Bank Polski

Financial Statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna 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	7 772 436	7 504 969	1 862 286	1 812 751
Net fee and commission income	2 804 584	2 872 801	671 982	693 897
Operating profit	4 462 805	4 913 931	1 069 294	1 186 911
Profit before income tax	**4 462 805**	**4 913 931**	**1 069 294**	**1 186 911**
Net profit	**3 592 617**	**3 953 622**	**860 796**	**954 958**
Earnings per share for the period – basic (in PLN/EUR)	**2.87**	**3.16**	**0.69**	**0.76**
Earnings per share for the period – diluted (in PLN/EUR)	**2.87**	**3.16**	**0.69**	**0.76**
Net comprehensive income	**3 342 651**	**4 075 527**	**800 904**	**984 403**
Net cash flow from / used in operating activities	1 805 037	5 421 496	432 489	1 309 508
Net cash flow from / used in investing activities	1 137 854	(3 650 597)	272 631	(881 765)
Net cash flow from / used in financing activities	(1 868 143)	1 189 770	(447 609)	287 377
Total net cash flows	1 074 748	2 960 669	257 511	715 120

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	191 017 712	188 372 690	46 724 160	42 649 133
Total equity	24 646 059	22 802 375	6 028 584	5 162 646
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)	19.72	18.24	4.82	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)	19.72	18.24	4.82	4.13
Capital adequacy ratio	12.93%	11.93%	12.93%	11.93%
Basic funds (Tier 1)	18 657 980	16 225 262	4 563 862	3 673 533
Supplementary funds (Tier 2)	1 087 104	989 525	265 913	224 037
Short-term equity (Tier 3)	129 641	133 134	31 711	30 143

The selected stand-alone 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 respectively,
- 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.

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INCOME STATEMENT

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

	Note	2012	2011
Continuing operations			
Interest and similar income	3	12 753 964	11 818 059
Interest expense and similar charges	3	(4 981 528)	(4 313 090)
Net interest income		**7 772 436**	**7 504 969**
Fee and commission income	4	3 619 650	3 621 880
Fee and commission expense	4	(815 066)	(749 079)
Net fee and commission income		**2 804 584**	**2 872 801**
Dividend income	5	93 200	94 028
Net income from financial instruments designated at fair value	6	95 092	(78 538)
Gains less losses from investment securities	7	81 605	16 303
Net foreign exchange gains		254 153	331 367
Other operating income	8	67 899	110 791
Other operating expense	8	(54 817)	(67 178)
Net other operating income and expense		**13 082**	**43 613**
Net impairment allowance and write-downs	9	(2 458 590)	(1 812 122)
Administrative expenses	10	(4 192 757)	(4 058 490)
Operating profit		**4 462 805**	**4 913 931**
Profit before income tax		**4 462 805**	**4 913 931**
Income tax expense	11	(870 188)	(960 309)
Net profit		**3 592 617**	**3 953 622**
Earnings per share	12		
– basic earnings per share for the period (PLN)		2.87	3.16
– diluted earnings per share for the period (PLN)		2.87	3.16
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, PKO Bank Polski SA did not carry out discontinued operations.

STATEMENT OF COMPREHENSIVE INCOME

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

	Note	2012	2011
Net profit		**3 592 617**	**3 953 622**
Other comprehensive income		**(249 966)**	**121 905**
Cash flow hedges (gross)	18	(383 069)	178 100
Deferred tax on cash flow hedges	11	72 783	(33 839)
Cash flow hedges (net)		(310 286)	144 261
Unrealised net gains on financial assets available for sale (gross)	7	74 467	(27 600)
Deferred tax on unrealised net gains on financial assets available for sale	11	(14 147)	5 244
Unrealised net gains on financial assets available for sale (net)		60 320	(22 356)
Total net comprehensive income		**3 342 651**	**4 075 527**

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	14	10 229 230	9 060 280
Amounts due from banks	15	3 456 391	2 320 198
Trading assets	16	282 230	1 311 089
Derivative financial instruments	17	3 861 456	3 065 149
Financial assets designated upon initial recognition at fair value through profit and loss	19	12 614 917	12 467 201
Loans and advances to customers	20	142 084 858	140 058 649
Investment securities available for sale	21	12 061 406	14 168 933
Investments in subsidiaries, jointly controlled entities and associates	22	1 171 005	1 497 975
Non-current assets held for sale		20 410	20 410
Intangible assets	23	1 681 120	1 522 568
Tangible fixed assets, of which:	24	2 382 658	2 013 314
investment properties		238	248
Deferred income tax asset	11	369 007	384 134
Other assets	25	803 024	482 790
TOTAL ASSETS		**191 017 712**	**188 372 690**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the central bank	26	3 128	3 454
Amounts due to banks	27	2 502 888	5 321 390
Derivative financial instruments	17	3 964 170	2 645 281
Amounts due to customers	28	154 740 574	150 030 681
Debt securities in issue	29	865 905	3 105 588
Subordinated liabilities	30	1 631 256	1 614 377
Other liabilities	31	1 799 363	2 156 523
Current income tax liabilities	11	145 274	77 532
Provisions	32	719 095	615 489
TOTAL LIABILITIES		**166 371 653**	**165 570 315**
Equity			
Share capital		1 250 000	1 250 000
Other capital		19 803 442	17 598 753
Net profit for the year		3 592 617	3 953 622
TOTAL EQUITY		**24 646 059**	**22 802 375**
TOTAL LIABILITIES AND EQUITY		**191 017 712**	**188 372 690**

Capital adequacy ratio	61	12.93%	11.93%
Book value (in PLN thousand)		24 646 059	22 802 375
Number of shares (in thousand)	1	1 250 000	1 250 000
Book value per share (in PLN)		19.72	18.24
Diluted number of shares (in thousand)		1 250 000	1 250 000
Diluted book value per share (in PLN)		19.72	18.24

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

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						Unappropriated profits	Net profit for the period	Total equity
		Reserves			Other comprehensive income		Total other capital			
		Reserve capital	General banking risk fund	Other reserves	Financial assets available for sale	Cash flow hedges				
As at 1 January 2012	1 250 000	12 898 111	1 070 000	3 319 621	(51 164)	362 185	17 598 753	-	3 953 622	22 802 375
Transfer of net profit from previous years	-	-	-	-	-	-	-	3 953 622	(3 953 622)	-
Total comprehensive income, of which:	-	-	-	-	60 320	(310 286)	(249 966)	-	3 592 617	3 342 651
Net profit	-	-	-	-	-	-	-	-	3 592 617	3 592 617
Other comprehensive income	-	-	-	-	60 320	(310 286)	(249 966)	-	-	(249 966)
Transfer from unappropriated profits	-	2 300 000	-	66 122	-	-	2 366 122	(2 366 122)	-	-
The effect of the takeover of subsidiary's assets and liabilities by the Bank	-	-	-	-	-	-	-	88 533	-	88 533
Dividends paid	-	-	-	-	-	-	-	(1 587 500)	-	(1 587 500)
As at 31 December 2012	1 250 000	15 198 111	1 070 000	3 385 743	9 156	51 899	19 714 909	88 533	3 592 617	24 646 059

for the year ended 31 December 2011	Share capital	Other capital						Unappropriated profits	Net profit for the period	Total equity
		Reserves			Other comprehensive income		Total other capital			
		Reserve capital	General banking risk fund	Other reserves	Financial assets available for sale	Cash flow hedges				
As at 1 January 2011	1 250 000	12 098 111	1 070 000	3 283 412	(28 808)	217 924	16 640 639	-	3 311 209	21 201 848
Transfer of net profit from previous years	-	-	-	-	-	-	-	3 311 209	(3 311 209)	-
Total comprehensive income, of which:	-	-	-	-	(22 356)	144 261	121 905	-	3 953 622	4 075 527
Net profit	-	-	-	-	-	-	-	-	3 953 622	3 953 622
Other comprehensive income	-	-	-	-	(22 356)	144 261	121 905	-	-	121 905
Transfer from unappropriated profits	-	800 000	-	36 209	-	-	836 209	(836 209)	-	-
Dividends paid	-	-	-	-	-	-	-	(2 475 000)	-	(2 475 000)
As at 31 December 2011	1 250 000	12 898 111	1 070 000	3 319 621	(51 164)	362 185	17 598 753	-	3 953 622	22 802 375

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

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		4 462 805	4 913 931
Adjustments:		(2 657 768)	507 565
Amortisation and depreciation		479 992	452 698
(Gains) losses from investing activities	37	4 332	(7 330)
Interest and dividends	37	(965 369)	(543 927)
Change in amounts due from banks	37	(1 227 477)	70 852
Change in trading assets and financial assets designated upon initial recognition at fair value through profit and loss		881 143	(1 516 310)
Change in derivative financial instruments (asset)		(796 307)	(1 345 385)
Change in loans and advances to customers	37	(3 272 048)	(11 842 826)
Change in other assets and non-current assets held for sale	37	(320 234)	(83 044)
Change in amounts due to banks	37	(755 780)	1 157 293
Change in derivative financial instruments (liability)		1 318 889	240 486
Change in amounts due to customers	37	96 976	13 887 301
Change in impairment allowances and provisions	37	1 287 892	648 092
Change in other liabilities and subordinated liabilities	37	146 656	626 866
Income tax paid		(728 683)	(894 437)
Other adjustments	37	1 192 250	(342 764)
Net cash from / used in operating activities		1 805 037	5 421 496
Net cash flow from investing activities			
Inflows from investing activities		40 899 132	9 060 675
Proceeds from sale of a subsidiary		1 482	-
Proceeds and interest from sale of investment securities available for sale		40 802 423	8 951 944
Proceeds from sale of intangible assets and tangible fixed assets		4 165	15 087
Other investing inflows (dividends)		91 062	93 644
Outflows from investing activities		(39 761 278)	(12 711 272)
Purchase / increase in equity of a subsidiary		(49 948)	(55 175)
Purchase of investment securities available for sale		(38 939 721)	(12 248 048)
Purchase of intangible assets and tangible fixed assets		(771 609)	(408 049)
Net cash from / used in investing activities		1 137 854	(3 650 597)
Net cash flow from financing activities			
Proceeds from debt securities in issue		5 907 813	5 017 243
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	37	(1 587 500)	(2 475 000)
Repayment of interest from issued debt securities and subordinated loans		(206 364)	(108 743)
Long-term borrowings		6 324 373	908 325
Repayment of long-term borrowings		(3 959 733)	(200 601)
Net cash generated from financing activities		(1 868 143)	1 189 770
Net cash inflow		1 074 748	2 960 669
of which currency translation differences on cash and cash equivalents		(172 091)	314 898
Cash and cash equivalents at the beginning of the period		11 160 666	8 199 997
Cash and cash equivalents at the end of the period	37	12 235 414	11 160 666
of which restricted	34	6 661	3 923

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NOTES TO THE FINANCIAL STATEMENTS

1. General information

The financial statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ('PKO Bank Polski SA', 'the Bank') 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 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.

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 the Warsaw Stock Exchange (WSE) in block transactions:

FINANCIAL STATEMENTS OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA 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 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 transaction, 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, which represent 31.39% of the share capital and 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 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, 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.

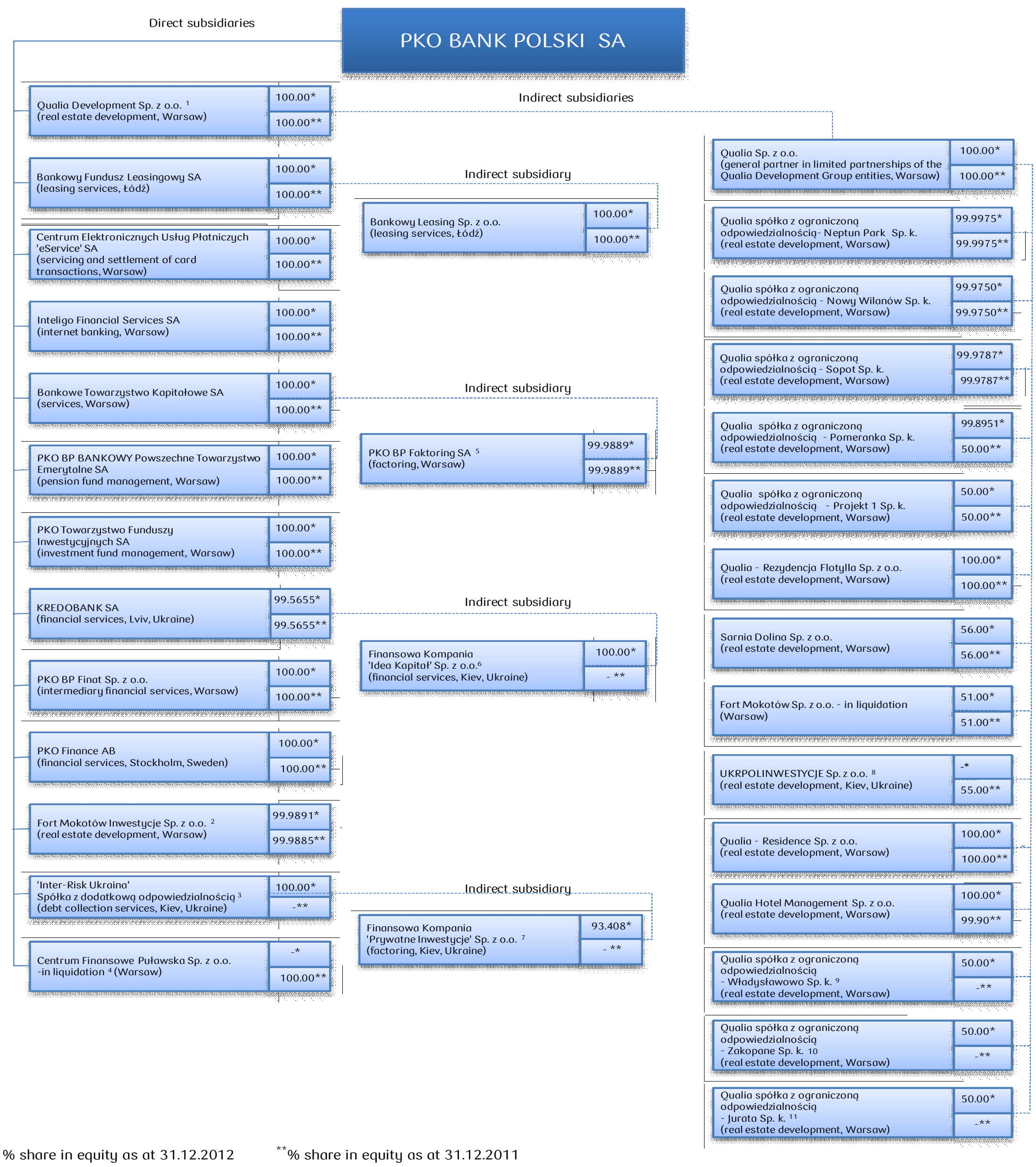
Business activities of the Bank

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.

Structure of the PKO Bank Polski SA Group

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

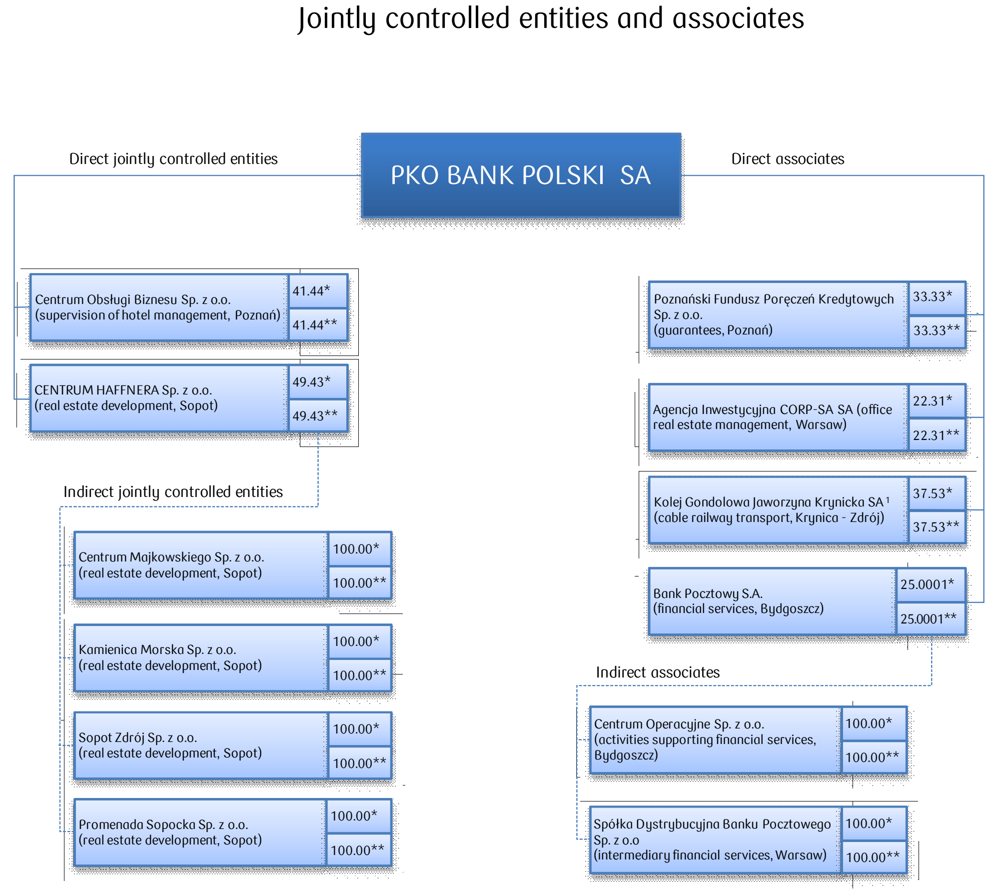
Subsidiaries



* % 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

Additionally, the Bank holds shares in the following 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 22 'Investments in subsidiaries, jointly controlled entities and associates'.

Internal organisational units of the Bank

The financial statements of the Bank comprising financial data for the year ended 31 December 2012 and comparative financial data, were prepared on the basis of financial data submitted by all organisational units of the Bank through which it performs its activities. As at 31 December 2012, these organisational units included: the Bank's Head Office in Warsaw, the Brokerage House of PKO Bank Polski SA, Centrum Operacji Kartowych, 10 specialised units, 11 regional retail branches, 13 regional corporate branches, 51 corporate centres, 1123 operational branches and 1208 agencies. None of the organisational units listed above prepares separate financial statements.

Indication whether the Bank is a parent company or a significant investor and whether it prepares consolidated financial statements

PKO Bank Polski SA is the parent company of the Powszechna Kasa Oszczędności Bank Polski SA Group and a significant investor for its associates and jointly controlled entities, whose owner the Bank is. Accordingly, PKO Bank Polski SA prepares consolidated financial statements for the Group, which include the financial data of these entities.

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 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 of the Bank, 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.

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 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. Summary of significant accounting policies

These 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 financial statements of the Bank have been prepared on the basis that the Bank 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 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 Bank for 12 months following the issue date as a result of any intended or compulsory withdrawal or significant limitation in the activities of the Bank.

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 Bank 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. Foreign currencies

2.4.1. 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 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 assets and liabilities denominated in foreign currencies are recognised in the income statement.

Financial statements are presented in the Polish zloty, which is the functional and presentation currency of the Bank.

2.5. Financial assets and liabilities

2.5.1. Classification

Financial assets are classified 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 Bank on initial recognition.

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

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

1) they are classified as held for trading. Financial assets or financial liabilities are classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term, is a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-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 designated as at fair value through profit and loss. The Bank 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 properly managed and its performance is evaluated on a fair value basis, in accordance with the written risk management principles or investment strategy of the Bank.

3) The Bank 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.

2.5.1.2. 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 Bank upon initial recognition,

   b) held-to-maturity,

   c) those that meet the definition of loans and advances.

2.5.1.3. 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) those that the Bank 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) those that the Bank upon initial recognition designates as available for sale,

3) those 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.

2.5.1.4. Financial assets held to maturity

As at 31 December 2012 and as at 31 December 2011, the Bank did not hold any assets classified to this category.

2.5.1.5. 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, a loan or an advance received.

2.5.1.6. 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 Bank from the category of financial assets available for sale to the category of loans, advances and other receivables, if the Bank has the intention and ability to hold that financial asset in the foreseeable future or to maturity.

The Bank 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.

2.5.2. 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.

2.5.3. 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 to another entity. The financial asset is transferred when:

1) the contractual rights to receive the cash flows from the financial asset are transferred, or
2) the Bank 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 Bank.

When the Bank 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 Bank 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 Bank 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.

The Bank 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 Bank derecognised 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 other 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.

2.5.4. 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 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:

2.5.4.1. 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.

2.5.4.2. 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) 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.

2.5.4.3. 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 and advances and investments held to maturity are measured at cost to pay.

2.5.4.4. 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 Bank are recognised as financial liabilities and measured at amortised cost.

2.5.4.5. 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 Bank 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 Bank 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 based on market value, (bid price):

- debt securities valued at fixing from Bondspot platform,
- debt and equity securities which are traded on regulated market, including in 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 Bank classifies to that 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 and 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 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 a regulated market and not traded on a regulated market,
- 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 entry data is not derived from observable markets (unobservable entry data). The Bank classified to that category shares not listed on WSE, which are measured at acquisition cost, less impairment allowances.

2.5.5. Derivative instruments

2.5.5.1. 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 Bank includes the difference respectively in the net income from financial instruments designated at fair value through profit and loss or in 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 2.5.6.4.

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.

2.5.5.2. 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 flows 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 of fair value of derivative instruments 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'.

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 of 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'.

2.5.6. Hedge accounting

2.5.6.1. Hedge accounting criteria

The Bank 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.

2.5.6.2. Discontinuing hedge accounting

The Bank 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 Bank invalidates a hedge relationship.

2.5.6.3. Fair value hedge

As at 31 December 2012 and 2011, the Bank did not apply fair value hedge accounting.

2.5.6.4. 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 through profit and loss'.

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 'Net interest income' and 'Net foreign exchange gains' respectively.

2.6. Offsetting of financial instruments

Financial assets and liabilities may only be offset when the Bank 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. Investments in subsidiaries, jointly controlled entities and associates

Investments in subsidiaries, jointly controlled entities and associates are measured at cost less impairment losses.

At each balance date, the Bank makes an assessment of whether there are any indicators of impairment in the value of investments in subsidiaries, jointly controlled entities and associates. If any such indicators exist, the Bank estimates the value in use of the investment or the fair value of the investment less costs to sell, depending on which of these values is higher, in case when carrying amount of an asset exceeds its value in use, the Bank recognises an impairment loss in the income statement.

The projection for the value in use requires making assumptions, e.g. about future cash flows that the Bank 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.

2.9. Impairment of financial assets

2.9.1. Assets measured at amortised cost

At each balance date, for credit and loan, the Bank assesses whether there is objective evidence that a given financial asset or a group of financial assets is impaired. If such evidence exists, the Bank 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 event 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 Bank 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 Bank 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 receivables are classified by the Bank on the basis of the amount of exposure into the individual and group portfolios.

In the individual portfolio, each individual loan 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 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 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 of 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 Bank 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 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.

2.9.2. Assets available for sale

At each balance date, the Bank 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 Bank 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) an 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 Bank 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 zero coupon curve based on yield curves for Treasury bonds.

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.

2.10. Leasing

The Bank is a party of operating lease agreements based on which it accepts fixed assets for chargeable use for a period determined in the agreement. The Bank adopts the extent to which the risks and benefits from owning a leased asset fall to the lessor and to the lessee, as the basis for classifying the lease agreements.

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.

2.11. Tangible fixed assets and intangible assets

2.11.1. Intangible assets

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

2.11.1.1. 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.

2.11.1.2. Other intangible assets

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

2.11.1.3. 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.

2.11.2. 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.

2.11.3. 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 Bank 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.

2.11.4. Depreciation/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 and 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 PKO Bank Polski SA:

Tangible fixed assets	Periods
Buildings, premises, cooperative rights to premises (including investment property)	40-60 years
Leaseholds improvements (buildings, premises)	10 years (or term of the lease if shorter)
Machinery and equipment	3-15 years
Computer hardware	4-10 years
Means of transport	5 years
Intangible assets	**Periods**
Software	2-17 years
Other intangible assets	5 years

Costs related 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 Bank in a different manner. Each component of the building is depreciated separately.

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

At each balance date, the Bank 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 Bank 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 Bank 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 Bank 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).

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.

2.12. Other items in the statement of financial position

2.12.1. 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 Bank’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 Bank 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.

2.12.2. 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'.

2.13. Provisions

Provisions are liabilities of uncertain timing or amount. They are accrued when the Bank 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.

2.14. 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 Bank 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 Bank's on-going business operations.

The restructuring provision does not cover future operating expenses.

2.15. 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 Bank 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 Bank. 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 ending on the balance date. Gains or losses resulting from actuarial calculations 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 periodical settlements for the employee compensation costs incurred in the current period which will be paid out in future periods, including bonuses.

2.16. Borrowing costs

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

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

2.17. Off-balance sheet liabilities granted

As regards operating activities, the Bank 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 Bank,

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'.

2.18. Shareholders' equity

Shareholders' equity comprises capital and the other funds of the Bank in accordance with the relevant legal regulations and the Memorandum of Association.

2.18.1. Share capital

Share capital is stated at nominal value in accordance with Memorandum of Association and the Register of Entrepreneurs.

2.18.2. Reserve capital

Reserve capital is created according to the Memorandum of Association of the Bank, from the appropriation of net profits and from share premium less issue costs and it is to cover the potential losses which might result from the Bank's activities.

2.18.3. 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.

2.18.4. General risk fund

General risk fund in PKO Bank Polski SA is created from profit after tax according to 'The Banking Law' dated 29 of August 1997 (Journal of Laws 2002, No. 72, item 665 with subsequent amendments) hereinafter referred to 'The Banking Law', and it is to cover unidentified risks of the Bank.

2.18.5. 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.

2.19. Determination of a financial result

The Bank 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.

2.19.1. 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 receivable (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 through profit and loss' 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.

2.19.2. 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 Bank for services not related directly to creation of loans, advances and other receivables, as well as amounts charged by the Bank 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.

2.19.3. Dividend income

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

2.19.4. 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 2.5.6.4.

2.19.5. 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.

2.19.6. 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 Bank 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 of 2010, No. 2, item 11 with subsequent amendments).

Monetary assets and liabilities presented 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.

2.19.7. Other operating income and expense

Other operating income and expense include income and expense not related directly to banking activity. Other operating income mainly includes gains from 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.

2.20. 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.

2.20.1. 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 resulting from the Act on corporate income tax dated 15 February 1992 have been taken into consideration (Journal of Laws, No. 54, item 654 with subsequent amendments). 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. 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 in the deferred tax as a positive temporary difference.

2.20.2. 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 Bank recognises deferred income tax assets and liabilities. An amount of deferred tax recognised in profit and loss is determined using the balance method – as a change in deferred income tax assets and liabilities. Deferred tax assets and deferred tax liabilities 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.

Deferred tax assets are offset 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.

2.21. Critical estimates and judgements

While preparing financial statements, the Bank 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 Bank 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 Bank 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 Bank 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 Bank performs critical estimates are presented below:

2.21.1. Impairment of loans and advances

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'), 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 Bank 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 Bank 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.

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

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

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

Estimated change in valuation due to parallel movement of yield curve	31.12.2012		31.12.2011	
	+50 pp. scenario	-50 pp. scenario	+50 pp. scenario	-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		31.12.2011	
	+50 pp. scenario	-50 pp. scenario	+50 pp. scenario	-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**

2.21.3. 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		31.12.2011	
	+0.25 pp. scenario	-0.25 pp. scenario	+0.25 pp. scenario	-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.

2.21.4. 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, 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 27 million or an increase in depreciation costs by PLN 153 million respectively (as at 31 December 2011 respectively: a decrease in deprecation cost by PLN 25 million or an increase in depreciation cost by PLN 134 million).

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2.22. Changes in Accounting Policies

The Bank 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 since 1 January 2012 and have been applied by the Bank

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	10.2010	Financial year starting on or after 1.07.2011	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 33 'Transfers of Financial Assets'.

New standards and interpretations and amendments to above 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 Bank

1) Applying for the first time to the financial statements of the Bank for the year 2013

Standard/ interpretation	Introduction/ publication date	Application date	Description of potential changes
Decree of the EU Committee 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 Bank'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 measured 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 Bank, it is estimated that the above amendments shall not apply to the financial statements of the Bank.
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 financial statements of the Bank.

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 Bank's broader disclosures in the financial statements.
Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – changes 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 Bank due to the fact that the Bank presents 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 Bank, 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 Bank additional disclosures, which scale, according to estimates of the Bank, will not be significant.

2) Applying for the first time to the financial statements of the Bank 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 Bank's financial statements.
IFRS 11 'Joint Arrangements'	05.2011	Financial year starting on or after 1.01.2013 (in the European Union mandatory application from 1.01.2014)	The new standard replaces IAS 31 'Interests in Joint Ventures' and the interpretation SIC-13 'Jointly Controlled Entities — Non-Monetary Contributions by Ventures'. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. At the same time, the existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity method is mandatory for all participants in joint ventures.

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Standard/ interpretation	Introduction/ publication date	Application date	Description of potential changes
			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.
IFRS 12 'Disclosure of Interest in Other Entities'	05.2011	Financial year starting on or after 1 January 2013 (in the European Union mandatory application from 1.01.2014)	The new standard applies to entities that have an interest in a subsidiary, a joint ventures, an associate or an unconsolidated structured entity. The standard replaces the disclosure requirements currently found in IAS 27 'Consolidated and separate financial statements' IAS 28 'Investments in associates' and IAS 31 'Interests in Joint Ventures'. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint ventures and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The changes will require additional disclosures to the Bank's financial statements, but it is estimated that due to the current extensive range of disclosures about the Group entities the additional scope of disclosures will not be material.
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 Bank'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			
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 financial statements of the Bank.

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

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 Bank 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 Bank due to the fact that the Bank presents 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 financial statements of the Bank 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 financial statements of the Bank.
Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12	06.2012	Financial year starting on or before 1.01.2013– 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 Bank for the year 2014, provided that they are adopted by the European Union. The amendments do not seem to have material impact on the financial statements of the Bank due to the fact that early adoption of these standards is not planned.

Standard/ interpretation	Introduction/ publication date	Application date	Description of potential changes
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 financial statements of the Bank 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 financial statements of the Bank.

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 Bank with the exception of IFRS 9 (an influence of IFRS 9 on accounting principles applied by the Bank have not been assessed yet). The Bank 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.

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

NOTES TO THE INCOME STATEMENT

3. 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:	**11 094 678**	**10 367 111**
Income from loans and advances to customers, of which:	10 170 927	9 581 320
from impaired loans	495 396	385 425
Income from investments securities available for sale	667 074	557 750
Income from placements with banks	249 826	218 682
Other	6 851	9 359
Other income, of which:	**1 659 286**	**1 450 948**
Income from derivative hedging instruments (Note 18)	870 450	814 275
Income from financial assets designated upon initial recognition at fair value through profit and loss	729 572	561 826
Income from financial assets held for sale	59 264	74 847
Total	**12 753 964**	**11 818 059**

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:	**(4 978 412)**	**(4 310 998)**
Interest expense on amounts due to customers	(4 736 087)	(4 133 424)
Interest expense on debt securities in issue	(205 435)	(130 568)
Interest expense on deposits from banks	(26 979)	(45 684)
Premium expense on debt securities available for sale	(9 911)	(1 322)
Other expense	**(3 116)**	**(2 092)**
Total	**(4 981 528)**	**(4 313 090)**

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	**8 879 686**	**8 645 465**
Interest income from loans and advances to customers	10 170 927	9 581 320
Fee and commission income from loans and advances	567 904	574 044
Interest income from placements with banks	249 826	218 682
Net impairment allowance on loans and advances to customers and amounts due from banks measured at amortised cost	(2 108 971)	(1 728 581)
Losses from financial liabilities measured at amortised cost	**(4 968 501)**	**(4 309 676)**
Interest expense on amounts due to customers	(4 736 087)	(4 133 424)
Interest expense on debt securities in issue	(205 435)	(130 568)
Interest expense on bank deposits	(26 979)	(45 684)
Net result	**3 911 185**	**4 335 789**

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

4. 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:	**567 904**	**574 044**
Income from loans and advances granted	567 904	574 044
Other commissions	**3 048 047**	**3 045 030**
Income from payment cards	1 163 918	1 020 600
Income from maintenance of bank accounts	865 290	903 972
Income from loan insurance	415 339	515 499
Income from maintenance of investment funds (including management fees)	177 221	187 566
Income from cash transactions	122 841	148 325
Income from securities transactions	82 794	70 295
Income from servicing foreign mass transactions	48 785	47 966
Income from 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*	106 940	102 513
Income from fiduciary activities	**3 699**	**2 806**
Total	**3 619 650**	**3 621 880**

* 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	(492 947)	(373 697)
Expenses on loan insurance	(111 320)	(133 488)
Expenses on acquisition services	(94 636)	(117 603)
Expenses on settlement services	(24 053)	(20 971)
Expenses on fee and commissions for operating services provided by banks	(9 994)	(11 340)
Other*	(82 116)	(91 980)
Total	**(815 066)**	**(749 079)**

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

5. Dividend income

	2012	2011
Dividend income from the issuers of:	**8 081**	**6 800**
Securities classified as available for sale	5 943	6 416
Securities classified as held for trading	2 138	384
Dividend income from subsidiaries, jointly controlled entities and associates of which:	**85 119**	**87 228**
PKO Towarzystwo Funduszy Inwestycyjnych SA	37 884	48 200
Inteligo Financial Services SA	19 898	16 716
Centrum Finansowe Puławska Sp. z o.o.	16 119	-
CEUP eService SA	10 000	22 200
PKO BP Finat Sp. z o.o.	970	-
Agencja Inwestycyjna CORP-SA SA	248	112
Total	**93 200**	**94 028**

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

6. 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:	(7 407)	(84 929)
Derivative instruments, of which:	3 899	(88 585)
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	103 534	7 003
Equity instruments	(1 035)	(612)
Total	**95 092**	**(78 538)**

2012	Gains	Losses	Net result
Trading assets	14 017 807	(14 000 402)	17 405
Financial assets designated upon initial recognition at fair value through profit and loss	151 334	(73 647)	77 687
Total	**14 169 141**	**(14 074 049)**	**95 092**

2011	Gains	Losses	Net result
Trading assets	10 505 703	(10 593 970)	(88 267)
Financial assets designated upon initial recognition at fair value through profit and loss	61 461	(51 732)	9 729
Total	**10 567 164**	**(10 645 702)**	**(78 538)**

7. Gains less losses from investment securities

	2012	2011
Losses/gains recognised directly in other comprehensive income	(7 138)	(43 903)
Total result recognised directly in other comprehensive income	**(7 138)**	**(43 903)**
Gains derecognised from other comprehensive income	86 354	17 348
Losses derecognised from other comprehensive income	(4 749)	(1 045)
Total result derecognised from other comprehensive income, recognised in income statement	**81 605**	**16 303**
Total result retained in other comprehensive income	**74 467**	**(27 600)**

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

8. Other operating income and expense

	2012	2011
Other operating income		
Sundry income	20 296	19 134
Sales and disposal of tangible fixed assets, intangible assets and assets held for sale	13 182	15 087
Recovery of expired and written-off receivables	2 487	5 274
Other*	31 934	71 296
Total	**67 899**	**110 791**

*In 2011 the item 'Other' includes i.a. revenue from the settlement of sale of the training and recreation centre in the amount of PLN 33 956 thousand.

	2012	2011
Other operating expense		
Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(9 431)	(11 491)
Donations	(12 584)	(11 356)
Sundry expenses	(5 879)	(4 696)
Other	(26 923)	(39 635)
Total	**(54 817)**	**(67 178)**

31 DECEMBER 2012 (IN PLN THOUSAND)

9. Net impairment allowance and write-downs

For the year ended 31 December 2012	Note	Value at the beginning of the period	Increases: Recognised during the period	Increases: Other	Decreases: Decrease due to derecognition of assets and settlement	Decreases: Reversed during the period	Decreases: Other	Value at the end of the period	Net – impact on the income statement
Investment securities available for sale	21	**15 502**	**16 552**	**-**	**5 898**	**1 564**	**-**	**24 592**	**(14 988)**
Debt securities available for sale		12 998	-	-	5 898	1 564	-	5 536	1 564
Equity securities not admitted to public trading		2 504	16 552	-	-	-	-	19 056	(16 552)
Amounts due from banks	15	**33 710**	**518**	**-**	**-**	**344**	**3 092**	**30 792**	**(174)**
Loans and advances to customers measured at amortised cost	20	**4 982 790**	**5 746 309**	**33 092**	**831 129**	**3 637 512**	**64 921**	**6 228 629**	**(2 108 797)**
Non-financial sector		4 958 486	5 695 475	32 123	829 916	3 629 834	64 921	6 161 413	(2 065 641)
corporate loans		2 272 444	2 463 502	10 276	199 240	1 422 492	22 464	3 102 026	(1 041 010)
housing loans		1 234 974	1 194 129	2 400	19 598	736 954	35 090	1 639 861	(457 175)
consumer loans		1 451 068	2 036 038	19 447	611 078	1 470 388	7 367	1 417 720	(565 650)
debt securities		-	1 806	-	-	-	-	1 806	(1 806)
Financial sector		8 525	42 071	391	1 213	4 548	-	45 226	(37 523)
corporate loans		8 525	42 071	391	1 213	4 548	-	45 226	(37 523)
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)
Non-current assets held for sale		**1 278**	**-**	**-**	**52**	**-**	**-**	**1 226**	**-**
Tangible fixed assets	24	**143**	**3 257**	**-**	**3 366**	**-**	**-**	**34**	**(3 257)**
Intangible assets	23	**18 017**	**3 695**	**-**	**4 558**	**-**	**-**	**17 154**	**(3 695)**
Investments in subsidiaries, jointly controlled entities and associates	22	**475 669**	**208 148**	**-**	**-**	**-**	**-**	**683 817**	**(208 148)**
Other, of which:		**293 282**	**307 524**	**-**	**32 466**	**187 993**	**964**	**379 383**	**(119 531)**
provisions for legal claims and liabilities and guarantees granted		114 023	255 040	-	-	150 673	517	217 873	(104 367)
Total		5 820 391	6 286 003	33 092	877 469	3 827 413	68 977	7 365 627	(2 458 590)

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	Other	Decrease due to derecognition of assets and settlement	Reversed during the period		
Investment securities available for sale	21	**13 578**	**1 971**	**-**	**-**	**47**	**15 502**	**(1 924)**
Debt securities available for sale		13 045	-	-	-	47	12 998	47
Equity securities not admitted to public trading		533	1 971	-	-	-	2 504	(1 971)
Amounts due from banks	15	**32 570**	**1 061**	**4 296**	**341**	**3 876**	**33 710**	**2 815**
Loans and advances to customers measured at amortised cost	20	**4 265 484**	**5 122 158**	**63 604**	**1 077 694**	**3 390 762**	**4 982 790**	**(1 731 396)**
Non-financial sector		4 246 632	5 108 922	63 604	1 077 087	3 383 585	4 958 486	(1 725 337)
corporate loans		1 839 886	1 821 904	13 027	264 359	1 138 014	2 272 444	(683 890)
consumer loans		1 499 403	2 230 235	11 802	722 545	1 567 827	1 451 068	(662 408)
housing loans		907 343	1 056 783	38 775	90 183	677 744	1 234 974	(379 039)
Financial sector		5 718	5 966	-	605	2 554	8 525	(3 412)
corporate loans		5 718	5 966	-	605	2 554	8 525	(3 412)
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)
Non-current assets held for sale		**1 281**	**-**	**-**	**3**	**-**	**1 278**	**-**
Tangible fixed assets	24	**18 381**	**16**	**-**	**17 254**	**1 000**	**143**	**984**
Intangible assets	23	**18 017**	**-**	**-**	**-**	**-**	**18 017**	**-**
Investments in subsidiaries, jointly controlled entities and associates	22	**450 962**	**24 707**	**-**	**-**	**-**	**475 669**	**(24 707)**
Other, of which:		**404 246**	**251 548**	**263**	**169 121**	**193 654**	**293 282**	**(57 894)**
provisions for legal claims and liabilities and guarantees granted		222 448	188 826	260	144 956	152 555	114 023	(36 271)
Total		**5 204 519**	**5 401 461**	**68 163**	**1 264 413**	**3 589 339**	**5 820 391**	**(1 812 122)**

In the item 'Decrease due to derecognition of assets and settlement' for the year ended 31 December 2011 the amount of PLN 144 956 thousand has been presented, in relation to exemption of the Bank from guarantee, before the date, for which it has been granted.

31 DECEMBER 2012 (IN PLN THOUSAND)

10. Administrative expenses

	2012	2011
Staff costs	(2 308 061)	(2 224 040)
Overheads	(1 199 405)	(1 184 695)
Amortisation and depreciation	(479 992)	(452 698)
Taxes and other charges	(61 311)	(60 320)
Contribution and payments to the Bank Guarantee Fund	(143 988)	(136 737)
Total	**(4 192 757)**	**(4 058 490)**

Wages and salaries/employee benefits

	2012	2011
Wages and salaries, of which:	(1 928 946)	(1 885 849)
actuarial provision for anniversary bonuses and retirement benefits	(2 755)	(16 250)
Social Insurance, of which:	(311 712)	(276 264)
contributions for retirement pay and pensions*	(252 755)	(224 564)
Other employee benefits	(67 403)	(61 927)
Total	**(2 308 061)**	**(2 224 040)**

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

Finance and operating lease agreements

Finance lease

The Bank does not have any material receivables or payables according to finance lease.

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 Bank 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 Bank.

Total value of future lease payments under irrevocable operating lease	31.12.2012	31.12.2011
For the period:		
up to 1 year	120 122	139 811
from 1 year to 5 years	231 035	320 565
over 5 years	54 202	60 519
Total	**405 359**	**520 895**

Lease and sub-lease payments recognised as an expense of a given period from 1 January 2012 to 31 December 2012 amounted to PLN 145 919 thousand (in the period from 1 January 2011 to 31 December 2011 PLN 161 520 thousand).

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11. Income tax expense

	2012	2011
Income statement		
Current income tax expense	(796 425)	(910 115)
Deferred income tax related to temporary differences	(73 763)	(50 194)
Tax expense in the income statement	**(870 188)**	**(960 309)**
Tax expense in other comprehensive income related to temporary differences	58 636	(28 595)
Total	**(811 552)**	**(988 904)**

	2012	2011
Profit before income tax	**4 462 805**	**4 913 931**
Corporate income tax calculated using the enacted tax rate 19% in force in Poland	(847 933)	(933 647)
Permanent differences between profit before income tax and taxable income, of which:	**(75 151)**	**(28 613)**
Impairment allowances not constituting taxable expense (KREDOBANK)	(28 500)	-
Exposure impairment allowances not constituting taxable expense/income	(42 388)	(36 356)
Other non-tax deductible expenses	(22 029)	(10 309)
Dividend income	17 708	17 859
Other permanent differences	58	193
Other differences between profit before income tax and taxable income, including donations	**52 896**	**1 951**
Income tax in the income statement	**(870 188)**	**(960 309)**
Effective tax rate	**19.50%**	**19.54%**
Temporary difference due to the deferred tax presented in the income statement	(73 763)	(50 194)
Total current income tax expense in the income statement	**(796 425)**	**(910 115)**

Current income tax liabilities/receivables

	31.12.2012	31.12.2011
Current income tax liabilities	145 274	77 532

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. Current income tax liability of the Bank for the year 2012 will be settled within regulatory due dates.

Deferred tax asset/liability

	Statement of financial position		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, of which:	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 fixed assets	333 554	293 318	(40 236)	(35 291)
Gross deferred tax liability, of which:	**735 746**	**829 310**	**-**	**-**
transferred to income statement	721 424	743 382	21 958	(70 103)
transferred to other comprehensive income	14 322	85 928	-	-
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)
Gross deferred income tax asset, of which:	**1 104 753**	**1 213 444**	**-**	**-**
transferred to income statement	1 104 753	1 200 474	(95 721)	19 909
transferred to other comprehensive income	-	12 970	-	-
Total deferred tax impact, of which:	**369 007**	**384 134**	**-**	**-**
transferred to income statement	383 329	457 092	(73 763)	(50 194)
transferred to other comprehensive income	(14 322)	(72 958)	-	-
Deferred income tax asset (presented in the statement of financial position)	**369 007**	**384 134**	**-**	**-**
Net deferred tax impact on the income statement	**-**	**-**	**(73 763)**	**(50 194)**

12. 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)	3 592 617	3 953 622
Weighted average number of ordinary shares during the period (in thousand)	1 250 000	1 250 000
Earnings per share (in PLN per share)	2.87	3.16

Earnings per share from discontinued operations

In the years ended 31 December 2012 and 31 December 2011 respectively the Bank did not report any discontinued operations.

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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 Bank in 2012 or 2011.

Diluted earnings per share from discontinued operations

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

13. 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. PLN 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 which is necessary to the Bank's development.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

14. 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	2 678 235	2 214 202
Other funds	97	319
Total	**10 229 230**	**9 060 280**

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.

15. Amounts due from banks

	31.12.2012	31.12.2011
Deposits with banks	2 445 915	1 914 393
Current accounts	589 139	279 622
Loans and advances granted	299 516	158 162
Receivables due from repurchase agreements	149 284	-
Cash in transit	3 329	1 731
Total	**3 487 183**	**2 353 908**
Impairment allowances on receivables, of which:	(30 792)	(33 710)
impairment allowances on exposure to a foreign bank	(30 782)	(33 283)
Net total	**3 456 391**	**2 320 198**

Details on risk related to amounts due from banks were presented in Note 48 'Credit risk management'.

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16. Trading assets

By carrying amount	31.12.2012	31.12.2011
Debt securities	**278 240**	**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 institutions, corporate bonds	15 064	14 947
issued by other financial institutions, of which:	18 611	239
bonds issued by WSE	13 880	-
bonds issued by PKO Finance AB in EUR	4 664	-
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	**282 230**	**1 311 089**

Debt securities by nominal value	31.12.2012	31.12.2011
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.

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 other financial institutions	-	-	-	18 611	-	18 611
issued by non-financial institutions	-	24	1 129	13 911	-	15 064
issued by banks	-	-	-	1 371	-	1 371
Total	10 565	405	5 371	193 439	68 460	278 240

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 non-financial institutions	92	821	620	13 414	-	14 947
issued by local government bodies	-	778	4 623	8 405	977	14 783
issued by banks	-	-	-	1 465	259	1 724
issued by other financial institutions	-	227	-	12	-	239
Total	68 409	51 918	507 069	497 725	175 043	1 300 164

31 DECEMBER 2012 (IN PLN THOUSAND)

17. Derivative financial instruments

Derivative instruments used by the Bank

The Bank uses various types of derivatives in order to manage risk involved in its business activities. The most frequently used types of derivatives are: IRS, CIRS, FX Swap, FRA, Options and Forward.

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

	31.12.2012		31.12.2011	
	Assets	Liabilities	Assets	Liabilities
Hedging instruments (Note 18)	498 130	224 373	516 925	342 598
Other derivative instruments	3 363 326	3 739 797	2 548 224	2 302 683
Total	**3 861 456**	**3 964 170**	**3 065 149**	**2 645 281**

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Derivative financial instruments as at 31 December 2012

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

	Nominal amounts 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)	22 671 124	37 260 646	102 997 154	153 824 640	20 043 360	**336 796 924**	3 222 693	3 183 816
Purchase	11 335 562	18 630 323	51 498 577	76 912 320	10 021 680	**168 398 462**	-	-
Sale	11 335 562	18 630 323	51 498 577	76 912 320	10 021 680	**168 398 462**	-	-
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	**57 097 715**	**68 264 912**	**168 014 953**	**182 028 863**	**37 320 904**	**512 727 347**	**3 861 456**	**3 964 170**

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Derivative financial instruments as at 31 December 2011

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

	Nominal amounts 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)	35 442 482	41 119 688	135 036 726	156 132 608	23 222 768	**390 954 272**	1 941 725	1 925 161
Purchase	17 721 241	20 559 844	67 518 363	78 066 304	11 611 384	**195 477 136**	-	-
Sale	17 721 241	20 559 844	67 518 363	78 066 304	11 611 384	**195 477 136**	-	-
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	**103 620 270**	**105 326 724**	**226 368 301**	**197 138 464**	**25 933 397**	**658 387 156**	**3 065 149**	**2 645 281**

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18. Derivative hedging instruments

As at 31 December 2012 the Bank 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 amount defined in CHF and PLN respectively.	IRS transactions where the Bank pays coupons based on floating 3M WIBOR rate, and receives coupons based on a fixed rate on the nominal amount for which they were concluded.	IRS transactions where the Bank pays coupons based on floating 3M EURIBOR rate, and receives coupons based on a fixed rate on the nominal amount for which they were concluded.	IRS transactions where the Bank pays coupons based on floating 3M LIBOR CHF rate, and receives coupons based on a fixed rate on the nominal amount for which they were concluded.
Hedged position	1) The portfolio of floating rate mortgage loans denominated in CHF. 2) The portfolio of short-term negotiated 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 floating 3M WIBOR rate.	The portfolio of loans in EUR indexed to the floating EURIBOR rate.	The portfolio of loans in CHF indexed to the floating 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 Bank did not use the fair value hedge.
All types of hedging relationships applied by the Bank 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 on a monthly basis.

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, respectively:

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 amount of hedging instruments by maturity.

Type of instrument:	Nominal amount 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 amount 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.

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	1 290 335
Amount transferred from other comprehensive income to income statement	(1 296 830)	(1 112 235)
- interest income	(870 450)	(814 275)
- net foreign exchange gains	(426 380)	(297 960)
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

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

At carrying amount	31.12.2012	31.12.2011
Debt securities	12 614 917	12 467 201
issued by central banks, NBP money market bills	9 995 300	8 593 791
issued by the State Treasury, of which:	2 363 089	3 620 515
Treasury bonds PLN	1 322 226	1 318 278
Treasury bills	1 040 863	2 180 148
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	12 614 917	12 467 201

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

As at 31 December 2012, in the portfolio of financial assets designated upon initial recognition at fair value through profit and loss, 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.

Financial assets designated upon initial recognition at fair value through profit and loss at 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	157 454	883 409	-	1 322 226	-	2 363 089
issued by local government bodies	-	-	-	-	256 528	256 528
Total	10 152 754	883 409	-	1 322 226	256 528	12 614 917

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

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20. Loans and advances to customers

	31.12.2012	31.12.2011*
Loans and advances to customers, gross, of which:	**148 313 487**	**145 041 439**
financial sector	3 177 999	3 220 155
corporate, of which:	3 177 999	3 220 155
receivables due to repurchase agreement	-	92 836
deposits of Brokerage House in the Stock Exchange Guarantee Fund and initial deposit	8 779	6 891
non-financial sector	137 530 488	136 754 855
housing	72 059 644	70 880 841
corporate, of which:	42 719 131	41 625 770
contributions to equity of subsidiaries	214 209	186 943
consumer	21 848 645	24 248 244
debt securities **	903 068	-
public sector	7 605 000	5 066 429
corporate	6 429 961	5 066 429
debt securities **	1 175 039	-
Impairment allowances on loans and advances to customers	(6 228 629)	(4 982 790)
Loans and advances to customers, net	**142 084 858**	**140 058 649**

*Data for 2011 brought to comparability due to the change in methodology, i.a. regarding the presentation of interests.
** Information about the debt securities portfolio reclassified to the loans and advances to customers portfolio is provided in Note 21 'Investment securities available for sale'.

	31.12.2012	31.12.2011*
Loans and advances to customers		
Assessed on an individual basis, of which:	7 100 715	5 145 413
impaired	5 552 524	4 459 538
not impaired	1 548 191	685 875
Assessed on a portfolio basis, impaired	6 764 251	5 936 241
Assessed on a group basis (IBNR)	134 448 521	133 959 785
Loans and advances to customers, gross	**148 313 487**	**145 041 439**
Allowances on exposures assessed on an individual basis, of which:	(2 261 663)	(1 498 059)
impaired	(2 165 236)	(1 498 059)
Allowances on exposures assessed on a the portfolio basis	(3 424 393)	(2 832 217)
Allowances on exposures assessed on a group basis (IBNR)	(542 573)	(652 514)
Allowances - total	**(6 228 629)**	**(4 982 790)**
Loans and advances to customers, net	**142 084 858**	**140 058 649**

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

A detailed description of changes in allowances has been presented in the Note 9.

By client segment	31.12.2012	31.12.2011*
Loans and advances granted, gross, of which:	**148 313 487**	**145 041 439**
mortgage banking	63 960 739	63 155 154
corporate	41 351 050	33 853 463
retail and private banking	21 848 645	24 248 244
small and medium enterprises	14 309 022	15 524 608
housing market clients	6 621 043	7 973 417
contributions to equity of subsidiaries	214 209	186 943
receivables due from repurchase agreement	-	92 836
other receivables	8 779	6 774
Impairment allowances on loans and advances	**(6 228 629)**	**(4 982 790)**
Loans and advances granted, net	**142 084 858**	**140 058 649**

*Data for 2011 brought to comparability due to the change in methodology, i.a. regarding the presentation of interests divided by segment.

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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 8.3% (as at 31 December 2011: 7.2%), 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 50.6% (as at 31 December 2011: 47.9%).

As at 31 December 2012, the share of loans overdue by more than 90 days in the gross amount of loans and advances was 5.6% (as at 31 December 2011: 4.0%).

21. Investment securities available for sale

	31.12.2012	31.12.2011
Debt securities available for sale, gross	**11 922 509**	**14 104 181**
issued by the State Treasury, of which:	7 619 522	8 310 429
Treasury bonds PLN	7 619 522	8 298 709
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	2 132 269
corporate bonds	1 315 490	2 129 507
bills of exchange	-	2 762
issued by other financial institutions, corporate bonds	156 393	152 257
issued by banks, corporate bonds	50 892	50 870
Impairment allowances of debt securities available for sale	**(5 536)**	**(12 998)**
corporate bonds	(5 536)	(10 236)
bills of exchange	-	(2 762)
Total net debt securities available for sale	**11 916 973**	**14 091 183**
Equity securities available for sale, gross	**163 489**	**80 254**
Equity securities not admitted to public trading	130 991	40 897
Equity securities admitted to public trading	32 498	39 357
Impairment allowances of equity securities available for sale	**(19 056)**	**(2 504)**
Total net equity securities available for sale	**144 433**	**77 750**
Total net investment securities available for sale	**12 061 406**	**14 168 933**

Debt securities by nominal amount	**31.12.2012**	**31.12.2011**
Treasury bonds PLN	7 383 466	8 319 451
municipal bonds	2 740 590	3 402 338
corporate bonds	1 514 084	2 306 651
Treasury bonds EUR	-	10 600
bills of exchange	-	2 762
The average yield on debt securities	3.24%	5.23%

Change in investment securities available for sale

	2012	2011
Balance at the beginning of the period	14 168 933	**9 876 252**
Currency translation differences	2 856	732
Increases	39 853 546	12 824 607
Decreases	(42 038 396)	(8 505 058)
of which change in impairment allowance (Note 9)	(9 090)	(1 924)
Change in fair value in relation to other comprehensive income (Note 7)	74 467	(27 600)
Balance at the end of the period	**12 061 406**	**14 168 933**

Risk related to investment securities available for sale has been described in details in the Note 48 'Credit risk management'.

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Securities reclassification

Due to the 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**

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**

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%.

Securities subject to reclassification are presented in the financial statements as loans and advances to customers.

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 available for sale						
issued by the State Treasury	-	-	104 142	5 488 942	2 026 438	7 619 522
issued by local government bodies	15 057	1 207	179 792	916 763	1 667 393	2 780 212
issued by non-financial institutions	313 758	32 310	108 514	669 685	185 687	1 309 954
issued by other financial institutions	-	156 393	-	-	-	156 393
issued by banks	-	-	-	-	50 892	50 892
Total	328 815	189 910	392 448	7 075 390	3 930 410	11 916 973

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 available for sale						
issued by the State Treasury	134 663	-	890 499	4 989 562	2 295 705	8 310 429
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 other financial institutions	9 958	142 299	-	-	-	152 257
issued by banks	-	-	-	-	50 870	50 870
Total	526 034	191 483	1 180 590	7 714 198	4 478 878	14 091 183

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22. Investments in subsidiaries, jointly controlled entities and associates

As at 31 December 2012, the Bank's investments in subsidiaries, jointly controlled entities and associates have been recognised at acquisition cost adjusted by impairment allowances.

The Bank's individual shares in subsidiaries, jointly controlled entities and associates are presented below.

As at 31 December 2012	Gross value	Impairment	Carrying amount
Subsidiaries			
KREDOBANK SA	935 619	(573 723)	361 896
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	205 786	-	205 786
PKO Towarzystwo Funduszy Inwestycyjnych SA	186 989	-	186 989
Fort Mokotów Inwestycje Sp. z o.o.	73 281	-	73 281
Bankowy Fundusz Leasingowy SA [1]	70 000	-	70 000
Inteligo Financial Services SA	59 602	-	59 602
Centrum Elektronicznych Usług Płatniczych 'eService' SA	55 500	-	55 500
Bankowe Towarzystwo Kapitałowe SA	22 066	(10 666)	11 400
'Inter-Risk Ukraina' Additional Liability Company	19 713	(19 713)	-
PKO BP Finat Sp. z o.o.	11 693	-	11 693
Qualia Development Sp. z o.o. [2]	4 503	-	4 503
PKO Finance AB	172	-	172
Jointly controlled entities			
CENTRUM HAFFNERA Sp. z o.o.	44 371	(38 435)	5 936
Centrum Obsługi Biznesu Sp. z o.o.	17 498	-	17 498
Associates			
Bank Pocztowy SA	146 500	(39 780)	106 720
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	(1 500)	-
Agencja Inwestycyjna CORP-SA SA	29	-	29
Total	**1 854 822**	**(683 817)**	**1 171 005**

1) Value does not include capital contributions of PKO Bank Polski SA for taking up shares in the increased share capital of the Company in the amount of PLN 20 000 thousand presented in the item 'Other assets'.
2) Value does not include capital contributions of PKO Bank Polski SA, presented in the item 'Loans and advances to customers' in the total amount of PLN 214 209 thousand.

In 2012, based on the valuation conducted, the Bank increased impairment allowances of shares of KREDOBANK SA by PLN 150 million and recognised impairment allowances of shares of CENTRUM HAFFNERA Sp. z o.o. of PLN 38 435 thousand and impairment allowances of shares of 'Inter-Risk Ukraina' Sp. z d.o. of PLN 19 713 thousand.

Due to adverse events in the Ukrainian market in 2012, in accordance with IAS 36 'Impairment of investment', the recoverable value of shares in subsidiaries: KREDOBANK SA and 'Inter-Risk Ukraina' Additional Liability Company (Inter-Risk) was assessed. The recoverable value was determined based on value in use, calculated on the basis of the present value of estimated future cash flows. As a result of the analysis of macroeconomic events that took place in Ukraine in 2012 (i.a. a decrease in economic growth in Ukraine to 0.2%, with a negative growth of minus 1.2% and minus 2.7% in the last two quarters of 2012, a rating downgrade to the B level by Standard&Poor's and to the B3 level by Moody's Investor Service - both with a negative outlook) and revised estimates of cash flows related to a decrease in forecasts of economic growth in Ukraine in the following years, an increase in currency risk and a consequent destabilisation of the Ukrainian financial market, the Bank adjusted the financial plans of KREDOBANK SA in respect of possible execution of loan and deposit volumes, with the assumed safe level of credit risk. Similarly, the amount of recoveries of loans portfolio managed by Inter-Risk was revised. As a result of this analysis, in 2012 impairment allowances on above mentioned entities were recognised.

The Bank undertakes a number of actions aimed to reducing the risk of negative impact of the macroeconomic situation on KREDOBANK SA (i.a. strict control of credit risk, a level of costs incurred and adapting them to the planned sales levels).

Impairment allowances of shares of CENTRUM HAFFNERA Sp. z o.o. was determined based on estimation of value in use, calculated on the basis of the present value of estimated future cash flows.

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As at 31 December 2011	Gross value	Impairment	Carrying amount
Subsidiaries			
KREDOBANK SA	935 619	(423 723)	511 896
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	205 786	-	205 786
PKO Towarzystwo Funduszy Inwestycyjnych SA	186 989	-	186 989
Centrum Finansowe Puławska Sp. z o.o. – in liquidation	167 288	-	167 288
Bankowy Fundusz Leasingowy SA	70 000	-	70 000
Inteligo Financial Services SA	59 602	-	59 602
Centrum Elektronicznych Usług Płatniczych 'eService' SA	55 500	-	55 500
Fort Mokotów Inwestycje Sp. z o.o. [1]	43 546	-	43 546
Bankowe Towarzystwo Kapitałowe SA	21 566	(10 666)	10 900
PKO BP Finat Sp. z o.o.	11 693	-	11 693
Qualia Development Sp. z o.o. [2]	4 503	-	4 503
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	1 482	-	1 482
PKO Finance AB	172	-	172
Jointly controlled entities			
CENTRUM HAFFNERA Sp. z o.o.	44 371	-	44 371
Centrum Obsługi Biznesu Sp. z o.o.	17 498	-	17 498
Associates			
Bank Pocztowy SA	146 500	(39 780)	106 720
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	(1 500)	-
Agencja Inwestycyjna CORP-SA SA	29	-	29
Total	**1 973 644**	**(475 669)**	**1 497 975**

1) Value does not include capital contribution of PKO Bank Polski SA, presented in the item 'Loans and advances to customers' in the amount of PLN 8 053 thousand.
2) Value does not include capital contribution of PKO Bank Polski SA, presented in the item 'Loans and advances to customers' in the total amount of PLN 178 890 thousand.

In 2011, the Bank increased an impairment allowance in respect of shares of Bank Pocztowy SA of PLN 24 707 thousand.

Selected information on associates

	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**	**30 682**	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 Bank'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 Bank. Data for the year 2011 is derived from audited financial statements.

As at 31 December 2012 and as at 31 December 2011 the Bank had no share in contingent liabilities of associates acquired jointly with other investors.

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'). 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 fulfill 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 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 operating 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 sell transaction of 2% interest in Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. to 'Inter-Risk Ukraina' Additional Liability Company for the price of 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 owns a part of Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. shares, 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 was UAH 4 100 thousand. The Company's activities comprise providing the financial services.

4) Completion 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. The transaction was presented as a combination of jointly controlled entities and was accounted for using the value recognised in the consolidated financial statements. Individual assets and liabilities, including property in Warsaw, where the registered Head Office of the Bank is situated, were recognised in the carrying amounts in the appropriate positions of these financial statements.
The result of the settlement of the Company's shares with carrying amount of PLN 167 288 thousand and the value of the Company's net assets overtaken was recognised in the Bank's equity in the amount of PLN 88 533 thousand.

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 as at 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 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 transaction 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.

As a result of the above mentioned transaction 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. This repayment of the capital contribution, in accordance with Code of Commercial Companies, took place in November 2012 i.e. as of the Resolution became valid.

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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 Bankowe Towarzystwo Kapitałowe SA 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 share capital of the Company were acquired by PKO Bank Polski SA for a price equal to the nominal value of the shares taken up.

As a result of the above mentioned transaction 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) are 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 with 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 UAH 100 and recognised 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 with the National Court Register.

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

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23. Intangible assets

For the year ended 31 December 2012	Software	Other*, including capital expenditure	Total
Net carrying amount at the beginning of the period	1 411 429	111 139	1 522 568
Purchase	-	364 116	364 116
Impairment allowances	-	(3 695)	(3 695)
Transfers	220 213	(220 213)	-
Amortisation	(222 417)	(2 057)	(224 474)
Other value changes	9 648	12 957	22 605
Net carrying amount at the end of the period	**1 418 873**	**262 247**	**1 681 120**
As at 1 January 2012 (the beginning of the period)			
Carrying amount - gross	2 775 173	130 560	2 905 733
Accumulated amortisation and impairment allowances	(1 363 744)	(19 421)	(1 383 165)
Net carrying amount	**1 411 429**	**111 139**	**1 522 568**
As at 31 December 2012 (the end of the period)			
Carrying amount - gross	2 731 205	280 821	3 012 026
Accumulated amortisation and impairment allowances	(1 312 332)	(18 574)	(1 330 906)
Net carrying amount	**1 418 873**	**262 247**	**1 681 120**

*Included in 'Other, including capital expenditure' is the goodwill of Centrum Finansowe Puławska Sp. z o.o. amounting to PLN 7 785 thousand related to assets acquired from subsidiary.

To the Bank the most significant item of intangible assets relates to expenditures on the Integrated Information System (ZSI). The cumulative capital expenditures incurred for the ZSI system during the years 2003 – 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.

For the year ended 31 December 2011	Software	Other, including capital expenditure	Total
Net carrying amount at the beginning of the period	1 248 339	279 928	1 528 267
Purchase	-	196 589	196 589
Transfers	362 620	(362 620)	-
Amortisation	(201 012)	(2 148)	(203 160)
Other value changes	1 482	(610)	872
Net carrying amount at the end of the period	**1 411 429**	**111 139**	**1 522 568**
As at 1 January 2011 (the beginning of the period)			
Carrying amount - gross	2 411 233	301 931	2 713 164
Accumulated amortisation and impairment allowances	(1 162 894)	(22 003)	(1 184 897)
Net carrying amount	**1 248 339**	**279 928**	**1 528 267**
As at 31 December 2011 (the end of the period)			
Carrying amount - gross	2 775 173	130 560	2 905 733
Accumulated amortisation and impairment allowances	(1 363 744)	(19 421)	(1 383 165)
Net carrying amount	**1 411 429**	**111 139**	**1 522 568**

Bank does not produce any software internally. In the period from 1 January 2012 to 31 December 2012, PKO Bank Polski SA incurred capital expenditures for the purchase of fixed assets and intangible assets in the amount of PLN 763 573 thousand (in the period from 1 January 2011 to 31 December 2011: PLN 400 292 thousand).

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

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24. 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	2 081 141	1 887 837	1 373	133 508	793	385 401	4 490 053
Increases, of which:	**334 010**	**111 448**	**-**	**399 457**	**-**	**4 944**	**849 859**
Purchase and other changes	334 010	111 448	-	399 457	-	4 944	849 859
Decreases, of which:	**(28 970)**	**(147 794)**	**(511)**	**(3 220)**	**-**	**(27 227)**	**(207 722)**
Disposals and sales	(25 612)	(147 047)	(511)	-	-	(27 070)	(200 240)
Transfers from fixed assets to fixed assets held for sale	(2 816)	-	-	-	-	(26)	(2 842)
Other	(542)	(747)	-	(3 220)	-	(131)	(4 640)
Transfers from capital expenditure on fixed assets	**102 345**	**101 031**	**-**	**(278 680)**	**-**	**75 304**	**-**
Gross value of tangible fixed assets at the end of the period	**2 488 526**	**1 952 522**	**862**	**251 065**	**793**	**438 422**	**5 132 190**
Accumulated depreciation at the beginning of the period	**(705 764)**	**(1 445 379)**	**(909)**	**-**	**(545)**	**(323 999)**	**(2 476 596)**
Increases, of which:	**(172 438)**	**(260 450)**	**(140)**	**-**	**(11)**	**(29 067)**	**(462 106)**
Depreciation for the period	(68 416)	(160 711)	(140)	-	(11)	(26 240)	(255 518)
Other	(104 022)	(99 739)	-	-	-	(2 827)	(206 588)
Decreases, of which:	**19 078**	**143 638**	**440**	**-**	**1**	**26 047**	**189 204**
Disposal and sales	16 426	142 922	440	-	-	25 863	185 651
Classification to fixed assets held for sale	1 922	-	-	-	-	25	1 947
Other	730	716	-	-	1	159	1 606
Accumulated depreciation at the end of the period	**(859 124)**	**(1 562 191)**	**(609)**	**-**	**(555)**	**(327 019)**	**(2 749 498)**
Impairment allowances at the beginning of the period	(143)	-	-	-	-	-	(143)
Increases, of which:	**(3 223)**	**-**	**-**	**-**	**-**	**(34)**	**(3 257)**
other	(3 223)	-	-	-	-	(34)	(3 257)
Decreases, of which:	**3 332**	**-**	**-**	**-**	**-**	**34**	**3 366**
other	3 332	-	-	-	-	34	3 366
Impairment allowances at the end of the period	**(34)**	**-**	**-**	**-**	**-**	**-**	**(34)**
Net carrying amount at the beginning of the period	**1 375 234**	**442 458**	**464**	**133 508**	**248**	**61 402**	**2 013 314**
Net carrying amount at the end of the period	**1 629 368**	**390 331**	**253**	**251 065**	**238**	**111 403**	**2 382 658**

As a result of the liquidation of the subsidiary Centrum Finansowe Puławska Sp. z o.o., the Bank took over the assets in bankruptcy of the net tangible assets value of PLN 243 674 thousand, including the net value of real estate in Warsaw of PLN 199 112 thousand.

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 Bank's right to use its tangible fixed assets as a result of pledges.

In the year ended 31 December 2012 there were no significant transactions of purchase and sale of tangible fixed assets and significant liabilities due to purchase of tangible fixed assets.

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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	2 077 369	1 969 206	2 902	82 838	793	404 230	4 537 338
Increases, of which:	5 982	1 424	-	203 703	-	893	212 002
Purchase and other changes	5 982	1 424	-	203 703	-	893	212 002
Decreases, of which:	(31 736)	(180 814)	(1 529)	(18 549)	-	(26 659)	(259 287)
Disposals and sales	(20 363)	(177 889)	(1 529)	-	-	(24 417)	(224 198)
Transfers from fixed assets to fixed assets held for sale	(6 328)	-	-	-	-	-	(6 328)
Other	(5 045)	(2 925)	-	(18 549)	-	(2 242)	(28 761)
Transfers from capital expenditure on fixed assets	29 526	98 021	-	(134 484)	-	6 937	-
Gross value of tangible fixed assets at the end of the period	2 081 141	1 887 837	1 373	133 508	793	385 401	4 490 053
Accumulated depreciation at the beginning of the period	(654 114)	(1 466 473)	(1 866)	-	(534)	(318 830)	(2 441 817)
Increases, of which:	(67 970)	(156 609)	(225)	-	(11)	(29 475)	(254 290)
Depreciation for the period	(65 139)	(155 546)	(225)	-	(11)	(28 618)	(249 539)
Other	(2 831)	(1 063)	-	-	-	(857)	(4 751)
Decreases, of which:	16 320	177 703	1 182	-	-	24 306	219 511
Disposal and sales	12 699	174 922	1 182	-	-	22 153	210 956
Classification to fixed assets held for sale	1 993	-	-	-	-	-	1 993
Other	1 628	2 781	-	-	-	2 153	6 562
Accumulated depreciation at the end of the period	(705 764)	(1 445 379)	(909)	-	(545)	(323 999)	(2 476 596)
Impairment allowances at the beginning of the period	(1 133)	(2)	-	(17 246)	-	-	(18 381)
Increases, of which:	(16)	-	-	-	-	-	(16)
other	(16)	-	-	-	-	-	(16)
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)	-	-	-	-	-	(143)
Net carrying amount at the beginning of the period	1 422 122	502 731	1 036	65 592	259	85 400	2 077 140
Net carrying amount at the end of the period	1 375 234	442 458	464	133 508	248	61 402	2 013 314

In 2012 and 2011 the Bank did not recognise in the income statement any compensation from third parties due to impairment or loss of tangible fixed assets.

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

25. Other assets

	31.12.2012	31.12.2011
Settlements of payment cards transactions	426 725	162 452
Settlements of financial instruments	123 077	143 845
Receivables from other transactions with financial and non-financial institutions	59 282	26 538
Trade receivables	44 736	36 746
Accruals and prepayments	36 582	22 862
Receivables and settlements of securities turnover	25 453	1 730
Unregistered capital of a subsidiary	20 000	-
Inventory related to utilisation, auxiliary operations and investment	16 218	20 160
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*	34 088	58 973
Total	**803 024**	**482 790**
including financial assets**	716 136	380 795

*Item 'Other' includes mainly 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', 'Inventory related to utilisation, auxiliary operations and investment' and 'Other'.

26. 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**

27. Amounts due to banks

	31.12.2012	31.12.2011
Loans and advances received	1 393 048	3 443 872
Bank deposits	1 006 347	1 372 635
Current accounts	71 539	421 939
Other money market deposits	31 954	82 944
Total	**2 502 888**	**5 321 390**

28. Amounts due to customers

	31.12.2012	31.12.2011
Amounts due to retail clients	**110 127 352**	**103 424 136**
Term deposits	62 895 895	54 897 173
Current accounts and overnight deposits	47 026 306	48 054 921
Other money market deposits	205 151	472 042
Amounts due to corporate entities	**41 154 325**	**42 784 326**
Term deposits	17 381 502	24 012 372
Loans and advances received, of which:	10 709 239	6 453 092
- received from PKO Finance AB*	9 171 845	4 476 157
Current accounts and overnight deposits	11 545 398	11 187 998
Other money market deposits	666 770	486 859
Amounts due from repurchase agreements	851 416	644 005
Amounts due to State budget entities	**3 458 897**	**3 822 219**
Current accounts and overnight deposits	2 870 735	2 241 309
Term deposits	562 397	1 516 981
Other money market deposits	25 765	63 929
Total	**154 740 574**	**150 030 681**

*As at 31 December 2012 there is included a loan in the amount of EUR 850 000 thousand, CHF 750 000 thousand and USD 1 000 000 thousand, as funds gathered through bonds issue (as at 31 December 2011: EUR 800 000 thousand and CHF 250 000 thousand).

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By client segment	31.12.2012	31.12.2011*
Amounts due to customers, of which:		
retail and private banking	105 799 406	99 957 904
corporate	23 967 961	28 653 153
loans and advances received	10 709 239	6 453 092
small and medium enterprises	8 766 193	8 905 047
housing market clients	4 646 359	5 417 480
amounts due from repurchase agreements	851 416	644 005
Total	**154 740 574**	**150 030 681**

*data for 2011 brought to comparability due to the change in methodology, i.a. regarding the presentation of interests divided into segments

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

29. Debt securities in issue

	31.12.2012	31.12.2011
Debt securities in issue		
Financial instruments designated at fair value through profit and loss - bank securities issued by PKO Bank Polski SA	368 622	175 615
Financial instruments measured at amortised cost – bank bonds issued by PKO Bank Polski SA	497 283	2 929 973
Total	**865 905**	**3 105 588**

	31.12.2012	31.12.2011
Debt securities in issue by maturity:		
from 1 month to 3 months	497 283	2 929 973
from 3 months to 1 year	182 150	-
from 1 year to 5 years	186 472	175 615
Total	**865 905**	**3 105 588**

In 2012 the Bank issued bank securities and bank bonds at nominal amount of PLN 5 983 075 thousand classified respectively as liabilities designated 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 in nominal amount of PLN 8 251 390 thousand were redeemed.

30. 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 amount 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 amount 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 amount	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 amount	Currency	Interest rate (%)	Maturity date	Balance
Subordinated bonds	1 600 700	PLN	5.92%	30.10.2017	1 614 377

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Change in subordinated liabilities

	31.12.2012	31.12.2011
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**

31. Other liabilities

	31.12.2012	31.12.2011
Accounts payable	318 690	241 918
Deferred income	343 366	277 150
Other liabilities (of which):	**1 137 307**	**1 637 455**
interbank settlements	280 633	580 998
liabilities and settlements of security transactions	148 572	279 204
liabilities relating to investment activities and internal operations	197 663	182 955
social and legal settlements	95 687	141 261
liabilities arising from foreign currency activities	81 306	140 546
liabilities related to payment cards	78 248	32 972
financial instruments settlements	59 547	82 861
liabilities due to suppliers	45 222	54 794
liabilities from interest rates temporarily redeemed from the State budget	26 599	21 764
liabilities due to insurance companies	19 547	24 821
settlement of acquisition of machines, materials, works and services regarding construction of tangible assets and their usage	19 236	10 265
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
liabilities arising from transactions with financial and non-financial institutions	8 686	10 102
other*	47 948	45 689
Total	**1 799 363**	**2 156 523**
including financial liabilities**	1 312 362	1 692 423

* 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, PKO Bank Polski SA had no overdue contractual liabilities.

32. 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:	2 254	426 973	111 769	74 493	615 489
Short term provision	2 254	38 069	111 769	74 493	**226 585**
Long term provision	-	388 904	-	-	**388 904**
Increase/reassessment of provision	-	51 253	255 040	25 167	**331 460**
Use of provision	-	-	-	(2 365)	**(2 365)**
Release of provision	-	(48 498)	(150 673)	(25 801)	**(224 972)**
Other changes and reclassifications	-	-	(517)	-	**(517)**
As at 31 December 2012, of which:	2 254	429 728	215 619	71 494	719 095
Short term provision	2 254	36 068	149 681	71 494	**259 497**
Long term provision	-	393 660	65 938	-	**459 598**

*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.

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or 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:	6 311	410 723	216 137	81 267	714 438
Short term provision	6 311	29 537	81 965	81 267	199 080
Long term provision	-	381 186	134 172	-	515 358
Increase/reassessment of provision	-	36 000	188 826	8 399	233 225
Use of provision	-	-	(144 956)	(2 259)	(147 215)
Release of provision	(4 057)	(19 750)	(148 498)	(12 914)	(185 219)
Other changes and reclassifications	-	-	260	-	260
As at 31 December 2011, of which:	2 254	426 973	111 769	74 493	615 489
Short term provision	2 254	38 069	111 769	74 493	226 585
Long term provision	-	388 904	-	-	388 904

*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

33. Transfer of financial assets

The Bank 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 the entirety or in part. The principles of derecognising financial assets are described in Note 2.5.3 'Derecognition of financial instruments from the statement of financial position'.

Transferred financial assets that are derecognised in their entirety but the Bank has continuing involvement in such assets

As at 31 December 2012 and as at 31 December 2011, the Bank had no transferred financial assets that were derecognised in their entirety but the Bank has continuing involvement in such assets.

Transferred financial assets that are not derecognised in their entirety

Financial assets that are not derecognised by the Bank include assets held 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 as at 31 December 2011 were as follows:

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

34. Assets pledged as collateral for liabilities

PKO Bank Polski SA has the following pledged assets:

34.1 Liabilities from negative valuation of derivative instruments

The collateral due to negative valuation of financial 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).

34.2 Bank Deposit Guarantee Fund

The Bank 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

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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 above 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.

34.3 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.

35. 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 Bank 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 155 452 thousands (as at 31 December 2011 it amounted to PLN 98 233 thousand).

As at 31 December 2012 the value of contractual commitments concerning tangible fixed assets amounted to PLN 71 580 thousands (as at 31 December 2011 it amounted to PLN 18 894 thousand).

Loan commitments granted

by nominal amount	31.12.2012	31.12.2011
Financial institutions	1.401.646	1 609 576
Non-financial institutions	28.612.603	28 238 271
State budget institutions	2.462.680	823 897
Total	**32.476.929**	**30 671 744**
of which: irrevocable loan commitments	8.397.676	6 569 014

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Guarantees issued

	31.12.2012	31.12.2011
Financial entities	1 222 752	1 214 684
Non-financial entities	10 193 861	6 014 910
State budget entities	135 943	174 459
Total	**11 552 556**	**7 404 053**

In the years ended on 31 December 2012 and 31 December 2011 respectively, the Bank did not issue any guarantees in respect of loans or advances and did not issue any guarantees to a subsidiary of a single entity thereof with a total value accounting for 10% of the Bank's equity.

Information on provisions for off-balance sheet financial liabilities and guarantees is included in Note 32 'Provisions'.

Contingent liabilities 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
Loan commitments granted	18 171 428	816 755	3 765 160	3 656 343	6 067 243	**32 476 929**
Guarantee liabilities granted	140 914	539 558	3 036 879	6 862 806	972 399	**11 552 556**
Total	**18 312 342**	**1 356 313**	**6 802 039**	**10 519 149**	**7 039 642**	**44 029 485**

Contingent liabilities by maturity as at 31 December 2011

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Loan commitments granted	15 247 959	957 788	4 885 157	4 215 505	5 365 335	**30 671 744**
Guarantee liabilities granted	102 662	337 260	1 769 827	4 003 958	1 190 346	**7 404 053**
Total	**15 350 621**	**1 295 048**	**6 654 984**	**8 219 463**	**6 555 681**	**38 075 797**

Off-balance sheet liabilities received (by nominal value)

	31.12.2012	31.12.2011
financial	1 256 389	375 428
guarantees	1 707 143	1 905 208
Total liabilities received	**2 963 532**	**2 280 636**

Assets pledged as collateral for contingent liabilities

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

Right to sell or pledge collateral established for the Bank

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

36. Legal claims

As at 31 December 2012, the total value of court proceedings in which the Bank is a defendant was PLN 387 046 thousand (as at 31 December 2011 amounted to PLN 337 557 thousand), while the total value of court proceedings in which the Bank is the plaintiff was PLN 143 051 thousand (as at 31 December 2011 amounted to PLN 135 358 thousand).

The most significant legal claims of PKO Bank Polski SA 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.

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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 thousand for application in the form of IKE agreements, an open list of termination conditions.
- PLN 2 845 thousand for application a clause, entered in the register, defining a court with jurisdiction over the seat of 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.
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) re-privatisation claims relating to properties held by the Bank

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 street 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.

37. Supplementary information to the cash flow statement

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	10 229 230	9 060 280
Current receivables from banks	2 006 184	2 100 386
Total	**12 235 414**	**11 160 666**

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Cash flow from interests and dividends, both received and paid

Interest income - received	2012	2011
Interest income from loans and advances granted	8 755 078	7 986 135
Interest income from securities designated upon initial recognition at fair value through profit and loss	748 833	595 372
Interest income from placements	283 484	238 055
Interest income from investment securities	874 307	450 283
Interest income from securities from held for trading portfolio	59 633	74 675
Other interest received	1 638 693	1 395 039
Total	12 360 028	10 739 559

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

Interest expense – paid	2012	2011
Interest expense on deposits - paid	(3 439 829)	(2 965 701)
Interest expense on loans and advances - paid	(185 229)	(146 602)
Interest expense on debt securities in issue - paid	(206 285)	(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)	(1 039 666)	(1 118 600)
Total	(4 871 009)	(4 339 923)

Dividend expense - paid	2012	2011
Dividend paid to shareholders	(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 *	1 179 449	(568 650)
Hedge accounting	(310 286)	144 261
Valuation of debt securities in issue	103 894	39 799
Valuation and impairment allowances for investments in subsidiaries, jointly controlled entities and associates and other changes	375 436	24 707
Disposal and impairment allowances for tangible fixed assets and intangible assets	(156 243)	17 119
Total	1 192 250	(342 764)

*Reclassification of debt securities to loans and advances portfolio.

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

(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)

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Interests and dividends	2012	2011
Interest received from investment securities, presented under investing activities	(874 307)	(450 283)
Dividends received, presented under investing activities	(91 062)	(93 644)
Total	**(965 369)**	**(543 927)**

Change in amounts due from banks	2012	2011
Change in the balance of the statement of financial position	(1 136 193)	58 696
Change in impairment allowances on amounts due from banks	2 918	(795)
Exclusion of a change in the balance of cash and cash equivalents	(94 202)	12 951
Total	**(1 227 477)**	**70 852**

Change in loans and advances to customers	2012	2011
Change in the balance of the statement of financial position	(2 026 209)	(11 125 520)
Change in the impairment allowances on amounts due from customers	(1 245 839)	(717 306)
Total	**(3 272 048)**	**(11 842 826)**

Change in other assets and non-current assets held for sale	2012	2011
Change in the balance of the statement of financial position	(320 234)	(83 044)
Total	**(320 234)**	**(83 044)**

Change in amounts due to banks	2012	2011
Change in the balance of the statement of financial position	(755 780)	1 157 293
Total	**(755 780)**	**1 157 293**

Change in amounts due to customers	2012	2011
Change in the balance of the statement of financial position	4 709 893	14 741 626
Recognition of taking/repayment of long-term loans and advances received from financial entities other than banks in financing activities	(4 612 917)	(854 325)
Total	**96 976**	**13 887 301**

Change in impairment allowances and provisions	2012	2011
Change in the balance of the statement of financial position	103 606	(98 949)
Impairment allowances on amounts due from banks	(2 918)	1 140
Impairment allowances on amount due from customers	1 245 839	717 306
Change in the balance of deferred tax provisions related to valuation of an available-for-sale portfolio included in deferred income tax	(58 635)	28 595
Total	**1 287 892**	**648 092**

Change in other liabilities and subordinated liabilities	2012	2011
Change in the balance of the statement of financial position	(340 279)	371 522
Transfer of interests payments on advances received from financial entities other than banks to financing activities	185 229	146 601
Transfer of own issue and interest paid on own issue	301 706	108 743
Total	**146 656**	**626 866**

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38. Transactions with the State Treasury and related parties

The State Treasury has control over the Bank 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 Bank's statement of financial position.

In accordance with the 30 November 1995 Act in relation to State support in the repayment of certain housing 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 court fee stamps. 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

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

The transactions were concluded at arm's length.

Entity	31.12.2012			2012		
	Total receivables	Total liabilities	Contingent 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	Contingent 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 as at 31 December 2011 respectively, no significant impairment allowances were recognised for above mentioned receivables.

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39. Related party transactions

All transactions with subsidiaries, 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	Contingent liabilities granted
Direct subsidiaries								
Bankowe Towarzystwo Kapitałowe SA	-	-	501	23	3	11	11	-
Bankowy Fundusz Leasingowy SA	176 577	19 547	279 165	9 623	6 986	16 041	297	1 446 637
Centrum Elektronicznych Usług Płatniczych 'eService' SA	2 411	-	69 842	18 984	18 984	73 724	73 710	5 000
Fort Mokotów Inwestycje Sp. z.o.o.	-	-	19 793	4	4	336	336	-
Inteligo Financial Services SA	31 882	-	126 269	2 502	21	54 212	6 199	-
KREDOBANK SA	352 374	260 544	1 888	5 923	5 923	855	-	5 001
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	8	-	47 248	633	14	725	725	-
PKO BP Finat Sp. z o.o.	-	-	2 842	38	20	266	135	593
PKO Finance AB	-	-	9 176 447	-	-	210 978	209 498	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	13 470	-	19 418	150 749	148 991	1 188	1 188	-
Qualia Development Sp. z o.o.	214 209	-	12 456	34	18	801	794	2 411
Indirect subsidiaries								
Bankowy Leasing Sp. z o.o.	2 008 357	1 996 581	2 802	111 012	110 921	6 874	12	254 186
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	155 285	155 285	-	10 318	10 318	35 980	-	-
Fort Mokotów Sp. z o.o. – in liquidation	-	-	4 270	3	3	192	192	-
PKO BP Faktoring SA	243 309	243 309	3 241	15 931	15 686	1 306	9	255 935
Qualia - Residence Sp. z o.o.	-	-	862	35	35	708	15	-
Qualia - Rezydencja Flotylla Sp. z o.o.	76 994	76 894	1 974	5 100	5 100	276	13	-
Qualia Hotel Management Sp. z o.o.	-	-	287	7	7	7	7	-
Qualia Sp. z o.o.	-	-	5	3	3	-	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Jurata Spółka komandytowa	-	-	-	2	2	-	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Spółka komandytowa	60 389	60 389	7 244	5 334	5 334	257	257	1 855
Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Spółka komandytowa	83 809	83 809	11 491	7 478	324	299	299	-
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Spółka komandytowa	47 502	47 502	65	2 649	2 649	807	-	35 756
Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Spółka komandytowa	-	-	1	3	3	-	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Sopot Spółka komandytowa	4 069	4 069	2 120	145	145	26	13	373
Qualia spółka z ograniczoną odpowiedzialnością - Władysławowo Spółka komandytowa	-	-	-	2	2	-	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Zakopane Spółka komandytowa	-	-	5	2	2	-	-	-
Sarnia Dolina Sp. z o. o.	15 149	15 149	-	1 012	1 012	1 982	-	-
Direct joinly controlled entities								
CENTRUM HAFFNERA Sp. z o.o.	-	-	296	7	7	-	-	-
Centrum Obsługi Biznesu Sp z o.o.	30 010	30 010	18 975	1 015	1 015	626	569	144
Indirect joinly controlled entities								
Centrum Majkowskiego Sp. z o.o.	-	-	593	6	6	-	-	-
Kamienica Morska Sp. z o.o.	-	-	11	6	6	-	-	-
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	-
Direct associates								
Agencja Inwestycyjna CORP-SA SA	61	-	-	690	-	86	-	-
Bank Pocztowy SA	-	-	91	93	78	1 160	285	1 409
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	19 402	2	2	299	299	-
Direct associate held for sale								
Kolej Gondolowa Jaworzyna Krynicka SA	4 235	4 235	343	291	291	50	43	-
Indirect associate								
Centrum Operacyjne Sp. z o.o.	-	-	21	3	3	-	-	-
TOTAL	**3 776 648**	**3 253 871**	**9 837 009**	**356 778**	**341 034**	**413 578**	**295 061**	**2 009 300**

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31 December 2011

Entity	Receivables	including loans	Liabilities	Total income	including interest and fee and commission	Total expense	including interest and fee and commission	Contingent liabilities granted
Direct subsidiaries								
Bankowe Towarzystwo Kapitałowe SA	-	-	355	23	3	19	19	7 000
Bankowy Fundusz Leasingowy SA	177 829	25 231	24 177	9 972	8 295	12 214	980	1 043 235
Centrum Elektronicznych Usług Płatniczych 'eService' SA	568	-	28 243	14 250	13 737	54 172	53 780	23 500
Centrum Finansowe Puławska Sp. z o.o. – in liquidation	-	-	18 983	1 149	1 148	41 966	582	-
Finansowa Kompania 'Prywatne inwestycje' Sp. z o.o.	214 957	214 957	-	541	541	-	-	-
Fort Mokotów Inwestycje Sp. z.o.o.	8 053	-	1 410	3	3	82	82	-
Inteligo Financial Services SA	14 530	-	130 667	1 735	20	52 038	5 243	-
KREDOBANK SA	130 285	118 234	1 012	7 260	7 260	-	-	172 346
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	13	-	1 605	2 664	2 492	156	156	-
PKO BP Finat Sp. z o.o.	-	-	3 361	10	10	240	174	593
PKO Finance AB	-	-	4 475 542	-	-	139 833	139 833	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	12 798	-	21 585	175 676	175 378	360	360	467
Qualia Development Sp. z o.o.	178 890	-	15 542	7	-	-	-	17 763
Indirect subsidiaries								
Bankowy Leasing Sp. z o.o.	1 205 779	1 205 697	14	65 594	65 547	48	5	224 454
BFL Nieruchomości Sp. z o.o.	394 295	394 295	58	19 312	19 312	27	27	9 650
Fort Mokotów Sp. z o.o. – in liquidation	-	-	5 252	2	2	226	226	-
PKO BP Faktoring SA	179 249	179 249	228	7 534	7 285	-	-	70 751
Qualia - Residence Sp. z o.o.	-	-	747	1	1	-	-	-
Qualia - Rezydencja Flotylla Sp. z o.o.	39 695	39 695	311	2 057	2 057	-	-	28 973
Qualia Hotel Management Sp. z o.o.	-	-	49	-	-	-	-	-
Qualia Sp. z o.o.	-	-	1	2	2	-	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Sp. k.	124 617	124 617	15 314	8 510	8 510	265	265	820
Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k.	122 088	122 088	13 638	9 159	9 159	689	689	77 912
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp. k.	-	-	-	1	1	-	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Sp. k.	-	-	1	1	1	-	-	-
Qualia Spółka z ograniczoną odpowiedzialnością - Sopot Sp. k.	782	782	6	84	84	-	-	7 173
Sarnia Dolina Sp. z o.o.	16 121	16 121	4	935	935	-	-	-
Direct jointly controlled entities								
CENTRUM HAFFNERA Sp. z o.o.	-	-	2 797	18	18	-	-	-
Centrum Obsługi Biznesu Sp z o.o.	33 625	33 625	21 447	993	993	635	635	-
Indirect jointly controlled entities								
Centrum Majkowskiego Sp. z o.o.	-	-	7 350	13	13	245	245	-
Kamienica Morska Sp. z o.o.	-	-	-	13	13	-	-	-
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	-
Direct associates								
Agencja Inwestycyjna CORP-SA SA	-	-	76	691	-	2 552	-	-
Bank Pocztowy SA	-	-	983	346	325	486	481	24 974
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	1 047	2	2	907	907	-
Direct associate held for sale								
Kolej Gondolowa Jaworzyna Krynicka SA	8 479	8 479	217	479	479	58	58	2 976
Indirect associate								
Centrum Operacyjne Sp. z o.o.	-	-	156	5	5	-	-	-
TOTAL	**3 147 281**	**2 767 698**	**4 796 973**	**337 860**	**332 449**	**307 309**	**204 838**	**1 712 587**

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

40. Personal related party transactions

As at 31 December 2012 and as at 31 December 2011, 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.

In 2012 and 2011, no intercompany transactions were concluded with these entities in the Bank.

41. Remuneration – PKO Bank Polski SA key management

a) short-term employee benefits

Remuneration received from PKO Bank Polski SA

Name	Title	2012	2011
	The Management Board of the Bank		
Zbigniew Jagiełło	President of the Management Board	2 465	1 931
Piotr Alicki	Vice-President of the Management Board	1 675	1 010
Bartosz Drabikowski	Vice-President of the Management Board	1 904	1 511
Jarosław Myjak	Vice-President of the Management Board	1 708	1 510
Jacek Obłękowski	Vice-President of the Management Board	1 425	484
Jakub Papierski	Vice-President of the Management Board	1 639	1 457
Remuneration of the Management Board Members who ceased their functions in 2012 or 2011			
Andrzej Kołatkowski	Vice-President of the Management Board	876	694
Krzysztof Dresler	Vice-President of the Management Board	-	1 229
Wojciech Papierak	Vice-President of the Management Board	-	1 111
Total short-term employee benefits of the Bank's Management Board		**11 692**	**10 937**
	The Supervisory Board of the Bank		
Cezary Banasiński	Chairman of the Supervisory Board	192	192
Tomasz Zganiacz	Deputy-Chairman of the Supervisory Board	168	168
Mirosław Czekaj	Secretary of the Supervisory Board	144	144
Jan Bossak	Member of the Supervisory Board	120	120
Zofia Dzik	Member of the Supervisory Board	59	-
Krzysztof Kilian	Member of the Supervisory Board	120	51
Błażej Lepczyński	Member of the Supervisory Board	-	70
Piotr Marczak	Member of the Supervisory Board	120	120
Zbigniew Alojzy Nowak	Member of the Supervisory Board	-	70
Ewa Miklaszewska	Member of the Supervisory Board	62	51
Marek Mroczkowski	Member of the Supervisory Board	120	51
Ryszard Wierzba	Member of the Supervisory Board	120	51
Total short-term employee benefits of the members of the Supervisory Board		**1 225**	**1 088**
Total		**12 917**	**12 025**

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

Name	Title	2012	2011
The Management Board of the Bank			
Zbigniew Jagiełło	President of the Management Board	-	8
Wojciech Papierak	Vice-President of the Management Board	-	7
Jakub Papierski	Vice-President of the Management Board	39	32
Total short-term employee benefits		**39** *	**47** *

* Includes remuneration from associates

b) post-employment benefits

In the year ended 31 December 2012 and 31 December 2011 no post-employment benefits were paid.

c) other long-term benefits

In the year ended 31 December 2012 and 31 December 2011 no 'other long-term benefits' were paid.

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

d) benefits due to termination of employment

During the year ended 31 December 2012, benefits paid due to termination of employment amounted to PLN 1 760 thousand, respectively in the year ended 31 December 2011, 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, no benefits were granted in the form of share-based payments.

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 period set up for similar bank products.

42. The principles for determining the variable salary components policy for key management personnel at the Bank

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 key management personnel at the Bank, the Bank implemented by resolutions of:

– the Supervisory Board of the Bank: 'The variable salary components policy for key management personnel at the Bank' (constituting the basis of further regulation issue) and 'The variable salary components policy for the Management Board members',
– the Management Board of the Bank: 'The variable salary components policy for key management personnel',
– Supervisory Boards of selected subsidiaries of the PKO BP Group (BFL, TFI and PTE): 'The variable salary components policy for the Management Board 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 awarded 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 key management personnel 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 phantom shares granted under this programme. In 2012, the cost of the variable salary components policy for key management personnel at the Bank amounted to PLN 15 748 thousand, of which PLN 4 063 thousand referred to the Management Board members.

43. 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 on arm's length transaction.

43.1 Categories of valuation at fair value of financial assets and liabilities designated at fair value in the statement of financial position

Note 2.5.4.5. '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' 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:

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

Assets and liabilities designated at fair value as at 31.12.2012	Note	Carrying amount	Level 1 Prices quoted on active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Trading assets	16	282 230	282 230	-	-
Debt securities		278 240	278 240	-	-
Shares in other entities		3 237	3 237	-	-
Investment certificates		713	713	-	-
Rights issues		40	40	-	-
Derivative financial instruments	17	3 861 456	1 486	3 859 970	-
Hedging instruments		498 130	-	498 130	-
Trade instruments		3 363 326	1 486	3 361 840	-
Financial instruments designated upon initial recognition at fair value through profit and loss	19	12 614 917	1 322 226	11 292 691	-
Debt securities		12 614 917	1 322 226	11 292 691	-
Investment securities available for sale	21	12 061 406	7 668 556	4 290 171	102 679
Debt securities		11 916 973	7 619 522	4 290 171	7 280
Equity securities		144 433	49 034	-	95 399
Financial assets designated at fair value - total		28 820 009	9 274 498	19 442 832	102 679
Derivative financial instruments	17	3 964 170	696	3 963 474	-
Hedging instruments		224 373	-	224 373	-
Trade instruments		3 739 797	696	3 739 101	-
Debt securities in issue	29	368 622	-	368 622	-
Financial instruments designated at fair value through profit and loss		368 622	-	368 622	-
Financial liabilities designated at fair value - total		4 332 792	696	4 332 096	-

Trading assets as at 31.12.2012 (Note 16)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	278 240	278 240	-	-
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	-	-
bonds issued by PKO Finance AB in EUR	4 664	4 664	-	-
BGK bonds	1 361	1 361	-	-
Shares in other entities	3 237	3 237	-	-
Investment certificates	713	713	-	-
Rights issues	40	40	-	-
TOTAL	282 230	282 230	-	-

Financial instruments designated upon initial recognition at fair value through profit and loss as at 31.12.2012 (Note 19)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	12 614 917	1 322 226	11 292 691	-
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	-
TOTAL	12 614 917	1 322 226	11 292 691	-

Investment securities available for sale as at 31.12.2012 (Note 21)	Carrying amount	Level 1	Level 2	Level 3
Debt securities available for sale	11 916 973	7 619 522	4 290 171	7 280
Treasury bonds PLN	7 619 522	7 619 522	-	-
municipal bonds	2 780 212	-	2 780 212	-
corporate bonds	1 517 239	-	1 509 959	7 280
Equity securities	144 433	49 034	-	95 399
TOTAL	12 061 406	7 668 556	4 290 171	102 679

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

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 designated at fair value as at 31.12.2011	Note	Carrying amount	Level 1 Prices quoted on active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Trading assets	16	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	17	3 065 149	5 066	3 060 083	-
Hedging instruments		516 925	-	516 925	-
Trade instruments		2 548 224	5 066	2 543 158	-
Financial instruments designated upon initial recognition at fair value through profit and loss	19	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	21	14 168 933	8 340 552	5 792 474	35 907
Debt securities		14 091 183	8 298 709	5 792 474	-
Equity securities		77 750	41 843	-	35 907
Financial assets designated at fair value - total		31 012 372	10 925 583	20 050 882	35 907
Derivative financial instruments	17	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	29	175 615	-	175 615	-
Financial instruments designated at fair value through profit and loss		175 615	-	175 615	-
Financial liabilities designated at fair value - total		2 820 896	816	2 820 080	-

Trading assets as at 31.12.2011 (Note 16)	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	-

Financial instruments designated upon initial recognition at fair value through profit and loss as at 31.12.2011 (Note 19)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	12 467 201	1 318 278	11 148 923	-
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 21)	Carrying amount	Level 1	Level 2	Level 3
Debt securities available for sale	14 091 183	8 298 709	5 792 474	-
Treasury bonds PLN	8 298 709	8 298 709	-	-
Treasury bonds EUR	11 720	-	11 720	-
municipal bonds	3 458 356	-	3 458 356	-
corporate bonds	2 322 398	-	2 322 398	-
Equity securities	77 750	41 843	-	35 907
TOTAL	14 168 933	8 340 552	5 792 474	35 907

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 fair value in level 3:

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

	Investment securities available for sale
Opening balance as at 1 January 2012	35 907
Total gains or losses	(20 573)
in financial result	(6 856)
in other comprehensive income	(13 717)
Purchase	87 345
Closing balance as at 31 December 2012	102 679
Total gains or losses for the period presented in the financial result for assets held at the end of the period	(6 856)

	Investment securities available for sale
Opening balance as at 1 January 2011	9 275
Total gains or losses recognised in financial result	732
Purchase	25 900
Closing balance as at 31 December 2011	35 907
Total gains or losses for the period presented in the financial result for assets held at the end of the period	732

43.2 Financial assets and liabilities not presented at fair value in the statement of financial position

The Bank holds certain financial instruments which are not presented at fair value in the 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 the following groups of financial instruments:

- loans and advances granted by the Bank 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 due to customers: 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 variable interest rate (change of interest rate maximum on a 3 month basis),
- cash and balances with the central bank and amounts due to the central bank,
- other financial assets and liabilities.

With regard to loans and advances to customers, a model based on estimates of present value of future cash flows, through discounted future cash flow was used, and applying current interest rates plus a risk margin and relevant scheduled repayment dates. The current margin level has been established based on transactions on instruments with similar credit risk concluded in the last quarter of the year.

The fair value of deposits and other amounts due to customers other than banks, with specified maturities has been calculated using the discounted expected future cash flows and applying current interest rates for given deposit products.

The fair value of the subordinated debt of the Bank has been estimated based on the expected future cash flows discounted using the yield curve.

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

The fair value of debt securities issued by PKO Bank Polski SA has been estimated based on the expected future cash flows discounted using the current interbank interest rates.

The fair value of interbank placements and deposits has been estimated based on the expected future cash flows discounted using the current interbank interest rates.

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

	31.12.2012		31.12.2011	
	carrying amount	fair value	carrying amount	fair value
Cash and balances with the central bank	10 229 230	10 229 230	9 060 280	9 060 280
Amounts due from banks	3 456 391	3 451 084	2 320 198	2 319 568
Loans and advances to customers	142 084 858	139 769 032	140 058 649	133 292 770
housing loans	70 419 783	69 528 042	69 645 867	64 900 359
corporate loans	49 160 199	48 893 658	47 615 606	46 021 898
consumer loans	20 430 925	19 276 648	22 797 176	22 370 513
debt securities	2 073 951	2 070 684	-	-
Other financial assets	716 136	716 136	380 795	380 795
Amounts due to the central bank	3 128	3 128	3 454	3 454
Amounts due to banks	2 502 888	2 502 639	5 321 390	5 316 737
Amounts due to customers	154 740 574	155 202 623	150 030 681	150 052 214
due to corporate entities	41 154 325	41 621 664	42 784 326	42 784 292
due to State budget entities	3 458 897	3 458 897	3 822 219	3 822 219
due to retail clients	110 127 352	110 122 062	103 424 136	103 445 703
Debt securities in issue	497 283	497 587	3 105 588	3 107 502
Subordinated liabilities	1 631 256	1 638 663	1 614 377	1 618 446
Other financial liabilities	1 312 362	1 312 362	1 692 423	1 692 423

44. 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.

45. Sale of impaired loan 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. The 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 impaired loan portfolios sold as at 31 December 2012 amounted to PLN 5 502 thousand (as at 31 December 2011 it was PLN 3 946 thousand).

The Bank did not receive any securities on account of the above mentioned transactions.

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

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

47. Influence of macroeconomic situation on the Bank'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 Bank 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 the 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 EU 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 refinancing supplying liquidity (LTRO) by the European Central Bank (ECB) 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 SA, the Bank 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 Bank'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, PKO Bank Polski SA 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 the 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 Bank'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 Bank are an important element of the execution of 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 in 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

48. Risk management in PKO Bank Polski SA

Risk management is one the most important internal processes in PKO Bank Polski SA. 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.

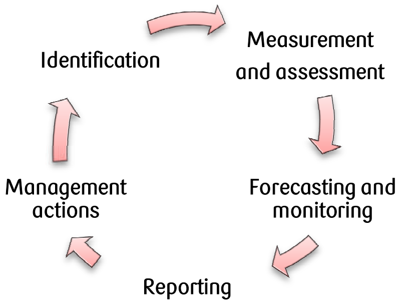
In the Bank, the following types of banking risk have been identified, which are subject to management: credit risk, interest rate risk, currency risk, liquidity risk, price risk of equity instruments, operational risk, compliance risk, business risk (including strategic risk), and reputation risk. Derivatives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

The process of banking risk management in PKO Bank Polski SA 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 Bank. Within the risk identification process, types of risk perceived as material in the banking 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.



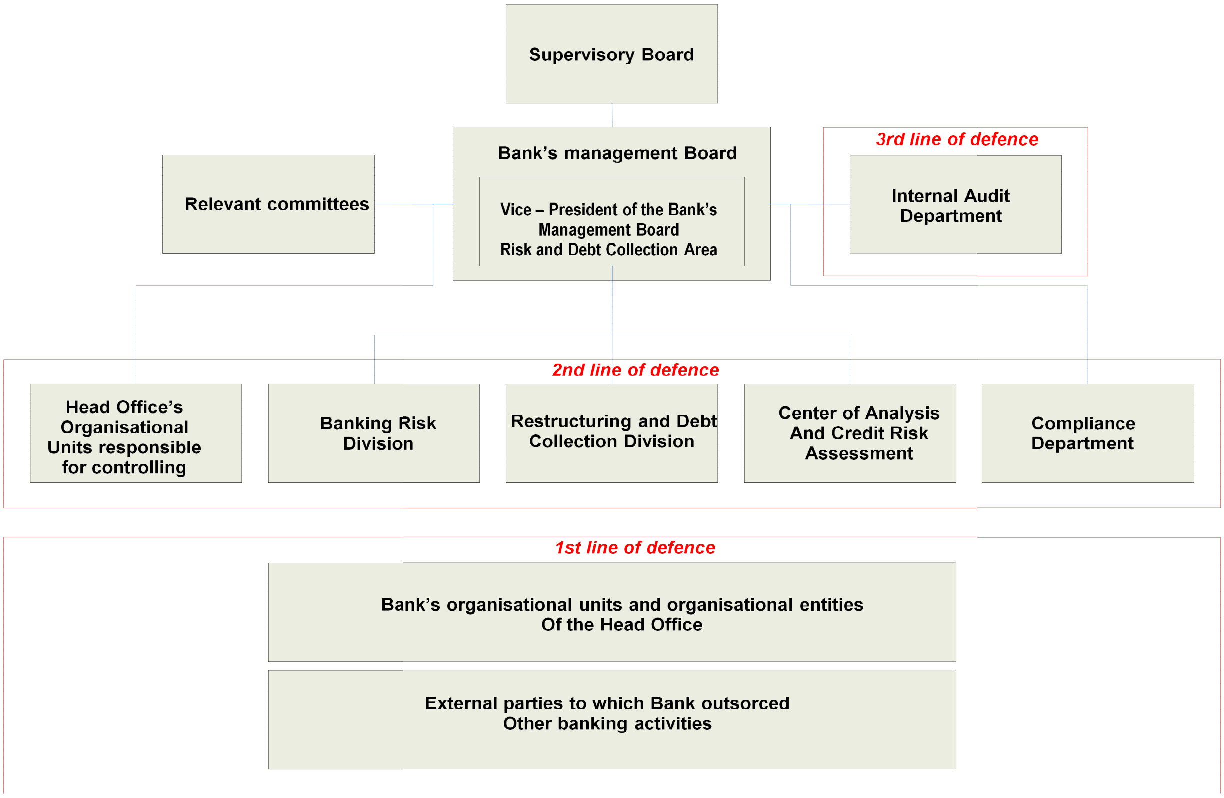
Risk management in PKO Bank Polski SA is based especially on the following principles:

- the Bank 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 Bank'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 PKO Bank Polski SA and the most important activities taken in the area of risk management.

The Bank's Management Board is responsible for the risk management, including supervising and monitoring of activities taken by the Bank in the area of risk management. The Bank's Management Board takes the most important decisions affecting the risk profile of the Bank and adopts internal regulations defining the risk management system.

The risk management process is carried out in three, mutually independent lines of defence:

1) the first line of defence, which is functional internal control that ensures using risk controls mechanisms and compliance of the activities with the generally applicable laws,
2) the second line of defence, which is the risk management system, including risk management methods, tools, process and organisation of risk management,
3) the third line of defence, which is an internal audit.

The independence of the lines of defence consists of preserving organisational independence in the following areas:

- the function of the second line of defence as regards creating system solutions is independent of the function of the first line of defence,
- the function of the third line of defence is independent of the functions of the first and second lines of defence,
- the function of managing the compliance risk reports directly to the President of the Management Board.

The first line of defence is being performed in the organisational units of the Bank, the organisational units of the Head Office and the external entities to which the Bank outsourced other banking activities and concerns the activities of those units' cells and entities which may generate risk. The units and entities 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.

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, 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. In connection with the implementation of the T Recommendation by the Bank, 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 ('the RC'),
- Assets & Liabilities Committee ('the ALCO'),
- Bank's Credit Committee ('the BCC'),
- Central Credit Committee ('the CCC'),
- Operating Risk Committee ('the 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 asset 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 Bank's Management Board.

The CCC supports the decisions taken by the relevant division directors and the 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.

PKO Bank Polski SA's top priority is to maintain its strong capital position and to further increase in 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 i.a. the following actions in 2012:

- 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),
- transferred a part of the Bank's profit for 2011 to equity,
- executed a call option in the 3rd quarter of 2012 and on 30 October 2012 redeemed subordinated bonds of PLN 1.6 billion, issued in 2007, and recognised the funds from the issue of subordinated bonds issued on 14 September 2012 as part of the supplementary funds in the place of those 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.

Identification of significant types of risk

The significance of the individual types of risk is established at the Bank's 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 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 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. In particular, monitoring is conducted if significant change in activities took place or the profile of the Bank changed.

49. Credit risk management

Credit risk is defined as a risk of occurrence of losses due to counterparty's default of payments to the Bank or as a risk of decrease in economic value of amounts due to the Bank as a result of deterioration of counterparty's ability to repay amounts due to the Bank.

The objective of credit risk management is to minimise losses on the credit portfolio as well as to minimise the risk of occurrence of loans threatened with impairment exposure, while keeping expected level of profitability and value of credit portfolio at the same time.

The Bank applies the following principles of credit risk management:

– each loan transaction is 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.

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 (according to IAS)
– 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 fully 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 Bank's loan portfolio. The test results are reported to the Bank's authorities. The above mentioned information enables the Bank to identify and take measures to limit the negative influence of unfavourable market changes on the Bank's performance.

The Bank assesses the risk of individual credit transactions with the use of scoring and rating methods, which are created, developed and supervised by the Banking Risk Division. The assessment methods are supported by specialist application software. The scoring method is defined by Bank's internal regulations whose main aim is to ensure uniform and objective assessment of credit risk during the credit process.

The Bank assesses the credit risk of retail clients on two levels: the client's borrowing capacity and his creditworthiness. The assessment of borrowing capacity involves an examination of the client's financial situation, whereas the creditworthiness assessment involves scoring and evaluating the client's credit history obtained from external sources and internal records of the Bank.

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 dimensions: 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.

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

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 Client 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 Bank's exposure to credit risk

Amounts due from banks	Exposure	
	31.12.2012	31.12.2011
Amounts due from banks impaired, of which:	33 569	42 280
assessed on an individual basis	33 569	42 166
Amounts due from banks not impaired, of which:	3 453 614	2 311 628
not past due	3 453 614	2 311 628
Gross total	3 487 183	2 353 908
Impairment allowances	(30 792)	(33 710)
Net total by carrying amount	3 456 391	2 320 198

Loans and advances to customers	Exposure	
	31.12.2012	31.12.2011
Loans and advances impaired, of which:	12 316 775	10 395 779
assessed on an individual basis	5 552 524	4 459 538
Loans and advances not impaired, of which:	135 996 712	134 645 660
not past due	131 732 488	131 102 983
past due	4 264 224	3 542 677
past due up to 4 days	1 725 423	774 863
past due over 4 days	2 538 801	2 767 814
Gross total	148 313 487	145 041 439
Impairment allowances	(6 228 629)	(4 982 790)
Net total by carrying amount	142 084 858	140 058 649

Investment securities available for sale – debt securities	Exposure	
	31.12.2012	31.12.2011
Debt securities impaired, of which:	5 536	12 998
assessed on an individual basis	5 536	12 998
Debt securities not impaired, of which:	11 916 973	14 091 183
not past due	11 916 973	14 091 183
with external rating	7 670 414	8 361 299
with internal rating	4 246 559	5 729 884
Gross total	11 922 509	14 104 181
Impairment allowances	(5 536)	(12 998)
Net total by carrying amount	11 916 973	14 091 183

Other assets – other financial assets	Exposure	
	31.12.2012	31.12.2011
Other assets impaired	71 894	102 127
Other assets not impaired, of which:	708 896	369 341
not past due	707 876	368 348
past due	1 020	993
Gross total	780 790	471 468
Impairment allowances	(64 654)	(90 673)
Net total by carrying amount	716 136	380 795

Level of exposure to credit risk

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

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

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	3 456 391	2 320 198
Trading assets – debt securities	278 240	1 300 164
issued by banks	1 371	1 724
issued by other financial institutions	18 611	239
issued by non-financial institutions	15 064	14 947
issued by the State Treasury	216 521	1 268 471
issued by local government bodies	26 673	14 783
Derivative financial instruments	3 861 456	3 065 149
Financial instruments designated upon initial recognition at fair value through profit and loss - debt securities	12 614 917	12 467 201
issued by the State Treasury	2 363 089	3 620 515
issued by central banks	9 995 300	8 593 791
issued by local government bodies	256 528	252 895
Loans and advances to customers	142 084 858	140 058 649
financial sector (other than banks)	3 132 773	3 211 630
corporate loans	3 132 773	3 211 630
non-financial sector	131 369 075	131 796 369
housing loans	70 419 783	69 645 867
corporate loans	39 617 105	39 353 326
consumer loans	20 430 925	22 797 176
debt securities	901 262	-
State budget sector	7 583 010	5 050 650
corporate loans	6 410 321	5 050 650
debt securities	1 172 689	-
Investment securities available for sale - debt securities	11 916 973	14 104 181
issued by the State Treasury	7 619 522	8 310 429
issued by banks	50 892	50 870
issued by other financial institutions	156 393	152 257
issued by non-financial institutions	1 309 954	2 132 269
issued by local government bodies	2 780 212	3 458 356
Other assets - other financial assets	716 136	380 795
Total	182 479 869	180 542 096

Off-balance sheet items	31.12.2012	31.12.2011
Irrevocable liabilities granted	8 397 676	6 569 014
Guarantees granted	7 501 328	5 657 237
Letters of credit granted	377 643	418 383
Guarantees of issue	3 673 585	1 328 433
Total	19 950 232	13 973 067

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

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).

FINANCIAL STATEMENTS OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA 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	3 453 614	2 311 628
of which:		
with rating	3 174 099	2 056 450
without rating	279 515	255 178
Loans and advances to customers	131 732 488	131 102 983
with rating – financial, non-financial and public sector (corporate loans)	39 543 182	40 866 390
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)	10 765 338	10 092 736
F (acceptable)	10 513 388	11 088 797
G (poor)	4 557 397	2 852 878
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)	10 545 078	6 798 504
Other assets – other financial assets	707 876	368 348
Total	135 893 978	133 782 959

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 amounts due from banks, 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 institutions	issued by non-financial institutions	issued by the State Treasury	issued by local government bodies	issued by banks	issued by other financial institutions	issued by non-financial institutions
A- to A+	216 521	-	-	-	-	1 268 471	-		-	-
without rating	-	26 673	1 371	18 611	15 064	-	14 783	1 724	239	14 947
Total	216 521	26 673	1 371	18 611	15 064	1 268 471	14 783	1 724	239	14 947

FINANCIAL STATEMENTS OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA 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	-
Total	2 363 089	145 343	9 995 300	3 620 515	143 973	8 593 791

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+	7 619 522	-	8 310 429	-
BBB- to BBB+	-	50 892	-	50 870
Total	7 619 522	50 892	8 310 429	50 870

Amounts due from banks

Rating/portfolio	31.12.2012	31.12.2011
AAA	247 968	8 308
AA- to AA+	130 158	291 712
A- to A+	1 809 061	1 489 587
BBB- to BBB+	527 134	135 914
BB- to BB+	101 115	-
B- to B+	358 663	130 929
without rating	279 515	255 178
Total	3 453 614	2 311 628

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)	1 010 450	2 320 579
E (average)	954 548	1 241 433
F (acceptable)	1 058 604	755 049
G (poor)	59 669	84 180
G3 (low)	7 280	-
H (bad)	-	203 514
Total	**4 246 558**	**5 729 884**

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 Bank

PKO Bank Polski SA 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 Bank analyses the risk of credit risk concentration in respect of:
- the largest business entities,
- the largest capital groups,
- industries,
- geographical regions,
- currencies,
- exposures with established mortgage collateral.

Concentration by the largest business entities

The Banking Law specifies maximum concentration limits for the Bank. 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 funds.

As at 31 December 2012 and 31 December 2011, those concentration limits had not been exceeded. As at 31 December 2012, the level of concentration of the Bank risk with respect to individual exposures was low – the largest exposure to a single entity was equal to 11.3%*, 11.2%* and 10.5% of the Bank’s own funds.

* Concentration in respect of the entities exempted from concentration limits under the Article 71.3 of the Banking Law.

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

Total exposure of the Bank 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. ****	2 014 183	1.38%	1.	1 258 272	0.87%
2.	1 022 563	0.70%	2. ***	1 205 697	0.84%
3.	532 590	0.36%	3.	541 970	0.38%
4.	520 228	0.36%	4.	484 761	0.33%
5.	487 000	0.33%	5.	399 939	0.28%
6.	321 896	0.22%	6. ***	394 293	0.27%
7.	296 218	0.20%	7.	342 022	0.24%
8.	292 045	0.20%	8.	325 542	0.22%
9.	280 166	0.19%	9.	323 299	0.22%
10.	251 472	0.17%	10.	313 271	0.22%
11.	247 297	0.17%	11.	294 361	0.20%
12.	244 592	0.17%	12.	293 060	0.20%
13.	244 417	0.17%	13.	262 785	0.18%
14.	244 065	0.17%	14.	244 256	0.17%
15.	241 373	0.17%	15.	237 574	0.16%
16.	241 000	0.16%	16.	236 898	0.16%
17.	238 652	0.16%	17.	235 466	0.16%
18.	227 296	0.16%	18.	220 566	0.15%
19.	220 575	0.15%	19.	213 811	0.15%
20.	220 032	0.15%	20.	212 868	0.15%
Total	8 387 660	5.74%	Total	8 040 711	5.55%

*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 in respect of the entities exempted from concentration limits under the Article 71.3 of the Banking Law.
**** Concentration in respect of the entities partly exempted from concentration limits under the Article 71.3 of the Banking Law.

Concentration by the largest capital groups

The largest concentration of PKO Bank Polski SA into the capital group is 2.04% of the loan portfolio of the Bank.

As at 31 December 2012, the concentration risk level by the largest capital groups was low - the greatest exposure of PKO Bank Polski SA towards a capital group amounted to 20.2%* and 18.6% of the Bank's own funds.

Total exposure of the Bank 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	2.04%	***1	3 075 880	2.12%
****2	3 695 708	1.87%	2	1 928 808	1.33%
3	2 992 512	1.52%	3	1 725 766	1.19%
4	1 957 102	0.99%	4	1 226 346	0.85%
5	1 638 882	0.83%	5	950 453	0.66%
Total	14 305 603	7.25%	Total	8 907 253	6.15%

*Total exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable, debt securities, off-balance sheet and capital exposures.
** Loan portfolio does not include off-balance sheet and capital exposures.
*** Concentration in respect of the entities exempted from concentration limits under the Article 71.3 of the Banking Law.
**** Concentration in respect of the entities partly exempted from concentration limits under the Article 71.3 of the Banking Law.

Concentration by industry

The Bank applies industry limits in order to mitigate credit risk related to corporate clients operating in selected industries characterised by a high level of credit risk, as well as to avoid excessive concentration of exposure to individual industries.

As compared with 31 December 2011 the exposure of PKO Bank Polski SA in industry sectors has increased by approx. PLN 3.0 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. 62% 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:

* Concentration in respect of the entities exempted from concentration limits under the Article 71.3 of the Banking Law.

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Section	Section name	31.12.2012		31.12.2011	
		Exposure	Number of entities	Exposure	Number of entities
C	Industrial processing	17.75%	11.48%	18.89%	12.02%
L	Maintenance of real estate	16.98%	18.14%	16.11%	10.75%
G	Wholesale and retail trade; repair of motor vehicles	15.10%	24.67%	16.41%	25.62%
F	Construction	11.76%	12.31%	12.54%	13.87%
O	Public administration and national defence obligatory social security	10.39%	0.56%	8.69%	0.51%
D	Electricity, gas, water vapour, hot water and air to the mechanical systems production and supply	2.16%	0.17%	1.57%	0.19%
Other exposure		25.85%	32.67%	25.79%	37.04%
Total		**100.00%**	**100.00%**	**100.00%**	**100.00%**

Concentration by geographical regions

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

As at 31 December 2012, the largest concentration of the Bank's loan portfolio was in the mazowiecki region. Near half of the Bank'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 of credit risk by geographical regions	31.12.2012	31.12.2011
Poland		
mazowiecki	15.04%	18.36%
śląsko-opolski	11.23%	11.71%
małopolsko-świętokrzyski	9.78%	9.55%
wielkopolski	9.65%	10.55%
łódzki	9.04%	6.50%
dolnośląski	7.97%	7.78%
pomorski	7.55%	6.44%
lubelsko-podkarpacki	7.31%	7.08%
kujawsko-pomorski	7.17%	5.02%
zachodnio-pomorski	6.68%	6.79%
podlaski	6.14%	3.22%
warmińsko-mazurski	0.79%	3.63%
other	1.65%	3.37%
Total	**100.00%**	**100.00%**

Concentration of credit risk by currency

As at 31 December 2012, the share of currency exposures, other than PLN, in the total credit portfolio of PKO Bank Polski SA amounted to 20.7%. The greatest parts of currency exposures of PKO Bank Polski SA are those in CHF.

A decrease in the share of loans denominated in foreign currencies in 2012 results from concentration of new sales of housing loans in Polish currency.

Concentration of credit risk by currency	31.12.2012	31.12.2011
PLN	79.32%	76.46%
Foreign currencies, of which:	20.68%	23.54%
CHF	14.67%	16.96%
EUR	5.00%	5.46%
USD	0.99%	1.10%
GBP	0.01%	0.02%
Total	**100.00%**	**100.00%**

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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 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 Bank 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 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 at the reporting date but not impaired 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	3 091 080	1 078 682	94 462	**4 264 224**	2 230 404	1 222 418	89 855	**3 542 677**
financial sector	601	-	-	**601**	4 469	153	-	**4 622**
non-financial sector	3 010 498	1 074 470	94 462	**4 179 430**	2 181 445	1 222 265	89 855	**3 493 565**
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	**3 091 746**	**1 078 682**	**94 816**	**4 265 244**	**2 230 881**	**1 222 418**	**90 371**	**3 543 670**

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.

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	33 569	42 166
Loans and advances to customers	5 552 524	4 459 538
Non-financial sector	5 546 315	4 451 987
corporate loans	3 790 964	3 267 730
housing loans	1 658 076	1 108 920
consumer loans	97 275	75 337
Public sector	6 209	7 551
corporate loans	6 209	7 551
Investment debt securities available for sale issued by non-financial institutions	5 536	12 998
Total	5 591 629	4 514 702

Financial assets individually determined to be impaired were secured by the following collaterals established for the PKO Bank Polski SA:

- for loans and advances to customers: ceiling mortgages and ordinary mortgages, registered pledges, promissory notes and transfers of receivables. The financial effect of collaterals held in respect of the amount that best represents the maximum exposure to credit risk as at 31 December 2012 amounted to PLN 3 925 837 thousand (as at 31 December 2011 it amounted to PLN 2 758 659 thousand respectively).
- for investment securities available for sale: blank promissory notes, registered pledges on the bank account and on debtor's shares.

In determining impairment allowances for the above assets, the Bank 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 (with respect to non-financial clients 'H1' rating, with respect to financial institutions – G, H rating),
- 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

PKO Bank Polski SA performs a monthly review of loan exposures in order to identify credit 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 Bank's IT systems the events that are material from the point of view of identifying indications of impairment of credit exposures,
- determining the method of measuring impairment,
- measuring impairment and determining an impairment charge or provision,
- verifying and aggregating the results of the impairment measurement,
- recording the results of impairment measurement.

The method of determining the amount of impairment charges is dependent on the type of indications of impairment identified and the individual significance of a credit exposure. The events considered as indications of individual impairment are, in particular, as follows:

- a loan being overdue for at least 3 months,
- a significant deterioration in a customer's internal rating,
- entering into restructuring agreement or granting a discount concerning debt repayment (the indication of impairment will be recognised, if the convenience granted to the consumer is a result of its difficult legal or economic position).

When determining the overdue period of a loan, the amounts of interest not paid according to the schedule or instalment payments exceeding accepted thresholds are taken into account.

PKO Bank Polski SA applies three methods of estimating impairment:

- the individualised method applied in respect of individually significant loans, for which the objective evidence of impairment was identified or requiring individual assessment due to the transactions specifics and resulting from events determining the repayment of exposure,
- the portfolio method applied in respect of individually insignificant loans, for which the objective evidence of impairment was identified,
- the group method (IBNR) applied in respect of the loans, for which the objective evidence of impairment was no identified, but there is a possibility of losses incurred but not recognised occurring.

Impairment allowances in respect of a loan exposure correspond to the difference between the carrying amount of the exposure and the present value of the expected future cash flows from a given exposure:

- while calculating impairment allowances under the individualised method, the expected future cash flows are estimated for each loan exposure individually, taking into account the possible scenarios relating to contract execution, weighted by the probability of their realisation,
- an impairment charge in respect of loan exposures under the portfolio method or the group method corresponds to the difference between the carrying amount of the exposures and the present value of the expected future cash flows estimated using statistical methods, based on historic observations of exposures from homogenous portfolios.

A provision for off-balance sheet loan exposures is recorded in an amount equal to the resulting expected (and possible to estimate) loss of economic benefits.

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When determining a provision for off-balance sheet loan exposures, PKO Bank Polski SA:

– uses the individualised method in respect to the individually significant credit exposures on unconditional liabilities with objective evidence of individual impairment or those relating to debtors whose other exposures show such evidence, and the individually significant exposures which do not show objective evidence of individual impairment, for which determining provisions using the portfolio parameters would not be reasonable,
– the portfolio method (if an exposure shows indications of individual impairment) or the group method (if an exposure only shows indications of group impairment) - in the case of the remaining off-balance sheet loan 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 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 PKO Bank Polski SA's loan exposures are presented in Note 20 'Loans and advances to customers'.

Credit risk of financial institutions

As at 31 December 2012, the largest exposures of PKO Bank Polski SA on the interbank market presents the table below:

Interbank portfolio*			
Counterparty	Type of instrument		Total
	Deposit	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.

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

Interbank portfolio*			
Counterparty	Type of instrument		Total
	Deposit	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 ('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 (Credit Support Annex)/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 20 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 Bank had an exposure to financial institutions on the retail market. The structure of these exposures over PLN 10 million is presented in the table below:

	Nominal value of exposure (in PLN thousand)		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 PKO Bank Polski SA for internal purposes or designated for sale. Details of the foreclosed assets are analysed in order to determine whether they can be used by the Bank 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 Bank 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, which are beyond the control, 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 Bank.

The Bank takes steps to disseminate broadly to the public the information about assets being sold by publishing it on the Bank's website, placing announcements in the national press, using internet portals (e.g. to carry out Internet auctions), sending offers. In addition, PKO Bank Polski SA 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 Bank as a result of restructuring and debt collection activities. The Bank has also entered into cooperation agreements with external companies, which perform valuations of the movable and immovable properties that the Bank has foreclosed or would like to foreclose in the course of realisation of collateral.

The carrying amounts of nonfinancial assets held by the Bank, gained as a result of collateral as at 31 December 2012 amounted to PLN 5 691 thousand (as at 31 December 2011 it amounted to PLN 3 447 thousand). The above mentioned amounts are presented in Note 25, 'Other assets' in line item 'Other'.

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 the 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 article 71, clause 1 of the Banking Law,
– industry-related limits – limits which reduce the risk level related to financing institutional clients that conduct business activities in industries characterised by high level of credit risk,
– limits on credit exposures related to the Bank's customers – the limits defining the appetite for credit risk as result of among other the recommendations of 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 collateral management is meant to secure properly the credit risk, to which the Bank 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 the Bank's internal regulations.

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 a mortgage on the property. Until an effective mortgage is established, the following types of collateral are used (depending on type and amount of a 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.

50. Interest rate risk management

The interest rate risk is a risk of incurring losses on the Bank's statement of financial position 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, PKO Bank Polski SA 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., by ±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.

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**
Periodic gap	29 913 475	66 427 582	(69 437 253)	(12 625 746)	3 882 918	1 224 585	730 987	**20 116 548**
Cumulative gap	29 913 475	96 341 057	26 903 804	14 278 058	18 160 976	19 385 561	20 116 548	
PLN (in PLN thousand)								**31.12.2011**
Periodic gap	50 553 647	14 208 211	(20 596 512)	(22 364 351)	(4 513 351)	1 131 958	79 727	**18 499 329**
Cumulative gap	50 553 647	64 761 858	44 165 346	21 800 995	17 287 644	18 419 602	18 499 329	-

Repricing Gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
USD (in USD thousand)								**31.12.2012**
Periodic gap	149 449	673 159	(380 907)	(384 176)	9 229	543	(275 527)	**(208 230)**
Cumulative gap	149 449	822 608	441 701	57 525	66 754	67 297	(208 230)	-
USD (in USD thousand)								**31.12.2011**
Periodic gap	559 012	27 693	(294 729)	(356 503)	(47 280)	21	37	**(111 749)**
Cumulative gap	559 012	586 705	291 976	(64 527)	(111 807)	(111 786)	(111 749)	-

Repricing Gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
EUR (in EUR thousand)								**31.12.2012**
Periodic gap	652 430	312 206	(770 543)	89 561	(31 014)	(352 329)	(48 728)	**(148 417)**
Cumulative gap	652 430	964 636	194 093	283 654	252 640	(99 689)	(148 417)	-
EUR (in EUR thousand)								**31.12.2011**
Periodic gap	288 707	(92 609)	(20 657)	(14 396)	(43 981)	(352 641)	(663)	**(236 240)**
Cumulative gap	288 707	196 098	175 441	161 045	117 064	(235 577)	(236 240)	-

Repricing Gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
CHF (in CHF thousand)								**31.12.2012**
Periodic gap	(596 409)	1 040 577	(43 057)	(1 978)	1 030	(492 069)	20 184	**(71 722)**
Cumulative gap	(596 409)	444 168	401 111	399 133	400 163	(91 906)	(71 722)	-
CHF (in CHF thousand)								**31.12.2011**
Periodic gap	(681 810)	548 598	(15 430)	(38 121)	1 427	(29 085)	7 345	**(207 076)**
Cumulative gap	(681 810)	(133 212)	(148 642)	(186 763)	(185 336)	(214 421)	(207 076)	-

As at the end of 2012 and 2011, PKO Bank Polski SA had a positive cumulative gap in PLN in all the time horizons.

Forecasting and monitoring of interest rate risk

Exposure of PKO Bank Polski SA to interest rate risk was as at 31 December 2012, within accepted limits. The Bank was mainly exposed to PLN interest rate risk, which represents about 61% of the Bank's Value at Risk (VaR) as at 31 December 2012. Interest rate risk was determined mainly by the risk of a mismatch between the repricing of interest rates of the Banks assets and liabilities.

VaR of the Bank and stress tests analysis of PKO Bank Polski SA'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)*	299 015	486 121

* The table presents the value of the most adverse stress-test of the scenarios: PLN interest rate curves by 200 b.p. upward and by 200 b.p. downward.

As at 31 December 2012, the Bank's interest rate VaR for the 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. 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 PKO Bank Polski SA include:

– procedures for interest rate risk management,
– limits and thresholds for interest rate risk,
– defining allowable transactions based on interest rates.

The Bank 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.

51. Currency risk management

Currency risk is the risk of incurring losses due to unfavourable exchange rate changes. The risk is generated by maintaining open currency positions in a given foreign currency.

The objective of currency risk management is to mitigate the risk of incurring losses arising from exchange rate fluctuations to an acceptable level by shaping the structure of balance and off-balance sheet items.

Measurement of the currency risk

PKO Bank Polski SA 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 Bank'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)*	3 869	2 969

*The table presents the value of the most adverse stress-test of the scenarios: PLN appreciation by 20% and PLN depreciation by 20%.

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

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

	31.12.2012	31.12.2011
Currency Position		
EUR	(11 933)	70 224
USD	(8 277)	(13 151)
CHF	(20 127)	(36 795)
GBP	4 611	49
Other (Global Net)	12 395	10 985

The volume of currency positions is a key factor determining the level of currency risk on which the Bank 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 Bank, both in the statement of financial position (such as loans) and off-balance sheet (such as derivatives, CIRS transactions in particular). In accordance with the currency risk management principles at the Bank, the daily currency position opened by the Bank within the banking book (such as repayment of loans denominated in foreign currency by the clients, exposure currency conversion) is closed every day, also using derivative instruments. This means that the currency position of the Bank at the end of the day may constitute only of generated unclosed position in banking book on this day and currency position in trading book within the limits, which results in a low exposure of the Bank to currency risk (with reference to own funds, VaR for a 10-day time horizon for the Bank's currency position as at the end of 2012 amounted to approx. 0.003%).

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

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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	9 367 928	661 352	32 991	166 959	**10 229 230**
Amounts due from banks	608 856	640 402	113 452	2 124 473	**3 487 183**
Loans and advances to customers	118 321 098	7 318 151	21 458 993	1 215 245	**148 313 487**
Securities	24 743 101	240 044	-	-	**24 983 145**
Tangible assets	9 999 038	-	-	-	**9 999 038**
Other assets and derivative financial instruments	4 712 655	343 070	80 099	68 848	**5 204 672**
Total assets (gross)	167 752 676	9 203 019	21 685 535	3 575 525	**202 216 755**
Depreciation / amortisation / impairment	(10 324 734)	(146 864)	(587 347)	(140 098)	**(11 199 043)**
Total assets (net)	**157 427 942**	**9 056 155**	**21 098 188**	**3 435 427**	**191 017 712**
Liabilities and equity, of which:					
Amounts due to the central bank	3 128	-	-	-	**3 128**
Amounts due to banks	432 274	435 339	1 393 048	242 227	**2 502 888**
Amounts due to customers	134 565 501	9 919 829	3 820 176	6 435 068	**154 740 574**
Debt securities in issue	865 905	-	-	-	**865 905**
Subordinated liabilities	1 631 256	-	-	-	**1 631 256**
Provisions	697 063	15 072	379	6 581	**719 095**
Other liabilities and derivative financial instruments and provision for deferred tax liability	5 232 593	312 801	265 729	97 684	**5 908 807**
Equity	24 646 059	-	-	-	**24 646 059**
Total liabilities and equity	**168 073 779**	**10 683 041**	**5 479 332**	**6 781 560**	**191 017 712**
Off-balance sheet liabilities granted	**38 291 335**	**3 719 156**	**126 535**	**1 892 459**	**44 029 485**

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	Currency translated to PLN – 31.12.2011				
	PLN	EUR	CHF	Other	Total
Assets, of which:					
Cash and balances with the central bank	8 453 599	344 819	28 725	233 137	**9 060 280**
Amounts due from banks	378 318	1 030 890	204 172	740 528	**2 353 908**
Loans and advances to customers	111 057 016	7 899 058	24 569 554	1 515 811	**145 041 439**
Securities	27 653 173	309 552	-	-	**27 962 725**
Tangible assets	9 369 430	-	-	-	**9 369 430**
Other assets and derivative financial instruments	3 737 098	261 014	41 031	85 269	**4 124 412**
Total assets (gross)	160 648 634	9 845 333	24 843 482	2 574 745	**197 912 194**
Depreciation / amortisation / impairment	(8 718 665)	(187 163)	(527 939)	(105 737)	**(9 539 504)**
Total assets (net)	**151 929 969**	**9 658 170**	**24 315 543**	**2 469 008**	**188 372 690**
Total liabilities and equity, of which:					
Amounts due to the central bank	3 454	-	-	-	**3 454**
Amounts due to other banks	1 035 519	710 879	3 443 872	131 120	**5 321 390**
Amounts due to customers	132 705 731	10 237 739	2 227 079	4 860 132	**150 030 681**
Debt securities in issue	3 105 588	-	-	-	**3 105 588**
Subordinated liabilities	1 614 377	-	-	-	**1 614 377**
Provisions	597 897	13 835	434	3 323	**615 489**
Other liabilities and derivative financial instruments and provision for deferred tax liability	4 486 308	316 645	4 523	71 860	**4 879 336**
Equity	22 802 375	-	-	-	**22 802 375**
Total liabilities and equity	**166 351 249**	**11 279 098**	**5 675 908**	**5 066 435**	**188 372 690**
Off-balance sheet liabilities granted	**32 642 150**	**3 731 493**	**157 150**	**1 545 004**	**38 075 797**

Reporting of the currency risk

The Bank prepares daily, weekly, monthly, and quarterly reports addressing currency risk. 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 Bank 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 Bank has set limits and threshold values for currency risk i.a.: currency positions, Value at Risk calculated for a 10-day time horizon and daily loss from transactions on currency market.

52. Liquidity risk management

The liquidity risk is defined as the lack of possibility to pay the debts on time due to the lack of liquid assets. Lack of liquidity may arise from inappropriate structure of the 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 the Bank's statement of financial position and off-balance sheet liabilities.

PKO Bank Polski SA'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, the Bank also uses money market instruments, including NBP open market operations.

Measurement of the liquidity risk

The Bank 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 among others the Bank's items of the statement of financial position in real terms concerning the following: permanent balances on deposits of non-financial sector and their maturity, permanent balances on loans in current accounts for non-financial entities and their maturity and liquid securities and their maturity.

	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								
Adjusted gap in real terms	10 223 289	6 747 680	402 358	3 132 724	2 174 389	9 249 234	11 556 246	(43 485 920)
Cumulative adjusted gap in real terms	10 223 289	16 970 969	17 373 327	20 506 051	22 680 440	31 929 674	43 485 920	-
31.12.2011								
Adjusted gap in Real terms	7 426 100	12 228 512	(1 386 297)	1 477 225	(1 254 297)	10 195 400	15 701 903	(44 388 546)
Cumulative adjusted gap in real terms	7 426 100	19 654 612	18 268 315	19 745 540	18 491 243	28 686 643	44 388 546	-

In all time horizons, PKO Bank Polski SA'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.

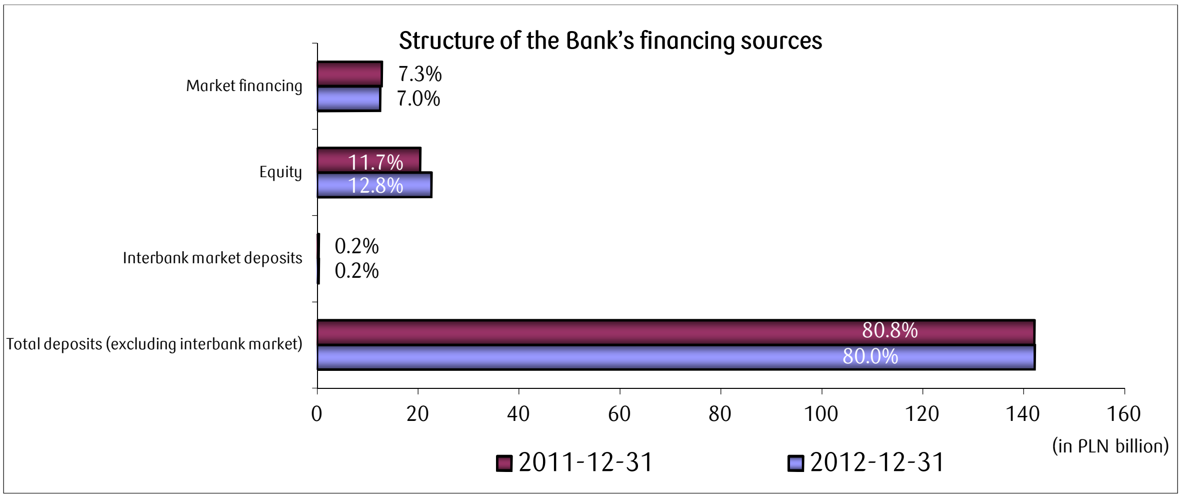
The table below presents liquidity reserve of the Bank as at 31 December 2012 and as at 31 December 2011:

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 permanent balances on deposits constituted approx. 93.3% of all deposits in the Bank (excluding interbank market), which means a 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 Bank'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 Bank has a liability is able to select the settlement deadline, it has been assumed that the earliest date on which the Bank is obliged to settle the liability shall be taken into account. In situations where the Bank is obliged to settle the liabilities in instalments, each instalment is allocated to the earliest period in which the Bank 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.

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Contractual flows of the Bank'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 other banks	1 122 566	2 532	15 436	1 449 522	-	2 590 056	**2 502 888**
Amount due to customers	86 795 888	16 219 571	40 924 492	7 827 553	5 392 599	157 160 103	**154 740 574**
Debt securities in issue	-	500 000	174 352	186 526	-	860 878	**865 905**
Subordinated liabilities	-	52 389	53 257	422 874	2 129 220	2 657 741	**1 631 256**
Other liabilities	1 362 772	6 589	373 500	17 646	38 856	1 799 363	**1 799 363**
Off-balance sheet financial liabilities – granted	18 171 428	816 755	3 765 160	3 656 343	6 067 243	32 476 929	-
Off-balance sheet guarantee liabilities – issued	11 552 556	-	-	-	-	11 552 556	-

Contractual flows of the Bank's 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 other banks	2 176 374	209 010	3 446 741	-	-	5 832 125	**5 321 390**
Amount due to customers	92 633 327	15 019 129	35 092 306	8 059 411	1 715 026	152 519 198	**150 030 681**
Debt securities in issue	-	2 950 000	-	179 193	-	3 129 193	**3 105 588**
Subordinated liabilities	-	-	96 383	369 881	1 699 775	2 166 039	**1 614 377**
Other liabilities	1 612 533	382 901	95 112	26 229	39 748	2 156 523	**2 156 523**
Off-balance sheet financial liabilities – granted	15 247 959	957 788	4 885 157	4 215 505	5 365 335	30 671 744	-
Off-balance sheet guarantee liabilities – issued	7 404 053	-	-	-	-	7 404 053	-

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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 Bank 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)	(1 219 640)
- 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 Bank 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 exchange 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:	(2 350 623)	(1 591 972)	(5 725 783)	(3 207 017)	(379 212)	(13 254 607)
- derivative hedging instruments	(7 150)	(233 873)	(961 308)	(1 005 985)	(103 629)	(2 311 945)
- inflows, of which:	2 297 546	1 682 377	6 009 744	5 022 560	658 357	15 670 584
- derivative hedging instruments	34 582	256 419	2 619 538	3 283 481	373 846	6 567 865

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

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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	10 229 230	-	-	**10 229 230**
Amounts due from banks	3 221 423	265 760	(30 792)	**3 456 391**
Trading assets	20 331	261 899	-	**282 230**
Derivative financial instruments	1 138 959	2 722 497	-	**3 861 456**
Financial instruments designated upon initial recognition at fair value through profit and loss	11 036 163	1 578 754	-	**12 614 917**
Loans and advances to customers	38 649 497	109 663 990	(6 228 629)	**142 084 858**
Investment securities available for sale	1 031 248	11 054 750	(24 592)	**12 061 406**
Other assets	2 020 540	5 258 464	(851 780)	**6 427 224**
Total assets	**67 347 391**	**130 806 114**	**(7 135 793)**	**191 017 712**
Liabilities				
Amounts due to the central bank	3 128	-	-	**3 128**
Amounts due to banks	1 114 300	1 388 588	-	**2 502 888**
Derivate financial instruments	1 276 556	2 687 614	-	**3 964 170**
Amounts due to customers	143 079 441	11 661 133	-	**154 740 574**
Debt securities in issue	679 433	186 472	-	**865 905**
Subordinated liabilities	-	1 631 256	-	**1 631 256**
Other liabilities	2 147 632	516 100	-	**2 663 732**
Total liabilities	**148 300 490**	**18 071 163**	**-**	**166 371 653**
Equity	**-**	**24 646 059**	**-**	**24 646 059**
Total liabilities and equity	**148 300 490**	**42 717 222**	**-**	**191 017 712**

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	9 060 280	-	-	**9 060 280**
Amounts due from banks	2 224 379	129 529	(33 710)	**2 320 198**
Trading assets	638 321	672 768	-	**1 311 089**
Derivative financial instruments	1 305 142	1 760 007	-	**3 065 149**
Financial instruments designated upon initial recognition at fair value through profit and loss	11 666 896	800 305	-	**12 467 201**
Loans and advances to customers	36 042 051	108 999 388	(4 982 790)	**140 058 649**
Investment securities available for sale	1 954 712	12 229 723	(15 502)	**14 168 933**
Other assets	1 607 868	4 979 081	(665 758)	**5 921 191**
Total assets	**64 499 649**	**129 570 801**	**(5 697 760)**	**188 372 690**
Liabilities				
Amounts due to the central bank	3 454	-	-	**3 454**
Amounts due to other banks	5 321 363	27	-	**5 321 390**
Derivative financial instruments	883 657	1 761 624	-	**2 645 281**
Amounts due to customers	140 943 018	9 087 663	-	**150 030 681**
Debt securities in issue	2 929 973	175 615	-	**3 105 588**
Subordinated liabilities	-	1 614 377	-	**1 614 377**
Other liabilities	2 394 663	454 881	-	**2 849 544**
Total liabilities	**152 476 128**	**13 094 187**	**-**	**165 570 315**
Equity	**-**	**22 802 375**	**-**	**22 802 375**
Total liabilities and equity	**152 476 128**	**35 896 562**	**-**	**188 372 690**

Reporting of the liquidity risk

The Bank prepares daily, weekly, monthly and quarterly reports addressing liquidity risk. 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 PKO Bank Polski SA 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 the lending activities.

To ensure an adequate liquidity level, PKO Bank Polski SA has accepted limits and thresholds for liquidity risk. The limits and thresholds were set for short, medium and long-term liquidity measures.

53. Commodity price risk management

Commodity price risk is the risk of incurring a loss due to changes in commodity prices, generated by maintaining open positions on particular types of goods.

The objective of commodity price risk management is to reduce potential losses resulting from changes in commodity prices to the acceptable level by 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 Bank's financial position is immaterial. In 2012, the items in transactions generating commodity price risk were closed each time at the close of business.

54. Price risk of equity securities management

The price risk of equity securities is the risk of incurring a loss due to changes in the prices of equity securities on the public market or stock exchange indices, generated by maintaining open positions in instruments sensitive to changes in these market parameters.

The price risk of equity securities results from operations conducted as part of trading activities (The Brokerage House of PKO Bank Polski SA), investing activities and from other operations as part of banking activities generating a position inequity 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 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 contain the information on equity securities price risk exposure and usage of available limits regarding the risk.

55. Other price risks

Taking into consideration other price risks, at the end of the year 2011, the Bank was exposed to price risk of investment fund participation units in collective investment funds.

This risk 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.

56. Derivative instruments risk management

The risk of derivative instruments is a risk resulting from the Bank's taking up a position in financial instruments, which meet all of the following conditions:

1) the value of an instrument changes with the change of the underlying instrument,
2) it does not require any initial net investment or requires only a small initial net investment compared with other types of contracts which similarly respond to changes in market terms,
3) it is to be settled at a future date.

The derivative risk management process is integrated in the Bank with management of the following types of risk: interest rate, currency, liquidity and credit risk. 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 in section on currency risk, depending on the risk factor which affects the value of the instrument.

Forecasting and monitoring of 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 put 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 derivative instruments risk

The Bank prepares daily, weekly, monthly, and quarterly reports addressing the risk of derivative instruments. Reports present the information on the derivative risk exposure and updates on available limits regarding the risk.

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[*] Amendments to the Resolution No. 76/2010 were introduced by the following PFSA resolutions: 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 and PFSA Resolution No. 307/2012 dated 20 November 2012.

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,
- collateral agreement, under which selected clients of the Bank are required to establish a collateral on exposures due to derivative instruments.

Risk management is carried out by imposing limits on derivative instruments included in the 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).

57. Operational risk management

Operational risk is defined as the risk of occurrence of a loss due to non-compliance or unreliability of internal processes, people and systems or external events.

The objective of operational risk management is to optimise operational efficiency by reducing operating losses, costs streamlining and improving the timing and adequacy of the response of the Bank 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 operational risk losses limits,
- 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,

Reporting of operational risk

The Bank prepares reports concerning operational risk on a quarterly basis. The reports contain among others information on:

- the results of measuring and monitoring of 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 the operational risk level,
- recommendation and decision of the Operational Risk Committee or the Management Board.

Each month, information on operational risk is prepared and forwarded to members of the Management Board and organisational units of the Bank responsible for system-based operating risk management. The scope of information is diversified and tailored to the scope of responsibilities of individual recipients of the information.

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 systems),
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.

58. Compliance risk management

Compliance risk is defined as the risk of legal sanctions, incurring financial losses or losing reputation or reliability due to failure of PKO Bank Polski, its employees or entities acting on its behalf to comply with the provisions of the law, internal regulations, standards adopted by the Bank, including ethical standards.

The objective of compliance risk management is to ensure the Bank'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 Bank's credibility and mitigating the risk of occurring financial losses or legal sanction risk resulting from breach of regulations and ethical standards.

The Compliance Department is responsible for finding systemic solutions in the area of ensuring the Bank's compliance with the binding regulations and operating standards, and development of the methods for evaluating, 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.

Compliance risk management involves in particular:

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

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

The Bank is carried out monitoring of compliance risk, which includes i.a.:

- the results of the identification and assessment of compliance risk,
- instances of non-compliance identified at the Bank and within the banking, their causes and effects,
- changes in the key legal regulations or standards affecting on the Bank's activity,
- actions undertaken as part of managing the compliance risk, execution of internal audit and external inspection recommendations and execution of the recommendations of the Compliance Department.

The Bank prepares reports concerning compliance risk on a quarterly basis. The reports are addressed to the Risk Commitee, the Bank's Management Board, the Supervisory Board's Audit Committee and the Bank's Supervisory Board. The reports contain among others information on:

- the results of the identification and assessment of compliance risk,
- instances of non-compliance identified at the Bank and within the banking sector in Poland,
- the most important changes in the regulatory environment and measures undertaken at the Bank to adapt to new regulations and standards,
- the results of external controls carried out in the Bank,
- the progress in executing the recommendations issued by the PFSA based on inspections carried out at the Bank,
- significant correspondence with external supervision and inspection authorities.

The Bank has adopted a zero tolerance policy against compliance risk, which means that the Bank focuses its actions to eliminate this risk.

59. Business risk management

Business risk is understood as the risk of incurring losses due to adverse changes in the business environment, taking bad decisions, the incorrect implementation of decisions taken, or not taking appropriate actions in response to changes in the business environment; this includes in particular strategic risk.

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 Bank's 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.

60. Reputation risk management

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

The objective of managing the reputation risk is to protect the Bank's image and limit the probability of the occurrence and level of reputation-related 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 Bank'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 Bank 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 Bank 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 Bank's image.

61. Capital adequacy

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

The objective of capital adequacy management is to maintain capital on a level that is adequate to the risk scale and profile of the Bank's activities.

The process of managing the Bank'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 in the Group in connection with profitability analyses,

– using tools affecting the capital adequacy level (including: tools affecting the level of equity, the scale of equity item reductions and the level of the loan portfolio).

The main measures of capital adequacy are:

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

As at 31 December 2012 the capital adequacy ratio of the Bank increased by 1.0 pp. to the level of 12.93% compared to 31 December 2011. It was mainly caused by the significant increase in the value of the Bank's own funds in relation to an increase in the capital requirement on credit and market risk, with a decline in the capital requirement on operational risk.

The level of capital adequacy of the Bank in 2012 remained on a safe level, significantly above the statutory limits.

61.1 Own funds for capital adequacy purposes

Own funds for the purposes of capital adequacy are calculated based on the provisions of the Banking Law 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 Law, Article 127.2, Point 2) c).

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 and equity instruments and other receivables classified as available for sale,
4) 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.

Moreover, the supplementary funds are reduced by 50% of the value of the Bank's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies.

If the amount of reduction would result in supplementary funds falling below nil, the excess above the value of the supplementary funds is subtracted from the basic funds.

The own funds of the Bank include also short-term capital.

As at 31 December 2012, the Bank's own funds for the purposes of capital adequacy increased by PLN 2 526 804 thousand, mainly due to the recognition of profit earned by the Bank in 2011 after dividend paid deduction to the Bank's own funds (in the amount of PLN 2 366 122 thousand). At the same time, compared with the balance as at the end of 2011, the value of items decreasing own funds in respect of intangible assets by PLN 158 552 thousand accompanied by a decrease in equity exposures of the Bank by PLN 163 984 thousand and in the value of unrealised losses on debt and equity instruments in the DDS portfolio increased by PLN 54 984 thousand.

*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 the bank's activities in holdings while calculating own funds.

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The structure of the Bank's own funds for the purpose of capital adequacy is presented in the table below:

BANK'S OWN FUNDS	31.12.2012	31.12.2011
Basic funds (Tier 1)	**18 657 980**	**16 225 262**
Share capital	1 250 000	1 250 000
Reserve capital	15 198 111	12 898 111
Other reserves	3 385 743	3 319 621
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	88 533	-
Unrealised losses on debt and equity instruments and other receivables classified as available for sale	(72 303)	(127 287)
Assets valuation adjustments in trade portfolio	(504)	(143)
Intangible assets	(1 681 120)	(1 522 568)
Equity exposures	(580 480)	(662 472)
Supplementary funds (Tier 2)	**1 087 104**	**989 525**
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)	66 884	51 297
Equity exposures	(580 480)	(662 472)
Short-term equity (Tier 3)	**129 641**	**133 134**
TOTAL EQUITY	**19 874 725**	**17 347 921**

61.2 Capital requirements (Pillar 1)

PKO Bank Polski SA 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's 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 operational risk - using the advanced method (AMA),
- in respect of market risk – using basic methods.

The scale of the Bank'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:
   - settlement/delivery risk,
   - the risk of exceeding the exposure concentration limit and the large exposure limit,
   - the risk of exceeding the capital concentration threshold.

The table below presents the Bank's capital requirements as regards particular types of risk.

Capital requirements	31.12.2012	31.12.2011
Credit risk	**11 205 625**	**10 486 573**
credit risk (banking book)	11 040 973	10 363 885
counterparty risk (trading book)	164 652	122 688
Market risk	**526 814**	**390 863**
equity securities price risk	586	1 604
specific risk of debt instruments	441 346	294 836
general risk of interest rates	84 882	94 423
Operational risk	**566 904**	**757 943**
Total capital requirements	**12 299 343**	**11 635 379**
Capital adequacy ratio	**12.93%**	**11.93%**

An increase in the capital requirement in respect of credit risk by PLN 719 million (an increase of approx. 6.9%) to the level of PLN 11 206 million, resulted mainly from an increase in 2012 in the volume of loan portfolio (in 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 instalment 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.

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An increase in the capital requirement in respect of market risk by 35% to the level of PLN 527 million resulted mainly from an increase in the value of corporate bonds issue underwriting, accompanied by a decrease in the value of corporate bonds (total increase in the requirements on bonds approx. by 65%).

The Bank's capital requirements in respect of operating risk has been calculated under the advanced measurement approach (AMA). A decrease of requirement in respect of operating risk from PLN 758 million (as at 31 December 2011) to PLN 567 million (as at 31 December 2012) results mainly due to the elimination of the conditions to maintain limitations 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 standarised approach (TSA), binding in the period from 30 June 2011 to 12 December 2012.

The Bank 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	
Bank portfolio	186 452 948	122 498 742	181 238 879	115 326 183
Trading portfolio	4 564 764	2 038 936	7 133 811	2 795 143
Total	**191 017 712**	**124 537 678**	**188 372 690**	**118 121 326**

Off-balance 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		
Bank portfolio	40 355 900	16 008 662	14 702 977	36 747 364	14 248 937	13 271 454
Trading portfolio	3 673 585	3 673 585	3 485 214	1 323 433	1 323 433	910 357
Total	**44 029 485**	**19 682 247**	**18 188 191**	**38 070 797**	**15 572 370**	**14 181 811**

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		
Bank portfolio	54 389 358	1 938 105	810 449	83 382 850	2 448 267	950 931
Trading portfolio	238 509 794	4 192 036	2 058 153	318 555 114	2 919 573	1 533 595
Total	**292 899 152**	**6 130 141**	**2 868 602**	**401 937 964**	**5 367 840**	**2 484 526**

61.3 Internal capital (Pillar 2)

PKO Bank Polski SA calculates internal capital in accordance with the Resolution No 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 on detailed principles for functioning of risk management system and internal control system and detailed terms of estimating internal capital by banks and reviewing the process of estimating and maintaining internal capital (PFSA's Journal of Laws as at 23 November 2011, No. 11, item 42). Internal capital is the amount of capital estimated by the Bank that is necessary to cover all of the identified significant risks characteristic of the Bank's activities and the effect of changes in the business environment, taking account of the anticipated risk level.

The internal capital in PKO Bank Polski SA is intended to cover each of the significant risk types:

- credit risk (including default and concentration risks),
- 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 Bank's activities

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 the Bank is the sum of internal capital amount necessary to cover all of the significant risks for the Bank.

The Bank adopts a prudent approach to the aggregation of risks and does not rely on the diversification effect. In 2012, the relation of the Bank's own funds to its internal capital remained on a level exceeding both the threshold set by the law and the Bank's internal limits.

61.4 Disclosures (Pillar 3)

In accordance with § 6 of the Resolution 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's Journal of Laws 2008, No. 8, item 39 with subsequent amendments), 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

62. 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 amounted in 2012 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 amounted in 2012 to PLN 438 thousand (2011: PLN 2 031 thousand).

63. 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 the 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 State Treasury at the General Meeting of the Bank has changed. On 24 January 2013, according to the notifications received, through the Warsaw Stock Exchange 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 number of total 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 number of total votes at the General Shareholders' Meeting of the Bank.

Prior to conclusion and settlement of this transaction, BGK and the State Treasury held respectively 128 102 731 shares and 417 406 277 Bank's shares.

After the transaction settlement on 29 January 2013, BGK did not hold any Bank's shares, and the State Treasury held 392 406 277, which represent 31.39% of share capital and total number of votes at the General Shareholders' 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.

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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 Mangement 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)