change in payment terms which is individually agreed on an each contract basis. Such changes may concern:

1) repayment deadline,
2) repayment schedule,
3) interest rate,
4) payment recognition order,
5) collateral,
6) amount to be repaid (reduction of the amount).

As a result of signing and a timely service of a restructuring agreement the loan being restructured is reset from overdue to current. Evaluation of the ability of a debtor to fulfil the restructuring agreement conditions (debt repayment according to the agreed schedule) constitutes an element of the restructuring process. Active restructuring agreements are monitored on an on-going basis.

Past due financial assets

Financial assets which are past due but not impaired at the reporting date include the following financial assets:

Financial Assets	31.12.2012				31.12.2011			
	up to 1 month	1 - 3 months	over 3 months	Total	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**	2 543 933	1 348 716	114 626	**4 007 275**
financial sector	601	225	-	**826**	4 469	153	-	**4 622**
non-financial sector	3 365 019	1 222 405	174 948	**4 762 372**	2 494 974	1 348 563	114 626	**3 958 163**
public sector	79 981	4 212	-	**84 193**	44 490	-	-	**44 490**
Other assets – other financial assets	666	-	354	**1 020**	477	-	516	**993**
Total	**3 446 267**	**1 226 842**	**175 302**	**4 848 411**	**2 544 410**	**1 348 716**	**115 142**	**4 008 268**

Collateral for the above receivables includes: mortgages, registered pledges, transfers of property rights, account lock-ups, loan exposure insurances, warranties and guarantees.

The Bank made an assessment which proved that for the above mentioned financial assets the expected cash flows fully cover the carrying amount of these exposures.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

Financial assets assessed on an individual basis for which individual impairment allowance has been recognised by carrying amount gross

	31.12.2012	31.12.2011
Amounts due from banks	**29 373**	**32 385**
Loans and advances to customers	**6 506 653**	**5 701 547**
Financial sector	36 113	44 757
corporate loans	36 113	44 757
Non-financial sector	6 464 331	5 649 239
corporate loans	4 594 172	4 302 318
housing loans	1 765 592	1 262 477
consumer loans	104 567	84 444
Public sector	6 209	7 551
corporate loans	6 209	7 551
Financial assets held for sale	**5 639**	**18 058**
issued by financial entities	8	9
issued by non-financial entities	5 631	18 049
Total	**6 541 665**	**5 751 990**

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 2012 amounted to PLN 4 203 045 thousand (as at 31 December 2011 the amount was PLN 3 436 427 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.

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 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,

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

- 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.

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'.

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.

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'.

Credit risk of financial institutions

As at 31 December 2012, 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	407 450	1 271	408 721
Counterparty 2	272 470	(60 011)	272 470
Counterparty 3	185 976	66 456	252 432
Counterparty 4	247 968	-	247 968
Counterparty 5	224 980	10 391	235 371
Counterparty 6	123 984	-	123 984
Counterparty 7	100 000	22 617	122 617
Counterparty 8	-	119 742	119 742
Counterparty 9	98 117	-	98 117
Counterparty 10	87 676	(31 447)	87 676
Counterparty 11	81 764	-	81 764
Counterparty 12	-	74 106	74 106
Counterparty 13	-	56 531	56 531
Counterparty 14	-	50 834	50 834
Counterparty 15	-	38 843	38 843
Counterparty 16	30 000	(9 060)	30 000
Counterparty 17	-	29 495	29 495
Counterparty 18	-	25 023	25 023
Counterparty 19	10 000	2 694	12 694
Counterparty 20	10 000	(20 957)	10 000

* Excluding exposure to the State Treasury and the National Bank of Poland.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

The largest exposures of PKO Bank Polski SA on the interbank market as at 31 December 2011 presents the table below:

Counterparty	Interbank exposure*		
	Type of instrument		Total
	Deposits	Derivatives	
Counterparty 21	485 944	1 918	487 862
Counterparty 22	366 725	7 854	374 579
Counterparty 23	338 336	(26 002)	338 336
Counterparty 20	130 420	5 636	136 056
Counterparty 8	-	112 015	112 015
Counterparty 24	-	104 000	104 000
Counterparty 18	-	93 667	93 667
Counterparty 14	-	91 009	91 009
Counterparty 5	77 000	(44 328)	77 000
Counterparty 7	-	68 449	68 449
Counterparty 25	62 702	18	62 720
Counterparty 10	-	57 548	57 548
Counterparty 3	-	54 471	54 471
Counterparty 17	-	47 737	47 737
Counterparty 1	-	41 021	41 021
Counterparty 26	-	33 652	33 652
Counterparty 27	-	32 208	32 208
Counterparty 28	-	22 147	22 147
Counterparty 29	-	21 203	21 203
Counterparty 30	-	17 601	17 601

* 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 2012 the Bank had signed master agreements (in accordance with ISDA/ Polish Banks Association standards) with 27 local banks and 53 foreign banks and credit institutions. Additionally the Bank was a party of 58 CSA agreements (CreditSupportAnnex)/Polish Banks Association Agreements with established collateral and 6 ISMA agreements (International Securities Market Association).

Geographical localisation of counterparties

The counterparties generating the 20 largest exposures as at 31 December 2012 come from the following countries (classified by location of registered office):

No.	Country	Counterparty
1	Austria	Counterparty 6
2	Denmark	Counterparty 7
3	France	Counterparty 1, counterparty 3, counterparty 5
4	The Netherlands	Counterparty 12
5	Poland	Counterparty 2, counterparty 10, counterparty 13, counterparty 15, counterparty 16, counterparty 17, counterparty 19, counterparty 20
6	Switzerland	Counterparty 4
7	Ukraine	Counterparty 11
8	The United Kingdom	Counterparty 8, counterparty 14, counterparty 18
9	Italy	Counterparty 9

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 32 was accepted as at 31 December 2012.

Rating	Counterparty
AAA	Counterparty 4
AA	Counterparty 14
A	Counterparty 1, counterparty 2, counterparty 3, counterparty 5, counterparty 6, counterparty 7, counterparty 8, counterparty 12, counterparty 18
BBB	Counterparty 9, counterparty 10, counterparty 13, counterparty 15, counterparty 16, counterparty 20
BB	Counterparty 17
B	Counterparty 11
without rating	Counterparty 19

Credit risk of financial institutions on retail markets

In addition to the interbank market exposure discussed above, as at 31 December 2012 the Group had an exposure to financial institutions on the retail market (over PLN 10 million). The structure of this exposure 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 11	154 980	-	Ukraine
Counterparty 16	50 000	-	Poland

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 2012 and 31 December 2011, 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 2012 amounted to PLN 76 818 thousand and as at 31 December 2011 amounted to PLN 59 086 thousand. The above mentioned amounts are presented in Note 28 'Other assets', in line item 'Other' (PLN 12 779 thousand and PLN 11 319 thousand respectively), in Note 25 'Inventories', in line item 'Supplies' (PLN 64 039 thousand and PLN 47 767 thousand respectively).

Credit risk reporting

The Bank prepares monthly and quarterly credit risk reports. The reporting of credit risk covers specifically cyclic information on the results of risk measurement and 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 BFL SA Group), which have significant credit risk levels.

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, 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 Act,
- 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, his 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 BFL SA Group, as a proprietor of leased objects, treats them as collateral.

54. 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.

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. and by ±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.

Measures of interest rate gap are determined for other Group entities using similar methods to those used for determining the interest rate gap for the Bank itself, taking into account the specific nature of the entities.

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)								**31.12.2012**
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	-
PLN (in PLN thousand)								**31.12.2011**
The Group - Periodic gap	50 300 391	13 856 572	(20 533 401)	(22 321 974)	(4 487 228)	900 527	79 727	**17 794 614**
The Group - Cumulative gap	50 300 391	64 156 963	43 623 562	21 301 588	16 814 360	17 714 887	17 794 614	-
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)	-
USD (in USD thousand)								**31.12.2011**
The Group - Periodic gap	542 875	(35 377)	(311 295)	(360 850)	(39 223)	24 152	84 102	**(95 616)**
The Group - Cumulative gap	542 875	507 498	196 203	(164 647)	(203 870)	(179 718)	(95 616)	-
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)	-
EUR (in EUR thousand)								**31.12.2011**
The Group - Periodic gap	299 125	(187 104)	(25 506)	(16 821)	(40 984)	(337 996)	7 879	**(301 407)**
The Group - Cumulative gap	299 125	112 021	86 515	69 694	28 710	(309 286)	(301 407)	-
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)	-
CHF (in CHF thousand)								**31.12.2011**
The Group - Periodic gap	(683 848)	546 151	(15 430)	(38 121)	1 427	(29 085)	7 345	**(211 561)**
The Group - Cumulative gap	(683 848)	(137 697)	(153 127)	(191 248)	(189 821)	(218 906)	(211 561)	-

At the end of 2012 and 2011 the Group had a positive cumulative gap in PLN in all time horizons.

Forecasting and monitoring of interest rate risk

As at 31 December 2012 and 31 December 2011, 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 other 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	31.12.2012	31.12.2011
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)*	64 451	62 661
Parallel movement of interest rate curves by 200 b.p. (in PLN thousand) (stress test)**	270 818	530 726

* 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 PLN 14 287 thousand as at 31 December 2012 and PLN 29 673 thousand as at 31 December 2011, 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 2012 the interest rate VaR for a 10-day time horizon (10-day VaR) amounted to PLN 64 451 thousand, which accounted for approximately 0.33% of the value of the Bank's own funds. As at 31 December 2011, VaR for the Bank amounted to PLN 62 661 thousand, which accounted for approximately 0.36% of the Bank's own funds*.

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.

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 entities 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.

55. 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 items.

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.

Forecasting and monitoring of currency risk

VaR of the Bank and stress-testing of the Group's financial assets exposed to currency risk are stated cumulatively for all currencies in the table below:

Name of sensitivity measure	31.12.2012	31.12.2011
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)*	628	1 470
Change in CUR/PLN by 20% (in PLN thousand) (stress-test)**	32 581	17 210

* 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 614 thousand as at 31 December 2012 and approx. PLN 467 thousand as at 31 December 2011.
** The table presents the value of the most adverse stress-test of the scenarios: PLN appreciation by 20% and PLN depreciation by 20%.

* Own funds calculated in accordance with regulations concerning calculation of the capital adequacy ratio.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

The level of currency risk was low both as at 31 December 2012 and as at 31 December 2011.

The Group's currency positions are presented in the table below:

Currency position	31.12.2012	31.12.2011
EUR	(13 818)	83 153
USD	(153 155)	(180 781)
CHF	(20 180)	(37 266)
GBP	4 653	50
Other (Global Net)	15 609	11 630

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 2012 amounted to ca. 0.003%).

Currency structure

The tables below present currency exposure by the specific types of assets, liabilities and off-balance sheet liabilities:

	Currency translated to PLN – 31.12.2012				
	PLN	EUR	CHF	Other	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	118 939 296	7 849 595	21 475 263	2 387 755	**150 651 909**
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	5 654 080	338 477	80 187	165 570	**6 238 314**
Total assets (gross)	168 388 236	9 756 290	21 702 045	5 328 875	**205 175 446**
Depreciation / amortisation / impairment	(10 239 991)	(188 214)	(587 468)	(680 145)	**(11 695 818)**
Total assets (net)	**158 148 245**	**9 568 076**	**21 114 577**	**4 648 730**	**193 479 628**
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	698 546	15 076	379	6 608	**720 609**
Other liabilities and derivatives and deferred tax liability	5 822 710	272 522	2 079	121 374	**6 218 685**
Equity	24 707 650	-	-	-	**24 707 650**
TOTAL LIABILITIES AND EQUITY	**169 305 461**	**11 149 560**	**5 231 709**	**7 792 898**	**193 479 628**
OFF-BALANCE SHEET LIABILITIES GRANTED	**37 739 286**	**3 094 483**	**99 935**	**1 956 855**	**42 890 559**

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

	Currency translated to PLN – 31.12.2011				
	PLN	EUR	CHF	Other	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	111 613 129	8 295 725	24 625 849	2 758 034	**147 292 737**
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	4 882 258	260 814	41 031	186 993	**5 371 096**
Total assets (gross)	161 492 004	10 301 705	24 914 878	4 606 257	**201 314 844**
Depreciation / amortisation / impairment	(9 044 071)	(227 207)	(538 972)	(756 557)	**(10 566 807)**
Total assets (net)	**152 447 933**	**10 074 498**	**24 375 906**	**3 849 700**	**190 748 037**
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	601 371	13 843	434	3 516	**619 164**
Other liabilities and derivatives and deferred tax liability	4 782 744	324 797	4 523	92 154	**5 204 218**
Equity	22 821 984	-	-	-	**22 821 984**
TOTAL LIABILITIES AND EQUITY	**167 209 850**	**11 710 644**	**5 736 469**	**6 091 074**	**190 748 037**
OFF-BALANCE SHEET LIABILITIES GRANTED	**32 000 400**	**3 321 411**	**128 614**	**1 439 963**	**36 890 388**

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.

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.

56. 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.

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).

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
31.12.2012								
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	-
31.12.2011								
The Group - adjusted gap in real terms	7 299 484	12 094 029	(1 599 805)	1 399 996	(1 169 611)	10 276 571	16 150 066	(44 450 730)
The Group - cumulative adjusted gap in real terms	7 299 484	19 393 513	17 793 708	19 193 704	18 024 093	28 300 664	44 450 730	-

In all time horizons, the PKO Bank Polski SA Group's cumulative adjusted liquidity gap in real terms* as at 31 December 2012 and as at 31 December 2011 was positive. This means a surplus of assets receivable over liabilities payable.

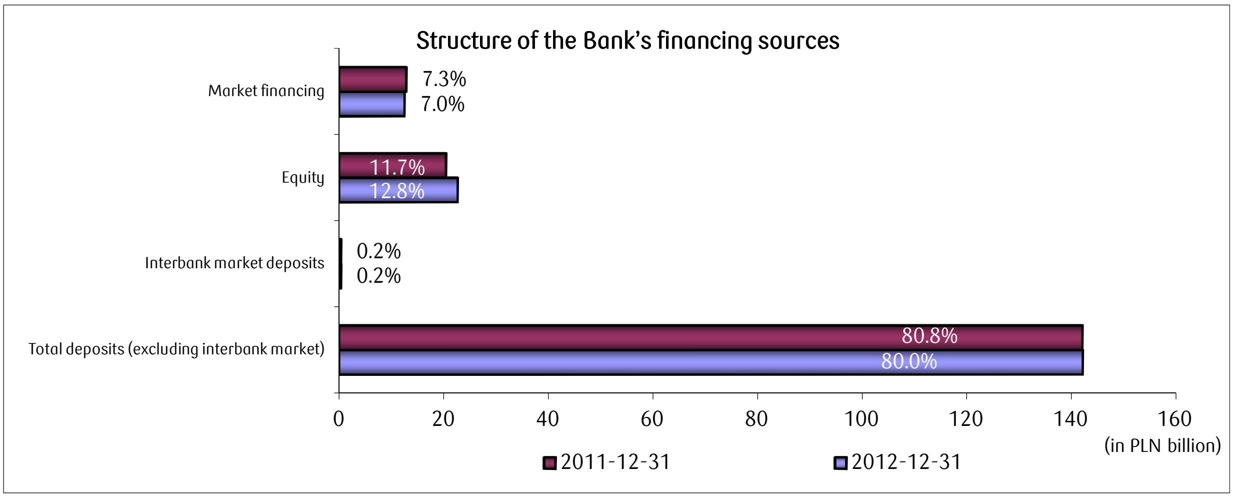
The table below presents liquidity reserve of the Bank as at 31 December 2012 and as at 31 December 2011:

Name of sensitivity measure	31.12.2012	31.12.2011
Liquidity reserve up to 1 month* (in PLN million)	13 568	17 723

*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 2012 the level of core balances on deposits constituted approx. 93.3% of all deposits in the Bank (excluding interbank market), which means an decrease by approximately 1.5 pp. as compared to the end of 2011.

The chart below presents the structure of the Bank's sources of financing as at 31 December 2012 and as at 31 December 2011.



The contractual flows of the Group's liabilities excluding derivative financial instruments as at 31 December 2012 and as at 31 December 2011 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 2012 and as at 31 December 2011 respectively.

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2012 and as at 31 December 2011. 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.

* The PKO Bank Polski SA Group's liquidity gap in real terms has been determined as the sum of PKO Bank Polski SA's liquidity gap in real terms and contractual liquidity gaps of the remaining entities of the PKO Bank Polski SA Group.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

Contractual flows of the Group's 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**
Amounts 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	1 464 745	49 496	404 524	29 760	109 182	2 057 707	**2 057 707**
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 – issued	10 377 135	-	-	-	-	8 860 799	-

Contractual flows of the Groups liabilities as at 31 December 2011 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	3 454	-	-	-	-	3 454	**3 454**
Amounts due to banks	2 206 359	286 603	3 635 593	423 617	202 084	6 754 256	**6 239 164**
Amount due to customers	93 164 498	15 234 611	35 242 327	3 184 423	1 798 613	148 624 472	**146 473 897**
Debt securities in issue	-	3 141 070	164 040	5 145 214	-	8 450 324	**7 771 779**
Subordinated liabilities	-	-	96 383	369 881	1 699 775	2 166 039	**1 614 377**
Other liabilities	1 813 989	426 765	119 187	17 172	73 650	2 450 763	**2 450 763**
Off-balance sheet financial liabilities – granted	15 573 751	936 775	4 667 249	3 930 378	5 337 505	30 445 658	-
Off-balance sheet guarantee liabilities – issued	6 442 730	-	-	-	-	6 442 730	-

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

The contractual flows related to derivative financial instruments as at 31 December 2012 and as at 31 December 2011 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 2012 and as at 31 December 2011 respectively.

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2012 and as at 31 December 2011. 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 2012 and as at 31 December 2011 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 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)

31 December 2011	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:	(86 181)	(446 346)	(102 476)	(519 508)	(65 127)	(1 219 638)
- derivative hedging instruments	(720)	(43 123)	(125 667)	(2 643)	-	(172 153)
- other derivative hedging instruments: options, FRA, NDF	(13 321)	(31 074)	(63 496)	(67 089)	(3 424)	(178 404)

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 2012 and as at 31 December 2011 respectively. The amounts denominated in foreign currencies have been translated using the average NBP rate as at 31 December 2012 and as at 31 December 2011. The amounts disclosed comprise non-discounted future cash flows, both in respect of principal and interest (if applicable).

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 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

31 December 2011	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:	(4 648 404)	(1 171 801)	(2 714 512)	(8 556 597)	(293 894)	(17 385 208)
- derivative hedging instruments	(107)	(79)	(1 283 493)	(5 831 422)	(181 665)	(7 296 766)
- inflows, of which:	4 757 021	1 259 677	2 905 469	8 381 329	308 220	17 611 716
- derivative hedging instruments	13 780	8 815	1 297 074	5 424 579	178 425	6 922 673

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

Current and non-current assets and liabilities as at 31 December 2012

	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	20 331	257 235	-	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	39 711 041	110 940 868	(6 776 265)	143 875 644
Investment securities available for sale	1 038 034	11 190 339	(23 243)	12 205 130
Securities held to maturity	19 498	27 473	-	46 971
Inventories	551 302	33 736	(31 504)	553 534
Other assets	2 084 181	4 681 824	(417 431)	6 348 574
Total assets	**69 320 932**	**131 436 521**	**(7 277 825)**	**193 479 628**
Liabilities				
Amounts due to the central bank	3 128	-	-	3 128
Amounts due to banks	1 691 722	2 042 225	-	3 733 947
Derivate 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	2 415 512	559 684	-	2 975 196
Total liabilities	**140 870 412**	**27 901 566**	**-**	**168 771 978**
Equity	**-**	**24 707 650**	**-**	**24 707 650**
Total liabilities and equity	**140 870 412**	**52 609 216**	**-**	**193 479 628**

Current and non-current assets and liabilities as at 31 December 2011

	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	37 349 343	109 943 394	(5 658 243)	141 634 494
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	4 563 001	(417 434)	5 772 003
Total assets	**66 763 418**	**130 146 759**	**(6 162 140)**	**190 748 037**
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	3 096 173	81 928	-	3 178 101
Total liabilities	**154 344 081**	**13 581 972**	**-**	**167 926 053**
Equity	**-**	**22 821 984**	**-**	**22 821 984**
Total liabilities and equity	**154 344 081**	**36 403 956**	**-**	**190 748 037**

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.

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 the entities of the PKO Bank Polski SA Group have accepted limits and thresholds for liquidity risk. The limits and thresholds were set for both current liquidity measures and medium and long-term liquidity measures.

Methods of liquidity risk management in the entities 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.

57. 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 manipulating the structure of balance sheet and off-balance sheet commodity items.

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. In 2012, the items in transactions generating commodity price risk were closed each time at the close of business.

58. 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.

59. Other price risks

Taking into consideration other price risks, at the end of the year 2012, 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 of the Polish Financial Supervision Authority (with subsequent amendments) [*], to cover the above mentioned risk was at the end of the year 2012 lower than PLN 1 million.

60. 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.

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.

[*] Amendments to the Resolution No. 76/2010 were introduced by the following PFSA resolutions: PFSA Resolution No. 369/2010 dated 12 October 2010, PFSA Resolution No. 153/2011 dated 7 June 2011, PFSA Resolution No. 206/2011 dated 22 August 2011, PFSA Resolution No. 324/2011 dated 20 December 2011, PFSA Resolution No. 172/2012 dated 19 June 2012, PFSA Resolution No. 307/2012 dated 20 November 2012.

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.

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.

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 included in 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 entities 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.

61. 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.

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 capital requirement using the AMA method,
- stress-tests,
- calculation of comparative 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,
- results of internal audit,
- results of functional internal control,
- Key Risk Indicators (KRI).

Forecasting and monitoring of operational risk

The Bank regularly monitors:

- utilisation level of strategic tolerance and loss limits on operational risk,
- utilisation level of operational risk losses,
- 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 2012, the dominant impact on the operational risk profile of the Group was exercised by the following 3 entities: PKO Bank Polski SA, the BFL SA Group and KREDOBANK SA. The other Group entities, 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.

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 Bank's Management Board,

Each month, information on operational risk is prepared and forwarded to members of the Bank's 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.

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.

62. 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 compliance risk management is to ensure the Group's compliance with law and adopted standards and the Bank's acting as a entity that is reliable, fair and honest, through mitigating compliance risk, reputation risk or risk of the Group's credibility and mitigating the risk of occurring financial losses or legal sanction risk resulting from breach of regulations and ethical standards.

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.

The rules concerning the process of compliance risk management adopted by all Group entities are inherent within the PKO Bank Polski SA Group.

Compliance risk management involves in particular:
- preventing involvement of the Group in illegal activities,
- ensuring data protection,
- development of ethical standards and monitoring of their application,
- conflict of interest management,
- preventing situations where the Group's employees could be perceived as pursuing their own interest in the professional context,
- professional, fair and transparent formulation of product offers, advertising and marketing messages,
- prompt, fair and professional consideration of complaints, requests and quality claims of clients.

In order to identify compliance risk, information on cases of non-compliance and their origins is being used, including information based on internal audits results, functional internal control and external controls.

Identification and assessment of compliance risk is mainly based on:

- estimating the most probable number of typical cases of non-compliance arising during the year,
- estimating the severity of the potential cases of non-compliance,
- assessing the existence of any additional factors of law regulations compliance risk.

While performing an assessment a character and potential losses are defined together with methods of reducing or eliminating compliance risk. Assessment is held through workshops.

Monitoring of compliance risk is conducted with the use of information submitted by the Companies and consists of:

- the analysis of non-compliance events in the Group and in banking sector, the reasons for their occurrence and their effects,
- the assessment of amendments in key legal regulations which have an impact on the Bank's and the Group's activity,
- the assessment of actions taken by the Group in respect of managing compliance risk.

Reporting of information concerning compliance risk includes both the Bank, and Group entities. Reports prepared quarterly contain information, including cases of non-compliance, passed by the Group entities. Reports are addressed to the Bank's Management Board, the Bank's Supervisory Board, and the Supervisory Board's Audit Committee. Reports contain among others the information on:

- the results of identifying and assessing compliance risk,
- the non-compliance events,
- the key amendments in regulatory environment.

The Group has adopted a zero tolerance policy against compliance risk, which means that the Group focuses its actions towards eliminating this risk.

63. 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.

The strategic risk is defined as a risk related to the possibility of negative financial consequences caused by erroneous decisions, decisions made on the basis of an inappropriate assessment or failure to make correct decisions relating to the direction of the Bank's strategic development.

Managing the strategic risk is aimed at maintaining, on an acceptable level, the negative financial consequences resulting from bad decisions, decisions made on the basis of an incorrect assessment or failing to make appropriate decisions on the direction of the strategic development of the Bank.

In measuring the strategic risk, the Bank takes into account an impact of selected types of factors, distinguished in the activity and in the environment, which comprise in particular:

- external factors,
- factors related to the growth and development of the banking operations,
- factors related to the management of human resources,
- factors related to investment activities,
- factors related to the organisational culture.

Monitoring of the strategic risk level is performed in the Bank at least on annual basis.

Strategic risk reporting is conducted annually in the Bank. Reports on strategic risk are prepared mainly for the Management Board and for division directors of the Bank's Head Office.

Management of strategic risk in the Bank comprises:

1) measuring the strategic risk level,
2) reporting the strategic risk level and its changes,
3) actions taken in case of high strategic risk level occurrence.

64. Reputation risk management

The reputation risk is defined as the risk related to a possibility of negative variations from the planned results of the Group due to the deterioration of the Group's image.

The objective of managing the reputation risk is to protect the Group's image and limit the probability of the occurrence and level of reputation losses.

Reputation risk ratios are calculated based on annual assessment of negative image-related events identified in a given calendar year for particular types of image-related events. Main tools used to determine the Group's reputation risk level are:

- a catalogue of image-related events categories containing a list of image-related categories with appropriate weights assigned,
- a register of image-related events containing a list of negative image-related events that occurred grouped by image-related events categories.

Monitoring of image-related events is performed on an ongoing basis and includes:

- monitoring the external and internal communication channels of the Group with the environment in terms of identifying the negative impact of image-related events,
- gathering and analyzing information related to the occurrence or a possibility of occurrence of image related events;
- recording data on the identified negative impact of image-related events.

The reports on the level of reputation risk are prepared in the Bank on an annual basis. The reports are addressed to the organisational units of the Banking Risk Division.

Management of reputation risk in the Group mainly comprises preventive activities aimed at reducing or minimising the scale and the scope of reputation events, as well as selection of effective tools for protective measures aimed at eliminating, mitigating or minimising the unfavourable effect of unfavourable events on the Group's image.

65. Capital adequacy

Capital adequacy is the maintenance of a level of capital by the PKO Bank Polski SA Group exceeds sum of regulatory capital requirements (the so-called Pillar 1) and sum of internal capital requirements (the so-called Pillar 2).

The objective of capital adequacy management is to 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 Act is 8%,
- the ratio of equity to internal capital whose acceptable minimum level in accordance with the Banking Act is 1.0,
- the capital adequacy ratio of common equity (Common Equity Tier 1 Ratio).

As at 31 December 2012 compared with 31 December 2011, the Group's capital adequacy ratio increased by 0.7 pp. to the level of 13.07%, 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 2012 remained at a safe level, significantly above the statutory limits.

65.1. Own funds calculated for capital adequacy purposes

Own funds for the purposes of capital adequacy are calculated in accordance with the provisions of the Banking Act and the Resolution No. 325/2011* of the Polish Financial Supervision Authority of 20 December 2011 on decreasing own funds (PFSA Journal of Laws No. 13 item 49 as of 30 December 2011).

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 Act, 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 Resolution No. 325/2011 of the Polish Financial Supervision Authority of 20 December 2011 on other deductions from the primary funds, their value, scope and methods of application; other balance sheet items included in complementary funds, their value, scope and methods of allocation to the bank's additional funds; deductions from the additional funds, their value, scope and methods of application; the scope and method of considering banks' activities in holdings while calculating own funds.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

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 (which decreases the value of own funds),
2) non- controlling interests in equity (which increase the value of own funds).

As at 31 December 2012, the Group's own funds increased by PLN 2 148 076 thousand, mainly as a result of including in the funds the Bank's net profit for 2011, net of dividend paid (of PLN 2 366 122 thousand). Compared with the balance as at the end of 2011, the accumulated profit dropped by PLN 80 178 thousand, the unrealised losses on debt and equity securities and other receivables in the investment securities available for sale portfolio by PLN 52 414 thousand, and the equity exposures by PLN 21 878 thousand, with a simultaneous increase in the value of negative currency translation differences of PLN 26 859 thousand and intangible assets by PLN 133 992 thousand.

The structure of the Group's own funds is presented in the table below:

GROUP'S OWN FUNDS	31.12.2012	31.12.2011
Basic funds (Tier 1)	**18 788 075**	**16 664 233**
Share capital	1 250 000	1 250 000
Reserve capital	15 364 728	13 041 390
Other reserves	3 437 957	3 460 368
General banking risk fund for unidentified banking activities risk	1 070 000	1 070 000
Unappropriated profits from previous years, profit in the course of approval less any expected charges	(103 340)	(23 162)
Unrealised losses on debt and equity instruments and other receivables classified as available for sale	(77 104)	(129 518)
Assets valuation adjustments in trade portfolio	(504)	(143)
Intangible assets, of which:	(1 934 000)	(1 800 008)
goodwill of subordinated entities	(222 438)	(227 349)
Equity exposures	(98 115)	(109 054)
Negative currency translation differences from foreign operations	(121 209)	(94 350)
Non-controlling interest	(338)	(1 290)
Supplementary funds (Tier 2)	**1 573 276**	**1 545 549**
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)	69 787	51 576
Positive currency translation differences from foreign operations	904	2 327
Equity exposures	(98 115)	(109 054)
Short-term equity (Tier 3)	**129 641**	**133 134**
TOTAL EQUITY	**20 490 992**	**18 342 916**

65.2. 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 (PFSA Journal of Laws 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 risk, equity securities risk, specific risk of debt instruments, general risk of interest rates,
3) operational risk,
4) other types of capital requirements in respect of:
    a) settlement/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.

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

The table below shows the Group's exposure to particular types of risk.

Capital requirements	31.12.2012	31.12.2011
Credit risk	**11 387 017**	**10 657 309**
credit risk (banking book)	11 223 185	10 534 714
counterparty risk (trading book)	163 832	122 595
Market risk	**494 551**	**355 284**
commodity price risk	-	-
equity securities risk	586	1 604
specific risk of debt instruments	412 110	262 412
general risk of interest rates	81 855	91 268
Operational risk	**659 587**	**852 099**
Total capital requirements	**12 541 155**	**11 864 692**
Capital adequacy ratio	**13.07%**	**12.37%**

An increase in the capital requirement in 2012 in respect of credit risk resulted from a significant increase in the volume of loan portfolio (statement of financial position and off-balance-sheet exposure) by approx. 3.8% and entry into force the provision of the Resolution No. 153/2011 of the PFSA due to which from the date of 30 June 2012, there was an increase in risk weights (from 75% to 100%) for retail exposures and for exposures secured on residential property, in which the installment of principal or interest depends on changes in the exchange rate of the currency or currencies other than the currency of revenues generated by the debtor.

An increase in the capital requirement in respect of market risk by 39% to the level of PLN 495 million resulted mainly from a increase in the value of issue underwriting, together with the decrease in the value of corporate bonds (total increase in the requirements on bonds approx. by 77%).

The Bank's capital requirements in respect of operating risk has been calculated under the advanced measurement approach (AMA). The drop in the requirement in respect of operating risk from PLN 852 million (as at 31 December 2011) to PLN 660 million (as at 31 December 2012) results mainly from elimination of conditions to maintain the limitation on the drop in the Bank's capital requirement by no more than up to a level of 75% of the requirement calculated under the standardised approach (TSA), applicable in the period from 30 June 2011 to 12 December 2012.

The requirement in respect of operational risk of Group entities was calculated using the basic index approach (BIA) both in 2012 and 2011.

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 collateral),
- in case of granted off-balance sheet liabilities – a product of nominal value of liability (considering value of allowances on the liability), a risk weight of the product, a risk weight of exposure calculated according to the standardised method of credit risk requirement and 8% (considering recognised collateral),
- in case of off-balance sheet transactions (derivative instruments) – a product of risk weight of the exposure calculated according to the standardised method of credit risk requirement, equivalent in the statement of financial position of off-balance sheet transaction 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 amount divided into portfolios (on account of credit risk of instruments included into banking book, counterparty credit risk and specific risk of instruments from the trading portfolio) as at 31 December 2012 and as at 31 December 2011 are as follows:

Financial instruments	Carrying amount	Risk - weighted value	Carrying amount	Risk - weighted value
	31.12.2012		31.12.2011	
Banking book	189 075 985	125 271 020	183 766 482	118 090 798
Trading book	4 403 643	1 877 606	6 981 555	2 643 592
Total instruments in the statement of financial position	**193 479 628**	**127 148 626**	**190 748 037**	**120 734 390**

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
	31.12.2012			31.12.2011		
Banking book	39 421 096	15 533 996	14 208 338	35 815 703	13 639 658	12 642 199
Trading book	3 469 463	3 469 463	3 281 094	1 074 685	1 074 685	656 608
Total	**42 890 559**	**19 003 459**	**17 489 432**	**36 890 388**	**14 714 343**	**13 298 807**

Derivative financial instruments	Nominal value	Statement of financial position equivalent	Risk - weighted value	Nominal value	Statement of financial position equivalent	Risk - weighted value
	31.12.2012			31.12.2011		
Banking book	54 389 358	1 938 105	810 449	83 382 850	2 448 267	950 931
Trading book	238 244 490	4 181 788	2 047 906	318 503 683	2 918 421	1 532 443
Total	**292 633 848**	**6 119 893**	**2 858 355**	**401 886 533**	**5 366 688**	**2 483 374**

65.3. Internal capital (Pillar 2)

The Group calculates internal capital in accordance with the Resolution No 258/2011 of the 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 (PFSA Journal of Laws 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 (including strategy risk).

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 2012, 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.

65.4. 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 (PFSA Journal of Laws 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).

INFORMATION ON THE ENTITY AUTHORISED TO AUDIT FINANCIAL STATEMENTS AND EVENTS AFTER THE REPORTING PERIOD

66. 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 2012 amounted to PLN 1 140 thousand (2011: PLN 1 140 thousand), total net remuneration for the certifying services, including the review of the financial statements amounted in 2012 to PLN 2 795 thousand (2011: PLN 1 910 thousand).

Total net remuneration of PricewaterhouseCoopers Sp. z o.o. related to rendering PKO Bank Polski SA other services in 2012 amounted to PLN 438 thousand (2011: PLN 2 031 thousand).

67. Events after the reporting period

1. On 17 January 2013, by the Partners' Resolution of Qualia spółka z ograniczoną odpowiedzialnością – Jurata Sp. k. (the company from the Qualia Development Sp. z o.o. Group) amount of limited partner's contribution and the limited partnership amount was increased to PLN 2 551 thousand.
2. On 17 January 2013, by the Partners' Resolution of Qualia spółka z ograniczoną odpowiedzialnością – Zakopane Sp. k. (the company from the Qualia Development Sp. z o.o. Group) amount of limited partner's contribution and the limited partnership amount was increased to PLN 441 thousand.
3. On 31 January 2013, PKO Bank Polski SA received a notification from BGK and from the Minister of State Treasury with regard to selling off a considerable block of Bank's shares as a result of which the number of total votes held by BGK and the State Treasury at the General Meeting of the Bank has changed. According to the notifications received, on 24 January 2013 through Warsaw Stock Exchange SA in block transactions:

*As at 31 December 2010 PKO Bank Polski SA calculates internal capital in accordance with the Resolution No. 383/2008 of the Financial Supervision Authority dated 17 December 2008 (PFSA Journal of Laws 2008, No. 8, item 37).

CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 DECEMBER 2012 (IN PLN THOUSAND)

- Bank Gospodarstwa Krajowego sold 128 102 731 Bank's shares held, which amounted to 10.25% of the share capital and the total number of votes at the General Meeting of the Bank,
- the State Treasury sold 25 000 000 Bank's shares held, which amounted 2.00% of the share and the total number of votes at the General Meeting of the Bank.

Prior to conlusion and the settlement of the abovementioned transactions BGK and the State Tresury held 128 102 731 and 417 406 277 Bank's shares, respectively. After the settelement of the transactions on 29 January 2013, BGK did not hold the Bank's shares, and the State Trasuary held 392 406 277, which amounted to 31.39% of the share capital and the total number of votes at the General Meeting of the Bank.

4. 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 threshold 5 % of total number of votes in the Bank as the result of the purchase transactions concluded on 24 January 2013.

   Prior to the settlement of the above mentioned transactions Aviva OFE on 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 the settlement of the above mentioned transactions Aviva OFE on 29 January 2013 held 83 952 447 the Bank's shares representing 6.72% of the Bank's share capital and the total number of votes at the Bank's General Shareholders' Meeting.

5. On 15 February 2013, PKO Bank Polski SA made additional payment to Qualia Development Sp. z o.o. in the amount of PLN 1 251 thousand.

Signatures of all Members of the Management Board of the Bank

26.02.2013	Zbigniew Jagiełło	President of the Management Board	.... (signature)
26.02.2013	Piotr Alicki	Vice-President of the Management Board	.... (signature)
26.02.2013	Bartosz Drabikowski	Vice-President of the Management Board	.... (signature)
26.02.2013	Piotr Mazur	Vice-President of the Management Board	.... (signature)
26.02.2013	Jarosław Myjak	Vice-President of the Management Board	.... (signature)
26.02.2013	Jacek Obłękowski	Vice-President of the Management Board	.... (signature)
26.02.2013	Jakub Papierski	Vice-President of the Management Board	.... (signature)

Signature of person responsible for maintaining the books of account

26.02.2013

Danuta Szymańska
Director of the Accounting Division

....

(signature)