Bank Polski

Condensed interim financial statements of PKO Bank Polski SA for the six-month period ended 30 June 2014

Report publication date:
1 September 2014

SELECTED FINANCIAL DATA DERIVED FROM THE FINANCIAL STATEMENTS

SELECTED STAND-ALONE FINANCIAL DATA	PLN thousand		EUR thousand	
	period from 01.01.2014 to 30.06.2014	period from 01.01.2013 to 30.06.2013 restated	period from 01.01.2014 to 30.06.2014	period from 01.01.2013 to 30.06.2013 restated
Net interest income	3 432 076	3 320 610	821 385	787 995
Net fee and commission income	1 334 957	1 274 546	319 490	302 455
Operating profit	2 071 142	1 901 718	495 678	451 286
Profit before income tax	2 071 142	1 901 718	495 678	451 286
Net profit	1 679 300	1 553 467	401 900	368 644
Earnings per share for the period – basic (in PLN/EUR)	1.34	1.24	0.32	0.29
Earnings per share for the period – diluted (in PLN/EUR)	1.34	1.24	0.32	0.29
Net comprehensive income	1 889 033	1 219 229	452 095	289 328
Net cash flow used in operating activities	(5 133 898)	(3 474 098)	(1 228 676)	(824 418)
Net cash flow used in investing activities	(9 368 226)	(1 202 088)	(2 242 061)	(285 261)
Net cash flow from / used in financing activities	16 246 439	(133 948)	3 888 196	(31 786)
Total net cash flows	**1 744 315**	**(4 810 134)**	**417 460**	**(1 141 465)**

SELECTED STAND-ALONE FINANCIAL DATA	PLN thousand			EUR thousand		
	as at 30.06.2014	as at 31.12.2013	as at 30.06.2013 restated	as at 30.06.2014	as at 31.12.2013	as at 30.06.2013 restated
Total assets	222 500 526	196 279 932	195 189 980	53 474 134	47 328 302	45 086 847
Total equity	26 062 775	25 111 242	23 344 046	6 263 735	6 054 987	5 392 231
Share capital	1 250 000	1 250 000	1 250 000	300 416	301 408	288 737
Number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000	1 250 000	1 250 000
Book value per share (in PLN/EUR)	20.85	20.09	18.68	5.01	4.84	4.31
Diluted number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000	1 250 000	1 250 000
Diluted book value per share (in PLN/EUR)	20.85	20.09	18.68	5.01	4.84	4.31
Capital adequacy ratio	13.21%	13.38%	13.46%	13.21%	13.38%	13.46%
Basic funds (Tier 1)	21 573 757	19 346 921	19 853 013	5 184 878	4 665 056	4 585 839
Supplementary funds (Tier 2)	511 984	1 022 720	1 050 312	123 046	246 605	242 611
Short-term equity (Tier 3)	-	154 112	81 942	-	37 160	18 928

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

- the income statement, the statement of comprehensive income and the statement of cash flows items – the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month of the six-month period ended 30 June 2014 and 30 June 2013, respectively: EUR 1 = PLN 4.1784 and EUR 1 = PLN 4.2140,

- the statement of financial position items – average NBP exchange rate as at 30 June 2014: EUR 1 = PLN 4.1609, as at 31 December 2013: EUR 1 = PLN 4.1472 and as at 30 June 2013: EUR 1 = PLN 4.3292.

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INCOME STATEMENT

	Note	01.01-30.06.2014	01.01-30.06.2013 restated
Continuing operations			
Interest and similar income	3	4 872 353	5 564 114
Interest expense and similar charges	3	(1 440 277)	(2 243 504)
Net interest income		3 432 076	3 320 610
Fee and commission income	4	1 875 177	1 717 197
Fee and commission expense	4	(540 220)	(442 651)
Net fee and commission income		1 334 957	1 274 546
Dividend income		79 832	78 567
Net income from financial instruments measured at fair value	5	42 289	3 851
Gains less losses from investment securities	6	37 800	60 773
Net foreign exchange gains (losses)		181 960	73 235
Other operating income	7	67 934	33 165
Other operating expense	7	(40 573)	(27 903)
Net other operating income and expense		27 361	5 262
Net impairment allowance and write-downs	8	(936 934)	(883 682)
Administrative expenses	9	(2 128 199)	(2 031 444)
Operating profit		2 071 142	1 901 718
Profit before income tax		2 071 142	1 901 718
Income tax expense	10	(391 842)	(348 251)
Net profit		1 679 300	1 553 467

Earnings per share	11		
– basic earnings per share for the period (PLN)		1.34	1.24
– diluted earnings per share for the period (PLN)		1.34	1.24
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 the six-month periods ended 30 June 2014 and 30 June 2013 respectively, no discontinued operations were conducted by PKO Bank Polski SA.

STATEMENT OF COMPREHENSIVE INCOME

	Note	01.01-30.06.2014	01.01-30.06.2013 restated
Net profit		1 679 300	1 553 467
Other comprehensive income		209 733	(334 238)
Items that may be reclassified to the income statement		209 733	(334 238)
Cash flow hedges (gross)	17	151 935	(245 054)
Deferred tax on cash flow hedges	10	(28 868)	46 560
Cash flow hedges (net)		123 067	(198 494)
Unrealised net gains on financial assets available for sale (gross)	6	106 994	(167 583)
Deferred tax on unrealised net gains on financial assets available for sale	10	(20 328)	31 839
Unrealised net gains on financial assets available for sale (net)		86 666	(135 744)
Total net comprehensive income		1 889 033	1 219 229

STATEMENT OF FINANCIAL POSITION

	Note	30.06.2014	31.12.2013	30.06.2013 restated
ASSETS				
Cash and balances with the central bank	13	8 210 374	7 188 406	5 591 688
Amounts due from banks	14	16 744 052	2 089 087	3 407 933
Trading assets	15	1 188 876	484 485	3 381 881
Derivative financial instruments	16	3 363 222	3 002 220	3 325 276
Financial assets designated upon initial recognition at fair value through profit and loss	18	11 107 485	15 179 188	12 633 327
Loans and advances to customers	19	151 397 457	147 372 326	146 732 295
Investment securities available for sale	20	19 984 833	13 736 698	13 643 366
Investments in subsidiaries, joint ventures and associates	21	4 775 689	1 578 926	1 159 233
Non-current assets held for sale	22	80 410	145 657	28 261
Intangible assets	23	1 897 349	1 944 132	1 669 047
Tangible fixed assets, of which:	23	2 220 972	2 296 981	2 392 390
investment properties		185	187	193
Current income tax receivables		18 393	201 212	40 232
Deferred income tax asset	10	378 429	387 192	497 358
Other assets		1 132 985	673 422	687 693
TOTAL ASSETS		222 500 526	196 279 932	195 189 980
LIABILITIES AND EQUITY				
Liabilities				
Amounts due to the central bank		3 739	4 065	3 858
Amounts due to banks	24	17 761 335	2 529 623	3 003 348
Derivative financial instruments	16	3 563 140	3 328 149	3 685 073
Amounts due to customers	25	169 040 450	159 957 671	157 875 777
Debt securities in issue	26	884 563	983 123	917 780
Subordinated liabilities	27	1 620 914	1 620 857	1 624 355
Other liabilities	28	3 292 805	2 434 721	4 438 566
Provisions	29	270 805	310 481	297 177
TOTAL LIABILITIES		196 437 751	171 168 690	171 845 934
Equity				
Share capital		1 250 000	1 250 000	1 250 000
Other capital		23 133 475	20 898 722	20 811 821
Undistributed profits		-	(271 242)	(271 242)
Net profit for the year		1 679 300	3 233 762	1 553 467
TOTAL EQUITY		26 062 775	25 111 242	23 344 046
TOTAL LIABILITIES AND EQUITY		222 500 526	196 279 932	195 189 980
Capital adequacy ratio	55	13.21%	13.38%	13.46%
Book value (in PLN thousand)		26 062 775	25 111 242	23 344 046
Number of shares (in thousand)	1	1 250 000	1 250 000	1 250 000
Book value per share (in PLN)		20.85	20.09	18.68
Diluted number of shares (in thousand)		1 250 000	1 250 000	1 250 000
Diluted book value per share (in PLN)		20.85	20.09	18.68

(IN PLN THOUSAND)

STATEMENT OF CHANGES IN EQUITY

for the period ended 30 June 2014	Share capital	Other capital							Undistributed profits	Net profit for the period	Total equity
		Reserves			Other comprehensive income						
		Reserve capital	General banking risk fund	Other reserves	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses	Total other capital			
As at 1 January 2014	1 250 000	16 598 111	1 070 000	3 416 893	(53 013)	(125 593)	(7 676)	20 898 722	(271 242)	3 233 762	25 111 242
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	3 233 762	(3 233 762)	-
Total comprehensive income, of which:	-	-	-	-	86 666	123 067	-	209 733	-	1 679 300	1 889 033
Net profit	-	-	-	-	-	-	-	-	-	1 679 300	1 679 300
Other comprehensive income	-	-	-	-	86 666	123 067	-	209 733	-	-	209 733
Transfer from undistributed profits	-	2 020 000	-	5 020	-	-	-	2 025 020	(2 025 020)	-	-
Dividends declared	-	-	-	-	-	-	-	-	(937 500)	-	(937 500)
As at 30 June 2014	1 250 000	18 618 111	1 070 000	3 421 913	33 653	(2 526)	(7 676)	23 133 475	-	1 679 300	26 062 775

for the year ended 31 December 2013	Share capital	Other capital							Undistributed profits	Net profit for the period	Total equity
		Reserves			Other comprehensive income						
		Reserve capital	General banking risk fund	Other reserves	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses	Total other capital			
As at 1 January 2013 (restated)	1 250 000	15 198 111	1 070 000	3 385 743	9 156	51 899	51 953	19 766 862	(224 681)	3 582 636	24 374 817
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	3 582 636	(3 582 636)	-
Total comprehensive income, of which:	-	-	-	-	(62 169)	(177 492)	(7 676)	(247 337)	-	3 233 762	2 986 425
Net profit	-	-	-	-	-	-	-	-	-	3 233 762	3 233 762
Other comprehensive income	-	-	-	-	(62 169)	(177 492)	(7 676)	(247 337)	-	-	(247 337)
Transfer from undistributed profits	-	1 400 000	-	31 150	-	-	-	1 431 150	(1 431 150)	-	-
Transfer from other comprehensive income to undistributed profits	-	-	-	-	-	-	(51 953)	(51 953)	51 953	-	-
Dividends paid	-	-	-	-	-	-	-	-	(2 250 000)	-	(2 250 000)
As at 31 December 2013	1 250 000	16 598 111	1 070 000	3 416 893	(53 013)	(125 593)	(7 676)	20 898 722	(271 242)	3 233 762	25 111 242

for the period ended 30 June 2013	Share capital	Other capital							Undistributed profits	Net profit for the period	Total equity
		Reserves			Other comprehensive income						
		Reserve capital	General banking risk fund	Other reserves	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses	Total other capital			
As at 1 January 2013 (restated)	1 250 000	15 198 111	1 070 000	3 385 743	9 156	51 899	51 953	19 766 862	(224 681)	3 582 636	24 374 817
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	3 582 636	(3 582 636)	-
Total comprehensive income (restated), of which:	-	-	-	-	(135 744)	(198 494)	-	(334 238)	-	1 553 467	1 219 229
Net profit (restated)*	-	-	-	-	-	-	-	-	-	1 553 467	1 553 467
Other comprehensive income (restated)*	-	-	-	-	(135 744)	(198 494)	-	(334 238)	-	-	(334 238)
Transfer from undistributed profits	-	1 400 000	-	31 150	-	-	-	1 431 150	(1 431 150)	-	-
Transfer from other comprehensive income to undistributed profits	-	-	-	-	-	-	(51 953)	(51 953)	51 953	-	-
Dividends declared	-	-	-	-	-	-	-	-	(2 250 000)	-	(2 250 000)
As at 30 June 2013	1 250 000	16 598 111	1 070 000	3 416 893	(126 588)	(146 595)	-	20 811 821	(271 242)	1 553 467	23 344 046

*Detailed information on the restatements has been described in the note 2.7

(IN PLN THOUSAND)

STATEMENT OF CASH FLOWS

	Note	01.01 - 30.06.2014	01.01 - 30.06.2013 restated
Net cash flow from operating activities			
Profit before income tax		2 071 142	1 901 718
Adjustments:		(7 205 040)	(5 375 816)
Amortisation and depreciation		308 015	254 671
(Gains) losses from investing activities		(25 796)	1 473
Interest and dividends		(204 585)	(372 726)
Change in amounts due from banks		(13 935 007)	(125 858)
Change in trading assets and financial assets designated upon initial recognition at fair value through profit and loss		3 367 312	(3 118 061)
Change in derivative financial instruments (asset)		(361 002)	536 180
Change in loans and advances to customers		(4 231 557)	(5 478 274)
Change in other assets and non-current assets held for sale		(321 611)	107 480
Change in amounts due to banks		815 831	501 190
Change in derivative financial instruments (liability)		234 991	(279 097)
Change in amounts due to customers		6 998 829	3 135 203
Change in provisions and impairment allowances		218 336	(76 932)
Change in other liabilities and subordinated liabilities		(79 359)	622 849
Income tax paid		(249 109)	(519 245)
Other adjustments		259 672	(564 669)
Net cash used in operating activities		(5 133 898)	(3 474 098)
Net cash flow from investing activities			
Inflows from investing activities		25 808 064	28 597 397
Proceeds from sale and interest of investment securities available for sale		25 726 452	28 536 870
Proceeds from sale of intangible assets and tangible fixed assets		32 223	5 818
Other investing inflows (dividends)		49 389	54 709
Outflows from investing activities		(35 176 290)	(29 799 485)
Purchase of equity of subsidiaries		(3 191 026)	-
Increase in equity of subsidiaries		(91 360)	(4 193)
Purchase of investment securities available for sale		(31 704 901)	(29 528 703)
Purchase of intangible assets and tangible fixed assets		(189 003)	(266 589)
Net cash used in investing activities		(9 368 226)	(1 202 088)
Net cash flow from financing activities			
Proceeds from debt securities in issue		739 617	1 429 385
Redemption of debt securities in issue		(838 681)	(1 397 096)
Repayment of interest from issued debt securities and subordinated loans		(59 016)	(72 167)
Long-term borrowings		16 499 505	-
Repayment of long-term borrowings and interest		(94 986)	(94 070)
Net cash from / used in financing activities		16 246 439	(133 948)
Net cash flow		1 744 315	(4 810 134)
of which currency translation differences on cash and cash equivalents		13 991	142 433
Cash and cash equivalents at the beginning of the period		8 644 682	12 235 414
Cash and cash equivalents at the end of the period	32	10 388 997	7 425 280
of which restricted		21 248	11 694

NOTES TO THE FINANCIAL STATEMENTS

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(IN PLN THOUSAND)

NOTES TO THE FINANCIAL STATEMENTS

1. General information

The condensed interim financial statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ('PKO Bank Polski SA', 'the Bank') have been prepared for the six-month period ended 30 June 2014 and include comparative data for the six-month period ended 30 June 2013 (as regards income statement, statement of comprehensive income, statement of cash flows and statement of changes in equity), for the twelve-month period ended 31 December 2013 (as regards statement of changes in equity) and comparative data as at 31 December 2013 and as at 30 June 2013 (as regards statement of financial position). 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 30 June 2014 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 30 June 2014				
The State Treasury	392 406 277	31.39	PLN 1	31.39
Aviva Otwarty Fundusz Emerytalny[1]	83 952 447	6.72	PLN 1	6.72
ING Otwarty Fundusz Emerytalny[2]	64 594 448	5.17	PLN 1	5.17
Other shareholders	709 046 828	56.72	PLN 1	56.72
Total	1 250 000 000	100.00	---	100.00
As at 31 December 2013				
The State Treasury	392 406 277	31.39	PLN 1	31.39
Aviva Otwarty Fundusz Emerytalny[1]	83 952 447	6.72	PLN 1	6.72
ING Otwarty Fundusz Emerytalny[2]	64 594 448	5.17	PLN 1	5.17
Other shareholders	709 046 828	56.72	PLN 1	56.72
Total	1 250 000 000	100.00	---	100.00

1) Number of shares held as at 29 January 2013, reported by Aviva OFE after exceeding 5% of shares in PKO Bank Polski SA's shareholding structure after settlement the transaction of sale of 153.1 million of PKO Bank Polski SA's shares by BGK and the State Treasury.

2) Number of shares held as at 24 July 2012, reported by ING OFE after exceeding 5% of shares in PKO Bank Polski SA's shareholding structure after settlement the transaction of sale of 95 million of PKO Bank Polski SA's shares by the State Treasury.

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's 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 the six-month period of 2014 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.

Seasonality or cyclicality of activities in the reporting period

PKO Bank Polski SA is a universal bank, which provides services on the territory of Poland, and thus its activities are exposed to similar seasonal fluctuations to those affecting the entire Polish economy.

(IN PLN THOUSAND)

Structure of the PKO Bank Polski SA Group

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

NAME OF ENTITY	HEAD OFFICE	RANGE OF ACTIVITY	% SHARE IN EQUITY *	
			30.06.2014	31.12.2013
Nordea Bank Polska SA[1]	**Gdynia**	**banking activities**	**100.00**	**-**
KREDOBANK SA	**Lviv, Ukraine**	**banking activities**	**99.5655**	**99.5655**
Finansowa Kompania 'Idea Kapitał' Sp. z o.o.	Lviv, Ukraine	financial services	100.00	100.00
PKO Towarzystwo Funduszy Inwestycyjnych SA	**Warsaw**	**investment fund management**	**100.00**	**100.00**
PKO BP BANKOWY PTE SA	**Warsaw**	**pension fund management**	**100.00**	**100.00**
PKO Leasing SA	**Łódź**	**leasing services**	**100.00**	**100.00**
PKO Bankowy Leasing Sp. z o.o.	Łódź	leasing services	100.00	100.00
PKO Leasing Sverige AB	Stockholm, Sweden	leasing services	100.00	100.00
PKO Leasing Pro SA[2]	**Warsaw**	**leasing and factoring services**	**100.00**	**-**
Bankowe Towarzystwo Kapitałowe SA	**Warsaw**	**services**	**100.00**	**100.00**
PKO BP Faktoring SA[3]	Warsaw	factoring	99.9889	99.9889
Inteligo Financial Services SA	**Warsaw**	**development and maintenance of IT systems**	**100.00**	**100.00**
PKO BP Finat Sp. z o.o.	**Warsaw**	**transfer agent services**	**100.00**	**100.00**
PKO Życie Towarzystwo Ubezpieczeń SA[4]	**Warsaw**	**life insurance**	**100.00**	**-**
Ubezpieczeniowe Usługi Finansowe Sp. z o.o.[5]	Warsaw	services	100.00	-
PKO Finance AB	**Stockholm, Sweden**	**financial services**	**100.00**	**100.00**
'Inter-Risk Ukraina' Additional Liability Company[6]	**Kiev, Ukraine**	**debt collection services**	**100.00**	**100.00**
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.[7]	**Kiev, Ukraine**	**factoring**	**91.8766**	**91.8766**
Polski Standard Płatności Sp. z o.o.[8]	**Warsaw**	**mobile payments**	**100.00**	**-**
Qualia Development Sp. z o.o.[9]	**Warsaw**	**real estate development**	**100.00**	**100.00**
Qualia Sp. z o.o.	Warsaw	general partner in limited partnerships of the Qualia Development Group entities	100.00	100.00
Qualia spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k.	Warsaw	real estate development	99.9975	99.9975
Qualia spółka z ograniczoną odpowiedzialnością – Sopot Sp. k.	Warsaw	real estate development	99.9787	99.9787
Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k.	Warsaw	real estate development	99.9750	99.9750
Qualia spółka z ograniczoną odpowiedzialnością – Jurata Sp. k.	Warsaw	real estate development	99.9608	99.9608
Qualia spółka z ograniczoną odpowiedzialnością – Zakopane Sp. k.	Warsaw	real estate development	99.9123	99.9123
Qualia spółka z ograniczoną odpowiedzialnością – Pomeranka Sp. k.	Warsaw	real estate development	99.8951	99.8951
Qualia spółka z ograniczoną odpowiedzialnością – Projekt 1 Sp. k.	Warsaw	real estate development	50.00	50.00
Qualia spółka z ograniczoną odpowiedzialnością – Władysławowo Sp. k.	Warsaw	real estate development	50.00	50.00
Qualia Hotel Management Sp. z o.o.	Warsaw	real estate development	100.00	100.00
Qualia – Residence Sp. z o.o.	Warsaw	real estate development	100.00	100.00
Qualia – Rezydencja Flotylla Sp. z o.o.	Warsaw	real estate development	100.00	100.00
'Fort Mokotów Inwestycje' Sp. z o.o.	Warsaw	real estate development	100.00	100.00
Sarnia Dolina Sp. z o.o.	Warsaw	real estate development	100.00	100.00
Giełda Nieruchomości Wartościowych Sp. z o.o.	Warsaw	intermediation in the sale of real estate	100.00	100.00
'Fort Mokotów' Sp. z o.o. in liquidation	Warsaw	in liquidation	51.00	51.00
'CENTRUM HAFFNERA' Sp. z o.o.[10]	**Sopot**	**subsidiaries' real estate management**	**72.9766**	**49.43**
'Sopot Zdrój' Sp. z o.o.	Sopot	real estate management	100.00	100.00
'Promenada Sopocka' Sp. z o.o.	Sopot	rental services and real estate management	100.00	100.00
'Centrum Majkowskiego' Sp. z o.o. in liquidation	Sopot	in liquidation	100.00	100.00
'Kamienica Morska' Sp. z o.o. in liquidation[11]	Sopot	-	-	100.00
Merkury – fiz an[12]	**Warsaw**	**placement of funds collected from fund members**	**100.00**	**100.00**
'Zarząd Majątkiem Górczewska' Sp. z o.o.	Warsaw	real estate management	100.00	100.00
Molina Sp. z o.o.	Warsaw	general partner in limited joint-stock partnership entities of the Fund	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	Warsaw	purchasing and selling of real estate	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.	Warsaw	purchasing and selling of real estate	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A.	Warsaw	purchasing and selling of real estate	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.	Warsaw	purchasing and selling of real estate	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.	Warsaw	purchasing and selling of real estate	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.	Warsaw	purchasing and selling of real estate	100.00	100.00

* Share in equity of direct parent entity
1) Subsidiary of PKO Bank Polski SA since 1 April 2014,
2) Subsidiary of PKO Bank Polski SA since 1 April 2014; formerly Nordea Finance Polska SA,
3) The second shareholder of the Entity is PKO Bank Polski SA,
4) Subsidiary of PKO Bank Polski SA since 1 April 2014; formerly 'Nordea Polska Towarzystwo Ubezpieczeń na Życie' SA,
5) Indirect subsidiary of PKO Bank Polski SA since 1 April 2014; formerly Nordea Usługi Finansowe Sp. z o.o.,
6) The share in the Entity is recognised as non-current assets held for sale,
7) The second shareholder of the Entity is 'Inter-Risk Ukraina' Sp. z d.o.; the share in the Entity is recognised as non-current assets held for sale,
8) The Entity was registered in the National Court Register on 13 January 2014,
9) The total contributions made by the limited partner - Qualia Development Sp. z o.o. are presented in the position 'Share in equity',
10) Until 19 January 2014 the Entity was recognised as joint venture of PKO Bank Polski SA,
11) On 24 January 2014 the Entity has been removed from the National Court Register,
12) PKO Bank Polski SA has investment certificates of the Fund; the share of possessed investment certificates of the Fund is presented in the position 'Share in equity'; the Fund's subsidiaries are consolidated on the level of the PKO Bank Polski SA Group.

(IN PLN THOUSAND)

Joint ventures and associates included in the financial statements:

NAME OF ENTITY	HEAD OFFICE	RANGE OF ACTIVITY	% SHARE IN EQUITY*	
			30.06.2014	31.12.2013
Joint ventures				
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	Warsaw	servicing and settlement of card transactions	34.00	34.00
'Centrum Obsługi Biznesu' Sp. z o.o.	Poznań	hotel management	41.44	41.44
Associates				
Bank Pocztowy SA	Bydgoszcz	banking activities	25.0001	25.0001
Centrum Operacyjne Sp. z o.o.	Bydgoszcz	activities supporting financial services	100.00	100.00
Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o.	Warsaw	intermediary financial services	100.00	100.00
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	Poznań	guarantees	33.33	33.33

* Share in equity of direct parent entity

Information on changes in the participation in the share capital of the subsidiaries is set out in the Note 21 'Investments in subsidiaries, joint ventures and associates and changes to the entities of the Group'.

Internal organisational units of the Bank

The financial statements of the Bank comprising financial data for the six-month period ended 30 June 2014 and comparative financial data, were prepared on the basis of financial data submitted by all organisational units of the Bank through which the Bank performs its activities. As at 30 June 2014, these organisational units included: the Bank's Head Office in Warsaw, the Brokerage House of PKO Bank Polski SA, 14 specialised organisational units, 11 regional retail branches, 7 regional corporate branches and 1136 branches. 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 PKO Bank Polski SA Group and a significant investor for associates and joint ventures, whose owner is the Bank. 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 30 June 2014, the Bank's Management Board consisted of:

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

As at 30 June 2014, the Bank's Supervisory Board consisted of:

- Jerzy Góra — Chairman of the Supervisory Board
- Tomasz Zganiacz — Deputy-Chairman of the Supervisory Board
- Mirosław Czekaj — Member of the Supervisory Board
- Mirosława Boryczka — Member of the Supervisory Board
- Zofia Dzik — Member of the Supervisory Board
- Jarosław Klimont — Member of the Supervisory Board
- Piotr Marczak — Member of the Supervisory Board
- Elżbieta Mączyńska – Ziemacka — Member of the Supervisory Board
- Marek Mroczkowski — Member of the Supervisory Board

On 26 June 2014 the Ordinary General Shareholders' Meeting of the Bank dismissed as of that day the members of the Supervisory Board of PKO Bank Polski SA - Mr Cezary Banasiński and Mr Ryszard Wierzba and appointed Mrs Mirosława Boryczka, Mr Jerzy Góra and Mr Jarosław Klimont as members of the Supervisory Board of the Bank.

Approval of financial statements

These condensed interim financial statements, reviewed by the Audit Committee of the Bank's Supervisory Board on 27 August 2014, have been approved for issue by the Management Board of the Bank on 26 August 2014.

2. Summary of significant accounting policies and estimates and judgements

2.1. Compliance with accounting standards

These condensed interim financial statements of PKO Bank Polski SA have been prepared in accordance with requirements of the International Accounting Standard 34 'Interim Financial Reporting', as approved by the European Commission.

The accounting policies and calculations applied in these condensed financial statements are consistent to those, which were applied in the annual financial statements of PKO Bank Polski SA for the year ended 31 December 2013.

Since 1 January 2014, new standards entered into force: IFRS 10 'Consolidated financial statements' , IFRS 11 'Joint arrangements', IFRS 12 'Disclosure of interest in other entities', revised IAS 27 'Separate financial statements' and revised IAS 28 'Investments in associates and joint ventures', which do not have significant impact on the Group.

The most important changes in accounting policies relate to the change in definition of control, according to which subsidiaries are entities (including those not being a capital company, e.g. a civil law partnership) controlled by the parent entity (the Bank), which means that the Bank:

- has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, ie the activities that significantly affect the investee's returns,
- is a subject to exposure to changing returns or holds right to changing returns due to its involvement in the entity, in which investment was made, i.e. if the Bank's returns due to involvement can fluctuate depending on financial results of the entity in which investment was made and
- is capable of taking advantage of governance over the entity, in which the investment was made, to influence on the return amounts to the investor.

Detailed information on the new standards and their impact on the financial statements is included in the financial statements of PKO Bank Polski SA for the year ended 31 December 2013.

These condensed financial statements for the six-month period ended 30 June 2014 should be read together with financial statements of PKO Bank Polski SA for 2013, prepared in accordance with International Financial Reporting Standards, as approved by the European Commission and they are published together with the condensed consolidated financial statements of the PKO Bank Polski SA Group for the six-month period ended 30 June 2014.

2.2. Standards and interpretations issued and approved in 2014 after the publication date of the financial statements for the year 2013

In 2014, after the publication date of the annual financial statements, i.e. after 10 March 2014, the European Union, by the Regulation of the European Commission No. 634/2014 dated 13 June 2014 adopted for application IFRIC 21 'Levies' interpretation as regards the recognition of liabilities to pay levies imposed on entities by government, government agencies and other similar bodies whether local, national and international. IFRIC 21 is mandatory for annual periods beginning on or after 1 January and shall be applied retrospectively. The Bank does not identify significant impact of the above mentioned standard on the financial statements for the financial year.

2.3. 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 and the notes to these financial statements. The estimates and assumptions that are used by the Bank in determining the value of 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 available data are used for assessing carrying amounts of assets and liabilities which cannot be determined unequivocally using other sources. In making estimates the Bank takes into consideration the reasons and sources of the uncertainties that are anticipated at the end of the reporting period. 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 period in which the estimates were adjusted, provided that these adjustments affect only the given period. However, if the adjustments affect both the period in which the adjustments were 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:

2.4. Impairment of loans and advances

An impairment loss is incurred when there is an objective evidence of impairment due to one or more events that occurred after the initial recognition of the asset ('a loss event'), and the loss event 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 methodology and assumptions used in the estimates are reviewed on a regular basis to minimise the differences between the estimated and actual loss amounts.

The impact of an increase/decrease of cash flows for the Bank's loans and advances portfolio assessed for impairment on the basis of individual analysis of future cash flows arising both from own payments and realisation of collaterals, i.e. the exposures for which an individual method is applied and the impact of an increase/decrease of the amount of portfolio parameters for the Bank's loans and advances portfolio assessed on a portfolio and group basis is presented in the table below (in million):

Estimated change in impairment of loans and advances resulting from:	30.06.2014		31.12.2013	
	+10% scenario	-10% scenario	+10% scenario	-10% scenario
change in the present value of estimated cash flows for the Bank's loans and advances portfolio individually determined to be impaired, assessed on an individual basis	(272)	448	(287)	462
change in probability of default	69	(69)	73	(73)
change in recovery rates	(490)	492	(545)	545

2.5. Valuation of derivatives and unlisted debt securities available for sale

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

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

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

The outcomes of simulation of estimated changes in valuation of non-option derivative instruments for parallel movements of yield curves are presented below:

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

Estimated change in valuation due to parallel movement of yield curve by:	30.06.2014		31.12.2013	
	+50 b.p. scenario	-50 b.p. scenario	+50 b.p. scenario	-50 b.p. scenario
IRS	(88 790)	90 074	(64 909)	65 893
CIRS	(78 082)	81 662	(77 102)	80 805
other derivatives	2 270	(2 324)	4 139	(4 135)
Total	(164 602)	169 412	(137 872)	142 563

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

Estimated change in valuation due to parallel movement of yield curve by:	30.06.2014		31.12.2013	
	+50 b.p. scenario	-50 b.p. scenario	+50 b.p. scenario	-50 b.p. scenario
IRS	(93 943)	95 296	(72 994)	74 072
CIRS	(78 358)	81 952	(77 400)	81 118
Total	(172 301)	177 248	(150 394)	155 190

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

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

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

When the period of use of a given asset results from contract term, the useful life of such asset corresponds to the period defined in the contract. If the estimated useful life is shorter than the period defined in the contract, the estimated useful life is applied.
The impact of change in useful economic lives of assets being subject to depreciation and classified as land and buildings, influencing on the change of financial result is presented in the table below (in PLN million):

Change in useful economic lives of assets being subject to depreciation and classified as land and buildings	30.06.2014		31.12.2013	
	+10 years scenario	-10 years scenario	+10 years scenario	-10 years scenario
Depreciation costs	(14)	199	(27)	190

(IN PLN THOUSAND)

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

These adjustments were described in the financial statements of PKO Bank Polski SA for the year ended 31 December 2013.

Restatements in the statement of financial position

	30.06.2013 before restatement	changes due to bancassurance	reclassification of liabilities due to UOKiK	30.06.2013 restated
Assets				
Loans and advances to customers	147 148 433	(416 138)	-	146 732 295
Deferred income tax asset	434 896	62 462	-	497 358
Other items of assets	47 960 327	-	-	47 960 327
TOTAL ASSETS	195 543 656	(353 676)	-	195 189 980
Liabilities				
Other liabilities	4 549 390	(87 382)	(23 442)	4 438 566
Provisions	273 735	-	23 442	297 177
Other items of liabilities	167 110 191	-	-	167 110 191
TOTAL LIABILITIES	171 933 316	(87 382)	-	171 845 934
Equity				
Share capital	1 250 000	-	-	1 250 000
Other capital	20 811 821	-	-	20 811 821
Undistributed profits	-	(271 242)	-	(271 242)
Net profit	1 548 519	4 948	-	1 553 467
TOTAL EQUITY	23 610 340	(266 294)	-	23 344 046
TOTAL LIABILITIES AND EQUITY	195 543 656	(353 676)	-	195 189 980

Restatements in the income statement

	01.01 – 30.06.2013 before restatement	changes due to bancassurance	01.01 – 30.06.2013 restated
Interest and similar income	5 449 843	114 271	5 564 114
Interest expense and similar charges	(2 243 504)	-	(2 243 504)
Net interest income	3 206 339	114 271	3 320 610
Fee and commission income	1 846 047	(128 850)	1 717 197
Fee and commission expense	(463 339)	20 688	(442 651)
Net fee and commission income	1 382 708	(108 162)	1 274 546
Dividend income	78 567	-	78 567
Net income from financial instruments measured at fair value	3 851	-	3 851
Gains less losses from investment securities	60 773	-	60 773
Net foreign exchange gains (losses)	73 235	-	73 235
Other operating income	33 165	-	33 165
Other operating expense	(27 903)	-	(27 903)
Net other operating income and expense	5 262	-	5 262
Net impairment allowance and write-downs	(883 682)	-	(883 682)
Administrative expenses	(2 031 444)	-	(2 031 444)
Operating profit	1 895 609	6 109	1 901 718
Profit before income tax	1 895 609	6 109	1 901 718
Income tax expense	(347 090)	(1 161)	(348 251)
Net profit	1 548 519	4 948	1 553 467

Restatement in the statement of comprehensive income

	01.01 – 30.06.2013 before restatement	changes due to bancassurance	01.01 – 30.06.2013 restated
Net profit	1 548 519	4 948	1 553 467
Other comprehensive income	(334 238)	-	(334 238)
Total net comprehensive income	1 214 281	4 948	1 219 229

(IN PLN THOUSAND)

NOTES TO THE INCOME STATEMENT

3. Interest income and expense

Interest and similar income

	01.01 - 30.06.2014	01.01 - 30.06.2013 restated
Interest income calculated using the effective interest rate method, with respect to financial assets, which are not measured at fair value through profit and loss, of which:	4 486 549	4 994 915
Income from loans and advances to customers, of which:	4 135 397	4 625 756
from impaired loans	223 337	256 824
Income from loans to banks	11 219	984
Income from investment securities available for sale	264 670	271 730
Income from placements with banks	73 075	94 948
Other	2 188	1 497
Other income, of which:	385 804	569 199
Income from financial assets designated upon initial recognition at fair value through profit and loss	186 700	263 906
Income from derivative hedging instruments	171 114	270 344
Income from trading assets	27 990	34 949
Total	4 872 353	5 564 114

Interest expense and similar charges

	01.01 - 30.06.2014	01.01 - 30.06.2013
Interest expense calculated using the effective interest rate method, with respect to financial liabilities, which are not measured at fair value through profit and loss, of which:	(1 434 578)	(2 236 528)
Interest expense on amounts due to customers	(1 343 283)	(2 137 807)
Interest expense on loans from banks	(26 748)	(14 745)
Interest expense on debt securities in issue and subordinated liabilities	(44 392)	(57 698)
Premium expense on debt securities available for sale	(14 880)	(16 581)
Interest expense on deposits from banks	(5 275)	(9 697)
Other expense	(5 699)	(6 976)
Expense on financial assets designated upon initial recognition at fair value through profit and loss	(3 131)	(2 903)
Expense on trading assets	(2 568)	(4 073)
Total	(1 440 277)	(2 243 504)

(IN PLN THOUSAND)

4. Fee and commission income and expense

Fee and commission income

	01.01 - 30.06.2014	01.01 - 30.06.2013 restated
Income from financial assets, which are not measured at fair value through profit and loss, of which:	275 890	291 877
income from loans and advances granted	275 890	291 877
Other commissions from:	1 597 651	1 423 225
payment cards	705 565	580 661
maintenance of bank accounts	453 473	422 266
loans insurance	133 701	132 149
maintenance of investment funds (including management fees)	114 031	99 212
cash transactions	51 587	57 457
securities transactions	41 490	35 425
servicing foreign mass transactions	28 017	24 965
providing the services of an agent for the issue of Treasury bonds	11 516	11 265
sale and distribution of court fee stamps	2 500	3 918
Other*	55 771	55 907
Income from fiduciary activities	1 636	2 095
Total	1 875 177	1 717 197

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

Fee and commission expense on:

	01.01 - 30.06.2014	01.01 - 30.06.2013 restated
payment cards	(366 752)	(288 627)
loans insurance	(53 177)	(45 378)
acquisition services	(42 515)	(45 714)
settlement services	(13 618)	(13 496)
fee and commissions for operating services provided by banks	(6 101)	(5 366)
other*	(58 057)	(44 070)
Total	(540 220)	(442 651)

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

5. Net income from financial instruments measured at fair value

	01.01 - 30.06.2014	01.01 - 30.06.2013
Change in fair value of financial instruments measured at fair value through profit and loss determined using the valuation techniques:	7 457	7 525
Derivative instruments, of which:	13 191	20 747
an ineffective portion related to cash flow hedges	6 494	497
Structured bank securities measured at fair value through profit and loss	(5 734)	(13 222)
Debt securities	33 934	(1 771)
Equity instruments	898	(1 903)
Total	42 289	3 851

01.01 -30.06.2014	Gains	Losses	Net result
Trading assets	8 444 689	(8 424 454)	20 235
Financial assets designated upon initial recognition at fair value through profit and loss	94 242	(72 188)	22 054
Total	8 538 931	(8 496 642)	42 289

(IN PLN THOUSAND)

01.01- 30.06.2013	Gains	Losses	Net result
Trading assets	10 250 100	(10 230 156)	19 944
Financial assets designated upon initial recognition at fair value through profit and loss	70 725	(86 818)	(16 093)
Total	10 320 825	(10 316 974)	3 851

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

	01.01-30.06.2014	01.01-30.06.2013
Gain/loss due to change in value of assets available for sale recognised directly in other comprehensive income during the period	69 194	(228 356)
Gain/loss derecognised from other comprehensive income recognised in income statement in the position 'Gains less losses from investment securities' on:	37 800	60 773
gain from sale derecognised from other comprehensive income	40 576	91 035
loss on sale derecognised from other comprehensive income	(2 776)	(30 262)
Impact on other comprehensive income (gross), position 'Unrealised net gains on financial assets available for sale (gross)'	106 994	(167 583)

7. Other operating income and expense

	01.01-30.06.2014	01.01-30.06.2013
Sale and disposal of tangible fixed assets, intangible assets and assets held for sale	32 223	5 818
Sundry income	9 303	9 896
Recovery of expired and written-off receivables	5 574	2 515
Other	20 834	14 936
Total other operating income	67 934	33 165

	01.01-30.06.2014	01.01-30.06.2013
Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(19 998)	(8 025)
Donations	(6 226)	(7 502)
Sundry expense	(2 428)	(2 789)
Other	(11 921)	(9 587)
Total other operating expense	(40 573)	(27 903)

(IN PLN THOUSAND)

8. Net impairment allowance and write-downs

For the six-month period ended 30 June 2014	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	Derecognition of assets and settlement	Reversed during the period	Other		
Investment securities available for sale	20	33 355	91	-	-	-	12 455	20 991	(91)
Debt securities available for sale		3 296	91	-	-	-	-	3 387	(91)
Equity securities		30 059	-	-	-	-	12 455	17 604	-
Amounts due from banks	14	40 237	4 290	698	-	2 599	-	42 626	(1 691)
Loans and advances to customers measured at amortised cost	19	6 381 232	2 843 329	14 680	694 027	1 957 556	-	6 587 658	(885 773)
Non-financial sector		6 361 891	2 826 352	14 614	693 715	1 948 923	-	6 560 219	(877 429)
corporate loans		3 229 736	1 506 313	3 170	484 580	869 981	-	3 384 658	(636 332)
housing loans		1 704 404	670 530	9 990	67 986	542 363	-	1 774 575	(128 167)
consumer loans		1 400 664	637 139	1 454	141 149	536 579	-	1 361 529	(100 560)
debt securities		27 087	12 370	-	-	-	-	39 457	(12 370)
Financial sector		7 814	16 851	5	312	7 945	-	16 413	(8 906)
corporate loans		7 814	16 851	5	312	7 945	-	16 413	(8 906)
Public sector		11 527	126	61	-	688	-	11 026	562
corporate loans		10 549	126	61	-	681	-	10 055	555
debt securities		978	-	-	-	7	-	971	7
Non-current assets held for sale	22	165 226	48 531	-	236	-	-	213 521	(48 531)
Tangible fixed assets	23	34	-	-	16	-	-	18	-
Intangible assets	23	17 154	-	-	-	1 781	-	15 373	1 781
Investments in subsidiaries, joint ventures and associates	21	842 040	14 918	-	-	-	-	856 958	(14 918)
Other receivables		143 335	18 195	18	643	11 327	-	149 578	(6 868)
Provision for legal claims, loan commitments and guarantees granted	29	145 124	187 087	232	-	205 961	-	126 482	18 874
Provisions for future liabilities		5 396	925	-	504	1 208	-	4 609	283
Total		7 773 133	3 117 366	15 628	695 426	2 180 432	12 455	8 017 814	(936 934)

(IN PLN THOUSAND)

For the six-month period ended 30 June 2013		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	Derecognition of assets and settlement	Reversed during the period		
Investment securities available for sale	20	24 592	-	-	5 536	-	19 056	-
Debt securities available for sale		5 536	-	-	5 536	-	-	-
Equity securities		19 056	-	-	-	-	19 056	-
Amounts due from banks	14	30 792	405	2 113	-	794	32 516	389
Loans and advances to customers measured at amortised cost	19	6 228 629	2 991 311	64 200	548 043	2 069 209	6 666 888	(922 102)
Non-financial sector		6 161 413	2 973 572	63 695	547 917	2 061 832	6 588 931	(911 740)
corporate loans		3 102 026	1 586 606	17 523	326 227	975 775	3 404 153	(610 831)
housing loans		1 639 861	635 909	34 621	66 351	524 830	1 719 210	(111 079)
consumer loans		1 417 720	749 919	11 551	155 339	561 227	1 462 624	(188 692)
debt securities		1 806	1 138	-	-	-	2 944	(1 138)
Financial sector		45 226	17 520	459	-	718	62 487	(16 802)
corporate loans		45 226	17 520	459	-	718	62 487	(16 802)
Public sector		21 990	219	46	126	6 659	15 470	6 440
corporate loans		19 640	219	46	126	6 635	13 144	6 416
debt securities		2 350	-	-	-	24	2 326	24
Non-current assets held for sale	22	1 226	963	-	21	-	2 168	(963)
Tangible fixed assets	23	34	-	-	-	-	34	-
Intangible assets	23	17 154	-	-	-	-	17 154	-
Investments in subsidiaries, joint ventures and associates	21	683 817	35 936	-	-	-	719 753	(35 936)
Other receivables		149 549	19 433	332	16 614	18 965	133 735	(468)
Provision for legal claims, loan commitments and guarantees granted	29	234 470	113 544	778	-	182 399	166 393	68 855
Provisions for future liabilities		11 961	704	-	280	7 247	5 138	6 543
Total		7 382 224	3 162 296	67 423	570 494	2 278 614	7 762 835	(883 682)

9. Administrative expenses

	01.01 - 30.06.2014	01.01 - 30.06.2013
Employee benefits	(1 119 604)	(1 076 520)
Overheads	(559 635)	(592 640)
Amortisation and depreciation, of which:	(308 015)	(254 671)
tangible fixed assets	(125 992)	(132 141)
intangible assets	(182 021)	(122 525)
investments properties	(2)	(5)
Taxes and other charges	(36 035)	(30 742)
Contribution and payments to the Bank Guarantee Fund	(104 910)	(76 871)
Total	(2 128 199)	(2 031 444)

Employee benefits

	01.01 - 30.06.2014	01.01 - 30.06.2013
Wages and salaries*, of which:	(929 752)	(869 787)
expenses on employee pension programme	(17 522)	(22 800)
Social insurance, of which:	(158 487)	(172 935)
contributions for retirement pay and pensions	(142 831)	(146 010)
Other employee benefits	(31 365)	(33 798)
Total	(1 119 604)	(1 076 520)

*In the first half of 2013, in the position 'Wages and salaries' the effect of release of the provision for retirement benefits and anniversary bonuses in the amount of PLN 179 million was included.

10. Income tax expense

	01.01 - 30.06.2014	01.01 - 30.06.2013 restated
Current income tax expense	(432 275)	(334 580)
Deferred income tax related to creating and reversal of temporary differences	40 433	(13 671)
Tax expense in the income statement	(391 842)	(348 251)
Tax expense in other comprehensive income related to creating and reversal of temporary differences	(49 196)	78 399
Total	(441 038)	(269 852)

Deferred income tax asset/liability

	30.06.2014	31.12.2013	30.06.2013 restated
Deferred income tax asset	1 108 087	1 108 082	1 226 605
Deferred income tax liability	729 658	720 890	729 247
Total	378 429	387 192	497 358

11. 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

	01.01 - 30.06.2014	01.01 - 30.06.2013 restated
Profit per ordinary shareholders (in PLN thousand)	1 679 300	1 553 467
Weighted average number of ordinary shares during the period (in thousand)	1 250 000	1 250 000
Earnings per share (in PLN per share)	1.34	1.24

(IN PLN THOUSAND)

Earnings per share from discontinued operations

In the periods ended 30 June 2014 and 30 June 2013 respectively, there were no discontinued operations.

Diluted earnings per share

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

In the first half of 2014 as well as in the first half of 2013, there were no dilutive instruments in the Bank.

Diluted earnings per share from discontinued operations

In the periods ended 30 June 2014 and 30 June 2013 respectively, there were no discontinued operations in the Bank.

12. Dividends declared (in total or per share) on ordinary shares and other shares

Pursuant to the Resolution No. 7/2014 of the Ordinary General Shareholders' Meeting of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna passed on 26 June 2014, the dividend for 2013 amounted to PLN 937 500 thousand, i.e. PLN 0.75 per share.

The list of shareholders eligible to receive dividend for 2013 was determined as at 18 September 2014, and the payment of the dividend will be made on 3 October 2014.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

13. Cash and balances with the central bank

	30.06.2014	31.12.2013
Current account in the central bank	5 715 702	4 018 340
Cash	2 494 636	3 169 820
Other funds	36	246
Total	8 210 374	7 188 406

14. Amounts due from banks

	30.06.2014	31.12.2013
Loans and advances granted, of which:	14 749 868	289 529
Nordea Bank Polska SA*	14 441 997	-
Current accounts	1 002 376	399 057
Deposits with banks	976 098	1 425 588
Receivables due from repurchase agreements	56 492	14 033
Cash in transit	1 844	1 117
Total	16 786 678	2 129 324
Impairment allowances on receivables, of which:	(42 626)	(40 237)
impairment allowances on receivable to a foreign bank	(41 974)	(40 137)
Net total	16 744 052	2 089 087

*information is presented in the Note 21 'Investments in subsidiaries, joint ventures and associates and changes to the entities of the Group'

Details on risk related to amounts due from banks are described in the Note 40 'Credit risk management'.

(IN PLN THOUSAND)

15. Trading assets

By carrying amount	30.06.2014	31.12.2013
Debt securities	**1 177 969**	**472 535**
issued by the State Treasury, of which:	1 099 169	395 202
Treasury bonds PLN	1 099 169	390 660
Treasury bonds EUR	-	4 542
issued by local government bodies, municipal bonds PLN	51 622	41 907
issued by non-financial institutions, corporate bonds PLN	8 320	23 892
issued by other financial institutions, of which:	9 269	11 366
bonds issued by WSE PLN	4 503	6 628
bonds issued by PKO Finance AB EUR	4 656	4 604
corporate bonds PLN	110	134
issued by banks	9 589	168
Shares in other entities – listed on stock exchange	**6 196**	**10 799**
Investment certificates	**4 711**	**1 151**
Total	1 188 876	484 485

16. Derivative financial instruments

Derivative instruments used by the Bank

As at 30 June 2014 and as at 31 December 2013, the Bank held the following types of derivative instruments:

	30.06.2014		31.12.2013	
	Assets	Liabilities	Assets	Liabilities
Hedging instruments	379 394	378 411	361 639	414 804
Other derivative instruments	2 983 828	3 184 729	2 640 581	2 913 345
Total	3 363 222	3 563 140	3 002 220	3 328 149

Fair value of derivative financial instruments

Type of contract	30.06.2014		31.12.2013	
	Assets	Liabilities	Assets	Liabilities
IRS	3 037 053	2 843 807	2 592 081	2 490 832
CIRS	122 120	458 618	252 941	545 073
FX Swap	38 019	93 204	39 908	156 320
Options	103 863	76 872	75 443	61 961
Forward	21 656	47 865	24 552	60 112
FRA	38 995	42 498	13 652	11 454
Other	1 516	276	3 643	2 397
Total	3 363 222	3 563 140	3 002 220	3 328 149

17. Derivative hedging instruments

As at 30 June 2014 the Bank applies the following hedging strategies:

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

(IN PLN THOUSAND)

Detailed information on hedging strategies in use has been included in the condensed interim consolidated financial statements of the PKO Bank Polski SA Group for the six-month period ended 30 June 2014.

As at 30 June 2014 and as at 31 December 2013, 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. Tests are performed monthly.

In the first half the Bank did not introduce new hedging strategies.

In the second quarter of 2014, due to the lack of fulfilment of the retrospective effectiveness test, the Bank ceased to apply hedge accounting for one of hedging relationships within strategy ‘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’.

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 30 June 2014 and as at 31 December 2013 amounts to respectively:

Type of instrument:	Carrying amount/fair value			
	30.06.2014		31.12.2013	
	Assets	Liabilities	Assets	Liabilities
IRS	324 122	-	229 630	630
CIRS	55 272	378 411	132 009	414 174
Total	379 394	378 411	361 639	414 804

The nominal value of hedging instruments by maturity.

Type of instrument:	Nominal value as at 30 June 2014					
	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
IRS PLN fixed - float	-	-	2 640 000	8 698 000	-	11 338 000
IRS EUR fixed - float:						
translated into PLN	-	-	-	1 963 945	-	1 963 945
EUR (original currency)	-	-	-	472 000	-	472 000
IRS CHF fixed - float:						
translated into PLN	-	-	-	856 150	-	856 150
CHF (original currency)	-	-	-	250 000		250 000
CIRS float CHF/float PLN						
float PLN	-	-	1 450 903	5 523 129	3 289 653	10 263 685
float CHF	-	-	425 000	1 670 000	950 000	3 045 000
CIRS fixed CHF/float CHF						
fixed USD	-	-	-	-	750 000	750 000
float CHF	-	-	-	-	695 419	695 419

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

The nominal values were translated using the average NBP exchange rate as at 30 June 2014 and as at 31 December 2013 respectively.

(IN PLN THOUSAND)

Other comprehensive income as regards cash flow hedges	01.01 - 30.06.2014	01.01 - 30.06.2013
Other comprehensive income at the beginning of the period, gross	(155 053)	64 073
Gains transferred to other comprehensive income in the period	184 073	(433 333)
Amount transferred from other comprehensive income to the income statement in the period	(32 138)	188 279
- interest income	(171 114)	(270 344)
- net foreign exchange gains	138 976	458 623
Accumulated other comprehensive income at the end of the period, gross	(3 118)	(180 981)
Tax effect	592	34 386
Accumulated other comprehensive income at the end of the period, net	(2 526)	(146 595)
Ineffective part of cash flow hedges recognised in the income statement	6 494	497
Effect on other comprehensive income in the period, gross	151 935	(245 054)
Deferred tax on cash flow hedges	(28 868)	46 560
Effect on other comprehensive income in the period, net	123 067	(198 494)

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

By carrying amount	30.06.2014	31.12.2013
Debt securities	11 107 485	15 179 188
issued by central banks, NBP money market bills	9 497 378	13 997 228
issued by the State Treasury, Treasury bonds PLN	1 360 397	931 325
issued by local government bodies, of which:	249 710	250 635
municipal bonds EUR	140 041	136 700
municipal bonds PLN	109 669	113 935
Total	11 107 485	15 179 188

19. Loans and advances to customers

	30.06.2014	31.12.2013	30.06.2013 restated
Loans and advances to customers, gross, of which:	157 985 115	153 753 558	153 399 183
financial sector	5 532 626	5 719 004	3 979 660
corporate, of which:	4 367 093	3 680 581	3 618 630
deposits of the Brokerage House of PKO Bank Polski SA in the Stock Exchange Guarantee Fund and initial deposit	21 348	19 339	14 492
receivables due from repurchase agreements	1 165 533	2 038 423	361 030
non-financial sector	145 340 233	140 893 713	141 802 850
housing	79 392 858	76 482 811	74 707 542
corporate, of which:	44 094 779	43 172 563	45 501 019
contributions to equity of subsidiaries	-	-	215 460
consumer	20 515 976	20 399 493	20 685 439
debt securities (corporate)	1 336 620	838 846	908 850
public sector	7 112 256	7 140 841	7 616 673
corporate	6 141 417	6 057 017	6 448 561
debt securities (municipal)	970 839	978 159	1 163 186
housing	-	-	4 926
receivables due from repurchase agreements	-	105 665	-
Impairment allowances on loans and advances to customers	(6 587 658)	(6 381 232)	(6 666 888)
Loans and advances to customers, net	151 397 457	147 372 326	146 732 295

As at 31 December 2013, as a result of stabilisation action performed for the selling shareholder, the Brokerage House of PKO Bank Polski SA owned company's shares valued at the purchase price and presented in the position 'Receivables due from repurchase agreements' in the amount of PLN 105 665 thousand and cash in the amount of PLN 14 629 thousand, blocked on the stabilisation manager's account as well as a liability in the same amount to the selling shareholder. As at 30 June 2014, no such items presented under 'Receivables due from repurchase agreements'.

(IN PLN THOUSAND)

By client segment	30.06.2014	31.12.2013	30.06.2013 restated
Loans and advances granted, gross, of which:	157 985 115	153 753 558	153 399 183
mortgage banking	72 094 687	68 794 958	66 865 855
corporate	42 360 543	40 763 620	43 652 113
small and medium enterprises	21 827 028	21 632 060	21 604 794
retail and private banking	20 515 976	20 399 493	20 685 439
contributions to equity of subsidiaries	-	-	215 460
receivables due from repurchase agreements	1 165 533	2 144 088	361 030
deposits of the Brokerage House of PKO Bank Polski SA in the Stock Exchange Guarantee Fund	21 348	19 339	-
other receivables	-	-	14 492
Impairment allowances on loans and advances	(6 587 658)	(6 381 232)	(6 666 888)
Loans and advances granted, net	151 397 457	147 372 326	146 732 295

The structure of loans and advances presented in the note:

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

Loans and advances to customers by method of calculating allowances	30.06.2014	31.12.2013	30.06.2013 restated
Assessed on an individual basis, of which:	6 586 849	6 830 053	7 621 925
impaired	5 058 991	5 091 377	5 600 198
not impaired	1 527 858	1 738 676	2 021 727
Assessed on a portfolio basis, impaired	7 258 618	7 173 761	7 344 538
Assessed on a group basis (IBNR)	144 139 648	139 749 744	138 432 720
Loans and advances to customers, gross	157 985 115	153 753 558	153 399 183
Allowances on exposures assessed on an individual basis, of which:	(2 049 358)	(2 133 217)	(2 301 806)
impaired	(2 033 229)	(2 116 083)	(2 172 366)
Allowances on exposures assessed on a portfolio basis	(4 028 054)	(3 677 518)	(3 684 854)
Allowances on exposures assessed on a group basis (IBNR)	(510 246)	(570 497)	(680 228)
Allowances - total	(6 587 658)	(6 381 232)	(6 666 888)
Loans and advances to customers, net	151 397 457	147 372 326	146 732 295

A detailed description of changes in allowances is presented in the Note 8 'Net impairment allowance and write-downs'.

As at 30 June 2014, the share of impaired loans amounted to 7.8% (as at 31 December 2013: 8.0%), whereas the coverage ratio for impaired loans (calculated as total impairment allowances on loans and advances to customers divided by gross carrying amount of impaired loans) amounted to 53.5% (as at 31 December 2013: 52.0%).

As at 30 June 2014, the share of loans overdue by more than 90 days in the gross amount of loans and advances was 5.5% (as at 31 December 2013: 5.4%).

(IN PLN THOUSAND)

20. Investment securities available for sale

	30.06.2014	31.12.2013
Debt securities available for sale, gross	19 774 145	13 551 967
issued by the State Treasury, Treasury bonds PLN	14 025 935	8 518 450
issued by local government bodies, municipal bonds PLN	3 400 821	3 440 753
issued by non-financial institutions, corporate bonds PLN	1 075 680	1 000 549
issued by other financial institutions, corporate bonds PLN	121 093	33 401
issued by banks, of which:	1 150 616	558 814
corporate bonds PLN	1 062 180	558 814
corporate bonds EUR	88 436	-
Impairment allowances of debt securities available for sale	(3 387)	(3 296)
corporate bonds	(3 387)	(3 296)
Total net debt securities available for sale	19 770 758	13 548 671
Equity securities available for sale, gross	231 679	218 086
Equity securities not admitted to public trading	189 875	161 403
Equity securities admitted to public trading	41 804	56 683
Impairment allowances of equity securities available for sale	(17 604)	(30 059)
Total net equity securities available for sale	214 075	188 027
Total net investment securities available for sale	19 984 833	13 736 698

Debt securities (municipal bonds and corporate bonds) reclassified from financial assets available for sale to loans and advances to customers (reclassified in the third and the fourth quarter of 2012).

30 June 2014	nominal value	fair value	carrying amount
Municipal bonds	946 191	950 567	955 123
Corporate bonds	780 040	787 915	757 419
Total	1 726 231	1 738 482	1 712 542

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

(IN PLN THOUSAND)

21. Investments in subsidiaries, joint ventures and associates and changes to the entities of the Group

The Bank's individual shares in subsidiaries, joint ventures and associates are presented below.

As at 30 June 2014	Gross value	Impairment	Carrying amount
Subsidiaries			
Nordea Bank Polska SA	2 998 389	-	2 998 389
KREDOBANK SA	1 018 069	(760 641)	257 428
Qualia Development Sp. z o.o.	317 785	-	317 785
PKO BP BANKOWY PTE SA	205 786	-	205 786
PKO Towarzystwo Funduszy Inwestycyjnych SA	186 989	-	186 989
PKO Życie Towarzystwo Ubezpieczeń SA (former 'Nordea Polska Towarzystwo Ubezpieczeń na Życie' SA)	184 636	-	184 636
Merkury – fiz an[1]	120 000	-	120 000
PKO Leasing SA	90 000	-	90 000
Inteligo Financial Services SA	59 602	-	59 602
'CENTRUM HAFFNERA' Sp. z o.o.	44 371	(44 371)	-
Bankowe Towarzystwo Kapitałowe SA	22 066	(10 666)	11 400
PKO BP Finat Sp. z o.o.	11 693	-	11 693
PKO Leasing Pro SA (former Nordea Finanse Polska SA)	8 000	-	8 000
Polski Standard Płatności Sp. z o.o.	2 271	-	2 271
PKO Finance AB	172	-	172
Joint ventures			
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	197 320	-	197 320
'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)	-
Total	5 632 647	(856 958)	4 775 689

1) PKO Bank Polski SA has investment certificates of the Fund, which, according to IFRS, allow to control the Fund.

In the first half of 2014, based on the valuation conducted, the Bank increased the impairment allowances on shares of KREDOBANK SA by the amount of PLN 14 918 thousand. Impairment allowance on shares of KREDOBANK SA was determined based on estimation of value in use, calculated on the basis of the present value of actualised, estimated future cash flows.

As at 31 December 2013	Gross value	Impairment	Carrying amount
Subsidiaries			
KREDOBANK SA	999 412	(745 723)	253 689
Qualia Development Sp. z o.o. [1]	317 785	-	317 785
PKO BP BANKOWY PTE SA	205 786	-	205 786
PKO Towarzystwo Funduszy Inwestycyjnych SA	186 989	-	186 989
Merkury – fiz an[2]	120 000	-	120 000
PKO Leasing SA	90 000	-	90 000
Inteligo Financial Services SA	59 602	-	59 602
Bankowe Towarzystwo Kapitałowe SA	22 066	(10 666)	11 400
PKO BP Finat Sp. z o.o.	11 693	-	11 693
PKO Finance AB	172	-	172
Joint ventures			
'CENTRUM HAFFNERA' Sp. z o.o.	44 371	(44 371)	-
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	197 592	-	197 592
'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)	-
Total	2 420 966	(842 040)	1 578 926

1) The value of acquired shares in the increased share capital of the Company in the amount of PLN 77 474 thousand covered by contribution in kind in the form of shares of Fort Mokotów Inwestycje Sp. z o.o. is presented in the position; as at 31 December 2013 the above-mentioned increase was not registered with the National Court Register. Additionally, the position includes capital contributions made by PKO Bank Polski SA which were converted to the capital, previously presented under 'Loans and advances to customers'.
2) PKO Bank Polski SA has investment certificates of the Fund, which, according to IFRS, allow to control the Fund.

As at 30 June 2014 and as at 31 December 2013, the Bank had no share in contingent liabilities of associates acquired jointly with other investors.

Changes to the entities of the Group

In the first half of 2014, the following events affecting the structure of the PKO Bank Polski SA Group took place:

1) concerning the acquisition of the Nordea Bank AB (publ) Group entities

On 12 June 2013, PKO Bank Polski SA and Nordea Bank AB (publ), a company registered in Sweden, concluded an agreement ('Agreement', 'Transaction') concerning the acquisition by the Bank of shares in Nordea Bank Polska SA, 'Nordea Polska Towarzystwo Ubezpieczeń na Życie' SA and Nordea Finance Polska SA, as well as purchasing from Nordea AB a receivables portfolio granted to Polish corporate customers (so-called 'Swedish portfolio' assets).

In April and May 2014, after satisfying conditions precedent defined in the Agreement, PKO Bank Polski SA:

- ✓ acquired shares of Nordea Bank Polska SA

On 1 April 2014 Nordea Bank AB (publ) placed a subscription in response to tender offer announced on 3 December 2013 by the Bank (the 'Tender Offer'), for the sale of all shares of Nordea Bank Polska SA, i.e. 55 061 403 shares representing the 99.21% of the share capital of the Company and entitling to 99.21% of votes at the General Shareholders' Meeting of the Company. Whereas non-controlling shareholders placed subscription within the Tender Offer regarding the sale of total of 319 889 shares of Nordea Bank Polska SA. The total purchase price of the above mentioned shares, paid within the Tender Offer, was PLN 2 635 753 thousand.

On 4 April 2014, as a result of exercising rights under subscription warrants (acquired by PKO Bank Polski SA on 1 April of this year), Nordea Bank Polska SA issued to the Bank 8 335 100 of ordinary registered Series N shares. The purchase price of Series N shares was PLN 400 001 thousand.

On 12 May 2014, as a part of the compulsory buy-out, PKO Bank Polski SA bought 117 408 shares of Nordea Bank Polska SA i.e. all remaining, dematerialised shares, for the amount of PLN 5 634 thousand.

Within the above mentioned transactions the Bank acquired in total 63 833 800 ordinary shares of Nordea Bank Polska SA with a nominal value of PLN 5 each, representing 100% of the Company's share capital and entitling to 100% of the votes at the General Shareholders' Meeting of the Company. The total purchase price of the shares of Nordea Bank Polska SA, including discount for this Transaction, was PLN 2 998 389 thousand.

The purpose of the acquisition of Nordea Bank Polska SA's shares is to merge the Company with the Bank. On 14 May 2014 the Management Board of PKO Bank Polski SA and the Management Board of Nordea Bank Polska SA signed a merger plan, whereby all property (all assets and equity and liabilities) of Nordea Bank Polska SA will be transferred to the Bank, as the acquirer. The Bank will assume all rights and obligations of Nordea Bank Polska SA, and Nordea Bank Polska SA will be dissolved without liquidation proceedings, as of the date of registration of the Merger with the register. The completion of the Merger depends on obtaining the permits and consents required by law in relation to the Merger, including a permit of the Polish Financial Supervision Authority (PFSA).

- ✓ acquired shares of 'Nordea Polska Towarzystwo Ubezpieczeń na Życie' SA

On 1 April 2014, PKO Bank Polski SA concluded with Nordea Life Holding AB (a company registered in Sweden) an agreement to purchase by the Bank 1 725 329 shares of 'Nordea Polska Towarzystwo Ubezpieczeń na Życie' SA, with a nominal value of PLN 111.59 each, representing 100% of the Company's share capital and entitling to 100% of votes at the General Shareholders' Meeting of the Company, for a total price of PLN 184 636 thousand.

On 14 May 2014, the change of the Company's name to PKO Życie Towarzystwo Ubezpieczeń SA was registered with the National Court Register.

At the same time, in relation to acquisition of 'Nordea Polska Towarzystwo Ubezpieczeń na Życie' SA, its subsidiary: Nordea Usługi Finansowe Sp. z o.o. (currently Ubezpieczeniowe Usługi Finansowe Sp. z o.o. - change of name was registered with the National Court Register on 14 May of this year) became a part of the PKO Bank Polski SA Group.

As at 30 June 2014, a share capital of Ubezpieczeniowe Usługi Finansowe Sp. z o.o. amounts to PLN 1 950 thousand and consists of 3 900 shares, each of PLN 500 nominal value. The sole shareholder of the above mentioned company is PKO Życie Towarzystwo Ubezpieczeń SA. The core business of Ubezpieczeniowe Usługi Finansowe Sp. z o.o. is the provision of support services for insurance activities.

- ✓ acquired shares of Nordea Finance Polska SA

On 1 April 2014 PKO Bank Polski SA concluded with Nordea Rahoitus Suomi OY (the company registered in Finland) an agreement to purchase by the Bank 4 100 000 shares of Nordea Finance Polska SA, with a nominal value of PLN 1 each, representing 100% of the Company's share capital and entitling to 100% of the votes at the General Shareholders' Meeting of the Company, for a total price of PLN 8 000 thousand.

On 26 June 2014, the change of the Company's name to PKO Leasing Pro SA was registered with the National Court Register.

PKO Leasing Pro SA, is to be merged ultimately with PKO Leasing SA, i.e. property (all assets and equity and liabilities excluding statement of financial position items related to factoring activities acquired by PKO BP Faktoring SA) of PKO Leasing Pro SA will be transferred to PKO Leasing SA, as the acquirer. On 30 June 2014, plan of merger between both Companies was registered with the respective courts.

✓ acquired so called 'Swedish portfolio' assets

On 1 April 2014 PKO Bank Polski SA and Nordea Bank AB (publ) concluded an agreement to purchase by the Bank so-called 'Swedish portfolio' assets, i.e. receivables from loans and advances, and bonds granted by Nordea Bank AB (publ) or other members of its Group to corporate customers (the 'Swedish Portfolio'). Pursuant to the agreement: (i) assets that as at 1 April 2014 had remaining maturity period shorter than 12 months, (ii) assets which had been repaid, prepaid or fully cancelled by the client between the date of the Agreement (i.e. 12 June 2013) and 1 April 2014; and (iii) assets which could not be transferred without client's or third party's consent and such consent had not been obtained were excluded from the Swedish Portfolio sold on 1 April 2014. The aggregate nominal value of the Swedish Portfolio was the sum of PLN 761 811 thousand, USD 120 199 thousand, EUR 136 044 thousand and CZK 459 167 thousand i.e. it amounted to PLN 1 763 815 thousand in total. The value of the portfolio is included in the position 'Loans and advances to customers'.

✓ concluded additional agreements related to acquisition of the Nordea Bank AB (publ) Group entities

Pursuant to the fulfilment of the assumptions of the Transactions related to maintaining by the Nordea Bank AB (publ) Group the financing of the mortgage loans portfolio granted by Nordea Bank Polska SA ('Mortgage Portfolio'), on 1 April 2014, based on the concluded agreement, Nordea Bank AB (publ) granted a credit facility to PKO Bank Polski SA in the amount of up to: CHF 3 645 818 thousand, EUR 465 414 thousand and USD 3 725 thousand for a period no longer than 7 years, with a three-year repayment suspension period (the 'Credit Facility') The average effective margin over the maximum crediting period under the Credit Facility is 63 basis points above the relevant reference rate. The Credit Facility does not involve any commissions related to the granting of the financing. The Credit Facility is to be secured with a transfer for security of receivables related to the Mortgage Portfolio made by Nordea Bank Polska SA in favour of Nordea Bank AB Spółka Akcyjna Oddział w Polsce – the agreement on transfer of ownership of loans for security was signed on 2 July of this year, the process of filling requests and making entries in respective mortgage registrars is in progress. The value of receivables (loans) transferred for security amounts to approx. PLN 14 400 million.

On 1 April 2014, PKO Bank Polski SA concluded a loan agreement with Nordea Bank Polska SA, according to which funds received under the Credit Facility were transferred to Nordea Bank Polska SA in the form of the so-called push-down credit facility in amount of up to: CHF 3 645 818 thousand, EUR 465 414 thousand and USD 3 725 thousand for a period no longer than 7 years, with a three-year repayment suspension period (the 'Push-Down Facility'). The Push-Down Facility is unsecured. The financial terms of the Push-Down Facility (credit margin, commission) are set at arm's length. Receivable and liability in the amount of PLN 14 441 997 thousand are presented in the Note 14 'Amounts due from banks' and in the Note 24 'Amounts due to banks' respectively.

Pursuant to the provisions of the Agreement which require the Nordea Bank AB (publ) Group to participate in the default risk of the Mortgage Portfolio, on 1 April 2014, PKO Bank Polski SA and Nordea Bank AB (publ) concluded a special indemnity agreement (the 'Special Indemnity Agreement'), according to which Nordea Bank AB (publ) will cover, for a period of 4 years following the closing date, 50% of the excess of the Mortgage Portfolio cost of risk excess over the annual cost of risk level set at 40 basis points for each year of the above mentioned four-year contract period of the Special Indemnity Agreement.

2) concerning establishment of Polski Standard Płatności Sp. z o.o.

On 13 January 2014, a new company – Polski Standard Płatności Sp. z o.o. was registered with the National Court Register. The share capital of the Company amounts to PLN 2 271 thousand and consists of 45 420 shares, each of PLN 50 nominal value. All shares of the Company were acquired by PKO Bank Polski SA for a price equal to the nominal value of the acquired shares.

The Company was established as part of a project, conducted jointly with partner banks, concerning building the new mobile payments standard in Poland, based on implemented in 2013 by PKO Bank Polski SA innovative mobile payment solution 'IKO'.

3) concerning equity investments of Merkury – fiz an

On 13 January 2014 Merkury – fiz an has taken up:

- 2 000 shares with a nominal value of PLN 500 each in the increased share capital of Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.; the above mentioned increase was registered with the National Court Register on 5 February 2014,
- 2 000 shares with a nominal value of PLN 500 each in the increased share capital of Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.; the above mentioned increase was registered with the National Court Register on 27 January 2014,
- 2 000 shares with a nominal value of PLN 500 each in the increased share capital of Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A.; the above mentioned increase was registered with the National Court Register on 27 February 2014,
- 2 000 shares with a nominal value of PLN 500 each in the increased share capital of Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.; the above mentioned increase was registered with the National Court Register on 7 February 2014,
- 2 000 shares with a nominal value of PLN 500 each in the increased share capital of Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.; the above mentioned increase was registered with the National Court Register on 24 February 2014,
- 2 000 shares with a nominal value of PLN 500 each in the increased share capital of Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.; the above mentioned increase was registered with the National Court Register on 13 March 2014.

Merkury – fiz an holds shares of the above mentioned Companies constituting 100% of the share capital and entitling to 100% of the votes at the General Shareholders' Meetings of those Companies.

4) concerning changes to the entities of the 'CENTRUM HAFFNERA' Sp. z o.o. Group

On 20 January 2014, a decrease in share capital of 'CENTRUM HAFFNERA' Sp. z o.o., through redemption of shares owned by the Shareholder – the City of Sopot, was registered with the National Court Register. The share capital of the Company amounts to PLN 60 801 thousand and consists of 121 602 shares, each of PLN 500 nominal value.

(IN PLN THOUSAND)

As a result of the above mentioned transaction the Bank holds shares of the above mentioned Company constituting 72.98% of the Company's share capital and entitling to 72.98% of the votes at the General Shareholders' Meeting. Due to the commencement of exercising control over the Company, the Company became a subsidiary of PKO Bank Polski SA, and its subsidiaries – became indirect subsidiaries of the Bank.

On 24 January 2014 'Kamienica Morska' Sp. z o.o. in liquidation - a subsidiary of 'CENTRUM HAFFNERA' Sp. z o.o.- was removed from the National Court Register.

5) concerning increase in the share capital of the KREDOBANK SA Group

On 5 February 2014, PKO Bank Polski SA has made a capital contribution to KREDOBANK SA by providing financial donation in the amount of USD 6 020 thousand (i.e. PLN 18 656 thousand at the average NBP exchange rate as at the date of funds transfer). The above mentioned donation increases the Company's shares purchase price in the statement of financial position of PKO Bank Polski SA.

An increase in the share capital of Finansowa Kompania 'Idea Kapitał' Sp. z o.o. of UAH 1 400 thousand, carried out by increasing the nominal value of the Company's share and acquired by KREDOBANK SA – the sole shareholder of the above mentioned Company, was registered with the Ukrainian Register of Businesses on 17 March 2014. As at 30 June 2014 the share capital of the Company amounts to UAH 5 500 thousand and comprises 1 share with the above mentioned value.

6) concerning increase in the share capital of PKO Bankowy Leasing Sp. z o.o.

On 23 April 2014 an increase in the share capital of PKO Bankowy Leasing Sp. z o.o. of PLN 17 585 thousand was registered with the National Court Register. As a result of the above mentioned increase, the share capital of the Company amounts to PLN 100 000 thousand and consists of 200 000 shares, each of PLN 500 nominal value. All shares in the increased Company's share capital were acquired by PKO Leasing SA – a subsidiary of the Bank, for a price equal to the nominal value of the acquired shares. PKO Leasing SA remains the sole shareholder of the Company.

7) concerning planned changes related to Inteligo Financial Services SA

On 27 May 2014 the Management Board of PKO Bank Polski SA passed a resolution concerning merger of Inteligo Financial Services SA with PKO BP Finat Sp. z o.o. – subsidiaries of PKO Bank Polski SA. Under the above mentioned process, before the merger of entities employees of Inteligo Financial Services SA and part of entity's resources connected mainly with IT services provided for PKO Bank Polski SA are being transferred to the Bank commencing on 1 July of this year.

The above mentioned activities are conducted as a part of implementation of the Bank's strategy as regards optimisation of the PKO Bank Polski SA Group activities.

22. Non-current assets held for sale

	01.01-30.06.2014	01.01-30.06.2013
Gross value of non-current assets held for sale at the beginning of the period	310 883	21 636
Increases, of which:	6 989	9 415
reclassification from tangible fixed assets to non-current assets held for sale, of which:	6 989	9 386
land and buildings	6 948	9 358
reclassification from subordinated entities to non-current assets held for sale, Agencja Inwestycyjna CORP_SA SA shares	-	29
Decreases, of which:	(23 941)	(622)
sale	(13 806)	(622)
reclassification from non-current assets held for sale to tangible fixed assets	(10 135)	-
Gross value of non-current assets held for sale at the end of the period	293 931	30 429
Impairment allowances at the beginning of the period	(165 226)	(1 226)
Increases, recognised during the period	(48 531)	(963)
Decreases due to write-downs of assets	236	21
Impairment allowances at the end of the period	(213 521)	(2 168)
Net carrying amount at the beginning of the period	145 657	20 410
Net carrying amount at the end of the period	80 410	28 261

Details on non-current assets held for sale are described in the Note 21 'Investments in subsidiaries, joint ventures and associates and changes to the entities of the Group'.

23. Intangible assets and tangible fixed assets

Intangible assets	30.06.2014	31.12.2013
Software	1 752 155	1 755 194
Other, of which:	145 194	188 938
capital expenditure	124 612	167 915
goodwill related to assets acquired from subsidiary	7 785	7 785
As at the end of the period	1 897 349	1 944 132

(IN PLN THOUSAND)

Tangible fixed assets	30.06.2014	31.12.2013
Land and buildings	1 585 346	1 595 134
Machinery and equipment	423 475	433 900
Means of transport	10	233
Assets under construction	57 226	125 630
Investment properties	185	187
Other	154 730	141 897
As at the end of the period	2 220 972	2 296 981

In the six-month period ended 30 June 2014, there were no significant transactions of purchase and sale of tangible fixed assets and significant liabilities due to purchase of tangible fixed assets.

In the six-month period ended 30 June 2014, the Bank received compensation from third parties for impairment or loss of tangible fixed assets recognised in the income statement in the amount of PLN 1 thousand.

24. Amounts due to banks

	30.06.2014	31.12.2013
Loans and advances received, of which:	15 852 477	1 389 847
Nordea Bank AB (publ)*	14 441 997	-
Bank deposits	1 018 534	959 712
Amounts due from repurchase agreements	704 607	38 628
Current accounts	153 548	115 066
Other money market deposits	32 169	26 370
Total	17 761 335	2 529 623

*Information is described in the Note 21 'Investments in subsidiaries, joint ventures and associates and changes to the entities of the Group'

25. Amounts due to customers

	30.06.2014	31.12.2013
Amounts due to retail clients	118 226 887	115 781 467
Term deposits	64 137 924	62 907 642
Current accounts and overnight deposits	53 882 671	52 653 562
Other liabilities	206 292	220 263
Amounts due to corporate entities	45 048 678	40 702 728
Current accounts and overnight deposits	13 396 661	12 904 415
Term deposits	16 130 483	13 590 035
Loans and advances received, of which:	13 917 663	11 609 183
- received from PKO Finance AB	11 413 906	9 129 100
Other liabilities	1 000 551	951 145
Amounts due from repurchase agreements	603 320	1 647 950
Amounts due to public entities	5 764 885	3 473 476
Current accounts and overnight deposits	3 150 098	3 018 628
Term deposits	2 602 165	430 639
Other liabilities	12 622	24 209
Total	169 040 450	159 957 671

(IN PLN THOUSAND)

By client segment	30.06.2014	31.12.2013
Amounts due to customers, of which:		
retail and private banking	113 458 530	110 607 650
corporate	26 545 436	21 335 738
loans and advances received	13 917 663	11 609 183
small and medium enterprises*	14 515 501	14 757 150
amounts due from repurchase agreements	603 320	1 647 950
Total	169 040 450	159 957 671

*Since 2014 the change in presentation consisting the inclusion of housing market clients within small and medium enterprises segment (data for 2013 has been brought to comparability).

The structure of liabilities presented in the Note includes the following segmentation:

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

Loans received from PKO Finance AB

Date of receiving loan by the Bank	Nominal value	Currency	Maturity date	carrying amount as at 30.06.2014	carrying amount as at 31.12.2013
21.10.2010	800 000	EUR	21.10.2015	3 410 842	3 337 380
07.07.2011	250 000	CHF	07.07.2016	884 159	853 657
25.07.2012	50 000	EUR	25.07.2022	211 695	206 677
21.09.2012	500 000	CHF	21.12.2015	1 731 396	1 690 110
26.09.2012	1 000 000	USD	26.12.2022	3 076 814	3 041 276
23.01.2014	500 000	EUR	23.01.2019	2 099 000	-
Total				11 413 906	9 129 100

26. Debt securities in issue

	30.06.2014	31.12.2013
Financial instruments measured at fair value through profit and loss - bank securities	142 705	290 509
Financial instruments measured at amortised cost – bank bonds	741 858	692 614
Total	884 563	983 123

	30.06.2014	31.12.2013
Debt securities in issue by maturity:		
from 1 month to 3 months	23 790	76 442
from 3 months to 1 year	741 858	788 596
from 1 year to 5 years	118 915	118 085
Total	884 563	983 123

In the first half of 2014 the Bank issued bank bonds at nominal value of PLN 750 000 thousand classified respectively as liabilities measured at fair value through profit and loss in accordance with IAS 39.11A.a and measured at amortised cost. In the first half of 2014 bank securities and bank bonds at nominal value of PLN 838 681 thousand were redeemed.

(IN PLN THOUSAND)

27. Subordinated liabilities

As at 30 June 2014

Subordinated liabilities	Nominal value	Currency	Interest rate (%)	Maturity date	Balance
Subordinated bonds	1 600 700	PLN	4.38%	14.09.2022	1 620 914

As at 31 December 2013

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

Change in subordinated liabilities

Change in subordinated liabilities	01.01 - 30.06.2014	01.01 – 30.06.2013
As at the beginning of the period	1 620 857	1 631 256
Increases, of which:	34 745	45 488
accrued interest	34 736	45 401
Decreases due to repayment of interest	(34 688)	(52 389)
As at the end of the period	1 620 914	1 624 355

28. Other liabilities

	30.06.2014	31.12.2013	30.06.2013 restated
Accounts payable	350 188	423 175	365 404
Deferred income	330 531	321 376	314 590
Other liabilities, of which:	2 612 086	1 690 170	3 758 572
dividends declared	937 500	-	2 250 000
repayment of anniversary bonuses and retirement benefits	-	-	186 900
Total	3 292 805	2 434 721	4 438 566
of which financial liabilities	2 708 286	1 969 840	3 948 034

As at 30 June 2014, as at 31 December 2013 and as at 30 June 2013, PKO Bank Polski SA had no overdue contractual liabilities.

(IN PLN THOUSAND)

29. Provisions

For the period ended 30 June 2014	Provision for legal claims	Provisions for retirement benefits and anniversary bonuses	Provisions for loan commitments and guarantees granted	Other provisions*	Total
As at 1 January 2014, of which:	29 457	35 386	115 667	129 971	310 481
Short term provision	29 457	2 441	88 817	129 971	250 686
Long term provision	-	32 945	26 850	-	59 795
Increase/reassessment of provisions	-	-	187 087	2 395	189 482
Use of provisions	-	-	-	(23 429)	(23 429)
Release of provisions	-	-	(205 961)	-	(205 961)
Other changes and reclassifications	-	-	232	-	232
As at 30 June 2014, of which:	29 457	35 386	97 025	108 937	270 805
Short term provision	29 457	2 441	71 084	108 937	211 919
Long term provision	-	32 945	25 941	-	58 886

*Included in 'Other provisions' are i.a.: restructuring provision of PLN 76 344 thousand and provision of PLN 1 693 thousand for potential claims on impaired loan portfolios sold. In the six-month period ended 30 June 2014 restructuring provision was not released.

For the period ended 30 June 2013	Provision for legal claims	Provisions for retirement benefits and anniversary bonuses	Provisions for loan commitments and guarantees granted	Other provisions*	Total
As at 1 January 2013 (restated), of which:	18 851	429 728	215 619	71 494	735 692
Short term provision	2 254	36 068	149 681	71 494	259 497
Long term provision	-	393 660	65 938	-	459 598
Increase/reassessment of provisions	6 845	537	106 699	11 640	125 721
Use of provisions	-	(193 142)	-	(10 044)	(203 186)
Release of provisions	-	(179 429)	(182 399)	-	(361 828)
Other changes and reclassifications	-	(25 380)	778	25 380	778
As at 30 June 2013 (restated), of which:	25 696	32 314	140 697	98 470	297 177
Short term provision	25 696	1 285	106 699	98 470	232 150
Long term provision	-	31 029	33 998	-	65 027

* Included in 'Other provisions' are i.a.: restructuring provision of PLN 67 578 thousand and provision of PLN 2 644 thousand for potential claims on impaired loan portfolios sold.

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

(IN PLN THOUSAND)

OTHER NOTES

30. Contingent liabilities and off-balance sheet liabilities received

30.1. 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 30 June 2014				
Company A	corporate bonds	1 490 000	15.06.2022	Bonds Issue Agreement*
Company B	corporate bonds	1 367 000	31.07.2015	Bonds Issue Agreement*
Company C	corporate bonds	68 707	31.12.2024	Bonds Issue Agreement*
Company D	corporate bonds	50 000	19.12.2022	Bonds Issue Agreement*
Company E	corporate bonds	34 896	31.12.2022	Bonds Issue Agreement*
Total		3 010 603		
As at 31 December 2013				
Company A	corporate bonds	1 633 000	15.06.2022	Bonds Issue Agreement*
Company B	corporate bonds	800 000	31.07.2015	Bonds Issue Agreement*
Company D	corporate bonds	50 000	19.12.2022	Bonds Issue Agreement*
Company E	corporate bonds	34 000	31.12.2022	Bonds Issue Agreement*
Company F	corporate bonds	24 238	29.06.2018	Bonds Issue Agreement*
Company G	corporate bonds	13 410	31.10.2017	Bonds Issue Agreement*
Total		2 554 648		

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

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

30.2. Contractual commitments

As at 30 June 2014 the amount of contractual commitments concerning intangible assets amounted to PLN 246 784 thousand (as at 31 December 2013, it amounted to PLN 346 785 thousand). As at 30 June 2014 the amount of contractual commitments concerning tangible fixed assets amounted to PLN 17 068 thousand (as at 31 December 2013, it amounted to PLN 45 722 thousand).

30.3. Loan commitments granted

by nominal value	30.06.2014	31.12.2013
Credit lines and limits		
to financial entities*	2 764 834	1 160 599
to non-financial entities	30 042 296	29 767 288
to public entities	3 007 027	3 269 584
Total	35 814 157	34 197 471
of which: irrevocable loan commitments	9 615 784	8 157 608

* The 'Credit lines and limits to financial entities' consist of i.a. stand-by credit facility with Nordea Bank Polska SA

(IN PLN THOUSAND)

30.4. Guarantee liabilities granted

	30.06.2014	31.12.2013
Guarantees in domestic and foreign trading	8 343 958	7 029 700
to financial entities	830 595	875 317
to non-financial entities*	7 503 586	6 142 512
to public entities	9 777	11 871
Guarantees and pledges granted – domestic corporate bonds	4 071 417	3 591 294
to financial entities	69 814	124 646
to non-financial entities	4 001 603	3 466 648
Letters of credit granted	584 140	494 586
to financial entities	-	2 818
to non-financial entities	584 041	491 669
to public entities	99	99
Guarantees and pledges granted – payment guarantee	27 317	117 420
to financial entities	27 317	117 420
Guarantees and pledges granted – domestic municipal bonds	232 888	83 773
to public entities	232 888	83 773
Total	13 259 720	11 316 773

* Change in 'Guarantees in domestic and foreign trading to non-financial entities' results mainly from the guarantee liabilities granted to mining and power industry entities.

Information on provisions for off-balance sheet financial and guarantee liabilities is included in the Note 29 'Provisions'.

30.5. Off-balance sheet liabilities received

By nominal value	30.06.2014	31.12.2013
financial	42 109	44 472
guarantees*	3 592 791	2 490 472
Total	3 634 900	2 534 944

* An increase in the position 'off-balance sheet guarantee liabilities received', results mainly from the increase in the scale of credit exposures under the programme to support micro, small and medium enterprises – a guarantee of de minimis.

Pursuant to the provisions of the Agreement which require the Nordea Bank AB (publ) Group to participate in the default risk of the Mortgage Portfolio, on 1 April 2014, PKO Bank Polski SA and Nordea Bank AB (publ) concluded a special indemnity agreement (the 'Special Indemnity Agreement'), according to which Nordea Bank AB (publ) will cover, for a period of 4 years following the closing date, 50% of the excess of the Mortgage Portfolio cost of risk excess over the annual cost of risk set at 40 basis points for each year of the above mentioned four-year contract period of the Special Indemnity Agreement.

As a part of works related to the settlement of the transaction, the Group has made a valuation of the Special Indemnity Agreement on the basis of conducted analysis of probability of cash flows arising from the Agreement. The estimated expected value is equal to 0.

Right to sell or pledge collateral established for the Bank

As at 30 June 2014 and as at 31 December 2013, there was no collateral established for the Bank, which the Bank was entitled to sell or encumber with another pledge in the event of fulfilment of all obligations by the owner of the collateral.

31. Legal claims

As at 30 June 2014, the total value of court proceedings in which the Bank is a defendant was PLN 359 608 thousand (as at 31 December 2013 it was PLN 308 677 thousand), while as at 30 June 2014 the total value of court proceedings in which the Bank is the plaintiff was PLN 274 984 thousand (as at 31 December 2013 it was PLN 266 595 thousand).

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

a) Unfair competition proceedings

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

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

The hearing was on 29 October 2013 and on 21 November 2013 the judgement was announced, by which SOKiK reduced the penalty imposed on the Bank to the amount of PLN 10 085 thousand. The judgement is legally invalid. On 7 February 2014 the judgement was appealed on behalf of the Bank and eight plaintiffs represented by the Bank's attorney. The judgement was also appealed by other participants to the proceedings, i.e. by the President of the Competition and Consumer Protection Office (UOKiK) and Polish Trade and Distribution Organisation (POHiD) (appeals aiming at imposing more strict fines on participants to the agreement), as well as Visa Europe Limited, Bank Pocztowy S.A., Bank Gospodarki Żywnościowej S.A., mBank S.A. (formerly: BRE Bank S.A.), Deutsche Bank PBC S.A., HSBC Bank Polska S.A. (appeals aimed primarily to change the decision on the recognition of agreements as violating competition law and impose penalties on their participants). Copies of these appeals have been delivered to the Bank's attorney, who responded to them. As at 30 June 2014 the Bank has a provision in the amount of PLN 10 359 thousand (the position 'Provisions' in the statement of financial position).

As at 30 June 2014 the Bank is also a party i.a. to proceedings presented below:

<u>before SOKiK on appeal from the decision of the President of UOKiK</u>

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

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

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

   Appeal proceedings are pursued on behalf of the Bank by reputable law offices . The Bank appealed against the decision of the President of UOKiK on 2 and 16 January 2013 respectively. Proceedings are in progress. As at 30 June 2014 the Bank had a provision for the above mentioned amounts in the amount of PLN 4 000 thousand (the position 'Provisions' in the statement of financial position).

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

   On 28 December 2012, the President of UOKiK imposed a fine on the Bank in the amount of PLN 2 845 thousand, on which as at 30 June 2014 the Bank has a provision in the same amount (the position 'Provisions' in the statement of financial position). The date of the hearing was scheduled for 25 September 2014.

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

   By the decision of 31 December 2013, the Bank's activities were considered as practice violating collective interests of consumers and a fine in the amount of PLN 17 236 thousand and PLN 11 828 thousand was imposed on the Bank. The Bank appealed against this decision. The proceeding is in progress.

Appeal proceeding is pursued on behalf of the Bank by reputable law office. The Bank appealed against the decision of the President of UOKiK on 17 January 2014. The proceeding is in progress. As at 30 June 2014 the Bank has a provision in the amount of PLN 10 000 thousand (the position 'Provisions' in the statement of financial position).

before SOKiK initiated by the individual

on the recognition as abusive the Tariff of fees and charges in sections providing the fees for the monitoring and collection activities in relation with customers delaying the repayment of current debt. The Bank responded to the lawsuit and retorted for another pleading. In this case there is no risk of imposing financial penalty on the Bank. There is a risk of placing the provisions concerning monitoring and claiming charges into the registrar of prohibited clauses held by the President of UOKiK.

before SOKiK in which the President of UOKiK is the plaintiff

to determine some of the provisions in the forms of consumer loan agreements to be illegal.

The court proceeding is in progress, there was only exchange of correspondence between the parties. There is no risk of imposing financial penalty on the Bank.

before the Court of Appeal

one proceeding initiated by an individual – client, concerning abstract control of forms (on recognition of provisions in the form of agreement to be abusive – rules for opening and maintaining current account of 1997, modified in 1998). The first hearing was held on 2 July 2013. Court judgment of 9 July 2013 dismissed the claim against the Bank. The plaintiff filed an appeal against the judgment. The date of the hearing was scheduled for 11 September 2014.

before the President of UOKiK

1) preliminary proceedings in order to determine whether the manner of offering mortgage loans by the Bank under the 'Autumn promotion of mortgage loans' ('Jesienna promocja kredytów hipotecznych') may constitute a practice which violates the collective interests of consumers,
2) preliminary proceedings concerning providing by banks the information constituting the bank secrecy,
3) proceeding initiated on 28 February 2014 to determine whether the documents send to UOKiK regarding cases DDK -62-22/06/KB and DDK -405-24/08/MW contained business secret – in the opinion of the Bank there is no risk of imposing financial penalty by decision, proceeding is pending,
4) proceeding initiated on 5 March 2014 to determine whether the Bank executed UOKiK's decision of 12 December 2008 regarding Max Lokata – there is a risk of imposing financial penalty by decision, if UOKiK considers that the obligation was improperly fulfilled, proceeding is pending,
5) preliminary proceedings initiated on 23 January 2014 regarding provisions in the form of bank accounts agreement regulating matter of power of attorney – there is a risk of imposing financial penalty, proceeding is pending.

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

As at the date of these financial statements, two administrative proceedings, of which one is suspended, are pending to invalidate administrative 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 and one administrative proceeding for the establishment of perpetual usufruct right to a property owned by the Bank, for which the date of the hearing was not scheduled. 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 pertaining to release or return the property and regulation of the legal status of the property, were submitted by their former owners (four court and administrative proceedings for release of the property, commercial premise located within the property, payment of fee for non-contractual use of property by the Bank are pending).

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

Due to the liquidation of CFP and removing it from the register of companies and then distribution of its assets, the transfer of the right to perpetual usufruct of said plot was issued to the Bank, a motion for participation in the proceedings was filed on 23 May 2012 on behalf of the Bank. During the hearing on 18 December 2012, the Regional Administrative Court in Warsaw granted the Bank the right to participate in the proceedings due to the fact that the rights to the property in question had been transferred to the Bank. After the hearing on 7 May 2013, the Court dismissed the complaint. The judgement may be appealed against to the Supreme Administrative Court. A copy of the judgment together with the explanation was served for the Bank on 20 June 2013. A cassation complaint was filed on 17 July 2013. The date of hearing was not scheduled.

In the opinion of the Management Board of PKO Bank Polski SA, in the second half of 2014 the probability of significant claims against the Bank in relation to the above mentioned proceedings is remote.

(IN PLN THOUSAND)

32. Supplementary information to the statement of cash flows

Cash and cash equivalents

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

	30.06.2014	31.12.2013	30.06.2013
Cash and balances with the central bank	8 210 374	7 188 406	5 591 688
Current receivables due from banks	2 178 623	1 456 276	1 833 592
Total	10 388 997	8 644 682	7 425 280

Cash flow from interests and dividends, both received and paid

Interest income - received	01.01 – 30.06.2014	01.01 – 30.06.2013
Interest income from loans and advances granted	3 174 287	3 807 826
Interest income from securities designated upon initial recognition at fair value through profit and loss	193 895	274 259
Interest income from placements	96 632	104 836
Interest income from investment securities	282 879	318 017
Interest income from securities from held for trading portfolio	27 567	34 397
Interest from hedging instruments	157 899	223 996
Other interest received	596 633	709 824
Total	4 529 792	5 473 155

Dividend income - received	01.01 – 30.06.2014	01.01 – 30.06.2013
Dividend income from subsidiaries, associates and joint ventures	47 725	53 131
Dividend income from other entities	1 664	1 578
Total	49 389	54 709

Interest expense – paid	01.01 – 30.06.2014	01.01 – 30.06.2013
Interest expense on deposits - paid	(889 027)	(1 557 542)
Interest expense on loans and advances received - paid	(94 986)	(94 070)
Interest expense on debt securities in issue - paid	(44 139)	(66 403)
Other interest paid (mainly interest expense on current accounts, premium from debt securities, interest expense on cash collateral liabilities)	(295 826)	(445 696)
Total	(1 323 978)	(2 163 711)

(IN PLN THOUSAND)

33. Transactions with the State Treasury and related parties

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

Receivables, securities and liabilities arising from transactions conducted with the State Treasury, budgetary units and entities in which the State Treasury is the shareholder 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 of 2013, No. 763), PKO Bank Polski SA receives payments from the State budget in respect of redemption of interest on housing loans.

	01.01 - 30.06.2014	01.01 - 30.06.2013
Income due to temporary redemption by the State budget of interest on housing loans from the 'old' portfolio recognised for this period	58 261	65 902
Income due to temporary redemption by the State budget of interest on housing loans from the 'old' portfolio received in cash	20 969	22 052
Difference between income recognised for this period and income received in cash – 'Loans and advances to customers'	37 292	43 850

The Act on the coverage of repayment of certain housing loans by State Treasury (Journal of Laws of 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 with the guarantee 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.

The Bank receives commission for settlements relating to redemption of interest on housing loans by the State budget.

	01.01 - 30.06.2014	01.01 - 30.06.2013
Fee and commission income	1 659	2 473

Since 1 January 1996, the Bank is the general distributor of court fee stamps and receives commissions in this respect from the State budget.

	01.01 - 30.06.2014	01.01 - 30.06.2013
Fee and commission income	2 500	3 918

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 commission for providing the services of an agent for the issue of bonds.

	01.01 - 30.06.2014	01.01 - 30.06.2013
Fee and commission income	11 516	11 265

(IN PLN THOUSAND)

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

The transactions were concluded at arm's length.

Entity	30.06.2014			01.01 – 30.06.2014		
	Total receivables	Total liabilities	Off-balance sheet liabilities granted – guarantee and financial	Interest income	Fee and commission income	Interest expense
Entity 1	-	-	2 080 000	-	-	-
Entity 2	245 926	700 336	682 438	1 812	827	(239)
Entity 3	331 605	358 822	335 651	1 327	265	(1 798)
Entity 4	-	512 610	500 000	-	1	(6 133)
Entity 5	-	170 688	701 786	-	207	(2 512)
Entity 6	-	83	680 182	-	18	(178)
Entity 7	273 362	26 200	263 231	2 302	1	(397)
Entity 8	-	146 581	400 000	2 133	378	(1 125)
Entity 9	-	38 328	500 000	-	-	(195)
Entity 10	315 365	15 319	140 768	7 025	97	(45)
Entity 11	180 895	8 925	176 235	3 788	71	(210)
Entity 12	122 659	45 906	186 124	2 290	160	(64)
Entity 13	150 608	48 136	101 724	2 419	621	(580)
Entity 14	69 154	6 469	150 000	1 513	102	(46)
Entity 15	-	167 057	-	-	4	(2 716)
Other entities	254 508	583 952	385 954	5 696	2 435	(4 451)
Total	1 944 082	2 829 412	7 284 093	30 305	5 187	(20 689)

Entity	31.12.2013			01.01 – 31.12.2013		
	Total receivables	Total liabilities	Off-balance sheet liabilities granted – guarantee and financial	Interest income	Fee and commission income	Interest expense
Entity 1	-	-	2 080 000	-	-	-
Entity 6	-	1 749	1 198 324	-	33	(623)
Entity 3	211 048	242 088	333 258	3 139	507	(1 242)
Entity 8	223 340	126 268	176 660	10 543	429	(527)
Entity 10	446 352	65	71 214	12 387	1 161	(573)
Entity 16*	-	-	600 000	-	-	-
Entity 4	-	19 299	500 000	-	3	(10 651)
Entity 9	-	14 093	500 000	1	2	(247)
Entity 2	-	574	500 000	5 327	270	(5 681)
Entity 7	16 683	2 178	474 003	45	3	(171)
Entity 17*	10 130	84 104	359 382	2 390	15	(1 581)
Entity 11	241 279	17 556	175 722	9 187	131	(1 055)
Entity 5	-	36 096	401 786	-	329	(408)
Entity 10	145 798	46 904	117 590	4 891	235	(126)
Entity 13	109 174	50 249	143 331	7 570	1 510	(1 445)
Other entities	346 488	536 068	511 244	17 099	4 549	(14 907)
Total	1 750 292	1 177 291	8 142 514	72 579	9 177	(39 237)

*Entities did not occur in the first half of 2014.

As at 30 June 2014 and as at 31 December 2013 respectively, no significant impairment allowances were recognised for the above mentioned receivables.

(IN PLN THOUSAND)

34. Related party transactions

In the first half of 2014, PKO Bank Polski SA did not conclude significant transactions with related parties not on arm's length.

All transactions with subsidiaries, joint ventures and associates presented below were arm's length transactions. Repayment terms are within a range from one month to twenty years.

30 June 2014

Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Direct subsidiaries				
Bankowe Towarzystwo Kapitałowe SA	4 169	-	451	7 000
'CENTRUM HAFFNERA' Sp. z o.o.	-	-	1 586	-
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	164 924	164 923	-	-
Inteligo Financial Services SA	15 289	-	101 351	-
KREDOBANK SA	292 822	263 371	1 516	995
Merkury - fiz an	38 072	38 072	1 648	21 837
Nordea Bank Polska SA	14 544 781	14 441 985	27 493	1 500 000
PKO BP BANKOWY PTE SA	15 289	-	5 881	-
PKO BP Finat Sp. z o.o.	3	-	3 322	593
PKO Finance AB	-	-	11 418 396	-
PKO Leasing Pro SA	407 155	407 155	37 970	
PKO Leasing SA	140 815	18 417	156 000	819 724
PKO Towarzystwo Funduszy Inwestycyjnych SA	18 580	-	26 060	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	27	
Polski Standard Płatności Sp. z o.o.	-	-	1 434	-
Qualia Development Sp. z o.o.	-	-	8 081	2 405
Indirect subsidiaries				
'Centrum Majkowskiego' Sp. z o.o. in liquidation	-	-	29	-
Finansowa Kompania 'Idea Kapitał' Sp. z o.o.	25 110	25 110	-	43 143
'Fort Mokotów' Sp. z o.o. in liquidation	-	-	3 674	-
'Fort Mokotów Inwestycje' Sp. z o.o.	-	-	113	-
Giełda Nieruchomości Wartościowych Sp. z o.o.	-	-	8	-
Molina Sp. z o.o.	-	-	24	-
Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	-	-	2 036	-
Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.	-	-	630	-
Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A.	-	-	1 389	-
Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.	-	-	539	-
Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.	-	-	7 642	-
Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.	-	-	131	-
PKO BP Faktoring SA	269 203	269 167	117	230 833
PKO Bankowy Leasing Sp. z o.o.	2 279 025	2 277 680	644	171 926
PKO Leasing Sverige AB	63 831	63 831	68	-
'Promenada Sopocka' Sp. z o.o.	43 831	43 831	3 498	-
Qualia - Residence Sp. z o.o.	1	1	5	-
Qualia - Rezydencja Flotylla Sp. z o.o.	77 000	77 000	167	-
Qualia Hotel Management Sp. z o.o.	-	-	1 303	-
Qualia Sp. z o.o.	-	-	11	11 476
Qualia spółka z ograniczoną odpowiedzialnością - Jurata Sp. k.	-	-	18	-
Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Sp. k.	14 000	14 000	3 659	1 035
Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k.	4 000	4 000	2 591	-
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp. k.	77 838	-	1 542	-
Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Sp. k.	-	-	1	-
Qualia spółka z ograniczoną odpowiedzialnością - Sopot Sp. k.	4 517	4 517	971	-
Qualia spółka z ograniczoną odpowiedzialnością - Władysławowo Sp. k.	-	-	1	-
Qualia spółka z ograniczoną odpowiedzialnością - Zakopane Sp. k.	-	-	72	-
Sarnia Dolina Sp. z o. o.	-	-	402	-
'Sopot Zdrój' Sp. z o.o.	218 475	218 475	3 564	-
'Zarząd Majątkiem Górczewska' Sp. z o.o.	-	-	-	-
Total subsidiaries	18 718 730	18 331 535	11 826 065	2 810 967

Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Direct joint ventures				
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	177	-	44 808	5 000
'Centrum Obsługi Biznesu' Sp. z o.o.	28 865	28 865	24 657	-
Direct associates				
Bank Pocztowy SA	190	-	1 691	2 292
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	-	-	6 466	-
Indirect associate				
Centrum Operacyjne Sp. z o.o.	-	-	91	-
Total joint ventures and associates	29 232	28 865	77 713	7 292

(IN PLN THOUSAND)

31 December 2013

Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Direct subsidiaries				
Bankowe Towarzystwo Kapitałowe SA	2	-	177	7 000
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	175 390	175 390	179 370	-
Merkury - fiz an	-	-	1 129	-
Inteligo Financial Services SA	-	-	108 431	-
KREDOBANK SA	305 020	257 708	2 124	1 000
PKO BP BANKOWY PTE SA	92	-	1 362	-
PKO BP Finat Sp. z o.o.	3	-	4 432	593
PKO Finance AB	4 604	-	9 132 169	-
PKO Leasing SA	47 716	13 105	260 637	1 097 835
PKO Towarzystwo Funduszy Inwestycyjnych SA	19 124	-	39 729	-
Qualia Development Sp. z o.o.	-	-	10 043	13 893
Indirect subsidiaries				
'Fort Mokotów' Sp. z o.o. in liquidation	-	-	3 827	-
'Fort Mokotów Inwestycje' Sp. z o.o.	-	-	1 725	-
Giełda Nieruchomości Wartościowych Sp. z o.o.	-	-	2	-
PKO BP Faktoring SA	213 387	213 365	1 987	286 505
PKO Bankowy Leasing Sp. z o.o.	2 250 877	2 250 338	735	269 270
PKO Leasing Sverige AB	83 591	83 591	-	14 409
Qualia - Residence Sp. z o.o.	-	-	594	-
Qualia - Rezydencja Flotylla Sp. z o.o.	76 862	76 862	825	-
Qualia Hotel Management Sp. z o.o.	-	-	1 195	-
Qualia Sp. z o.o.	-	-	3	-
Qualia spółka z ograniczoną odpowiedzialnością - Jurata Sp. k.	-	-	1 613	-
Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Sp. k.	29 069	29 069	1 868	1 035
Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k.	39 088	39 088	5 152	-
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp. k.	77 708	77 708	2 098	-
Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Sp. k.	-	-	3	-
Qualia spółka z ograniczoną odpowiedzialnością - Sopot Sp. k.	7 756	7 756	387	167
Qualia spółka z ograniczoną odpowiedzialnością - Władysławowo Sp. k.	-	-	3	-
Qualia spółka z ograniczoną odpowiedzialnością - Zakopane Sp. k.	-	-	674	-
Sarnia Dolina Sp. z o. o.	-	-	528	-
Total subsidiaries	3 330 289	3 223 980	9 762 822	1 691 707

Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Direct joint ventures				
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	1 100	-	50 551	5 000
'CENTRUM HAFFNERA' Sp. z o.o.	-	-	1 234	-
'Centrum Obsługi Biznesu' Sp. z o.o.	29 463	29 463	16 066	-
Indirect joint ventures				
'Centrum Majkowskiego' Sp. z o.o. in liquidation	-	-	38	-
'Kamienica Morska' Sp. z o.o. in liquidation	-	-	-	-
'Promenada Sopocka' Sp. z o.o.	44 377	44 377	4 811	-
'Sopot Zdrój' Sp. z o.o.	219 698	219 698	-	-
Direct associates				
Bank Pocztowy SA	6	-	1 003	2 374
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	-	-	12 555	-
Indirect associate				
Centrum Operacyjne Sp. z o.o.	-	-	11	-
Total joint ventures and associates	294 644	293 538	86 269	7 374

(IN PLN THOUSAND)

Six months ended 30 June 2014

Entity	Total income	of which interest and fee and commission	Total expense	of which interest and fee and commission
Direct subsidiaries				
Bankowe Towarzystwo Kapitałowe SA	2	2	4	4
'CENTRUM HAFFNERA' Sp. z o.o.	3	3	-	-
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	4 047	4 047	-	-
Merkury - fiz an	1 120	1 120	10	10
Inteligo Financial Services SA	1 957	13	35 114	1 240
KREDOBANK SA	3 470	3 470	-	-
Nordea Bank Polska SA	12 470	9 358	5 381	73
PKO BP BANKOWY PTE SA	408	4	61	61
PKO BP Finat Sp. z o.o.	27	10	558	59
PKO Finance AB	31	31	195 989	195 255
PKO Leasing SA	4 455	2 778	9 982	2 389
PKO Towarzystwo Funduszy Inwestycyjnych SA	107 813	106 957	734	734
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	2	-
Polski Standard Płatności Sp. z o.o.	2	2	9	9
Qualia Development Sp. z o.o.	82	10	97	97
Indirect subsidiaries				
'Centrum Majkowskiego' Sp. z o.o. in liquidation	2	2	-	-
Finansowa Kompania 'Idea Kapitał' Sp. z o.o.	222	222	-	-
'Fort Mokotów' Sp. z o.o. in liquidation	1	1	40	40
'Fort Mokotów Inwestycje' Sp. z o.o.	2	2	10	10
Giełda Nieruchomości Wartościowych Sp. z o.o.	1	1	-	-
'Kamienica Morska' Sp. z o.o. in liquidation	2	2	-	-
Molina Sp. z o.o.	14	14	68	68
PKO BP Faktoring SA	3 670	3 530	3 771	3 771
PKO Bankowy Leasing Sp. z o.o.	40 631	40 586	42	-
PKO Leasing Sverige AB	700	700	-	-
'Promenada Sopocka' Sp. z o.o.	394	394	-	-
Qualia - Residence Sp. z o.o.	8	4	1	1
Qualia - Rezydencja Flotylla Sp. z o.o.	1 768	1 768	10	10
Qualia Hotel Management Sp. z o.o.	11	11	7	7
Qualia Sp. z o.o.	1	1	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Jurata Sp. k.	1	1	10	10
Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Sp. k.	528	528	26	26
Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k.	515	515	58	58
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp. k.	2 045	2 045	24	24
Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Sp. k.	1	1	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Sopot Sp. k.	245	245	8	8
Qualia spółka z ograniczoną odpowiedzialnością - Władysławowo Sp. k.	1	1	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Zakopane Sp. k.	1	1	3	3
Sarnia Dolina Sp. z o. o.	2	2	-	-
'Sopot Zdrój' Sp. z o.o.	2 041	2 041	46	46
Total subsidiaries	188 694	180 423	252 065	204 013

Entity	Total income	of which interest and fee and commission	Total expense	of which interest and fee and commission
Direct joint ventures				
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	4 780	4 461	34 765	34 654
'Centrum Obsługi Biznesu' Sp. z o.o.	1 658	1 658	125	125
Direct associates				
Bank Pocztowy SA	220	30	1 800	-
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	1	1	83	83
Indirect associate				
Centrum Operacyjne Sp. z o.o.	2	2	-	-
Total joint ventures and associates	6 661	6 152	36 773	34 862

(IN PLN THOUSAND)

Six months ended 30 June 2013

Entity	Total income	of which interest and fee and commission	Total expense	of which interest and fee and commission
Direct subsidiaries				
Bankowe Towarzystwo Kapitałowe SA	12	1	3	3
PKO Leasing SA	7 863	6 641	9 413	3 007
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	15 655	15 303	49 781	39 500
'Fort Mokotów Inwestycje' Sp. z.o.o.	2	2	306	306
Inteligo Financial Services SA	2 008	10	36 635	2 280
KREDOBANK SA	1 213	1 213	-	-
PKO BP BANKOWY PTE SA	433	4	538	538
PKO BP Finat Sp. z o.o.	80	10	72	55
PKO Finance AB	-	-	178 513	178 513
PKO Towarzystwo Funduszy Inwestycyjnych SA	84 564	83 832	642	626
Qualia Development Sp. z o.o.	9	9	183	183
Indirect subsidiaries				
PKO Bankowy Leasing Sp. z o.o.	50 133	49 394	22	1
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	4 042	2 362	-	-
'Fort Mokotów' Sp. z o.o. in liquidation	1	1	67	67
PKO BP Faktoring SA	5 227	5 003	-	-
Qualia - Residence Sp. z o.o.	10	6	3	3
Qualia - Rezydencja Flotylla Sp. z o.o.	1 587	1 552	12	12
Qualia Hotel Management Sp. z o.o.	6	6	1	1
Qualia Sp. z o.o.	1	1	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Jurata Sp. k.	2	2	31	31
Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Sp. k.	1 746	1 693	77	77
Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k.	2 514	2 438	132	132
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp. k.	2 077	2 049	13	13
Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Sp. k.	1	1	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Sopot Sp. k.	196	195	34	34
Qualia spółka z ograniczoną odpowiedzialnością - Władysławowo Sp. k.	1	1	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Zakopane Sp. k.	2	2	3	3
Sarnia Dolina Sp. z o. o.	412	412	2 024	-
Total subsidiaries	179 797	172 143	278 505	225 385

Entity	Total income	of which interest and fee and commission	Total expense	of which interest and fee and commission
Direct joint ventures				
'CENTRUM HAFFNERA' Sp. z o.o.	4	4	-	-
'Centrum Obsługi Biznesu' Sp. z o.o.	650	650	210	210
Indirect joint ventures				
'Centrum Majkowskiego' Sp. z o.o. in liquidation	3	3	-	-
'Kamienica Morska' Sp. z o.o. in liquidation	3	3	-	-
'Promenada Sopocka' Sp. z o.o.	585	585	31	31
'Sopot Zdrój' Sp. z o.o.	2 832	2 832	42	42
Direct associates				
Bank Pocztowy SA	32	26	355	-
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	1	1	144	144
Direct associate held for sale				
Kolej Gondolowa Jaworzyna Krynicka SA	104	104	60	60
Agencja Inwestycyjna CORP-SA SA	319	-	47	-
Indirect associate				
Centrum Operacyjne Sp. z o.o.	1	1	-	-
Total joint ventures and associates	4 534	4 209	889	487

35. Personal related party transactions

As at 30 June 2014 two entities were related to the Bank through the key management personnel of PKO Bank Polski SA or the close family members of the key management personnel (as at 31 December 2013 – two entities).

In the first half of 2014 and in 2013, no intercompany transactions were concluded with these entities in the Bank.

(IN PLN THOUSAND)

36. Remuneration – PKO Bank Polski SA key management

a) short-term employee benefits

Remuneration received and due from PKO Bank Polski SA	01.01 - 30.06.2014	01.01 - 30.06.2013
The Management Board of the Bank	7 214	6 511
The Supervisory Board of the Bank	496	613
Total	7 710	7 124

Short-term employee benefits are employee benefits, which fall due entirely before 12 months from the end of the reporting period in which the employees rendered the related service. Due to the above, the non-deferred part of the variable salary component paid out in July 2014 and July 2013 for the years 2013 and 2012 respectively was recognised as short-term employee benefit for the Management Board of the Bank.

Moreover in 2014, the value of non-deferred salary component paid in cash for 2013 amounted to PLN 1 916 thousand. In 2013, the value of deferred salary component paid in cash for 2012 amounted to PLN 1 561 thousand.

b) other long-term benefits

In the six-month period ended 30 June 2014 and 30 June 2013 no benefits recognised as other long-term benefits were paid out (the payment occurred in July 2014). The deferred part of the variable salary component paid in cash and benefits from the employee pension programme were recognised as other long-term benefit.

As at 30 June 2014 and 2013 the value of liability due to other long-term benefits amounted to PLN 2 440 thousand and PLN 1 052 thousand respectively. In 2014, the value of deferred salary component paid in cash for 2013 amounted to PLN 1 321 thousand. In 2013, the value of deferred salary component paid in cash for 2012 amounted to PLN 1 052 thousand.

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

In the six-month period ended 30 June 2014 the Management Board of the Bank was paid PLN 1 639 thousand in respect of variable salary components (non-deferred part) granted in the form of a financial instrument, i.e. phantom shares (for which conversion into cash is carried out after an additional period of retention). In the six-month period ended 30 June 2013 no such benefits were paid out.

As at 30 June 2014 and 2013 the value of liability due to such benefits amounted to PLN 4 289 thousand and PLN 2 691 thousand respectively. In 2014, the value of salary components (deferred and non-deferred) granted in the form of phantom shares for 2013 amounted to PLN 3 237 thousand. In 2013, the value of salary components (deferred and non-deferred) granted in the form of phantom shares for 2012 amounted to PLN 2 691 thousand.

d) post-employment benefits

In the six-month periods ended 30 June 2014 and 30 June 2013 respectively, no post-employment benefits were paid out.

e) benefits due to termination of employment

In the six-month periods ended 30 June 2014 and 30 June 2013 respectively, no benefits due to termination of employment were paid out.

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

	30.06.2014	31.12.2013
The Management Board	905	74
The Supervisory Board of the Bank	2 265	2 241
Total	3 170	2 315

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

37. The principles for determining the variable salary components policy for key management personnel in the Bank

The principles for determining the variable salary components policy were described in the annual financial statements of the Bank for the year 2013.

As at 30 June 2014 the provision for variable salary components for the years 2014 - 2012 amounted to PLN 31.3 million, including PLN 19.4 million for persons holding managerial positions except for the Bank's Management Board and PLN 11.9 million for the Bank's Management Board. As at 31 December 2013 the provision for variable salary components for the years 2013 - 2012 amounted to PLN 25 million, of which PLN 9 million for the Bank's Management Board.
According to current regulations, in the first half of 2014 for persons holding managerial positions, except for the Bank's Management Board, non-deferred component of the bonus for the year 2013 and deferred component of the bonus for the year 2012 were paid out - cash in the amount of PLN 4.6 million.

(IN PLN THOUSAND)

According to current regulations, in 2013, non-deferred component of the bonus for the year 2012 was paid out - cash for persons holding managerial positions except for the Bank's Management Board in the amount of PLN 3.2 million and for the Bank's Management Board in the amount of PLN 1.6 million.
Payment of phantom shares, calculated in accordance with law provisions, based on the share price in the third quarter of 2013 in the amount of PLN 36.93, was made in November 2013 for persons holding managerial positions except for the Bank's Management Board in the amount of PLN 3.3 million and in January 2014 for the Bank's Management Board (PLN 1.6 million).

38. Fair value of financial assets and financial liabilities

38.1. Categories of fair value valuation of financial assets and liabilities measured at fair value in the statement of financial position

The Bank classifies particular components of financial assets and liabilities measured at fair value to the following categories:

- Level 1: Prices quoted on the active markets
- Level 2: Valuation techniques based on observable market data
- Level 3: Other valuation techniques

The table below presents a classification of financial assets and liabilities presented in the financial statements at fair value divided into 3 levels as at 30 June 2014:

Assets and liabilities measured at fair value as at 30.06.2014	Note	Carrying amount	Level 1	Level 2	Level 3
			Prices quoted on the active markets	Valuation techniques based on observable market data	Other valuation techniques
Trading assets	15	1 188 876	1 188 876	-	-
Debt securities		1 177 969	1 177 969	-	-
Shares in other entities		6 196	6 196	-	-
Investment certificates		4 711	4 711	-	-
Derivative financial instruments	16	3 363 222	1 122	3 362 100	-
Hedging instruments		379 394	-	379 394	-
Trade instruments		2 983 828	1 122	2 982 706	-
Financial instruments designated upon initial recognition at fair value through profit and loss	18	11 107 485	1 360 397	9 747 088	-
Debt securities		11 107 485	1 360 397	9 747 088	-
Investment securities available for sale	20	19 979 109	14 066 610	5 744 823	167 676
Debt securities		19 770 758	14 025 935	5 744 823	-
Equity securities		208 351	40 675	-	167 676
Financial assets measured at fair value – total:		35 638 692	16 617 005	18 854 011	167 676
Derivative financial instruments	16	3 563 140	405	3 562 735	-
Hedging instruments		378 411	-	378 411	-
Trade instruments		3 184 729	405	3 184 324	-
Debt securities in issue	26	142 705	-	142 705	-
Financial instruments measured at fair value through profit and loss		142 705	-	142 705	-
Financial liabilities measured at fair value - total		3 705 845	405	3 705 440	-

Trading assets as at 30.06.2014	Carrying amount	Level 1	Level 2	Level 3
Debt securities	1 177 969	1 177 969	-	-
Treasury bonds	1 099 169	1 099 169	-	-
municipal bonds	51 622	51 622	-	-
corporate bonds	8 430	8 430	-	-
bonds issued by WSE	4 503	4 503	-	-
bonds issued by PKO Finance AB in EUR	4 656	4 656	-	-
bonds issued by banks, of which BGK bonds	9 589	9 589	-	-
Shares in other entities	6 196	6 196	-	-
Investment certificates	4 711	4 711	-	-
TOTAL	1 188 876	1 188 876	-	-

(IN PLN THOUSAND)

Financial instruments designated upon initial recognition at fair value through profit and loss as at 30.06.2014	Carrying amount	Level 1	Level 2	Level 3
Debt securities	11 107 485	1 360 397	9 747 088	-
NBP money market bills	9 497 378	-	9 497 378	-
Treasury bonds PLN	1 360 397	1 360 397	-	-
municipal bonds EUR	140 041	-	140 041	-
municipal bonds PLN	109 669	-	109 669	-
TOTAL	11 107 485	1 360 397	9 747 088	-

Investment securities available for sale as at 30.06.2014	Carrying amount	Level 1	Level 2	Level 3
Debt securities available for sale	19 770 758	14 025 935	5 744 823	-
Treasury bonds PLN	14 025 935	14 025 935	-	-
municipal bonds	3 400 821	-	3 400 821	-
corporate bonds PLN	2 255 566	-	2 255 566	-
corporate bonds EUR	88 436	-	88 436	-
Equity securities	208 351	40 675	-	167 676
TOTAL	19 979 109	14 066 610	5 744 823	167 676

The table below presents a classification of financial assets and liabilities presented in the financial statements at fair value divided into 3 levels as at 31 December 2013:

Assets and liabilities measured at fair value as at 31.12.2013	Note	Carrying amount	Level 1	Level 2	Level 3
			Prices quoted on the active markets	Valuation techniques based on observable market data	Other valuation techniques
Trading assets	15	484 485	479 943	4 542	-
Debt securities		472 535	467 993	4 542	-
Shares in other entities		10 799	10 799	-	-
Investment certificates		1 151	1 151	-	-
Derivative financial instruments	16	3 002 220	1 015	3 001 205	-
Hedging instruments		361 639	-	361 639	-
Trade instruments		2 640 581	1 015	2 639 566	-
Financial instruments designated upon initial recognition at fair value through profit and loss	18	15 179 188	931 325	14 247 863	-
Debt securities		15 179 188	931 325	14 247 863	-
Investment securities available for sale	20	13 730 976	8 563 440	5 030 221	137 315
Debt securities		13 548 671	8 518 450	5 030 221	-
Equity securities*		182 305	44 990	-	137 315
Financial assets measured at fair value – total:		32 396 869	9 975 723	22 283 831	137 315
Derivative financial instruments	16	3 328 149	912	3 327 237	-
Hedging instruments		414 804	-	414 804	-
Trade instruments		2 913 345	912	2 912 433	-
Debt securities in issue	26	290 509	-	290 509	-
Financial instruments designated at fair value through profit and loss		290 509	-	290 509	-
Financial liabilities measured at fair value - total		3 618 658	912	3 617 746	-

*In 2013 the Bank discontinued classification of shares in the companies valued at cost less impairment to financial instruments measured at fair value (classified at Level 3).

Trading assets as at 31.12.2013	Carrying amount	Level 1	Level 2	Level 3
Debt securities	472 535	467 993	4 542	-
Treasury bonds	390 660	390 660	-	-
Treasury bonds in EUR	4 542	-	4 542	-
municipal bonds	41 907	41 907	-	-
corporate bonds	24 026	24 026	-	-
bonds issued by WSE	6 628	6 628	-	-
bonds issued by PKO Finance AB in EUR	4 604	4 604	-	-
bonds issued by banks, of which BGK bonds	168	168	-	-
Shares in other entities	10 799	10 799	-	-
Investment certificates	1 151	1 151	-	-
TOTAL	484 485	479 943	4 542	-

(IN PLN THOUSAND)

Financial instruments designated upon initial recognition at fair value through profit and loss as at 31.12.2013	Carrying amount	Level 1	Level 2	Level 3
Debt securities	15 179 188	931 325	14 247 863	-
NBP money market bills	13 997 228	-	13 997 228	-
Treasury bonds PLN	931 325	931 325	-	-
municipal bonds EUR	136 700	-	136 700	-
municipal bonds PLN	113 935	-	113 935	-
TOTAL	15 179 188	931 325	14 247 863	-

Investment securities available for sale as at 31.12.2013	Carrying amount	Level 1	Level 2	Level 3
Debt securities available for sale	13 548 671	8 518 450	5 030 221	-
Treasury bonds PLN	8 518 450	8 518 450	-	-
municipal bonds	3 440 753	-	3 440 753	-
corporate bonds	1 589 468	-	1 589 468	-
Equity securities	182 305	44 990	-	137 315
TOTAL	13 730 976	8 563 440	5 030 221	137 315

Depending on the category of classification of financial assets and liabilities to the hierarchy, different methods of fair value valuation are used, for which detailed description was presented in the annual financial statements.

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 measured 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 of PKO Bank Polski SA 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:

Financial assets and liabilities measured at fair value	Valuation method (technique)	Observable inputs
Trading assets - Treasury bonds in EUR	Market price of Polish Treasury securities in foreign currency is obtained from information services, in which quotations of such securities are included (Bloomberg or brokerage websites in the Reuters system). This is not a regulated market.	The market price of securities obtained from information services.
Derivative financial instruments - hedging instruments	Valuation of derivatives: CIRS, IRS is made in accordance with the discounted future cash flows model. Discounting is based on the yield curves.	Yield curves are built based on market rates, market data of the money market, market transactions of FRA, IRS, basis swap.
Derivative financial instruments - Trade instruments	Valuation of derivatives: CIRS, IRS, FRA is made in accordance with the discounted future cash flows model. Discounting is based on the yield curves. Valuation of currency options is made in accordance with specified valuation models for a given type of a currency option. The prices of exotic options embedded in structured products are obtained from the market (they are market prices).	Yield curves are built based on market rates, market data of the money market, market transactions of FRA, IRS, basis swap. Inputs to currency options valuation models are: yield curves built based on money market rates, market rates of swap points, volatility levels for specific currency pairs, NBP fixing exchange rates. For the purpose of valuation of exotic options embedded in structured products, market prices of these options are obtained.

Financial assets and liabilities measured at fair value	Valuation method (technique)	Observable inputs
Financial assets designated upon initial recognition at fair value through profit and loss		
- NBP money market bills	Yield curve valuation method.	Yield curve for money market bills is built based on market prices, money market data and OIS (overnight index swap) transactions market.
- municipal bonds EUR	Valuation in accordance with an accepted valuation model.	Inputs to a valuation model are: market rates, market data: money market, IRS transactions market, CDS (credit-default swap) transactions market, volatility of interest rate options market.
- municipal bonds PLN	Valuation in accordance with a yield curve and a risk margin.	Yield curve is built based on market rates, money market data, IRS transactions market.
Investment securities available for sale		
- municipal bonds	Valuation in accordance with a yield curve and a risk margin.	Yield curve is built based on market rates, money market data, IRS transactions market.
- corporate bonds	Valuation in accordance with a yield curve and a risk margin.	Yield curve is built based on market rates, money market data, IRS transactions market.
Debt securities in issue - financial instruments measured at fair value through profit and loss	Valuation in accordance with a yield curve and the prices of exotic options embedded in these securities.	Yield curve is built based on market rates, money market data, IRS transactions market. For the purpose of valuation of exotic options embedded in structured products, market prices of these options are obtained.

3) Level 3: Other valuation techniques

Financial assets and liabilities, whose fair value is determined with use of valuation models, for which entry data are not derived from observable markets (unobservable entry data).
The Bank classified to that category shares in the Marguerite Fund, which are valued with internal valuation models. The fair value of these securities (the Fund) is determined based on the net asset value of the fund, i.e. the fair value of investment projects (of the companies) in the fund, which are subject to semi-annual examination by the registered auditor. If the Bank used the values of the unobservable parameters, that are extreme values from the range of possible values, the fair value of the equity financial instruments could be by PLN 8 384 thousand higher or by PLN 8 384 thousand lower as at 30 June 2014.

The impact of parameters estimated on measurement of financial instruments at fair value, for which the Bank uses fair value measurement on Level 3 as at 30 June 2014 is as follows:

Valuation technique	Unobservable factor	Impact on fair value	
		positive scenario (increase by +5% of net asset value of the Fund)	negative scenario (decrease by -5% of net asset value of the Fund)
Net Asset Value (NAV) method	Price for a participation unit	176 060	159 292

Instruments transfers between Level 1 and Level 2 are based on the availability of quotations in an active market at the end of the reporting period. Transfer from Level 2 to Level 3 occurs in the situation of the conversion of an observable factor for an unobservable in the valuation or applying a new unobservable risk factor to the valuation, which also results in a significant impact on the valuation of the instrument. Transfer from Level 3 to Level 2 occurs in the situation of the conversion of an unobservable factor for an observable in the valuation or when an impact of an unobservable factor on the instrument valuation ceases to be relevant. Transfers between levels of valuation occur at the date and at the end of the reporting period.

In the period from 1 January to 30 June 2014, there were no transfers between levels in the fair value hierarchy used in measuring financial instruments at fair value.

(IN PLN THOUSAND)

The table below presents reconciliation during the period of measurement from 1 January 2014 to 30 June 2014:

Investment securities available for sale – Level 3	01.01-30.06.2014
Opening balance	137 315
Total gains or losses	15 309
recognised in other comprehensive income	15 309
Taking up of new issue of shares in the Margeurite Fund and currency translation differences	15 052
Closing balance	167 676

In the six-month period ended 30 June 2014 there were no changes in the fair value estimation methodology.

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

The Bank holds 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 the 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' housing loans portfolio), loans with no specified repayment schedule, which are due at the moment of valuation,
- the Bank's amounts due to customers: liabilities with no specified payment schedule, other specific products for which no active market exists,
- deposits and interbank placements with maturity date up to 7 days or with a variable interest rate,
- loans or advances granted and taken on the 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 flows was used, and applying current interest rates plus a credit risk margin and adjusted 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 estimated based on the expected future cash flows discounted using the current interest rates for given deposit products.

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

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

Interbank placements and deposits have been estimated based on the expected future cash flows discounted using the current interbank market interest rates.

Finance lease receivables have been estimated based on the expected future cash flows discounted with the internal rate of return on the same type of lease transactions concluded by the Bank in the period directly preceding the balance date.

(IN PLN THOUSAND)

The table below shows a summary of the carrying amounts and fair values for the particular groups of financial instruments which have not been presented at fair value in the Bank's statement of financial position as at 30 June 2014 and as at 31 December 2013:

	Level of fair value hierarchy	Valuation method	30.06.2014	
			Carrying amount	Fair value
Cash and balances with the central bank	n/a	value at cost to pay	8 210 374	8 210 374
Amounts due from banks	3	discounted cash flows	16 744 052	16 744 042
Loans and advances to customers			151 397 457	148 520 066
housing loans	3	discounted cash flows	77 618 283	74 433 111
corporate loans	3	discounted cash flows	51 192 163	51 569 474
consumer loans	3	discounted cash flows	19 154 447	19 193 539
receivables due from repurchase agreements	3	discounted cash flows	1 165 533	1 165 533
debt securities	3	discounted cash flows	2 267 031	2 158 409
Other financial assets	3	value at cost to pay including impairment allowances	884 783	884 783
Amounts due to the central bank	3	value at cost to pay including impairment allowances	3 739	3 739
Amounts due to banks	3	discounted cash flows	17 761 335	17 761 008
Amounts due to customers			169 040 450	169 440 898
due to corporate entities	3	discounted cash flows	45 048 678	45 464 424
due to public entities	3	discounted cash flows	5 764 885	5 764 885
due to retail clients	3	discounted cash flows	118 226 887	118 211 589
Debt securities in issue	3	discounted cash flows	884 563	884 887
Subordinated debt	2	discounted cash flows	1 620 914	1 604 483
Other financial liabilities	3	value at cost to pay including impairment allowances	2 708 286	2 708 286

	Level of fair value hierarchy	Valuation method	31.12.2013 restated	
			Carrying amount	Fair value
Cash and balances with the central bank	n/a	value at cost to pay	7 188 406	7 188 406
Amounts due from banks	3	discounted cash flows	2 089 087	2 084 806
Loans and advances to customers			147 372 326	149 972 246
housing loans	3	discounted cash flows	74 778 407	74 923 490
corporate loans	3	discounted cash flows	49 662 062	51 918 323
consumer loans	3	discounted cash flows	18 998 829	19 197 510
receivables due from repurchase agreements	3	discounted cash flows	2 144 088	2 144 088
debt securities	3	discounted cash flows	1 788 940	1 788 835
Other financial assets	3	value at cost to pay including impairment allowances	568 554	568 554
Amounts due to the central bank	3	value at cost to pay including impairment allowances	4 065	4 065
Amounts due to banks	3	discounted cash flows	2 529 623	2 529 387
Amounts due to customers			159 957 671	160 183 673
due to corporate entities	3	discounted cash flows	40 702 728	40 932 353
due to public entities	3	discounted cash flows	3 473 476	3 473 476
due to retail clients	3	discounted cash flows	115 781 467	115 777 844
Debt securities in issue	3	discounted cash flows	692 614	692 728
Subordinated debt	2	discounted cash flows	1 620 857	1 605 265
Other financial liabilities	3	value at cost to pay including impairment allowances	1 969 840	1 969 840

Detailed assumptions concerning valuation methods were presented in the annual financial statements for the year 2013.

In the six-month period ended 30 June 2014 there was no change in the estimation methodology of financial assets and liabilities that are not presented at fair value in the statement of financial position.

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS

39. Risk management in PKO Bank Polski SA

Risk management is one of the most important internal processes in PKO Bank Polski SA. It aims at ensuring profitability of business activity, with ensuring control of risk level and maintaining it within the risk tolerance and limits system applied by the Bank, in the changing macroeconomic and legal environment. The level of the risk plays an important role in the planning process.

In the Bank, the following types of banking risk have been identified, which are subject to management: credit risk, interest rate risk, currency risk, liquidity risk, commodity price risk, price risk of equity instruments, derivative instruments, operational risk, compliance risk, macroeconomic changes risk, model risk, business risk (including strategic risk) and reputation risk.

39.1. Elements of banking risk management process

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 Bank's activity are identified,
- risk measurement and assessment:

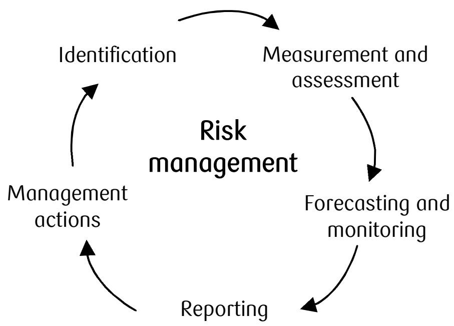
  risk measurement covering defining risk assessment measures adequate to the type and significance of the risk, data availability and quantitative risk assessment by means of determined measures, as well as risk assessment aimed at identifying the scale or scope of risk, taking into account the achievement of goals of risk management. Within risk measurement, stress-test are being conducted on the basis of assumptions providing a fair risk assessment,
- risk forecasting and monitoring:

  preparing risk level forecasts and monitoring deviations from forecasts or adopted reference points (e.g. limits, thresholds, plans, measurements from the previous period, issued recommendations and suggestions). Risk monitoring is performed with the frequency adequate to the materiality and volatility of a specific risk type,
- risk reporting:

  periodic informing the authorities of the Bank about the results of risk measurement, taken actions and actions recommendations. Scope, frequency and the form of reporting are adjusted to the managing level of the recipients,
- management actions:

  including, particularly, issuing internal regulations, establishing the level of risk tolerance, establishing limits and thresholds, issuing recommendations, making decisions about the use of tools supporting risk management. The objective of taking management actions is to form the risk management process and the risk level.

The risk management process is described on the chart below:



39.2. Main principles of risk management

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

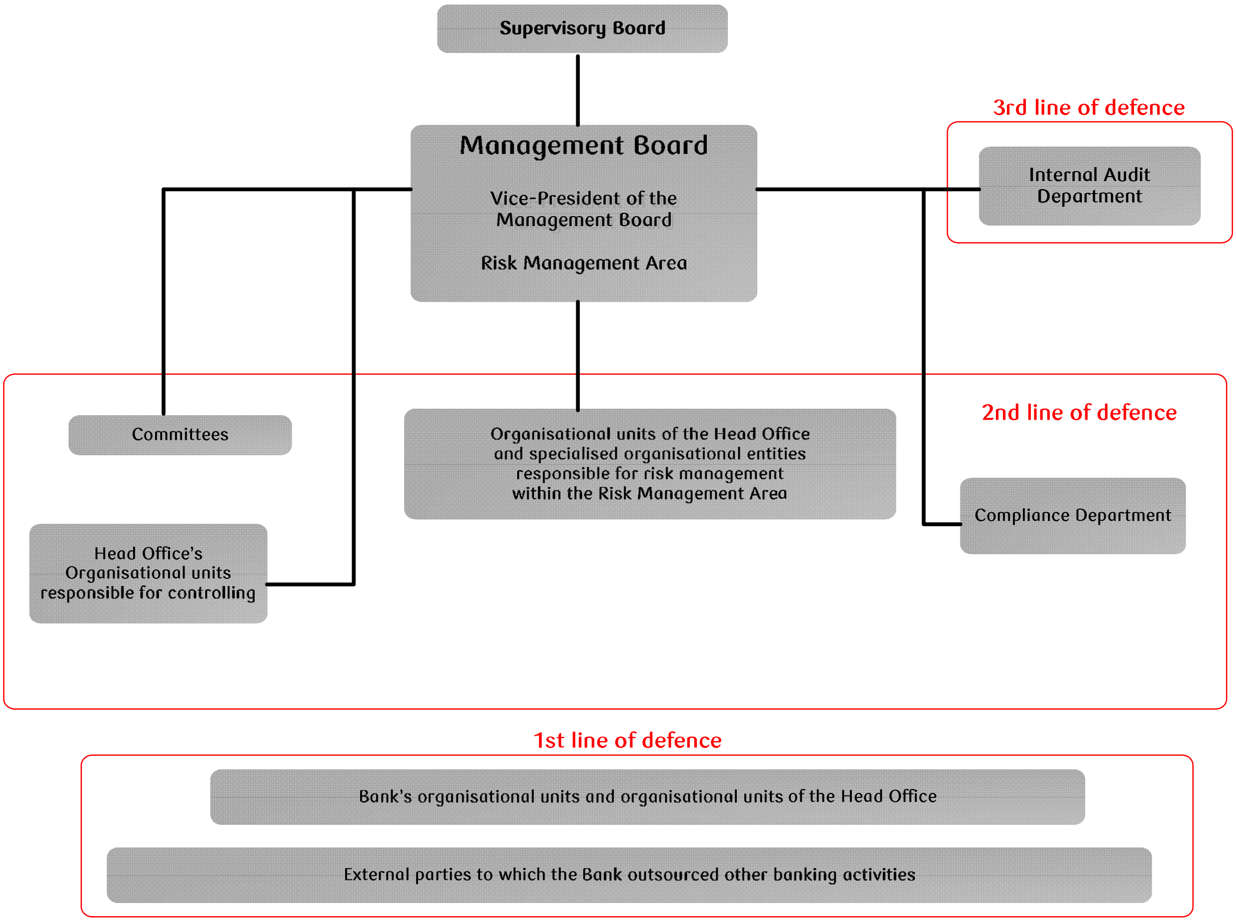
- the Bank manages all of the identified types of banking risk,
- the risk management process is appropriate to the scale of the operations and to the materiality, scale and complexity of a given risk and tailored to new risk factors and sources on a current basis,
- the risk management methods (in particular 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 compliance with the risk management strategy, in particular with regard to the level of tolerance of the risk.

39.3. The organisation of risk management in the Bank

Risk management in the Bank takes place in all of the organisational units of the Bank.

The organisation of risk management is presented in the chart below:

The organization 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 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 makes the most important decisions affecting the risk level of the Bank and adopts internal regulations on managing risk.

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 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 particular in the organisational units of the Bank, the organisational units of the Head Office and the external parties 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 cells are responsible for identifying risks, designing and implementing appropriate control mechanisms, including in the external entities, unless control mechanisms 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 Management Area, in the organisational units of the Head Office managing the compliance risk, reputation risk, respective committees 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 related to the Bank's activities.

The organisational units of the Head Office of the Bank that are grouped within the Banking Risk Division, the Department of Risk Integration, the Department of Restructuring and Debt Collection of the Corporate Client, and the Analysis and Credit Risk Assessment Centre, as well as the Restructuring and Debt Collection Centre, manage risk within the limits of competence assigned to them.

The Banking Risk Division is in particular responsible for:

- identifying risk factors and sources,
- measuring, assessing, monitoring and reporting risk levels (material risks) on a regular basis,
- measuring and assessing capital adequacy,
- preparing recommendations for the Management Board or committees regarding the acceptable level of risk,
- creating internal regulations on managing risk and capital adequacy,
- developing IT systems designated to supporting risk and capital adequacy management.

The Department of Risk Integration is in particular responsible for:

- validation of risk measurement models,
- implementation of effective system of the model risk management in the Group,
- coordinating the implementation of integrated risk management system in the Group,
- supporting risk management in the Group.

The Department of Restructuring and Debt Collection of the Corporate Client is in particular responsible for:

- recovering receivables from difficult corporate clients effectively,
- acquisition of assets as a result of collection of receivables,
- conducting review and classification of receivables being managed within the Department and off-balance sheet liabilities granted as well as determination of their impairment allowances associated with the risk of the Bank's activities.

The Restructuring and Debt Collection Centre is in particular responsible for:

- recovering receivables from difficult clients effectively through their restructuring and debt collection and increasing the effectiveness of such actions,
- effective monitoring of delays in the repayment 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 objective of the Analysis and Credit Risk Assessment Centre is the reduction of credit risk of individual credit exposures of the Bank's retail market clients, corporate market clients and financial institutions, which are significant particularly due to the scale of exposure, client segment or risk level and ensuring effective credit analyses in respect of mortgage loans granted to individual clients through the Bank's retail network and loans granted to small and medium enterprises clients evaluated with rating methods, as well as taking credit decisions in this regard.

Risk management is supported by the following committees:

The Risk Committee (the 'RC'):

- monitors the integrity, adequacy and efficiency of the banking risk management system, capital adequacy and implementation of the risk management policies binding in the Bank consistent with the Bank's Strategy,
- analyses and evaluates the application of strategic risk limits specified in the PKO Bank Polski SA's Banking Risk Management Strategy,
- supports the Supervisory Board in the banking risk management process by formulating recommendations and making decisions concerning capital adequacy and the efficiency of the banking monitoring system.

The Assets & Liabilities Committee (the 'ALCO')

- makes decisions within the scope of limits and thresholds on particular types of risks, issues related to transfer pricing, models and portfolio parameters used to determine impairment allowances and provisions, as well as other significant financial and business risk models and their parameters,
- gives recommendations to the Management Board i.a. with regard to determining the structure of the Bank's assets and liabilities, managing different types of risk, equity and price policy.

The Bank's Credit Committee (the 'BCC'),

- makes loan decisions with regard to significant individual loan exposures,
- issues recommendations in the above mentioned respect to the Management Board of the Bank.

The Central Credit Committee (the 'CCC') and credit committees which operate in the regional retail and corporate branch offices:

- supports the decisions taken by the relevant division directors and the Management Board members with its recommendations and the credit committees operating in the regions support branch directors and directors of the corporate macro-regions in matters bearing a higher risk level.

The Operating Risk Committee (the 'ORC'),

- takes decisions, issues recommendations and opinions regarding i.a. strategic tolerance limits and loss limits for operational risk, key risk indicators (KRI), assumptions of stress-tests, results of validation of operational risk measurement models, changes in AMA approach and taking actions aiming at lowering the operational risk level in all areas of the Bank's activities.

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

39.4. Activities in the area of risk management in the Bank

PKO Bank Polski SA's top priority is to maintain its strong capital position and to further increase its stable sources of financing underlying the stable development of business activity, while maintaining the priorities of efficiency and effective cost control and appropriate risk assessment.

For this purpose, in the first half of 2014 the Bank took i.a. the following actions:

- in May 2014, rolled forward short-term bonds with a maturity of six months in the amount of PLN 700 million and issued additional PLN 50 million of this bonds,
- transferred a part of the Bank's profit for 2013 to own funds,
- in April 2014, acquired long-term financing from Nordea AB in the amount of approximately PLN 14 billion as a result of acquisition of the Nordea Group entities,
- in January 2014, acquired financing due to issuance of bonds under the EMTN programme in the amount of EUR 500 million,
- in February 2014, acquired financing due to Cross Currency Repo transactions in the amount of CHF 50 million.

In the first half of 2014, due to the process of integration of both banks, PKO Bank Polski SA and Nordea Bank Polska SA implemented changes in internal regulations concerning risk management.

39.5. Identification of significant types of risk

The significance of the individual types of risk is established at the Bank's level.

The following types of risks are considered to be significant in the Bank:

1) credit risk,
2) currency risk,
3) interest rate risk,
4) liquidity risk,
5) operational risk,
6) business risk,
7) macroeconomic changes risk,
8) model risk,
9) compliance risk.

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 is taken into account, whereas three types of risk are recognised:

- considered as significant a priori – being managed actively,
- potentially significant – for which significance monitoring is being made,
- other non-defined or non-occurring in the Bank 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. Monitoring is in particular conducted if significant change in activities took place or the profile of the Bank has changed.

40. 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 exposures 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:

- loan transaction is a subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
- credit risk relating to loan transactions is measured on the stage of loan request analysis and on a cyclical basis during the monitoring process, 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 or the amount 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 level assessment 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, credit 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 credit 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 (IRB) approach requirements i.e. advanced credit risk measurement method, which can be used while calculating requirements as regards own funds for credit risk after being approved by the Polish Financial Supervision Authority.

40.1. Measurement and assessment of credit risk

Credit risk measurement and assessment methods

In order to assess the level of credit risk and profitability of loan portfolios, the Bank uses different credit risk measurement and valuation methods, including:

- probability of default (PD),
- expected loss (EL),
- credit value at risk (CVaR),
- effectiveness measures used in scoring methodologies (Accuracy Ratio),
- share and structure of impaired loans (according to IAS),
- coverage ratio of impaired loans (according to IAS),
- cost of risk.

The Bank extends regularly the scope of credit risk measures used, taking into account the internal ratings-based (IRB) approach requirements, and extends the use of risk measures to cover the whole Bank’s loan portfolio with these methods.

The portfolio credit risk measurement methods allow i.a. to reflect the credit risk in the price of products, determine the optimum conditions of financing availability and determine rates of impairment allowances.

The Bank performs analysis and stress-tests regarding the influence of potential changes in macroeconomic environment on the quality of the Bank’s loan portfolio. The test results are reported to the Bank’s authorities. The above mentioned information enables the Bank to identify and take measures to limit the negative influence of unfavourable market situation 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. These methods are supported by specialist application software. The scoring method is defined by the Bank’s internal regulations whose main aim is to ensure uniform and objective assessment of credit risk during the credit process.

Rating models for corporate clients

The evaluation of credit risk related to financing corporate clients is performed in two dimensions: in respect of the client and of the transaction. The assessment measures comprise ratings of the client and of the transaction. The comprehensive measure of credit risk which reflects both risk factors is the aggregate rating.

Rating models for corporate clients were prepared using Bank’s internal data which ensure that they are tailored to the risk profile of the Bank's clients. Models are based on a statistical dependence analysis between the default and a customer's risk scoring. Scoring includes an assessment of the financial indicators, qualitative factors and evaluation of behavioural factors. The client's risk assessment depends on the size of the enterprise for which analysis is made. In addition, the Bank has implemented a model for assessment of credited entrepreneurs in the formula of specialist financing, which allows adequate credit risk assessment of large projects involving real estate financing (e.g. office space, retail areas, industrial areas) and infrastructure projects (e.g. telecommunications, industrial, public utility infrastructure).

Rating models are implemented in IT tool that supports the Bank's credit risk assessment related to financing corporate clients.

The evaluation of retail clients credit risk

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

In the first half of 2014 in respect of credit risk, the Bank endeavoured to adapt to the requirements of Recommendation S of the Polish Financial Supervision Authority amended in June 2013, relating to best practice in respect of management of mortgage-secured loan exposures. All recommendations were implemented in the Bank in accordance with expected date i.e. until 31 December 2013 and 30 June 2014.

Assessment of credit risk relating to the financing of corporate clients

The evaluation of credit risk related to financing corporate clients is performed in two dimensions: in respect of the client and of the transaction. The assessment measures comprise ratings of the client and of the transaction. 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 enterprises segment that meet certain criteria, the Bank assesses credit risk using the scoring method. Such assessment refers to low-value, uncomplicated loan transactions and it is performed in two dimensions: clients’ borrowing capacity and his creditworthiness. The assessment of borrowing capacity involves examination of the client’s economic and financial situation, whereas the creditworthiness assessment involves scoring and evaluation of the client’s credit history obtained from internal records of the Bank and external sources.

The information about ratings and scoring is widely used in the Bank for the purposes of credit risk management, the system of credit decision-making powers, determining the conditions in which independent credit assessment services are activated and in the credit risk assessment and reporting system.

(IN PLN THOUSAND)

With regard to corporate clients and the small and medium enterprises segment, the Bank implemented a number of improvements in respect of the ongoing portfolio monitoring, which allows faster response to changes in the existing portfolio of the Bank and the use of an adequate policy and tools for new customers.

40.2. Forecasting and monitoring of credit risk

The Bank's exposure to credit risk divided into impaired and not impaired, and into not past due and past due

Amounts due from banks	Exposure	
	30.06.2014	31.12.2013
Amounts due from banks impaired, of which:	59 482	51 240
assessed on an individual basis	59 131	50 892
Amounts due from banks not impaired, of which:	16 727 196	2 078 084
not past due	16 727 196	2 078 084
Gross total	16 786 678	2 129 324
Impairment allowances	(42 626)	(40 237)
Net total by carrying amount	16 744 052	2 089 087

Loans and advances to customers	Exposure		
	30.06.2014	31.12.2013	30.06.2013 restated
Loans and advances impaired, of which:	12 317 609	12 265 138	12 944 736
assessed on an individual basis	5 058 991	5 091 377	5 600 198
Loans and advances not impaired, of which:	145 667 506	141 488 420	140 454 447
not past due	141 636 973	138 235 574	137 059 349
past due	4 030 533	3 252 846	3 395 098
past due up to 4 days	1 688 265	1 045 547	881 374
past due over 4 days	2 342 268	2 207 299	2 513 724
Gross total	157 985 115	153 753 558	153 399 183
Impairment allowances	(6 587 658)	(6 381 232)	(6 666 888)
Net total by carrying amount	151 397 457	147 372 326	146 732 295

Investment securities available for sale – debt securities	Exposure	
	30.06.2014	31.12.2013
Debt securities impaired, of which:	6 160	6 160
assessed on an individual basis	6 160	6 160
Debt securities not impaired, of which:	19 767 985	13 545 807
not past due	19 767 985	13 545 807
with external rating	15 073 355	9 077 514
with internal rating	4 694 630	4 468 293
Gross total	19 774 145	13 551 967
Impairment allowances	(3 387)	(3 296)
Net total by carrying amount	19 770 758	13 548 671

(IN PLN THOUSAND)

Maximum exposure to credit risk

Items of the statement of financial position	30.06.2014	31.12.2013	30.06.2013 restated
Current account in the central bank	5 715 702	4 018 340	2 838 595
Amounts due from banks	16 744 052	2 089 087	3 407 933
Trading assets – debt securities	1 177 969	472 535	3 370 030
issued by the State Treasury	1 099 169	395 202	3 281 200
issued by local government bodies	51 622	41 907	43 441
issued by non-financial institutions	8 320	23 892	29 980
issued by financial institutions	9 269	11 366	14 198
issued by banks	9 589	168	1 211
Derivative financial instruments	3 363 222	3 002 220	3 325 276
Financial instruments designated upon initial recognition at fair value through profit and loss - debt securities	11 107 485	15 179 188	12 633 327
issued by central banks	9 497 378	13 997 228	10 394 854
issued by the State Treasury	1 360 397	931 325	1 983 888
issued by local government bodies	249 710	250 635	254 585
Loans and advances to customers	151 397 457	147 372 326	146 732 295
financial sector (other than banks)	5 516 213	5 711 190	3 917 173
corporate loans	4 350 680	3 672 767	3 556 143
receivables due from repurchase agreements	1 165 533	2 038 423	361 030
non-financial sector	138 780 014	134 531 822	135 213 919
housing loans	77 618 283	74 778 407	72 988 332
corporate loans	40 710 121	39 942 827	42 096 866
consumer loans	19 154 447	18 998 829	19 222 815
debt securities	1 297 163	811 759	905 906
public sector	7 101 230	7 129 314	7 601 203
corporate loans	6 131 362	6 046 468	6 435 417
debt securities	969 868	977 181	1 160 860
housing loans	-	-	4 926
receivables due from repurchase agreements	-	105 665	-
Investment securities - debt securities	19 770 758	13 548 671	13 455 378
issued by the State Treasury	14 025 935	8 518 450	9 453 074
issued by local government bodies	3 400 821	3 440 753	2 639 446
issued by non-financial institutions	1 072 293	997 253	1 031 194
issued by financial institutions	121 093	33 401	280 948
issued by banks	1 150 616	558 814	50 716
Other assets - other financial assets	884 783	568 554	481 703
Total	210 161 428	186 250 921	186 244 537

Off-balance sheet items	30.06.2014	31.12.2013
Irrevocable liabilities granted	9 615 784	8 157 608
Guarantees granted	8 371 275	7 147 120
Letters of credit granted	584 140	494 586
Guarantees of issue	4 304 305	3 675 067
Total	22 875 504	19 474 381

40.3. 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 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, item 1 of the Banking Law, the total value of the Bank's exposures, off-balance sheet liabilities granted and 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 30 June 2014 and as at 31 December 2013, those concentration limits had not been exceeded.

As at 30 June 2014, the level of concentration risk in the Bank with respect to individual exposures was low – the largest exposure to a single entity was equal to 12.5% of the Bank's recognised equity.

Concentration by the largest capital groups

The largest concentration of PKO Bank Polski SA's exposure into the capital group is 2.56% of the loan portfolio of the Bank.

As at 30 June 2014 and 31 December 2013, the Bank's concentration risk level by the largest capital groups was low - the greatest exposure of PKO Bank Polski SA towards a capital group amounted to 18.3% of the Bank's recognised equity.

Concentration by industry

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

As compared with 31 December 2013 the exposure of PKO Bank Polski SA in industry sectors has increased by approx. PLN 1.3 billion. The total exposure in the four largest industry groups: 'Industrial processing', 'Maintenance of real estate', 'Wholesale and retail trade (...)', and 'Construction' amounted to approx. 60% of the total loan portfolio covered by an analysis of the sector.

Concentration by geographical regions

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

The structure of the loan portfolio by geographic regions is identified in the Bank due to the area – a separate area for the retail client (ORD) a separate area for the corporate client (ORK). 11 geographical regions are distinguished within ORD. As at 30 June 2014, the largest concentration of the ORD loan portfolio occurs in region of Katowice and Warsaw (ca. 23% of the ORD portfolio).

Within ORK, the Bank distinguish 7 macro-regions and the headquarter. As at 30 June 2014, the largest concentration of the ORK loan portfolio occurs in the headquarter and the central macro-region (23% and 16% of the ORK loan portfolio, respectively).

Concentration of credit risk by currency

As at 30 June 2014, the share of exposure in convertible currencies, other than PLN, in the total portfolio of PKO Bank Polski SA amounted to 19.0%, which is a decrease, as compared to 31 December 2013, by approx. 0.6 pp. The greatest parts of currency exposures of PKO Bank Polski SA are those in CHF. A decrease in share of loans denominated in foreign currencies in the first half of 2014 is mainly a result of a higher growth of a new sale realized in PLN.

Other types of concentration

In accordance with the Recommendations S and T of the Polish Financial Supervision Authority, the Bank uses internal limits on credit exposures related to the Bank's customers defining the appetite for the credit risk.

As at 30 June 2014, these limits have not been exceeded.

40.4. Restructuring and forbearance practices

Bank takes as forbearance actions aiming at making changes in the contract terms agreed with a debtor or an issuer, forced by his difficult financial situation (restructuring activities). The aim of the forbearance is to restore a debtor or an issuer the ability to correct execution of the agreement and to maximise the efficiency of non-performing loans management, i.e. obtaining the highest recoveries while minimising the incurred costs, related to these recoveries, which are very high in case of executive proceedings.

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

1) spreading of due debt into instalments,
2) change in repayment schedule,
3) change in repayment formula (annuity instalments, diminishing instalments),
4) spreading of payments into instalments (introduction of repayment schedule),
5) suspension of repayments,
6) change in interest rate,
7) reduction of debt,
8) change in the grace period.

As a result of signing and a timely service of forbearance agreement, the loan becomes unmatured. Evaluation of the ability of a debtor to fulfil the forbearance agreement conditions (debt repayment according to the agreed schedule) constitutes an element of the forbearance process. Concluded forbearance agreements are monitored on an on-going basis. Signing of the forbearance agreement, amending the contractual terms due to the financial difficulties of a debtor or an issuer, is one of indications of individual impairment and results in the necessity of analysing the situation in terms of recording impairment charges or provisions revaluating the exposure value (provisions) resulting from this fact.

(IN PLN THOUSAND)

Loans and advances cease to be subject of forbearance if the following conditions are met simultaneously:

- 3 consecutive payments under the forbearance agreement schedule were settled,
- at least 60 days from the date of the first instalment determined in accordance with the forbearance agreement schedule have elapsed,
- other contractual arrangements are realised on a regular basis and not raising concerns,
- a loan is not covered by the outsourcing of debt collection activities.

	Carrying amount	
	30.06.2014	31.12.2013
Loans and advances to customers, gross	157 985 115	153 753 558
of which forbearance:	4 925 908	4 318 155
financial sector	209	183
corporate loans	209	183
non-financial sector	4 925 699	4 317 682
corporate loans	3 061 219	2 439 686
housing loans	1 425 373	1 437 655
consumer loans	439 107	440 341
public sector	-	290
corporate loans	-	290
Impairment allowances on loans and advances to forbearance customers	(956 132)	(991 371)
Loans and advances to customers, net forbearance	3 969 776	3 326 784

Loans and advances to customers subjected to forbearance by geographical region	30.06.2014	31.12.2013
Poland		
mazowiecki	1 798 243	1 772 532
śląsko-opolski	844 763	401 978
warmińsko-mazurski	646 074	64 301
łódzki	271 871	206 303
wielkopolski	244 199	434 487
małopolsko-świętokrzyski	228 827	337 180
dolnośląski	215 399	205 842
kujawsko-pomorski	183 083	160 294
zachodnio-pomorski	181 810	157 392
pomorski	138 200	242 532
lubelsko-podkarpacki	92 908	101 949
podlaski	80 531	233 365
Total	4 925 908	4 318 155

Loans and advances to customers subjected to forbearance	Exposure by gross carrying amount		Collateral value	
	30.06.2014	31.12.2013	30.06.2014	31.12.2013
Loans and advances impaired	3 223 858	3 107 480	134 243	173 583
Loans and advances not impaired, of which:	1 702 050	1 210 675	138 661	83 947
not past due	1 146 112	880 476	65 977	18 220
past due	555 938	330 199	72 684	65 727
Total gross	4 925 908	4 318 155	272 904	257 530

Change in carrying amount of loans and advances to customers subjected to forbearance at the beginning and at the end of the period

For the six-month period ended 30 June 2014	Total
Carrying amount at the beginning of the period, net	3 326 784
Impairment allowance	35 239
Loans and advances derecognised in the period, gross	(1 307 164)
Loans and advances recognised in the period, gross	2 576 903
Other changes/repayment	(661 986)
Carrying amount at the end of the period, net	3 969 776

(IN PLN THOUSAND)

For the year ended 31 December 2013	Total
Carrying amount at the beginning of the period, net	3 068 604
Impairment allowance	(72 215)
Loans and advances derecognised in the period, gross	(2 124 716)
Loans and advances recognised in the period, gross	2 630 100
Other changes/repayment	(174 989)
Carrying amount at the end of the period, net	3 326 784

Loans and advances to customers gross by applied changes in terms of repayment for forbearance	Gross carrying amount	
	30.06.2014	31.12.2013
Spreading of due debt into instalments	2 811 607	2 482 200
Change in repayment schedule	1 679 730	1 540 718
Spreading of payments into instalments (introduction of repayment schedule)	961 978	808 174
Change in repayment formula (annuity instalments, diminishing instalments)	757 706	702 804
Suspension of repayments	719 306	-
Change in interest rate	592 394	586 314
Reduction of debt	285 021	307 501
Change in the grace period	358	-

For a given loan exposure subject to forbearance more than one change in terms of repayment may be applied.

The amount of recognised interest income related to loans and advances to customers, which are subject to forbearance amounted to PLN 222 788 thousand as at 30 June 2014 (as at 31 December 2013 it amounted to PLN 391 983 thousand).

40.5. Allowances for credit losses

PKO Bank Polski SA performs a monthly review of loan exposures in order to identify loan exposures threatened with impairment, measure the impairment of loan exposures and recognition of 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 identified indications of impairment and the individual significance of a credit exposure. The events considered as indications of individual impairment are, in particular, as follows:

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

40.6. Impairment estimating methods

PKO Bank Polski SA applies three methods of estimating impairment:

- an individual basis 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,
- a portfolio basis applied in respect of individually insignificant loans, for which the objective evidence of impairment was identified,
- a group basis (IBNR) applied in respect of the loans for which the objective evidence of impairment was not 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 assessing impairment allowances on an individual basis, 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 allowance in respect of loan exposures assessed on a portfolio basis or on a group basis 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.

40.7. Off-balance sheet provisions

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

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

- applies an individual basis in respect to the individually significant loan exposures 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,
- a portfolio basis (if an exposure shows indications of individual impairment) or a group basis (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 off-balance sheet liability (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 assessing a provision on an individual basis, the expected future cash flows are estimated for each loan exposure separately.

When assessing a provision on a portfolio basis or on a group basis, 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 the Note 19 'Loans and advances to customers'.

40.8. Credit risk reporting

The Bank prepares monthly and quarterly credit risk reports. The reporting of credit risk covers specifically cyclic information on the scale of risk exposure of the credit portfolio. In addition to the information concerning the Bank, the reports also contain information about the credit risk level of the Group's subsidiaries, which have significant credit risk levels.

40.9. Management actions concerning credit risk

Basic credit risk management tools used by the Bank include:

- minimum transaction requirements (risk parameters) determined for a given type of transaction (e.g. minimum LTV amount, maximum loan amount, required collateral),
- the principles of defining credit availability, including cut-offs – the minimum number of points awarded in the process of creditworthiness assessment with the use of a scoring system (for retail clients) or the client's rating class or aggregate rating class (for corporate clients), which a client must obtain to receive a loan,
- concentration limits – the limits defined in the Article 71, item 1 of the Banking Law,
- industry-related limits – limits which reduce the risk level related to financing corporate clients that conduct business activities in industries characterised by high level of credit risk,
- limits on credit exposures related to the Bank's customers – the limits defining the appetite for credit risk as result of i.a. the recommendations S and T,
- credit limits defining the Bank's maximum exposure to a given client or country in respect of wholesale operations and settlement limits and limits for the period of exposure,
- competence limits – they define the maximum level of credit decision-making powers with regard to the Bank's clients, the limits depend primarily on the amount of the Bank's exposure to a given client (or a group of related clients) and the loan transaction period; the competence limit depends on the credit decision-making level (in the Bank's organisational structure),
- minimum credit margins – credit risk margins relating to a given credit transaction concluded by the Bank with a given corporate client but the interest rate offered to a client cannot be lower than the reference rate plus credit risk margin.

Collateral management policy plays a significant role in establishing minimum transaction terms as regards credit risk. The Bank's collateral management policy is aimed at securing 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 due to the appropriate prices fluctuation of a particular collateral are preferred,
- when an asset is accepted as collateral, an assignment of cash receivables 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 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 loans for the financing the housing market, collateral is required to be established as mortgage on the property. Until an effective mortgage is established, the following types of collateral are used (depending on type and amount of loan): an increased credit margin or/and a collateral in the form of a cession of receivables related to the construction agreement, a cession of receivables related to the development contract and an open/closed fiduciary account/guarantee, bill of exchange or warranty.

With regard to retail banking loans for individuals, usually personal guarantees are used (a civil law surety/guarantee, a bill of exchange) or collateral is established on the client's bank account, car or securities.

With regard to loans for the financing of small and medium enterprises and corporate clients, collateral can be established on i.a.: trade receivables, bank accounts, movable property, real estate or securities.

41. 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 respective shaping the structure of statement of financial position and off-balance sheet items.

41.1. Measurement of interest rate risk

In the process of interest rate risk management, PKO Bank Polski SA uses, in particular, 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 statement of financial position 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 movement of the interest rate curves for the particular currencies by ±50 b.p., ±100 b.p. and ±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.

As at 30 June 2014 and as at the end of 2013 PKO Bank Polski SA had a positive cumulative gap in PLN in all time horizons.

41.2. Forecasting and monitoring of interest rate risk

Exposure of PKO Bank Polski SA to interest rate risk was within accepted limits as at 30 June 2014. The Bank was mainly exposed to PLN interest rate risk, which represents about 72% of the Value at Risk (VaR) as at 30 June 2014. Interest rate risk was determined mainly by the risk of a mismatch between the repricing of interest rates of the Bank's 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 table below:

Name of sensitivity measure	30.06.2014	31.12.2013
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)	125 136	54 930
Parallel movement of interest rate curves by 200 b.p. (in PLN thousand) (stress-test)*	778 252	523 130

* The table presents the value of the most adverse stress-test of the scenarios: change of interest rate curves in the particular major currencies (PLN, EUR, USD, CHF and GBP) and in other currencies by 200 b.p. up and by 200 b.p. down.

As at 30 June 2014 the Bank's interest rate VaR for a 10-day time horizon (10-day VaR) amounted to PLN 125 136 thousand, which accounted for approximately 0.57% of the Bank's own funds. As at 31 December 2013, VaR for the Bank amounted to PLN 54 930 thousand, which accounted for approximately 0.27% of the Bank's own funds.

41.3. 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.

41.4. 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 i.a. the following: price sensitivity, interest income sensitivity, limits and threshold for losses and limits on instruments sensitive to interest rate fluctuations.

42. 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 respective shaping the structure of statement of financial position and off-balance sheet items.

42.1. 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 conditions on the currency market 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.

42.2. Forecasting and monitoring of currency risk

VaR of the Bank and stress-tests analysis of the Bank's exposure to currency risk are stated cumulatively for all currencies in the table below:

Name of sensitivity measure	30.06.2014	31.12.2013
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)	1 804	2 443
Change in CUR/PLN by 20% (in PLN thousand) (stress-test)*	14 819	21 428

* 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 30 June 2014 and as at 31 December 2013.

Currency positions for particular currencies are presented in the table below:

Currency position	30.06.2014	31.12.2013
EUR	(9 755)	13 010
USD	8 969	79 507
CHF	(13 508)	6 526
GBP	1 192	3 673
Other (Global Net)	(15 774)	6 020

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 PLN by the clients, conversion of loan currency) 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 30 June 2014 amounted to approx. 0.01%).

42.3. 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.

42.4. 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 for i.a.: currency positions, Value at Risk calculated for a 10-day time horizon and daily loss from transactions on currency market.

43. Liquidity risk management

The liquidity risk is defined as the lack of possibility to ensure the necessary level of funds to pay the debts on time due to the lack of liquid assets. Lack of liquidity may arise from inappropriate structure of statement of financial position, misfit of cash flows, not received payments from counterparties, 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 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 (in particular stable deposit base). In liquidity risk management, money market instruments, including NBP open market operations are also used.

43.1. Measurement of the liquidity risk

The Bank makes use of the following liquidity risk measures:

- the contractual and adjusted liquidity gap in real terms,
- liquidity reserve,
- measure of stability of deposit and loan portfolios,
- stress-tests (liquidity stress-tests).

43.2. 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 entities 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
30.06.2014								
Adjusted gap in real terms	9 583 981	10 296 571	953 438	1 497 409	6 874 619	4 263 269	16 173 194	(49 642 481)
Cumulative adjusted gap in real terms	9 583 981	19 880 552	20 833 990	22 331 399	29 206 018	33 469 287	49 642 481	-
31.12.2013								
Adjusted gap in real terms	7 013 631	13 166 722	(9 759 378)	(768 599)	1 984 857	5 271 529	18 081 601	(34 990 363)
Cumulative adjusted gap in real terms	7 013 631	20 180 353	10 420 975	9 652 376	11 637 233	16 908 762	34 990 363	-

In all time horizons, PKO Bank Polski SA's cumulative adjusted liquidity gap in real terms as at 30 June 2014 and as at 31 December 2013 was positive. This means a surplus of assets receivable over liabilities payable.

The table below presents liquidity reserve of the Bank as at 30 June 2014 and as at 31 December 2013:

Name of sensitivity measure	30.06.2014	31.12.2013
Liquidity reserve up to 1 month* (in PLN million)	16 071	17 816

*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 30 June 2014 the level of permanent balances on deposits constituted approx. 94.1% of all deposits in the Bank (excluding interbank market), which means a decrease by approximately 1.8 pp. as compared to the end of 2013.

43.3. 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.

43.4. Management decision as regards 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 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.

44. 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 shaping the structure of statement of financial position 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.

45. Price risk of equity securities management

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

The price risk of equity securities results from operations conducted as part of trading activities (the Brokerage House of PKO Bank Polski SA), investing activities and from other operations as part of banking activities generating a position in equity securities.

Managing the equity securities price 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 are not expected 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.

46. Other price risks

Taking into consideration other price risks, as at 30 June 2014, the Bank was exposed to price risk of investment fund participation units in collective investment funds.

Influence of this risk to the Bank's financial situation is immaterial. The capital requirement, pursuant to the Regulation (EU) No. 575/2013 of the European Parliament and of the Council, to cover the above mentioned risk amounted to approx. PLN 1.5 million as at 30 June 2014. The increase in relation to the requirement as at 31 December 2013 results from the purchased collective investment funds participation units.

47. 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 instruments 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.

47.1. Measurement of derivative instruments risk

The Bank measures the derivative instruments risk using, among others, the Value at Risk (VaR) model described in the section on interest rate risk or currency risk, depending on the risk factor which affects the value of the instrument.

47.2. Forecasting and monitoring of the derivative instruments risk

Monitoring the risk of derivative instruments takes place as part of monitoring of other types of financial and credit risk. The Bank puts 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.

47.3. 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.

47.4. Management decisions as regards risk of derivative instruments

The main tools used in derivative instruments risk management are as follows:

- procedures for derivative risk management,
- limits and thresholds set for the risk related to derivative instruments,
- master agreements specifying, i.a. settlement mechanisms,
- collateral agreements, 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 the derivative instruments, 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 (Credit Support Annex) agreement.

48. 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. Operational risk takes into consideration legal risk yet does not comprise reputation risk and business risk.

The objective of operational risk management is to enhance security of the operational activity pursued by the Bank by improving the efficient, tailored to the profile and the scale of operations mechanisms of identification, assessment and measurement, reduction, monitoring and reporting of operational risk.

48.1. Measurement of the operational risk

Measurement of operational risk at the Bank aims at defining the scale of threats related to the existence of operational risk with the use of defined risk measures. The measurement of operational risk comprises:

- calculation of Key Risk Indicators (KRI),
- calculation of own funds requirement in respect of operational risk in accordance with the AMA approach,
- stress-tests,
- calculation of internal capital.

The operational risk self-assessment comprises identification and assessment of operational risk for Bank's products, processes and applications as well as organisational changes and is conducted with the use of:

- accumulation of data on operational events,
- result of inspections, proceedings and functional internal control,
- Key Risk Indicators (KRI).

48.2. Forecasting and monitoring of operational risk

Monitoring of operational risk aims at controlling operational risk and diagnosis of areas requiring management actions.

The Bank regularly monitors:

- utilisation level of strategic tolerance and operational risk losses limits,
- operating events and their effects,
- results of operational risk self-assessment,
- results of AMA, stress-tests,
- Key Risk Indicators (KRI) in relation to threshold and critical values,
- effectiveness and timeliness of actions taken to reduce or transfer the operational risk.

48.3. Reporting of operational risk

Reporting on information concerning operational risk is being performed for the purposes of:

- Bank's internal requirements, particularly of the senior management staff, ORC, RC, the Management Board and the Supervisory Board,
- supervisory institutions,
- shareholders and financial market.

Reporting on information concerning Bank's operational risk for the Banks's internal purposes is performed on a monthly and quarterly basis. Recipients of quarterly reports are ORC, RC, the Management Board and the Supervisory Board. Quarterly reports contain in particular 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 applications 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 ORC or the Management Board.

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

48.4. Management actions concerning operational risk

The process of operational risk management is realised at the level of the entire Bank and at the levels of each system-based operational risk management areas. System-based operational risk management involves creation of solutions served for exercise of control by the Bank over the level of operational risk, enabling accomplishment of Bank's objectives. The ongoing operational risk management is conducted by every employee of PKO Bank Polski SA and involves prevention against materialisation of operational events arising during the product servicing, realisation of processes and use of applications as well as response on occurring operational events.

In order to manage the operational risk, the Bank gathers internal and external data about operational events and their results, data on the operating environment, and data related to the quality of internal functional controls.

In order to mitigate exposure to operational risk, the following tools are used by the Bank:

1) control instruments,
2) human resources management instruments (staff selection, enhancement of professional qualification of employees, motivation packages),
3) setting threshold and critical values of KRI,
4) strategic tolerance and operational risk losses limits,
5) contingency plans,
6) insurance,
7) outsourcing.

Management actions are taken under the following cases:

- on ORC's initiative,
- on the initiative of operational risk managing organisational units and cells of the Bank,
- when there is a reasonable probability that the risk will exceed either moderate or high level or when exceedance of these levels have occurred.

Especially when the risk level is elevated or high, the Bank uses the following approach:

- risk reduction – mitigating the impact of risk factors or consequences of its materialisation,
- risk transfer – transfer of responsibility for covering potential losses on a third-party,
- risk avoidance – resignation from activity that generates risk or elimination the probability of the occurrence of a risk factor.

The process of operational risk management is a subject to internal control system including:

- review of strategy and process of operational risk management,
- self-assessment of compliance with AMA approach requirements,
- validation of AMA approach,
- internal audit.

49. Compliance risk management

In PKO Bank Polski SA compliance risk is defined as the risk of legal sanctions, incurring financial losses or losing reputation or reliability due to failure of the Bank, 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 the compliance risk management is:

1) to prevent the occurrence of cases of non-compliance and establish among shareholders, customers, employees, business partners and other market participants, the Bank's image as an institution acting in accordance with the law and accepted standards of conduct, reliable, fair and honest,
2) preventing the possibility of losing reputation or reliability of the Bank, as a result of failure to comply or improper application the provisions of the law, internal regulations, standards adopted by the Bank, including ethical standards,
3) preventing the risk of occurring financial losses or legal sanction risk, which may result from breach of the above mentioned regulations and standards of conduct.

In the Bank, the Compliance Department, which ensured the independence of the subordinate in matters related to the compliance risk management directly to the President of the Management Board, is responsible for creating system solutions in the area of ensuring compliance, including development of the methods for evaluating, monitoring and reporting the compliance risk.

Identification and assessment of compliance risk is carried out cyclically by so-called internal processes owners, in collaboration with the Compliance Department and includes in particular:

1) estimating the potential severity of the cases of non-compliance as a:
   - financial losses, particularly administrative penalties or damages,
   - losing reputation or reliability,
2) carrying out an in-depth assessment of the process in accordance with the law regulations, using information on the findings of external controls and internal audits, formulated post-control recommendations and degree of their implementation.

49.1. Monitoring of compliance risk

Monitoring of compliance risk includes:

1) the results of the identification and assessment of compliance risk,
2) instances of non-compliance – their origins and effects caused,
3) actions undertaken by the Bank as part of:
   - managing of the compliance risk,
   - execution of internal audits, functional controls and external controls recommendations,
   - adapting to the new law regulations and standards of conduct,
   - execution of the recommendations of the Compliance Department,
4) assessment of the effectiveness of control mechanisms associated with reducing the compliance risk.

Reporting of the information concerning compliance risk is made on a quarterly basis. The reports are addressed to the Management Board, the Supervisory Board the Supervisory Board's Audit Committee. The reports contain among others information on:

1) the results of the identification and assessment of compliance risk,
2) instances of compliance risk materialisation in the Bank and in the financial sector,
3) the most important changes in the regulatory environment and conditions resulting from the activity of the external supervisory and control authorities,
4) the results of external controls carried out in the Bank,
5) documents of the external supervisory and control authorities received by the Bank,
6) the most important actions undertaken as a part of managing the compliance risk and execution of external controls recommendations.

Compliance risk management in the Bank involves in particular the following:

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

The Bank has adopted a zero tolerance policy against compliance risk, which means that the Bank focuses its actions on preventing cases of materialisation of this risk.

50. Business risk management

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

Managing the business risk is aimed at maintaining, on an acceptable level, the potential negative financial consequences resulting from adverse changes in the business environment, making adverse decisions, improper implementation of adopted decisions or lack of appropriate actions, which would be a response to changes in the business environment.

50.1. Business risk measurement

Business risk identification is to recognise and determine factors both current and potential, resulting from current and planned activities of the Bank and which may significantly affect the financial position of the Bank, generating or change in the Bank's income and expense. Business risk identification is made through the analysis of selected items from the income statement related to the Bank's income and expense.

Measurement of business risk is aimed at defining the scale of threats related to the existence of business risk with the use of defined risk measures. The measurement of business risk is conducted quarterly and comprises:

- calculation of selected business risk indicators,
- conducting stress-tests,
- calculation of internal capital.

The internal capital for covering business risk of the Bank is determined on the basis of analysis of historical volatility of selected items of the income statement, related to the Bank's income and expense in accordance with the earnings at risk concept (Earnings at Risk).

50.2. Forecasting and monitoring of business risk

Forecasting of business risk in the Bank is conducted once a quarter on a yearly basis and includes forecast of the level of business risk and internal capital. Once a quarter, the verification of business risk forecast (so-called backtesting) is also performed.

Monitoring of business risk includes in particular:

- strategic limits of business risk tolerance – on a quarterly basis,
- stress-tests results – on an annual basis,
- internal capital level – on a quarterly basis,
- deviations from the implementation of business risk forecast – on a quarterly basis.

50.3. Reporting of business risk

Business risk reporting is conducted quarterly in the Bank. Reports on business risk are prepared for the ALCO, the RC and the Management Board. Reports contain i.a. information on the internal capital level, stress-tests results, results of a survey conducted among senior management staff of the Bank, utilisation of strategic risk limits on business risk, business risk forecast and forecast backtesting.

50.4. Management actions concerning business risk

The main tools used in business risk management in the Bank are: procedures for business risk management and limits and thresholds for business risk.

51. Reputation risk management

The reputation risk is defined as the risk related to a possibility of negative variations from the planned financial results of the Bank due to the deterioration of the Bank's image. The objective of managing the reputation risk is to protect the Bank's image and limit the probability of the occurrence and level of reputation loss.

Reputation risk management in the Bank includes in particular:

- execution of communication protective measures,
- media monitoring: television, radio, press, Internet in terms of identifying image-related events effects and distribution of information in this regard,
- recording image-related events effects,
- analysing and evaluation of image-related events effects and determining the level of reputation risk.

The main tools for the execution of activities related to the assessment of the Bank's reputation risk level are:

- a catalogue of image-related events categories containing a list of image-related events categories with appropriate weights assigned. A catalogue defines the risk profile by assigning appropriate weights to particular categories of image-related events,
- a register of image-related events effects used to record identified image-related events effects – media monitoring result and complaints and requests.

Reputation risk reporting is prepared in the Bank on an annual basis. The reports are addressed to the Management Board, the Supervisory Board and organisational units of the Banking Risk Division.

52. Model risk management

Model risk is the risk of incurring negative financial or reputation effects as a result of making incorrect business decisions on the basis of the models operating within the Bank.

The objective of models management and model risk management is to mitigate the level of model risk in the Bank.

52.1. Identification and assessment of model risk

Identification of model risk in the Bank mainly consists of:

- gathering information on all existing, built and planned to be build models,
- cyclical determining the relevance of models,
- determining potential threats that may occur during the life cycle of the model.

All models relevant to the Bank are covered by the regular independent validation process.

The model risk evaluation is aimed at determining the scale of threats associated with the occurrence of the model risk. Assessment of the risk level of particular elements important from the model's point of view, risk assessment on the level of a single model and aggregate assessment of the model risk level is carried out in the Bank.

Ratings may be aggregated mainly at the level of the Bank, particular risk types or classes of models, particular processes of model life-cycle. The model risk assessment is performed at least once a year and at the moment of appearing of new models, change the scale or business profile of the Bank.

52.2. Model risk monitoring

The purpose of model risk monitoring is to control model risk and diagnose areas for management actions. Model risk monitoring process contains, in particular: the level of model risk, the status of implementation of the proposed recommendations and the effectiveness of implementation of the recommendations on mitigation of model risk.

52.3. Model risk reporting

Model risk reporting is conducted in the Bank on a quarterly and annual basis. Reports contain, in particular:

- results of model risk monitoring,

- information on the level of model risk and model risk map,
- potential proposed management actions reducing the model risk,
- evaluation of effectiveness of the recommendations made to reduce the model risk level,
- conclusions, reports or summaries resulting from the model management process.

52.4. Management decisions as regards model risk

The purpose of management actions is to form a model risk management process and a level of this risk in the Bank. Management actions in particular consist of:

- issuing internal regulations of the Bank,
- determining acceptable levels of risk,
- issuing recommendations,
- making decisions about the use of tools supporting model risk management.

53. Macroeconomic changes risk management

Risk of macroeconomic changes is a risk of deterioration of the financial situation of the Bank as a result of the adverse impact of changes in macroeconomic conditions.

The purpose of risk of macroeconomic changes management is to identify macroeconomic factors having a significant impact on the Bank's activities and taking actions to reduce the adverse impact of potential changes in the macroeconomic situation on the financial situation of the Bank.

53.1. Identification and assessment of risk of macroeconomic changes

Identification of risk of macroeconomic changes is to determine scenarios of the potential macroeconomic changes and to determine risk factors having the greatest impact on the financial situation of the Bank. Risk of macroeconomic changes results from interaction of factors dependent and independent of the Bank's activities. The Bank identifies the factors affecting the level of risk of macroeconomic changes during carrying out comprehensive stress-tests.

The risk of macroeconomic changes materialises indirectly through other risks affecting the Bank's operations by:

- credit losses,
- losses arising from adverse changes in market situation (changes in exchange rates, changes in interest rates),
- a decrease in the liquidity of the Bank,
- losses arising from the operational risk realisation,
- other losses.

For the purpose of measuring the risk of macroeconomic changes the Bank uses risk measures based on the results of comprehensive stress-tests, in particular:

- financial result and its components,
- capital adequacy measures and their components,
- selected liquidity measures.

53.2. Macroeconomic changes risk monitoring

A process of risk of macroeconomic changes monitoring includes monitoring of:

- changes in the macroeconomic situation,
- macroeconomics factors on which the Bank is sensitive,
- results of stress-tests,
- level of risk of macroeconomic changes.

53.3. Macroeconomic changes risk reporting

Risk of macroeconomic changes reporting is realised in the form of reports summarising the results of each stress-tests. Reports are addressed to ALCO and the Management Board. Reports include information i.a.

- summary of the results of stress-tests,
- in case of elevated or high level of risk of macroeconomic changes: an analysis of reasons which led to an increase in the risk level, assessment of the potential consequences of this situation for the Bank, prediction of possible outcomes, proposals of actions aimed at reducing the level of risk, an initial assessment of their effectiveness.

53.4. Management actions concerning risk of macroeconomic changes

Management actions in particular consist of:

- issuing internal regulations of the Bank,
- determining acceptable levels of risk,
- proposals of actions aimed at reducing the level of risk in the event of elevated or high risk of macroeconomic changes occurrence.

54. Complex stress-tests

Complex stress-tests are an integral part of the Bank's risk management and are complementary for stress-test-specific to particular types of risks.

Complex stress-tests collectively include the following risks considered by the Bank to be relevant, including:

- credit risk,
- market risk,
- liquidity risk,
- operational risk,
- business risk.

Complex stress-tests include an analysis of the impact of changes in the environment and the functioning of the Bank on the financial position of the Bank, in particular on:

- income statement,
- statement of financial position,
- own funds,
- the capital adequacy, including requirements as regards own funds, internal capital, measures of capital adequacy,
- selected liquidity measures.

Complex stress-tests for the own use of the Bank are carried out at least once a year in the three-year horizon, taking into account changes in the value and structure of the statement of financial position and income statement items (dynamic tests). Supervisory tests are carried out at the request of the supervisory authorities in accordance with the assumptions provided by supervisory authorities.

55. Capital adequacy

Capital adequacy is a process which objective is to ensure that, for a given level of risk tolerance, the level of risk assumed by the Bank associated with development of its business activity may be covered with capital held within given period of time. The process of managing capital adequacy comprises in particular compliance with prevailing supervisory standards and risk tolerance level determined within the Bank, the process of capital planning, inclusive of policy regarding capital acquiring sources.

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

The process of managing the Bank's capital adequacy comprises:

- identifying and monitoring of all 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 the Group entities in connection with profitability analyses,
- using tools affecting the capital adequacy level (including: tools affecting the level of own funds, the scale of own funds item reductions and the level of the loan portfolio).

The fundamental regulation applicable in the capital adequacy assessment process as at 30 June 2014 is the Regulation (EU) No. 575/2013 of the European Parliament and of the Council as of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending the Regulation (EU) No. 648/2012, hereinafter called 'CRR Regulation'. The CRR Regulation constitutes a part of so called CRD IV/CRR package, which apart from the Regulation comprises CRD IV Directive - Directive 2013/36/EU of the European Parliament and of the Council as of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (hereinafter called 'CRD Directive'). In contrast to the CRR Regulation which is directly applicable, the CRD Directive must be implemented within the national law. As at 30 June 2014 the Banking Law has not been amended yet and the work on amending the Act implementing CRD IV regulation is currently ongoing. As a result of the above, in case of conflict between provisions of CRR Regulation and national regulations, precedence is given to the CRR Regulation.

As at 30 June 2014 the Bank meets requirements relating to capital adequacy measures defined within the CRR Regulation.

As at 31 December 2013 all capital adequacy measures were calculated in accordance with the provisions of the Banking Law, Resolution of the Polish Financial Supervision Authority No. 76/2010 of 10 March 2010 on the scope and detailed procedures for determining capital requirements for particular risks (Official Journal of PFSA No. 2, item 11 of 9 April 2010 with subsequent amendments), Resolution of the Polish Financial Supervision Authority No. 325/2011 of 20 December 2011 on decreasing own funds (Official Journal of PFSA No. 13, item 49 of 30 December 2011). Objectives and principles of capital adequacy management, in view of the above regulations, were described in detail in the annual financial statements of PKO Bank Polski SA for 2013. Information about of the Bank's own funds elements calculated for capital adequacy purposes as well as the methods of calculation of capital requirements for individual types of risk as at 31 December 2013, have been also included in these financial statements.

As at 30 June 2014 capital adequacy measures were calculated in accordance with the provisions of CRR Regulation, taking into account known to the Bank and planned to implement national options.

The level of capital adequacy of the Bank in the first half of 2014 remained on a safe level, significantly above the supervisory limits.

55.1. Own funds for capital adequacy purposes

As at 30 June 2014 own funds for the purposes of capital adequacy are calculated in accordance with the provisions of the CRR Regulation.

Own funds comprise Tier 1 basic funds and Tier 2 supplementary funds. No elements of additional Tier 1 capital are identified within the Bank.

The Bank's Tier 1 basic funds (so called Common Equity Tier 1 or CET1) comprise:

1) principal funds comprising: share capital, other reserves (supplementary capital, reserve capital),
2) Accumulated other comprehensive income (excluding gains and losses on cash flow hedges, whereas in respect of unrealised gains and losses on instruments classified to available for sale portfolio only losses of 80% of their carrying amount are recognised),
3) general banking risk fund,
4) retained earnings (undistributed profits from previous years),
5) 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 auditor, whereas the term for inclusion of the above mentioned net profit within Bank's own funds is its approval by the General Shareholders' Meeting, or prior to the approval by GSM, obtaining consent from the PFSA to its inclusion within own funds.

Tier 1 basic funds are reduced by the following items:

1) losses for the current financial year,
2) intangible assets stated at carrying amount less any associated deferred income tax liability, the deducted amount includes goodwill taken into account in measurement of the Bank's significant investments,
3) additional value adjustments of assets measured at fair value,
4) deferred income tax assets based on future profitability and arising from temporary differences which exceed 10% of Tier 1 basic funds (without considering deductions due to equity exposures and deferred income tax assets),
5) the Bank's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies, expressed as shares, constituting structural foreign exchange positions, in accordance with the Article 3 of the CRR Regulation,
6) the Bank's significant direct and indirect equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies, expressed as shares or other Tier 1 basic funds instruments of these entities (apart from exposures constituting structural positions), which total amount exceeds 10% of Tier 1 basic funds (without considering deductions due to equity exposures and deferred income tax assets),
7) the amount by which the sum of:
    a) deferred tax assets based on future profitability and arising from temporary differences, up to 10% of Tier 1 basic funds (without considering deductions due to equity exposures and deferred income tax assets),
    b) the Bank's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies, expressed as up to 10% Tier 1 basic funds instruments of these entities (without considering deductions due to equity exposures and deferred income tax assets)

    exceeds the equivalent of 15% of Tier 1 basic funds (without considering deductions due to equity exposures and deferred income tax assets).

    The amount below the threshold in subject does not reduce own funds and is included within risk weighted assets.

Tier 2 supplementary funds comprise subordinated liabilities, which meet the CRR Regulation requirements and in case of which the Bank obtained consent from the PFSA to their inclusion within own funds.

Tier 2 supplementary funds are reduced by the Bank's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies in the form of Tier 2 supplementary funds instruments of these entities.

According to the CRR Regulation, by the end of 2017 all of the amounts of equity exposures which meet the above terms are added in half to Tier 1 basic funds and in half to Tier 2 supplementary funds.

If the value of deduction would decrease in Tier 2 supplementary funds below nil, the value of excess of these deductions above the value of the Tier 2 supplementary funds is subtracted from the Tier 1 basic funds.

As at 30 June 2014 in the Bank's own funds calculated for the purposes of capital adequacy the Bank's profit for the year 2013 (in the amount of PLN 2 025 020 thousand) after deducting dividends has been included. The net profit has been included within Bank's reserve and share capital (below within the position "other reserves"), pursuant to the Resolution No. 7/2014 of the Ordinary General Shareholders' Meeting of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna passed on 26 June 2014 on PKO Bank Polski SA's profit appropriation for the year 2013 and on covering undistributed loss from previous years.

(IN PLN THOUSAND)

Information on the structure of the Bank's own funds for the purpose of capital adequacy as at 30 June 2014, according to the CRR Regulation, is presented in the table below:

BANK'S OWN FUNDS*	30.06.2014
Basic funds (Tier 1)	21 573 757
Share capital	1 250 000
Other reserves	22 040 024
General banking risk fund for unidentified banking activities risk	1 070 000
Accumulated other comprehensive income	(51 335)
Goodwill	(7 785)
Other intangible assets	(1 629 623)
Equity exposures deducted from own funds	(1 088 716)
Additional adjustments of assets measured at fair value	(8 808)
Supplementary funds (Tier 2)	511 984
Subordinated liabilities classified as supplementary funds	1 600 700
Equity exposures deducted from own funds	(1 088 716)
Total own funds	22 085 741

* Selected items include adjustments required in the transition period.

As at 31 December 2013 own funds for the purpose of capital adequacy are calculated in accordance with the provisions of the Banking Law and the Resolution of the Polish Financial Supervision Authority No. 325/2011 of 20 December 2011 on deductions from own funds (Official Journal of PFSA No. 13, item 49 of 30 December 2011).

Information on the structure of the Bank's own funds for the purpose of capital adequacy as at 31 December 2013 is presented in the table below:

BANK'S OWN FUNDS	31.12.2013
Basic funds (Tier 1)	19 346 921
Share capital	1 250 000
Reserve capital	16 598 111
Other reserves	3 416 893
General banking risk fund for unidentified banking activities risk	1 070 000
Undistributed profits from previous years	(271 242)
Unrealised losses on debt and equity instruments and other receivables classified as available for sale	(134 128)
Assets valuation adjustments in trading portfolio	(5 656)
Intangible assets	(1 944 132)
Equity exposures	(632 925)
Supplementary funds (Tier 2)	1 022 720
Subordinated liabilities classified as supplementary funds	1 600 700
Unrealised gains on debt and equity instruments classified as available for sale (80% of their values before tax)	54 945
Equity exposures	(632 925)
Short-term equity (Tier 3)	154 112
Total own funds	20 523 753

(IN PLN THOUSAND)

55.2. Requirements as regard own funds (Pillar 1)

In accordance with the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms being in force since 1 January 2014, amending the Regulation (EU) No. 648/2012, PKO Bank Polski SA calculates requirements in respect of own funds for the following risk types:

- in respect of credit risk – using the standardised method,
- in respect of operational risk – using the advanced measurement approach (AMA),
- in respect of position risk (market risk) – using basic methods.

The total requirement in respect of own funds comprises the sum of capital requirements for:

1) credit risk – including credit risk of the instruments from the banking book, counterparty credit risk and risk of credit valuation adjustment (CVA),
2) position risk (market risk) – including currency risk, commodity price risk, equity securities price risk, specific risk of debt instruments, general interest rate risk and risk associated with options and warrants other than the delta risk,
3) operational risk,
4) other types of capital requirements in respect of:
   - settlement and delivery risk,
   - exceeding the large exposure limit.

The table below presents the Bank's capital requirements as regards particular types of risk. Data as at 30 June 2014 was calculated pursuant to the Regulation (EU) No. 575/2013 (which is mentioned above), whereas data as at 31 December 2013 were calculated in accordance with the Resolution No. 76/2010 of the Polish Financial Supervision Authority dated 10 March 2010 on scope and detailed principles of setting capital requirements in connection with the individual risk types (Official Journal of PFSA No. 2, item 11 of 9 April 2011 with subsequent amendments).

Requirements in respect of own funds	30.06.2014	31.12.2013
Credit risk	12 262 040	11 391 785
Market risk	352 785	340 410
Credit valuation adjustment risk	208 813	-
Operational risk	555 067	539 813
Total capital requirements	13 378 705	12 272 008
Capital adequacy ratio	13.21%	13.38%

The Bank calculates requirements as regard own funds 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 the requirement as regards own funds in respect of credit risk and 8% (considering recognised collaterals),
- in case of granted off-balance sheet liabilities – a product of nominal value of liability (considering value of provisions for the liability), a risk weight of the product, a risk weight of off-balance sheet exposure calculated according to the standardised method of credit risk requirement and 8% (considering recognised collaterals),
- in case of off-balance sheet transactions (derivative instruments) – a product of risk weight of the off-balance sheet exposure calculated according to the standardised method of the requirement as regards own funds in respect of credit risk, equivalent in the statement of financial position of off-balance sheet transactions and 8% (the value of the equivalent in the statement of financial position is calculated in accordance with the mark-to-market method).

55.3. Internal capital (Pillar 2)

PKO Bank Polski SA calculates internal capital in accordance with the Resolution No. 258/2011 of the PFSA of 4 October 2011 on detailed principles for functioning of risk management system and internal control system and detailed terms of estimating internal capital by banks and reviewing the process of estimating and maintaining internal capital and the principles for determining the variable salary components policy for persons holding managerial positions in the Bank (Official Journal of PFSA No. 11, item 42 of 23 November 2011). Internal capital is the amount of estimated capital 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 calculated to cover each of the significant risk types:
- credit risk (including default risk),
- currency risk,
- interest rate risk,
- liquidity risk,
- operational risk,
- business risk (taking into consideration strategic risk).

Materialisation of macroeconomic changes risk, model risk and compliance risk is reflected in the estimates of internal capital for covering the types of risk: credit, interest rate, currency, operational and business.

The Bank regularly monitors the significance of the individual risk types relating to the activities of the Bank.

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 of the Bank.

The Bank adopts a prudent approach to the aggregation of risks and does not rely on the diversification effect. In the first half of 2014, 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.

55.4. Disclosures (Pillar 3)

In accordance with § 6 of the Resolution No. 385/2008 of the Polish Financial Supervision Authority dated 17 December 2008, on the detailed principles and methods for banks to disclose qualitative and quantitative information concerning capital adequacy and the scope of the information to be announced (Official Journal of PFSA of 2008, No. 8, item 39 with subsequent amendments). 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's Capital Adequacy Information Policies, which are available on the Bank's website (www.pkobp.pl).

EVENTS AFTER THE REPORTING PERIOD

56. Events after the reporting period

On 30 July 2014, PKO Bank Polski SA signed with Polimex-Mostostal SA an annex to the agreement on principles of managing the financial debt of the Company dated 21 December 2012 implementing initial terms of the settlement on the third stage of the Company's financial reorganisation.

The above mentioned annex has been also signed by Bank Polska Kasa Opieki SA, Bank Ochrony Środowiska SA, Bank Zachodni WBK SA, Bank Millennium SA and bondholders possessing debt due to bonds issued by the Company at the total nominal value of approx. PLN 120 million.

Key terms of amendments determined in the annex, connected with the third stage of the Company's financial reorganisation comprise i.a.:

- capital cotribution – conducting the issue of bonds at the total amount of PLN 140 million designed for Agencja Rozwoju Przemysłu SA or other entities, the part of which shall be bonds convertible to the Company's shares which allow Agencja Rozwoju Przemysłu SA to obtain up to 33% of votes at the general shareholders' meeting of the Company, taking into account the dilution due to the Conversion described below; the convertible bonds shall be converted to the Company's shares for the issue price of PLN 0.04.
- conversion of receivables – creditors, who signed the annex, made a commitment to convert the receivables to which they are entitled into share capital of the Company of the total amount of at least PLN 470 million. In order to proceed with the conversion, the Company will issue new shares at the average issue price of PLN 0.175 for every stock issued as part of the conversion.

The execution of the agreement, including the bonds issue and conversion of receivables, is dependant on the fulfilment of terms determined in the annex.

The final repayment of the other receivables of the Company's creditors who are parties to the agreement dated 21 December 2012, not being subject to the conversion, is due by 31 December 2019 or by the final redemption date for the bonds (dependent on which of the above mentioned dates will occur earlier).

On 31 July 2014 the Extraordinary General Shareholders' Meeting of Polimex-Mostostal SA adopted a resolution in respect of increasing the share capital by the amount not higher than PLN 124 million due to issue of R series shares (offered in particular to creditors of the Company in order to convert the debt into share capital) and resolution concerning issue of bonds convertible into S series shares at the total nominal value not higher than PLN 85 million.

On 26 August 2014 the Polish Financial Supervision Authority approved the creation of the PKO Mortgage Bank SA by PKO Bank Polski SA.

(IN PLN THOUSAND)

On 31 July 2014, the Extraordinary General Shareholders' Meeting of Polski Standard Płatności Sp. z o.o. (a subsidiary of PKO Bank Polski SA) took place. It passed a resolution on increase of the Company's share capital by PLN 11 355 thousand by issuance of new shares directed to banks: Alior Bank SA, Bank Millennium SA., Bank Zachodni WBK SA, ING Bank Śląski SA and mBank SA (each of banks acquired 45 420 shares with the nominal value of PLN 50). By 20 August 2014, the above-mentioned banks provided the statement on the acquisition of shares and transferred cash to the account of the Company in respect of the subscription. On 20 August 2014 the request was filed with the National Court Register. After registering the increase, each of banks, including PKO Bank Polski SA, will own shares constituing 16.67% of Company's share capital.

Signatures of all Members of the Management Board of the Bank

26.08.2014	Zbigniew Jagiełło	President of the Management Board	.... (signature)
26.08.2014	Piotr Alicki	Vice-President of the Management Board	.... (signature)
26.08.2014	Bartosz Drabikowski	Vice-President of the Management Board	.... (signature)
26.08.2014	Piotr Mazur	Vice-President of the Management Board	.... (signature)
26.08.2014	Jarosław Myjak	Vice-President of the Management Board	.... (signature)
26.08.2014	Jacek Obłękowski	Vice-President of the Management Board	.... (signature)
26.08.2014	Jakub Papierski	Vice-President of the Management Board	.... (signature)

Signature of person responsible for
maintaining the books of account

26.08.2014

Danuta Szymańska
Director of the Accounting Division

....
(signature)