The PKO Bank Polski SA Group Directors' Report

for the first half of 2012

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1. SELECTED FINANCIAL DATA[1]

Table 1. Selected financial data of the PKO Bank Polski SA Group

	1 H 2012		1 H 2011		Change 1 H 2012/1 H 2011	
NET PROFIT	1 953.4	PLN million	1 838.3	PLN million	6.3%	(y/y)
RESULT ON BUSINESS ACTIVITIES*	5 790.9	PLN million	5 315.6	PLN million	8.9%	(y/y)
ADMINISTRATIVE EXPENSES	(2 246.3)	PLN million	(2 123.2)	PLN million	5.8%	(y/y)
NET IMPAIRMENT ALLOWANCE	(1 101.3)	PLN million	(881.4)	PLN million	24.9%	(y/y)
C/I	38.8 %		39.9 %		(1.1)	pp.
ROE NET	17.5 %		16.3 %		1.2	pp.
ROA NET	2.1 %		2.1 %		0.0	pp.

* Result on business activities defined as operating profit before administrative expenses and net impairment allowance and write-downs.

In the first half of 2012, the situation of the banking sector slightly improved compared with the corresponding period of the previous year, mainly due to the growth in result on banking activities, including the growth of net interest income and limitation of the growth of administrative expenses. The situation on the loan and deposit market was affected by low loan activity of banks and a limited increase in the volume of deposits.

In the first half of 2012 PKO Bank Polski SA's activities were focused on securing a stable development of business activities, while maintaining the priorities in the area of operational efficiency and effective cost control.

The net profit of the PKO Bank Polski SA Group generated in the first half of this year amounted to PLN 1 953.4 million, which represents an increase by PLN 115.0 million in relation to the profit achieved in the corresponding period of the previous year. The achieved profit was determined by:

- ⇒ high level of result on business activities of the PKO Bank Polski SA Group in the amount of PLN 5 790.9 million – determined by an increase in net interest income,
- ⇒ rationalisation of administrative expenses – an increase in costs on an annual basis (+5.8% y/y) was lower than the dynamics of result on business activities (+8.9% y/y), which translated into a drop of the C/I ratio to 38.8% from 39.9% generated in the first half of 2011,
- ⇒ an effective structure of the statement of financial position – an increase in amounts due to customers of the PKO Bank Polski SA Group of PLN 7.9 billion y/y enabled a development in business activities. As at the end of the first half of 2012 the loan to deposit ratio amounted to 96.2%, and the ratio of loans to stable sources of financing amounted to 88.2%,
- ⇒ deterioration of net impairment allowance and write-downs as at 30 June 2012 mainly as a result of an increase in impairment allowances on the corporate loans portfolio and provision on the off-balance sheet liabilities.

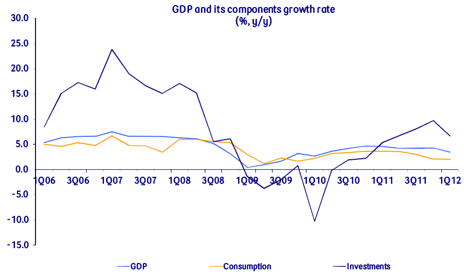
[1] The ROE net ratio calculated as the net profit for the period from 01.07.2011 to 30.06.2012 divided by average equity (computed as the average of the equity balances as at the end of consecutive quarters in the period from 30.06.2011 to 30.06.2012); the ROA net ratio calculated as the net profit for the period from 01.07.2011 to 30.06.2012 divided by average assets (computed as the average of the assets as at the end of consecutive quarters in the period from 30.06.2011 to 30.06.2012).

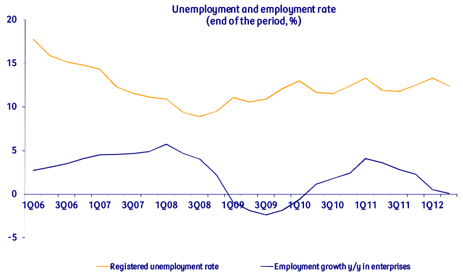
2. EXTERNAL FACTORS INFLUENCING THE ACTIVITIES AND RESULTS OF THE PKO BANK POLSKI SA GROUP

Macroeconomic environment

In the first half of 2012:

- a moderate slowing in the national economy occurred – to 3.0-3.5% y/y compared with 4.3% in 2011, which was accompanied by relatively low growth in private consumption, gradually lower dynamics of investments (both public and private);
- in June 2012, CPI inflation amounted to 4.3% p.a. compared with 4.6% in December 2011, which was accompanied by acceleration in the growth rate of food prices due to upward trends in the food commodities markets;
- situation on the labour market remains relatively stable. In June, registered unemployment rate amounted to 12.4% (initial estimate) compared to 13.3% in the end of the first quarter of 2012 and it remains relatively stable compared to the corresponding period of the previous year. The average annual growth rate in salaries and wages in the enterprise sector reached 3.8% p.a. in the second quarter compared to 5.3% in the first quarter of 2012 and the growth in employee pensions and disability benefits reached 5.7% y/y in April-May compared to 5.0% in the first quarter of 2012;
- the Monetary Policy Council (RPP – Rada Polityki Pieniężnej) increased interest rates by 25 b.p. (4.75% reference rate) in conditions of continually elevated CPI ratio despite the deceleration in economy and high uncertainty regarding the development of the economic situation in Poland and in the world.





The situation of the Polish banking sector

As at the end of May 2012 the banking sector's net profit amounted to PLN 6.57 billion. It was higher by 5.7% than in the previous year, which was due to i.a.:

- an increase of result on banking activities (by 6.5%), including the growth of net interest income (by 7.8%),
- an increase of net impairment allowance (by 6.3%),
- limitation of the growth of administrative expenses (by 7%).

There was a slight improvement in operational efficiency of the banking sector: C/I ratio decreased to 51.2% compared with 51.6% in the previous year. Capital adequacy ratio for the banking sector amounted to 14% compared with 13.7% as at the end of May 2011.

In the period from January to May 2012 an increase of impaired loans value was more than twice higher than in the corresponding period of 2011. Value of non-performing corporate loans and mortgage loans of retail clients increased, whereas non-performing consumer loans decreased. As at the end of May 2012, share of impaired loans in total loans amounted to 8.3% compared with 8.6% in the previous year; the non-performing corporate loans ratio decreased to 10.5% from 11.4% as at the end of May 2011. In the period from January to May 2012, the quality of mortgage loans, in which share of non-performing loans amounted to 2.6% as at the end of May 2012 compared with 2.1% as at the end of May 2011, deteriorated. The quality of consumer loans stabilised at 17.9%.

As at the end of May 2012, total assets of the banking sector amounted to PLN 1 328.7 billion and increased by 2.6% from the beginning of 2012. The situation on the loan and deposit market was affected by low banks' loan activity and a limited increase in deposits volume. The changes in loans and deposits volumes were affected by the appreciation of the Polish currency decreasing their value (decline in the PLN/CHF exchange rate by 2.4%, PLN / EUR by 3.5% in the period from January to June 2012).

In the first half of 2012 total loans increased by approx. PLN 9 billion; their growth rate slowed down to 10.3% y/y from 15.2% y/y as at the end of 2011. After adjusting for changes in exchange rates, an increase in total loans would be twice as high.

A decrease in the activity of the mortgage loans market was recorded. In the first half of 2012 the growth rate of mortgage loans decreased to 11.9% y/y from 19.2% y/y as at the end of 2011; an increase in value of these loans amounted to PLN 3.2 billion in comparison to PLN 20 billion in the first half of 2011; after adjusting for changes in exchange rates, an increase in mortgage loans would be almost three times higher. Limits on the 'Rodzina na swoim' programme, a stricter credit policy of banks caused by new supervisory regulations and the deteriorating quality of the portfolio had a negative impact on sales of mortgage loans.

The market of consumer loans remained stagnant. In the first half of 2012 repayment of consumer loans was still higher than the value of new loans; the value of loan portfolio decreased by PLN 3.7 billion; this situation was due to low demand and stricter credit policy of banks caused by new regulatory solutions.

The situation in the corporate loans market deteriorated. In the first half of 2012, their increase amounted to PLN 3.6 billion, and a growth rate decreased to 12% y/y from 19.4% y/y as at the end of 2011. After adjusting for changes in exchange rates, the actual increase in these loans amounting to PLN 6.2 billion would be almost three times lower than in the corresponding period of 2011. The limited growth in corporate loans was the result of low investment activity of enterprises financing operations with own funds, and therefore low demand for loans.

In the first half of 2012 growth in total deposits amounted to PLN 16.6 billion and was lower by approx. 24% than in the first half of 2011. An increase in deposits limited the decline in corporate deposits by over PLN 21.5 billion mainly caused by returning to financing the development with own funds. The driving force of the increase in total deposits were deposits of private individuals, which increased by approx. PLN 17.5 billion; non-monetary financial institutions deposits also increased (by PLN 7 billion), as well as government and local government deposits (by approx. PLN 15 billion).

In the first half of 2012, the gap between loans and deposits in the banking sector decreased to PLN 92.5 billion (7.5%).

The situation of the Polish non-banking sector

Investment funds sector

In the first half of 2012, an upward trend on the investment funds market prevailed after a period of decrease in the second half of 2011; only in May 2012 a slight recess in the market occurred. The situation on the investment funds market in the first half of 2012 was mainly the consequence of the prosperity on the financial markets, especially the upturn in the situation on the WSE (WIG index rose by 8.6% compared to 1.9% in the first half of 2011), despite the continued uncertainty arising from the developments in the euro zone, including no decision having been made concerning Greece's debt, the deteriorating situation in the peripheral countries and decreasing confidence in the debt market, which had an impact on the valuation of share units and the inflow of new funds.

In the first half of 2012 the value of the domestic investment funds assets increased by 11.6% to PLN 128.3 billion, compared to a decrease by 7.6% to PLN 114.9 billion in the second half of 2011. This was the result of the positive valuation of assets (approx. PLN +3.1 billion) compared to the negative valuation in the second half of 2011 (approx. PLN -10.6 billion) and the positive balance of payments and cancellations (approx. PLN +8.9 billion) compared to the negative balance in the second half of 2011 (approx. PLN -1.7 billion). The weaker inflow of net funds was recorded in the second quarter, which resulted from the growing pessimism of investors. In the first half of 2012, investors withdrew funds mainly from share funds and funds linked to the share market, which resulted in a net outflow from these segments. The largest positive balance of payments and cancellations was recorded by non-public asset funds (PLN +7.5 billion) and debt funds (PLN +4.7 billion).

The situation on the funds market had influence on the non-interest income of banks participating in their distribution as well as the household savings structure.

The market of open pension funds

In the first half of 2012, the assets of open pension funds (OPF) increased by approx. 17.3% to PLN 241.1 billion compared with 10.7% in the first half of 2011. The situation was strongly affected by: financial performance of pension funds achieved from investment activity, which was influenced by a better prosperity on financial markets (WIG index rose by 8.6% compared to 1.9% in the first half of 2011) and transfers of contributions from the Social

Insurance Institution (amounting to PLN 4.1 billion compared to PLN 11.6 billion in the first half of 2011). In the first half of 2012 the weighted average rate of return increased by 1.7 pp. compared to 0.7 pp. in the previous year. In the first half of 2012, the number of participants in Pillar 2 increased by 1.6% compared with 2.3% in the previous year, which was due to i.a. the relatively high level of unemployment and unfavourable demographic tendencies reflected in the lower number of people entering the labour market.

The lease market

After a period of stable lease development which lasted until the third quarter of 2011 the situation on the market deteriorated from the fourth quarter of 2011. According to initial data of Związek Polskiego Leasingu (the Polish Leasing Association) the value of assets financed by leasing companies in the first half of 2012 amounted to PLN 15.3 billion. Market growth rate was significantly lower than in the first half of 2011 (5.1% y/y compared to 27.5% y/y). Downturn in the leasing market was recorded in conditions of weakening economic activity in the country, including in particular impeding investment dynamics, while maintaining the increased uncertainty about the economic situation in the country and the world in the near future. The weaker growth rate of vehicle leasing (6.4% y/y compared to 22.2% y/y in the first half of 2011), as well as the machinery and equipment leasing (7.9% y/y compared to 33.7% y/y in the first half of 2011) influenced the slowdown in the market growth. Regress was recorded in the real estate leasing.

The situation on the financial market

Interest rate market

The 3-year LTRO operations conducted by the European Central Bank in the first months of 2012 stabilised the financial system of the euro zone. Nevertheless, as of mid-March, the premium for credit risk started to grow again. Revaluation of Treasury bonds was especially notable on the Spanish and Italian markets. The concerns which led to a further transfer of funds in the direction of safe assets resulted mainly from the deteriorating standing of the Spanish financial sector (as a consequence of increased risk of bankruptcy of the state), and from the uncertain position of Greece. The above mentioned ECB's operations, which improved the liquidity of European banks, and the interest rate reductions expected in the euro zone led to large drops in returns on the German and American Treasury bonds. There was also an increase in the group of states whose bonds with shorter maturity were quoted with negative nominal yields (maturing in up to 2 years: Austria, Finland, the Netherlands, Germany, and outside the euro zone: Denmark and Switzerland).

The global flow of capital towards safe assets led to a drop in the profitability of Polish Treasury securities. Poland became an attractive alternative for foreign investors, offering a relatively high rate of return. Returns on Polish securities exceeded returns earned on base markets by approx. 300-400 b.p. Moreover, thanks to the actions of the Minister of Finance the potential risk of refinancing medium-term dues was mitigated. As at the end of the first half of the year, Poland financed 78% of this year's gross borrowing requirements.

In the first half of 2012, returns on Polish bonds decreased by 25-40 b.p. Such strong improvement in quotations was not impaired even by the increase in interest rates announced by the NBP in May (by 25 b.p., and for the reference rate up to 4.75%). Despite this tendency to tighten the monetary policy by the Central Bank, also mentioned by representatives of the RPP, quotations of financial instruments accounted for decreases in rates in 2013, in consequence of the expected slowing of the economy and drop in the inflation dynamics. Despite the aversion to risk prevailing in Europe, the asset swap spread for Polish 10-year bonds decreased to approx. 40 b.p. from nearly 90 b.p. as at the end of 2011.

Foreign Exchange Market

In the first half of 2012 the key indicators of trends on the EUR/USD market were the relationship between the monetary bases of the Fed and the ECB and the market's speculations about its further development. The quantitative expansion of ECB at the end of 2011 and in the first half of 2012 in view of the absence of further quantitative expansion of the Fed exerted pressure on weakening the EUR/USD exchange rate, as a result of which it depreciated from 1.33 as at the beginning of 2012 to 1.27 as at the end of the second quarter of 2012. Since in January 2012, the Federal Reserve postponed the perspective of withdrawing from the nil interest rates from mid-2013 to autumn of 2014, it temporarily led to an increased wave of speculation relating to further loosening of the monetary policy, which dropped only after Fed's March statement in which this perspective was explicitly postponed. The EUR/USD rate down trend in the first half of 2012 was additionally strengthened by concerns as to the future of the Euroland related to the risk of Greece's uncontrolled exit from the euro zone and the deterioration in the stability of the Spanish financial sector.

The first half of 2012 was characterised by high fluctuations in the exchange rate of the Polish zloty, which eventually had positive result on it, and the EUR/PLN exchange rate decreased from 4.46 to 4.22. The quantitative expansion of the ECB and speculations as to QE3 in the USA led to an increase in the risk seeking on international financial markets, which in effect brought about the strengthening of the zloty to a level of 4.08 (a minimum of EUR/PLN in the first quarter). With the drop in the speculation wave relating to QE3 in the USA and a deterioration in the market conditions in BRIC countries in the second quarter, the currencies of the emerging markets came under the pressure of depreciation to which the concerns of Greece uncontrollably exiting the euro zone additionally contributed – in effect, the zloty dropped, compared to the euro, to a level of 4.43 (maximum EUR/PLN in the second quarter). The re-strengthening of the zloty as at the end of the second quarter was related both to the positive outturn of the second elections in Greece and to the optimistically received news of the result of the summit of the euro zone countries from 28-29 June, where aid to the Spanish banking sector of EUR 100 billion was approved.

Stock Market

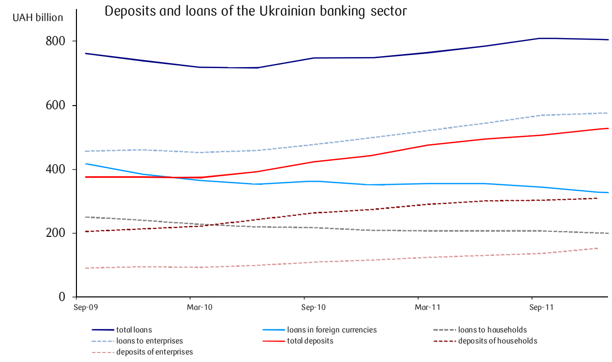
In the first half of 2012, the key factors shaping the conditions on the stock exchanges were the euro zone crisis, the economic slow-down in the USA and deteriorating conditions on developing markets. In Europe, under the pressure of deteriorating macroeconomic data, politicians tried to develop solutions to prevent the crisis from expanding and stabilising the financial system. With a limited possibility of stimulating economies using fiscal means, the focus was on the operations of central banks. The LTRO operations conducted by the European Central Bank were extremely positively received by investors and it seemed that they would be an impulse for the permanent change in the trend on the financial markets. However, the enthusiasm was quenched quickly when it transpired that the economic problems were much deeper and the compromise relating to tools for counteracting the crisis was difficult to achieve due to different interests in particular countries. Feelings deteriorated as a result of the complicated political conditions in many countries. Investors' attention was caught specifically by Greece, where only the second elections allowed electing the government coalition and avert the risk of the first country leaving the euro zone. The results of elections in France were also important, in which the option in favour of mitigating savings programs and of supplementing them with pro-growth elements won. The slowing of the economy was visible not only in Europe, but also in the USA, where the revival on the labour market and in the real estate sector appeared to be weaker than expected. Disappointing macroeconomic data was also received from most developing markets, including such important countries as Brazil, China and India. Against this background Poland stood out positively, but the rate of economic growth dropped significantly. After the euphoria of the first quarter exchange indices dropped a little by the end of the half-year, nevertheless, most of them noted several percent increases (WIG 8.6%). We owe the positive rate of return mainly to the low fundamental valuations of companies as at the beginning of the year, which discounted the negative business data to come and the expectations as to the effective actions of politicians and governors of central banks aimed at controlling the financial crisis.

The Ukrainian banking sector

The activities and results of the PKO Bank Polski SA Group in the first half of 2012 were affected by the macroeconomic factors in Ukraine, where PKO Bank Polski SA's subsidiary - KREDOBANK SA - operates. These factors include:

– further slowing of economic growth to 2.0% y/y in the first quarter of 2012 (from 4.7% y/y in the fourth quarter of 2011) as a result of slowing activity in the sector of industrial processing with high exposure to export (metals, machines and equipment manufacturing) and investing activity (construction), monthly data from the beginning of the second quarter attest to the possibility of another slight drop in the dynamics of GDP; continuously high – although slowing – individual consumption dynamics stimulated by a strong growth trend in real wages and salaries and loosening of the state fiscal policy (the President's package of social initiatives);
– the drop in the CPI price dynamics to -1.2% y/y in June from 1.9% in March and 4.6% in December 2011 gradually expanding from the food category (effect of a positive supply shock from 2011) to categories of a more 'base' nature (clothes and shoes, household equipment, communication), which shows that the price pressure is, for the time being, slight;
– loosening of the monetary policy by the NBU in a slightly less uncertain environment and pressure on weakening the hryvnia and slowing economic growth; reducing interest rates: the deposit rate from 7.75% to 7.50% and the lending rate secured by pledge on Treasury bonds from 9.25% to 8.50%;
– delays in implementing the reform program, the IMF Stand-by-Arrangement (SBA) loan programme suspended in February 2011 as a result of not completing the reforms of tariff policy (energy prices) was not resumed;
– stabilisation of the current turnover deficit at a level of approx. 5.5% GDP, accompanied by a high foreign trade deficit, growing deficit of the income balance and a slight improvement in the balance of the financial account;
– stabilisation of the hryvnia exchange rate (at a level of approx. UAH/USD 8.00), supported by regular interventions of the NBU on the foreign exchange market.

Source: NBU



Source: NBU

According to the National Bank of Ukraine data, as at the end of the second quarter of 2012, 176 banks operated in Ukraine (number unchanged compared with December 2011). The share of foreign capital in the banking sector equity dropped to 41.3% in the first quarter of the year from 41.9%.

In the second quarter, the dynamics of Ukrainian banks' assets remained in a downward trend, reaching 8.8% y/y in the first quarter and 8.6% y/y in the second quarter compared with 11.9% y/y in the last quarter of 2011. In the period from January to June, the value of banking sector's assets in Ukraine increased by UAH 26.3 billion (to UAH 1 080.6 billion), after an increase of UAH 34.5 billion in the second half of 2011. In the first half of 2012 the dynamics of the loan portfolio was positive. In the period from January to June, the value of loans granted by the Ukrainian banks increased from UAH 806.7 billion to UAH 811.6 billion (+0.6%), and the annual dynamics of the loan portfolio dropped from 5.3% y/y as at the end of March to 3.3% y/y as at the end of June. During the first six months of the year, an increase in loans was noted in the non-financial institutions segment (UAH 10.4 billion) and financial institutions (UAH 1.8 billion). This increase was partly offset by a drop in the value of loans to households (UAH -11.5 billion). At the same time, the share of foreign currency loans in total loans dropped from 40.6% in December 2011 to 38.9% in June 2012, which was the side effect of the regulatory limits in respect of granting loans in foreign currencies.

In the first half of this year the deposit base increased by EUR 23.7 billion, after an increase of UAH 29.4 billion in the second half of 2011, which – accompanied by the slower increase in the value of loans – contributed to further improvement in the L/D ratio to 1.48 in June from 1.54 as at the end of December and 1.59 as at the end of June of the previous year. The increase in deposits was concentrated in the household segment (UAH +32.5 billion) and customers from public finance sector (UAH +4.9 billion). In other market segments (financial and non-financial institutions) an outflow of deposits from the banking sector was recorded. In the whole period under discussion, the dynamics of deposits remained in a downward trend and decreased from 18.6% y/y as at the end of December to 10.7% y/y in June.

In the first half of 2012, the equity of the Ukrainian banking sector increased by UAH 9.2 billion, i.e. 11.4% y/y (as at the end of June), after an increase of UAH 7.7 billion in the previous half-year.

The low value of the credit portfolio (in connection with the large share of foreign currency loans granted before the depreciation of the hryvnia in 2008) remains a challenge for the Ukrainian banking sector. The value of non-performing and doubtful loans in the first half of 2012 dropped by UAH 1 billion, representing 9.7% of the value of the total loan portfolio (9.8% in December).

As at the end of June 2012 the Ukrainian banking sector earned a profit and the ROE and ROA ratios were at a level of: 2.9% and 0.4% respectively (compared with -5.7% and -0.8% as at the end of December 2011).

Regulatory environment

The new regulatory solutions influenced the financial and organisational situation of the PKO Bank Polski SA Group in the first half of 2012, of which:

- the Act of 25 March 2011 on amendments of certain Acts related to functioning of the social security system (Journal of Laws No. 75, item 398) introducing the prohibition of acquisition to the open pension funds from the beginning of 2012, which had an impact on the costs level and members transfer between pension funds;
- the Act of 12 May 2011 on consumer loan (Journal of Laws No. 126, item 715) applicable as at 18 December 2011; implemented significant changes affecting the lending activity in retail segment;
- the Act of 15 July 2011 amending the Act on financial support to families purchasing their own homes (Journal of Laws, No. 168, item 1006) as at 31 August 2011, which specified gradually extinguishing the 'Rodzina na Swoim' programme by 31 December 2012; the Act implemented the changes in

the criteria for granting preferential loans, thus affecting the level of lending activity on the mortgage loans market;

- the Act of 22 December 2011 implementing amendments to the Tax Ordinance (Journal of Laws No. 291, item 1707) preventing tax on profit from capital interest avoidance as at 1 April 2012, which influenced the situation on the retail deposit market;
- the Amendment of Act on the social insurance system (Journal of Laws of 2011 No. 291, item 1706), which increased the percentage rate of the contribution for disability pension insurance by 2 pp. (in the part financed by its remitters) as at 1 February 2012;
- Decree of the Council of Ministers of 26 April 2011 on determining the maximum portion of Open Pension Fund (OPF) assets which may be invested in particular types of deposits (Journal of Laws of 2011, No. 90, item 516) increasing from the beginning of 2012 the maximum limit for OPF exposure to shares of companies quoted on the regulated market by 2.5 pp. to 45% of their assets;
- the Resolution No. 18/2011 of the Polish Financial Supervision Authority (PFSA) of 25 January 2011 (Official Journal of PFSA No. 3, item 6) which required banks to comply with rules determined by Recommendation S concerning credit exposures secured by mortgage, including quantity requirements fully in force since 31 December 2011; implemented regulations resulted in stricter assessment of customers creditability rules and as a result influenced on limitation of value of mortgage loans granted by banks;
- Resolution No. 153/2011 of the PFSA of 7 June 2011 on the rules of determining capital requirements for individual risk types (Official Journal of PFSA No. 8, item 29); introduced as at 30 June 2012 higher risk weights for mortgage loans in foreign currencies;
- the Resolution of the Bank Guarantee Fund (BGF) Council of 23 November 2011 increasing the interest rate specifying the amount of the guaranteed funds protection fund to be created by banks in 2012;
- the Resolution of PFSA No. 324/2011 of 20 December 2011 introducing changes in the principles of determination of capital requirements for different types of risk and in the rules of determining liquidity standards obligatory for banks as at 31 December 2011 (Official Journal of PFSA No. 13, item 48); changed i.a. the principles for creating the trading portfolio and obligated banks to maintain their own funds in 2012 at the higher level; the Resolution implements the provisions of the CRD III directive.

The situation of the PKO Bank Polski SA Group affected also new law regulations implemented in Ukraine, where two subsidiaries of PKO Bank Polski SA operate:

- the Resolution No. 479 of the Board of NBU dated 28 December 2011 extending until 1 July 2012 the period for including unregistered contributions in banks' equity and banning the payment of dividend, taking into consideration the requirements of the regulatory capital adequacy;
- the Resolution No. 486 of the Board of National Bank of Ukraine (NBU) dated 28 December 2011 setting out the principles for valuation, increasing and releasing of provisions for non-performing loans as at 30 January 2012;
- Resolution No. 23 of the Board of NBU dated 25 January 2012 obligating banks to implement changes in the scope of setting up specific provisions by the end of 2012, taking into consideration the assessment of the borrowers' financial position and the accepted collateral;
- the Resolution No. 102 of the Board of NBU dated 21 March 2012 reducing the discount rate by 0.25 pp. to 7.5% from 23 March 2012; and increasing the reserve requirement for deposits in foreign currencies;
- the Tax Code passed by Resolution 2755-VI setting out the corporate income tax rate for 2012 at the level of 21%.

3. FINANCIAL RESULTS[2]

3.1. The PKO Bank Polski SA Group

3.1.1. Key financial indicators

Results achieved by the PKO Bank Polski SA Group in the first half of 2012 are represented by the following key financial efficiency indicators, which are shown in the table below.

Table 2. Key financial indicators of the PKO Bank Polski SA Group

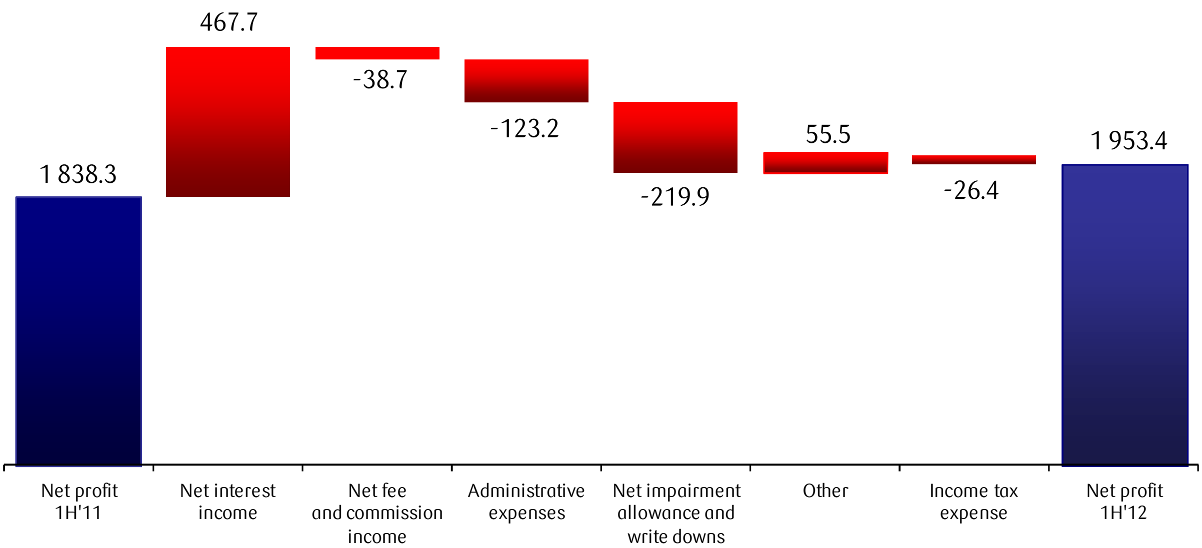
	30.06.2012	30.06.2011	Change
ROA net (net profit/average total assets)	2.1%	2.1%	0 pp.
ROE net (net profit/average total equity)	17.5%	16.3%	1.2 pp.
C/I (cost to income ratio)	38.8%	39.9%	-1.1 pp.
Interest margin (net interest income/average interest-earning assets)	4.7%	4.5%	0.2 pp.
The share of impaired loans*	8.7%	7.6%	1.1 pp.
The coverage ratio of impaired loans**	47.0%	49.2%	-2.2 pp.

* Calculated by dividing the gross carrying amount of impaired loans and advances to customers by the gross carrying amount of loans and advances to customers.
** Calculated by dividing the balance of impairment allowances on loans and advances to customers by the gross carrying amount of impaired loans and advances to customers.

3.1.2. Consolidated income statement

The consolidated net profit of the PKO Bank Polski SA Group achieved in the first half of this year amounted to PLN 1 953.4 million and was PLN 115.0 million, i.e. 6.3% higher than in the corresponding period of 2011, mainly thanks to the dynamic increase in net interest income.

Chart 1. Movements in income statement items of the PKO Bank Polski SA Group (in PLN million)



In the income statement of the PKO Bank Polski SA Group for the first half of 2012 the sum of income items amounted to PLN 5 790.9 million and was PLN 475.3 million higher than in the corresponding period of 2011 (increase by 8.9% y/y). The main consolidated items of the income statement were as follows:

[2] In this section, any differences in total balances, shares and growth rates result from rounding the amounts to PLN million and rounding percentages to one decimal place.

Table 3. Movements in the income statement items of the PKO Bank Polski SA Group (in PLN million)

	01.01-30.06.2012	01.01-30.06.2011	Change (in PLN million)	Change (in %)
Interest and similar income	6 487.3	5 602.3	884.9	15.8%
Interest expense and similar charges	(2 445.0)	(2 027.8)	(417.2)	20.6%
Net interest income	**4 042.2**	**3 574.5**	**467.7**	**13.1%**
Fee and commission income	1 853.7	1 899.9	(46.2)	-2.4%
Fee and commission expense	(351.0)	(358.5)	7.5	-2.1%
Net fee and commission income	**1 502.7**	**1 541.4**	**(38.7)**	**-2.5%**
Dividend income	6.1	6.5	(0.5)	-7.0%
Net income from financial instruments at fair value	15.4	(35.3)	50.7	x
Gains less losses from investment securities	4.6	15.9	(11.3)	-70.9%
Net foreign exchange gains	144.7	132.4	12.3	9.3%
Other operating income	237.6	230.1	7.5	3.3%
Other operating expenses	(162.5)	(150.0)	(12.5)	8.3%
Net other operating income and expense	**75.1**	**80.1**	**(4.9)**	**-6.1%**
Net impairment allowance and write-downs	(1 101.3)	(881.4)	(219.9)	24.9%
Administrative expenses	(2 246.3)	(2 123.2)	(123.2)	5.8%
Operating profit	**2 443.2**	**2 311.0**	**132.2**	**5.7%**
Share of profit (loss) of associates and jointly controlled entities	6.0	(3.8)	9.8	x
Profit before income tax	**2 449.3**	**2 307.2**	**142.0**	**6.2%**
Income tax expense	(496.4)	(470.1)	(26.4)	5.6%
Net profit (including non-controlling shareholders)	1 952.8	1 837.1	115.7	6.3%
Profit (loss) attributable to non-controlling shareholders	(0.6)	(1.2)	0.6	-52.4%
Net profit attributable to the parent entity	**1 953.4**	**1 838.3**	**115.0**	**6.3%**

Net interest income

In the first half of 2012, net interest income was PLN 467.7 million higher than in the corresponding period of the previous year, mainly due to interest income growth by PLN 884.9 million.

Table 4. Interest income and expense of the PKO Bank Polski SA Group (in PLN million)

Items	01.01-30.06.2012	Structure 1H 2012	01.01-30.06.2011	Structure 1H 2011	Change 1H 2012/ 1H 2011
Interest income, of which:	**6 487.3**	**100.0%**	**5 602.3**	**100.0%**	**15.8%**
Loans and advances to customers	5 129.8	79.1%	4 601.7	82.1%	11.5%
Derivative hedging instruments	466.2	7.2%	351.1	6.3%	32.8%
Financial assets designated upon initial recognition at fair value through profit and loss	359.3	5.5%	256.3	4.6%	40.2%
Investment securities available for sale	376.9	5.8%	247.7	4.4%	52.1%
Placements with banks	119.3	1.8%	97.0	1.7%	23.1%
Trading assets	32.5	0.5%	45.3	0.8%	-28.3%
Other	3.3	0.1%	3.1	0.1%	4.9%
Interest expense, of which:	**(2 445.0)**	**100.0%**	**(2 027.8)**	**100.0%**	**20.6%**
Amounts due to customers	(2 231.6)	91.3%	(1 902.4)	93.8%	17.3%
Debt securities in issue	(193.7)	7.9%	(104.0)	5.1%	86.2%
Deposits from banks	(13.9)	0.6%	(19.4)	1.0%	-28.4%
Other*	(5.8)	0.2%	(1.9)	0.1%	3x
Net interest income	**4 042.2**	**x**	**3 574.5**	**x**	**13.1%**

* Including cost of premium on debt securities available for sale.

In the first half of 2012, interest income amounted to PLN 6 487.3 million and was 15.8% higher in comparison with the corresponding period of 2011, which was mainly due to the increases in:

- income from loans and advances to customers (+)11.5% y/y – a result of loan portfolio growth (+4.2% y/y) as well as of interest rates growth,
- income from investment securities available for sale (+)52.1% y/y, resulting from an increase in their volume (+16.2% y/y) and interest,
- income from derivative hedging instruments (+)32.8% y/y, resulting from an increase in their volume and CIRS net coupons (due to an increase in WIBOR rate).

Growth of interest expenses amounted to (+)20.6% y/y, which was mainly due to an increase in the costs of amounts due to customers (+17.3% y/y) and the interest expense on debt securities in issue.

The interest margin increased by about 0.2 pp. y/y to 4.7% in the first half of 2012 as a result of an increase in annualised interest income of 15.0% y/y, which was accompanied by an increase in average interest-bearing assets of 8.4% y/y.

Net fee and commission income

In the first half of 2012, net fee and commission income was PLN 38.7 million lower than in the corresponding period of the previous year, mainly due to decrease in commission income by PLN 46.2 million.

Table 5. Fee and commission income and expense of the PKO Bank Polski SA Group (in PLN million)

Items	01.01-30.06.2012	Structure 1H 2012	01.01-30.06.2011	Structure 1H 2011	Change 1H 2012/ 1H 2011
Fee and commission income, of which:	**1 853.7**	**100.0%**	**1 899.9**	**100.0%**	**-2.4%**
Payment cards	552.1	29.8%	501.4	26.4%	10.1%
Maintenance of bank accounts	449.0	24.2%	462.6	24.4%	-2.9%
Loan insurance	202.8	10.9%	262.2	13.8%	-22.6%
Loans and advances granted	285.6	15.4%	278.3	14.6%	2.6%
Maintenance of investment funds and open pension funds (including management fees)	152.0	8.2%	186.8	9.8%	-18.6%
Cash transactions	68.3	3.7%	82.4	4.3%	-17.1%
Securities operations	35.3	1.9%	32.7	1.7%	8.0%
Servicing foreign mass transactions	24.1	1.3%	23.4	1.2%	3.1%
Sale and distribution of court fee stamps	10.3	0.6%	10.6	0.6%	-3.3%
Other*	74.2	4.0%	59.5	3.1%	24.7%
Fee and commissions expense, of which:	**(351.0)**	**100.0%**	**(358.5)**	**100.0%**	**-2.1%**
Payment cards	(180.6)	51.5%	(145.2)	40.5%	24.4%
Loan insurance	(54.8)	15.6%	(68.5)	19.1%	-19.9%
Acquisition services	(54.2)	15.5%	(69.8)	19.5%	-22.3%
Assets management	(7.0)	2.0%	(18.4)	5.1%	-62.3%
Other**	(54.4)	15.5%	(56.6)	15.8%	-3.8%
Net fee and commission income	**1 502.7**	**x**	**1 541.4**	**x**	**-2.5%**

* Included in 'Other' are i.a.: commissions received for servicing bond sale transactions, commissions of the Brokerage House for servicing Initial Public Offering issue and commissions for servicing loans granted by the State budget, fiduciary services.

** Included in 'Other' are i.a.: fees and expenses paid by the Brokerage House to Warsaw Stock Exchange and the National Depository for Securities (KDPW), expenses on settlement services and commission expense on operational services of the banks.

Net fee and commission income decreased by 2.5% y/y mainly as a result of:

- a decrease in commission income in respect of loan insurance (-22.6% y/y), in effect of the decrease in sale of consumer loans with optional insurance,
- a decrease in commission income in respect of servicing investment funds and OPF (-18.6% y/y), mainly in effect of the decrease of sales and the value of FI assets (-17.3% y/y),
- a decrease in commission income in respect of cash transactions (-17.1% y/y) due to the dynamic growth of electronic banking in the PKO Bank Polski SA Group,
- along with an increase in net income in respect of payment cards (+4.3% y/y).

Administrative expenses

Expenses discipline continued in the first half of 2012 resulted in the slight increase in the Group administrative expenses by 5.8% compared to the first half of 2011.

Table 6. Administrative expenses of the PKO Bank Polski SA Group (in PLN million)

Items	01.01-30.06.2012	Structure 1H 2012	01.01-30.06.2011	Structure 1H 2011	Change 1H 2012/ 1H 2011
Staff costs	(1 213.3)	54.0%	(1 145.2)	53.9%	6.0%
Overheads and other*	(763.4)	34.0%	(726.6)	34.2%	5.1%
Amortisation and depreciation	(269.6)	12.0%	(251.4)	11.8%	7.3%
Total	**(2 246.3)**	**100.0%**	**(2 123.2)**	**100.0%**	**5.8%**

* Other: taxes and other charges, contribution and payments to the Bank Guarantee Fund.

The level of administrative expenses in the first half of 2012 was mainly determined by an increase in staff costs by 6.0% y/y, including mainly remuneration expenses and an increase in overheads by 5.2% y/y.

An increase in administrative expenses, accompanied by a significant increase in the income of the PKO Bank Polski SA Group of 8.9% y/y, resulted in maintaining high operating efficiency of the PKO Bank Polski SA Group measured with the C/I ratio, which amounted to 38.8% (-1.1 pp. y/y) as at the end of the first half of 2012.

Net impairment allowance and write-downs

Net impairment allowance and write-downs as at 30 June 2012 reflect the PKO Bank Polski SA Group's continuation of conservative approach to measurement of credit risk. An increase of net impairment allowance compared with the corresponding period of the previous year (+24.9% y/y), is a result of deterioration in the result on corporate loans and off-balance sheet liabilities (while improvement in the result on mortgage loans).

Table 7. Net impairment allowance and write-downs (in PLN million)

Items	01.01-30.06.2012	Structure 1H 2012	01.01-30.06.2011	Structure 1H 2011	Change 1H 2012/ 1H 2011
Net impairment allowance, of which:					
loans and advances to customers measured at amortised cost and amounts due from banks	(1 029.8)	93.5%	(843.7)	95.7%	22.0%
investments in associates and jointly controlled entities	(5.5)	0.5%	(0.6)	0.1%	8.6x
other	(66.0)	6.0%	(37.0)	4.2%	78.2%
Net impairment allowance – total	**(1 101.3)**	**100.0%**	**(881.4)**	**100.0%**	**24.9%**

Cost of risk[3] at the end of the first half of 2012 increased by 0.1 pp. to 1.4% compared to 1.3% at the end of the first half of 2011, mainly resulting from an increase in write-downs of corporate loans.

3.1.3. Consolidated statement of financial position – main items

The financial situation of the PKO Bank Polski SA Group is strongly influenced by the financial situation of the parent entity. It determines both the size of total assets and the structure of assets and liabilities. As at 30.06.2012 total assets of PKO Bank Polski SA accounted for 98.8% of the total assets of the PKO Bank Polski SA Group.

As at 30.06.2012, total assets of the PKO Bank Polski SA Group amounted to PLN 190 438 million, which represents a decrease of 0.2% compared to the end of December 2011.

Loans and advances to customers represent the most significant item of the Group's assets and amounted to PLN 141 331 million as at the end of June 2012, i.e. 74.2% of total assets.
Assets are mainly financed by amounts due to customers, which accounted for PLN 146 987 million as at the end of June 2012, i.e. 87.8% of total liabilities.

The main items of the statement of financial position of PKO Bank Polski SA Group for the first half of 2012 are presented in the table below.

[3] Calculated through dividing net impairment allowance and write-downs of loans and advances to customers for the twelve-month period ended 30 June 2011 and 2012, by the average balance of gross loans and advances to customers at the beginning and at the end of reporting period and intermediate quarterly periods.

Table 8. Main items of the statement of financial position of the PKO Bank Polski SA Group (in PLN million)

	30.06.2012	Structure 30.06.2012	31.12.2011	Structure 31.12.2011	Change (in %)
Cash and balances with the central bank	8 837.4	4.6%	9 142.2	4.8%	-3.3%
Amounts due from banks	2 761.3	1.4%	2 396.2	1.3%	15.2%
Loans and advances to customers	141 331.2	74.2%	141 634.5	74.3%	-0.2%
Securities	28 078.4	14.7%	28 171.6	14.8%	-0.3%
Other assets	9 429.6	5.0%	9 403.6	4.9%	0.3%
Total assets	**190 437.9**	**100.0%**	**190 748.0**	**100.0%**	**-0.2%**
Amounts due to banks	5 743.7	3.0%	6 242.6	3.3%	-8.0%
Amounts due to customers	146 986.5	77.2%	146 473.9	76.8%	0.3%
Debt securities in issue and subordinated liabilities	8 917.6	4.7%	9 386.2	4.9%	-5.0%
Other liabilities	5 782.3	3.0%	5 823.4	3.1%	-0.7%
Total liabilities	**167 430.1**	**87.9%**	**167 926.1**	**88.0%**	**-0.3%**
Total equity	23 007.7	12.1%	22 822.0	12.0%	0.8%
Total liabilities and equity	**190 437.9**	**100.0%**	**190 748.0**	**100.0%**	**-0.2%**
Loans/Deposits (amounts due to customers)	96.2%	x	96.7%	x	-0.5 pp.
Loans/Stable sources of financing*	88.2%	x	88.4%	x	-0.2 pp.
Interest bearing assets/Assets	90.4%	x	90.3%	x	0.1 pp.
Interest paying liabilities/Liabilities	84.9%	x	85.0%	x	-0.1 pp.

* Stable sources of financing include amounts due to customers and long-term external financing in the form of issue of: securities, including funds from the issuance of Eurobonds, subordinated liabilities and amounts due to financial institutions.

Loans and advances to customers

In the type structure of the gross loan portfolio, the main items are mortgage loans and advances (PLN 70.8 billion, at a stable level as compared with the end of 2011) the share of which in the structure of the gross loan portfolio did not change compared with the end of 2011 (48.1%). The largest increase in the volume compared with the end of 2011 was recorded in corporate loans of the non-financial sector (+ 2.8%).

Amounts due to customers

In the structure of amounts due to customers by types, the main items were amounts due to retail clients PLN 106.5 billion (+2.2% compared with the end of 2011), the share of which in the structure of the liabilities portfolio compared to the end of 2011 increased by 1.3 pp. (to 72.4%) – the result of an increase of term deposits, along with a decrease of amounts due to companies of 2.1 pp. in the total liabilities portfolio.

Equity and capital adequacy ratio

Equity increased by 0.8% compared with the end of 2011 and at the end of the first half of 2012 accounted for 12.1% of total liabilities and equity of the PKO Bank Polski SA Group (an increase in share of 0.1 pp. as compared with the end of 2011).

As at the end of the first half of 2012, the capital adequacy ratio of the PKO Bank Polski SA Group was at a level of 13.01%, which represents an increase by 0.64 pp. compared with the end of 2011. It was mainly due to an increase of own funds by approx. 12.3% resulting from accumulation of net profit for 2011. The level of capital adequacy ratio significantly exceeds the minimum value of the ratio required by the Banking Law (8%). Capital adequacy measured with the capital adequacy ratio remained at a safe level.

In the first half of 2012, return on equity ratio (ROE) increased by 1.2 pp. per annum due to a high growth rate of the annualised net profit (+10.4% y/y) combined with an increase in average equity of 2.8% y/y, whereas return on assets ratio (ROA) amounted to 2.1% and did not change compared with the first half of 2011.

Table 9. Equity and capital adequacy ratio of the PKO Bank Polski SA Group (in PLN million)

Items	30.06.2012	Structure 30.06.2012	31.12.2011	Structure 31.12.2011	Change (in %)
Equity, of which:	**23 007.7**	**100.0%**	**22 822.0**	**100.0%**	**0.8%**
Share capital	1 250.0	5.4%	1 250.0	5.5%	0.0%
Reserve capital	15 363.7	66.8%	13 041.4	57.1%	17.8%
General banking risk fund	1 070.0	4.7%	1 070.0	4.7%	0.0%
Other reserves	3 438.0	14.9%	3 460.4	15.2%	-0.6%
Cash flow hedges	166.2	0.7%	362.2	1.6%	-54.1
Financial assets available for sale	(34.7)	-0.2%	(52.4)	-0.2%	-33.8%
Currency translation differences from foreign operations	(94.4)	-0.4%	(92.0)	-0.4%	2.6%
Unappropriated profits	(103.3)	-0.4%	(23.2)	-0.1%	4.5x
Net profit for the period	1 953.4	8.5%	3 807.2	16.7%	-48.7%
Non-controlling interest	(1.9)	0.0%	(1.3)	0.0%	49.5%
Share of other comprehensive income of an associate	0.9	0.0%	(0.3)	0.0%	x
Own funds	20 600.7	x	18 342.9	x	12.3%
Capital adequacy ratio (%)	13.01%	x	12.37%	x	0.64 pp.

3.2. PKO Bank Polski SA

3.2.1. Key financial indicators

The summary of results, achieved by PKO Bank Polski SA in the first half of 2012, is represented by the following key financial efficiency indicators, which are shown in the table below.

Table 10. Key financial indicators of PKO Bank Polski SA

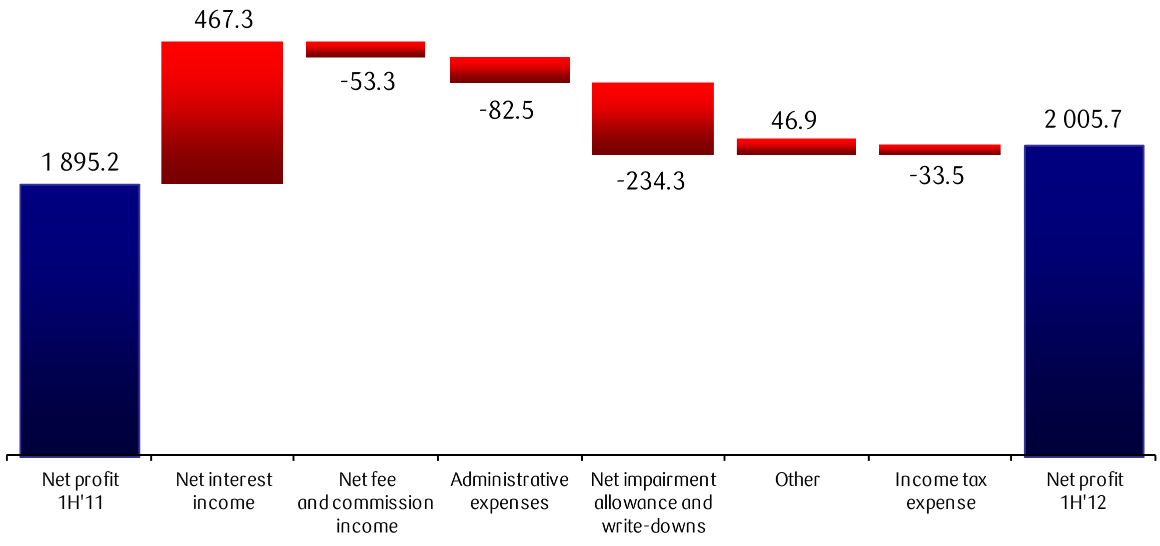
	30.06.2012	30.06.2011	Change
ROA net (net profit/average total assets)	2.2%	2.1%	0.1 pp.
ROE net (net profit/average total equity)	18.1%	16.6%	1.5 pp.
C/I (cost to income ratio)	36.3%	37.9%	-1.6 pp.
Interest margin (net interest income/average interest-earning assets)	4.7%	4.4%	0.3 pp.
The share of impaired loans*	7.9%	6.9%	1 pp.
The coverage ratio of impaired loans**	47.1%	50.0%	-2.9 pp.

* Calculated by dividing the gross carrying amount of impaired loans and advances to customers by the gross carrying amount of loans and advances to customers.
** Calculated by dividing the balance of impairment allowances on loans and advances to customers by the gross carrying amount of impaired loans and advances to customers.

3.2.2. Income statement of PKO Bank Polski SA

In first half of 2012, PKO Bank Polski SA achieved net profit at the amount of PLN 2 005.7 million, which was PLN 110.5 million, i.e. 5.8% higher than in the corresponding period of 2011.

Chart 2. Movements in income statement items of PKO Bank Polski SA (in PLN million)



In the income statement of PKO Bank Polski SA for the first half of 2012, the sum of income items amounted to PLN 5 627.8 million and was PLN 460.9 million (i.e. 8.9%) higher than in the corresponding period of 2011. The main items of the income statement were as follows.

Table 11. Movements in income statement items of PKO Bank Polski SA (in PLN million)

	01.01-30.06.2012	01.01-30.06.2011	Change (in PLN million)	Change (in %)
Interest and similar income	6 375.1	5 489.3	885.8	16.1%
Interest expense and similar charges	(2 388.3)	(1 969.8)	(418.5)	21.2%
Net interest income	**3 986.7**	**3 519.5**	**467.3**	**13.3%**
Fee and commission income	1 749.9	1 789.0	(39.1)	-2.2%
Fee and commission expense	(370.7)	(356.5)	(14.2)	4.0%
Net fee and commission income	**1 379.2**	**1 432.5**	**(53.3)**	**-3.7%**
Dividend income	91.2	93.8	(2.6)	-2.7%
Net income from financial instruments at fair value through profit and loss	14.8	(35.4)	50.2	x
Gains less losses from investment securities	5.6	15.1	(9.5)	-63.1%
Net foreign exchange gains	143.0	130.3	12.7	9.8%
Other operating income	33.0	39.2	(6.1)	-15.7%
Other operating expenses	(25.7)	(27.9)	2.3	-8.1%
Net other operating income and expense	**7.4**	**11.2**	**(3.9)**	**-34.5%**
Net impairment allowance and write-downs	(1 092.0)	(857.7)	(234.3)	27.3%
Administrative expenses	(2 042.7)	(1 960.2)	(82.5)	4.2%
Operating profit	**2 493.1**	**2 349.0**	**144.1**	**6.1%**
Profit (loss) before income tax	**2 493.1**	**2 349.0**	**144.1**	**6.1%**
Income tax expense	(487.4)	(453.8)	(33.5)	7.4%
Net profit (loss)	**2 005.7**	**1 895.2**	**110.5**	**5.8%**

Net interest income

In the first half of 2012, net interest income was PLN 467.3 million higher than in the corresponding period of the previous year, mainly due to interest income growth by PLN 885.8 million.

Table 12. Interest income and expense of PKO Bank Polski SA (in PLN million)

Items	01.01-30.06.2012	Structure 1H 2012	01.01-30.06.2011	Structure 1H 2011	Change 1H 2012/ 1H 2011
Interest income, of which:	6 375.1	100.0%	5 489.3	100.0%	16.1%
Loans and advances to customers	5 032.1	78.9%	4 499.4	82.0%	11.8%
Derivative hedging instruments	466.2	7.3%	351.1	6.4%	32.8%
Financial assets designated upon initial recognition at fair value through profit and loss	359.3	5.6%	256.3	4.7%	40.2%
Investment securities available for sale	361.9	5.7%	237.0	4.3%	52.7%
Trading assets	32.5	0.5%	45.3	0.8%	-28.3%
Placements with banks	119.8	1.9%	97.1	1.8%	23.4%
Other	3.3	0.1%	3.0	0.1%	11.6%
Interest expense, of which:	(2 388.3)	100.0%	(1 969.8)	100.0%	21.2%
Amounts due to customers	(2 260.4)	94.6%	(1 907.6)	96.8%	18.5%
Debt securities in issue	(107.7)	4.5%	(41.4)	2.1%	2.6x
Deposits from banks	(14.4)	0.6%	(19.4)	1.0%	-25.9%
Other*	(5.8)	0.2%	(1.3)	0.1%	4.3x
Net interest income	3 986.7	x	3 519.5	x	13.3%

* Including cost of premium on debt securities available for sale.

Net fee and commission income

In the first half of 2012, net fee and commission income was PLN 53.3 million lower than in the corresponding period of the previous year, mainly due to the decrease in commission income by PLN 39.1 million.

Table 13. Fee and commission income and expense of PKO Bank Polski SA (in PLN million)

Items	01.01-30.06.2012	Structure 1H 2012	01.01-30.06.2011	Structure 1H 2011	Change 1H 2012/ 1H 2011
Fee and commission income, of which:	**1 749.9**	**100.0%**	**1 789.0**	**100.0%**	**-2.2%**
Payment cards	539.3	30.8%	486.8	27.2%	10.8%
Maintenance of bank accounts	439.6	25.1%	456.9	25.5%	-3.8%
Loan insurance	202.8	11.6%	262.2	14.7%	-22.6%
Loans and advances granted	280.5	16.0%	275.0	15.4%	2.0%
Cash transactions	62.0	3.5%	76.9	4.3%	-19.4%
Maintenance of investment funds and pension funds (including management fees)	83.3	4.8%	104.8	5.9%	-20.4%
Securities operations	35.2	2.0%	32.6	1.8%	8.1%
Servicing foreign mass transactions	24.1	1.4%	23.4	1.3%	3.1%
Sale and distribution of court fee stamps	10.3	0.6%	10.6	0.6%	-3.3%
Other*	72.7	4.2%	59.8	3.3%	21.7%
Fee and commissions expense, of which:	**(370.7)**	**100.0%**	**(356.5)**	**100.0%**	**4.0%**
Payment cards	(213.4)	57.6%	(169.3)	47.5%	26.1%
Loan insurance	(54.8)	14.8%	(68.5)	19.2%	-19.9%
Acquisition services	(48.0)	12.9%	(62.1)	17.4%	-22.7%
Other**	(54.5)	14.7%	(56.6)	15.9%	-3.7%
Net fee and commission income	**1 379.2**	**x**	**1 432.5**	**x**	**-3.7%**

* Included in 'Other' are i.a.: commissions received for servicing bond sale transactions, commissions of the Brokerage House for servicing Initial Public Offering issue and commissions for servicing loans granted by the State budget, fiduciary services.
** Included in 'Other' are i.a.: fees and expenses paid by the Brokerage House to Warsaw Stock Exchange and the National Depository for Securities (KDPW), expenses of settlement services and commission expenses of operational services rendered by banks.

Administrative expenses

Cost discipline continued in the first half of 2012 resulted in the slight increase in the administrative expenses (+4.2% compared with the first half of 2011). Dynamics of the business activity was higher than the growth of administrative expenses which resulted in increase of efficiency, measured with the C/I ratio, which amounted to 36.3% compared with 37.9% in first half of 2011.

Table 14. Administrative expenses of PKO Bank Polski SA (in PLN million)

Items	01.01-30.06.2012	Structure 1H 2012	01.01-30.06.2011	Structure 1H 2011	Change 1H 2012/ 1H 2011
Staff costs	(1 114.5)	54.6%	(1 056.2)	53.9%	5.5%
Overheads and other*	(690.5)	33.8%	(685.7)	35.0%	0.7%
Amortisation and depreciation	(237.7)	11.6%	(218.2)	11.1%	8.9%
Total	**(2 042.7)**	**100.0%**	**(1 960.2)**	**100.0%**	**4.2%**

* Other: taxes and other charges, contribution and payments to the Bank Guarantee Fund.

Net impairment allowance and write-downs

The net impairment allowance and write-downs reflect the safe approach of PKO Bank Polski SA to assessment of credit risk. The increase in negative result of net impairment allowance and write-downs in the first half of 2012 (+27.3% y/y) resulted from an increase in loan receivable impairment allowance (mainly in respect of corporate loans and off-balance sheet liabilities), which were partly offset by an improvement in mortgage loans write-downs.

Cost of risk[4] in the first half of 2012 increased by 0.1 pp. to 1.3% compared to 1.2% at the end of the first half of 2011, mainly resulting from an increase in write-downs of corporate loans.

[4] Calculated through dividing net impairment allowance and write-downs of loans and advances to customers for the twelve-month period ended 30 June 2011 and 2012, by the average balance of gross loans and advances to customers at the beginning and at the end of reporting period and intermediate quarterly periods.

3.2.3. Statement of financial position of PKO Bank Polski SA – main items

As at 30.06.2012 the total assets of PKO Bank Polski SA amounted to PLN 188 175.9 million and was lower by 0.1% compared to the end of December 2011.
The main items of the statement of financial position of PKO Bank Polski SA during the last six months are presented in the table below.

Table 15. Main items of the statement of financial position of PKO Bank Polski SA (in PLN million)

	30.06.2012	Structure 30.06.2012	31.12.2011	Structure 31.12.2011	Change (in %)
Cash and balances with the central bank	8 766.3	4.7%	9 060.3	4.8%	-3.2%
Amounts due from banks	2 831.3	1.5%	2 320.2	1.2%	22.0%
Loans and advances to customers	139 620.9	74.2%	140 058.6	74.4%	-0.3%
Securities	27 898.3	14.8%	27 947.2	14.8%	-0.2%
Other assets	9 059.1	4.8%	8 986.3	4.8%	0.8%
Total assets	**188 175.9**	**100.0%**	**188 372.7**	**100.0%**	**-0.1%**
Amounts due to banks	4 790.4	2.5%	5 324.8	2.8%	-10.0%
Amounts due to customers	150 497.2	80.0%	150 030.7	79.6%	0.3%
Debt securities in issue and subordinated liabilities	4 390.1	2.3%	4 720.0	2.5%	-7.0%
Other liabilities	5 369.1	2.9%	5 494.8	2.9%	-2.3%
Total liabilities	**165 046.8**	**87.7%**	**165 570.3**	**87.9%**	**-0.3%**
Total equity	23 129.0	12.3%	22 802.4	12.1%	1.4%
Total liabilities and equity	**188 175.9**	**100.0%**	**188 372.7**	**100.0%**	**-0.1%**
Loans/Deposits (amounts due to customers)	92.8%	x	93.4%	x	-0.6 pp.
Loans/Stable sources of financing*	88.2%	x	88.5%	x	-0.3 pp.
Interest bearing assets/Assets	90.5%	x	90.4%	x	0.1 pp.
Interest paying liabilities/Liabilities	84.9%	x	85.0%	x	-0.1 pp.

* Stable sources of financing include amounts due to customers (including funds from the issuance of Eurobonds), amounts due to financial institutions and long-term external financing in the form of subordinated liabilities.

Loans and advances to customers represent the most significant item of the Bank's assets and amounted to PLN 139 620.9 million as at the end of June 2012, i.e. 74.2% of total assets.

Assets are mainly financed by amounts due to customers, which accounted for PLN 150 497.2 million as at the end of June 2012, i.e. 91.2% of total liabilities.

4. BUSINESS DEVELOPMENT[5]

4.1. Directions of development of the PKO Bank Polski SA Group

The PKO Bank Polski SA Group is composed of PKO Bank Polski SA and its subsidiaries, which by being product centres complement the Bank's core financial services offer. Particular companies provide specialist services in respect of leasing, factoring, investment funds, pension funds, internet banking and servicing and settlement of card transactions. The PKO Bank Polski SA Group also consists of KREDOBANK SA that provides banking activities in Ukraine as well as of debt collecting and factoring company in Ukraine.

The Group strategy assumes focusing on the core banking activities, supplemented with an offer of complementary financial products and services. The Group's objective is to simplify and optimise its structure, increase efficiency and achieve full consistency of the operating model adopted. The key strategic initiatives in this respect include:

- integration of the Group companies, primarily, 'product factories', with the Bank through, among others, centralisation of the support function or a complete transfer of the companies' operations to the Bank,
- sale of assets which are not related to the Group's core activities,
- implementing of a new development strategy for KREDOBANK SA, that is focused on servicing of retail customers and SMEs operating mainly in the western part of Ukraine,
- strengthening the Group's market position in selected market segments, including through the acquisition of companies,
- increasing the efficiency of property management.

In the first half of 2012, PKO Bank Polski SA continued actions aimed at simplifying the Group structure and optimising its administrative expenses (including taking over the operations of Centrum Finansowe Puławska Sp. z o.o. and carrying out analysis related to the transfer of the factoring activity to the Bank, the integration of Fort Mokotów Inwestycje Sp. z o.o. with Qualia Development Sp. z o.o. and sale of selected Bank's assets within or outside the Group). Works related to the creation of structures increasing the efficiency of KREDOBANK SA receivables portfolio collection in Ukraine were completed in 2012.

The directions of development of PKO Bank Polski SA are set by the 'LIDER' strategy for the years 2010-2012, implementation of which comes to an end during the current year. The key strategic objectives implemented within this strategy are i.a.:

- remaining a universal bank with traditions, of Polish nature, perceived as both a modern and safe Bank,
- achieving sustainable competitive advantages and strengthen the leadership position in all major market segments,
- focusing services on clients' needs in order to build strong, long-term relationships,
- maintaining sustainable, organic growth in scale of operations and results, while improving efficiency,
- maintaining stable profitability and ensuring constant growth of the company's value, according to the expectations of shareholders,
- engaging in prudent risk management policy,
- obtaining the opinion of the best employer in the Polish financial sector.

The successes and experience gained by the Bank during the implementation of its strategy during the last years consistently strengthen the position of PKO Bank Polski SA as leader on the banking market in Poland. The Bank's new strategy, the development process of which will start this year, will be a continuation of the adopted development trend.

The main effect of the realisation of the Bank's strategic goals, especially from the perspective of the investors, is – apart from its market position – also the high pace of growth of net profit in consecutive quarters. The lower rate of growth in administrative expenses and further improvement in operating effectiveness measured by the C/I ratio, among other things, had a positive impact on profit.

[5] In this chapter, any differences in total balances, shares and growth rates result from rounding the amounts to PLN million and rounding percentages to one decimal place.

The reinforced financial credibility of the Bank is confirmed, among other things, by Standard and Poor`s agency's ratings. The Agency emphasises the market position and strong capital base of the Bank and its potential for generating revenues at medium risk and sufficient liquidity. It should also be emphasised that in a longer time period, the quotations of PKO Bank Polski SA shares are much more favourable compared to the WIG 20 and Euro STOXX Banks indices.

The investor's confidence in the Bank is also strengthened by the noted systematic growth in the level of client satisfaction, attesting to – among other things – the pertinence of the realised systemic changes. Gradual improvement in the quality of customer service is one of the key strategic priorities of the Bank.

Actions under the Bank's strategy focus on several strategic programs aimed at full and effective use of the Bank's potential and of the potential of the Group's subsidiaries. These actions are aimed at achieving a synergy effect and at optimising business benefits related to preparing a complementary service offer.

Work on the reorganisation and optimisation of the Bank's Group and implementation of consistent supervision and cooperation methods in respect of the Bank with its subsidiaries is continued. In this respect new development strategies for the companies as well as integration processes with the Bank are being implemented. Work on centralising the support function is also continued.

To strengthen the synergy effect in respect of the expenses incurred by the Bank and the Group entities, the procurement process was optimised and significant sources of savings were identified. Action in respect of infrastructural initiatives leading to standardisation, centralisation and simplification of the IT architecture, and increasing cost effectiveness of the IT infrastructure were also continued.

In business dimensions, the Bank's strategy is consistently based on three key pillars: retail banking, corporate banking and investment banking. Implementing strategic business goals is aimed at meeting the Bank's customer needs, both individual and institutional, taking into consideration specific requirements of particular segments, such as: private and retail banking clients, strategic clients, small and medium enterprises, institutions acting on behalf of households or central and local government institutions.

Work on implementing systemic changes in respect of back-office processes take a significant place among actions which support the Bank's strategic goals. The actions mainly support sales processes and cover, among other things:

– establishing the entities which centralise credit analyses,
– implementing a new method of archiving documents,
– implementing modern, specialised workflows to handle particular product processes.

Support for the supervision and optimisation of credit processes within the Bank also covers the implementation of the Early Warning System, preventing the excessive growth of credit risk's level.

In order to effectively realise business and client-oriented activities, work aimed at optimising the modern product offer which adapts the Bank's services to the needs and expectations of its customers is in force. Material quality changes relating to customer service standards, related both to the development and modernisation of the Bank's branches, as well as their equipment and visualisation are also in progress. At the same time, work aimed at improving the functionality of servicing the Bank's accounts through remote channels, as well as the unification and development of transaction platforms supporting the sales processes in the traditional channel is in progress.

The basic business effect of the pursue of the Bank's current strategy will be a visible increase in the Bank's scale of activities. The sustainable Bank's development should translate into high level of profitability (achieving ROE in excess of 16% and ROA in excess of 2%), which is to be accompanied by strict control over costs (the cost to income ratio C/I at a level below 45%) and the capital adequacy ratio maintained at a safe level of more than 12%.

4.2. Market shares of PKO Bank Polski SA

After the first half of 2012 the PKO Bank Polski SA's market shares as regard deposits decreased by 0.4 pp. compared with the end of 2011. As regards loans, market shares decreased by 0.2 pp. compared with the end of 2011 which was determined by a decrease in shares of consumer loans and other for retail clients (-0.5 pp.).

Table 16. Market share of PKO Bank Polski SA (in %)*

	30.06.2012	31.12.2011	30.06.2011	Change 30.06.2012/ 31.12.2011	Change 30.06.2012/ 30.06.2011
Loans	**16.0**	**16.2**	**17.0**	**-0.2 pp.**	**-1 pp.**
retail clients	18.9	19.2	19.9	-0.3 pp.	-1 pp.
mortgage	19.7	19.9	20.6	-0.2 pp.	-0.9 pp.
in Polish zloty	29.3	30.6	31.9	-1.3 pp.	-2.6 pp.
in foreign currencies	13.0	13.2	13.5	-0.2 pp.	-0.5 pp.
consumer and other	17.1	17.6	18.3	-0.5 pp.	-1.2 pp.
corporate clients	13.0	13.1	13.8	-0.1 pp.	-0.8 pp.
Deposits	**17.4**	**17.8**	**18.1**	**-0.4 pp.**	**-0.7 pp.**
retail clients	22.0	22.3	23.0	-0.3 pp.	-1 pp.
corporate clients	11.5	12.1	12.1	-0.6 pp.	-0.6 pp.

* Data source: NBP reporting system – Webis.

4.3. Operations of PKO Bank Polski SA by business segments

4.3.1. Retail segment

In the first half of 2012, the Bank continued its pursuit of the 'Leader' strategy adopted for the years 2010-2012, and concentrated on a further improvement in efficiency, achieving a sustainable competitive advantages and improving its market position. The Bank also continued projects aimed at improving the quality of customer service which include enhancing sales processes and improving service standards with the use of results of cyclic customer satisfaction surveys. The actions were focused on improving the attractiveness and competitiveness of the products offered, with flexible reactions to changing market conditions.

Sales support constituted a number of promotional activities, including i.a.:

1) promotional offer of a mortgage loan under the action 'Drzwi otwarte do Twojego własnego mieszkania' (Open door to your own apartment), stipulating sales of the loan at an attractive 1.15% margin throughout the term of the loan,
2) promotion of a cash loan consisting of using a preferential commission rate for granting the loan with insurance, and in the event of loans granted in the period from 18 to 30 June 2012, a preferential interest rate in standard and consolidated option of 9.99%,
3) a campaign addressed to retail banking clients engaged in business activities who do not have BIZNES PARTNER accounts – participants of the Forum Rozwoju Biznesu (Business Development Forum) meetings organised by the Bank, stipulating, apart from sales of packages on preferential price conditions (fee for maintaining the account reduced by 50% over a period of 3 months), also sales of loans bearing interest decreased by 1 pp.,
4) the 'Individual Lease Limit' campaign covering the products of PKO Leasing, addressed to customers of small and medium enterprises,
5) a promotional offer addressed to the Bank's current clients who declare the will of transferring their account to another bank, stipulating exemption from calculating fees for maintaining the account during 6 consecutive months,
6) a promotional offer addressed to the Bank's current clients – participants in the Business Development Forum meetings organised by the Bank in the period from the second to the fourth quarter of this year, stipulating capital and investment loan offer at a margin lower by 1 pp.,
7) a promotional credit offer for clients with debt with other banks, stipulating sales of loans and advances for the Bank's current and potential clients encumbered by low credit risk, at preferential, negotiated price terms and conditions (with the option of resigning from commission for the request and granting the loan) and a preferential fee for issuing the PKO MasterCard Business at PLN 50 with the standard fee at PLN 300 – gold card and PLN 100 – silver card.

PKO Bank Polski SA continued activities relating to making the deposit offer more attractive to customers, both in terms of the permanent deposit offer and by introducing new products with attractive interest rates for its customers.

As at 30 June 2012, the total value of deposits of the retail segment of PKO Bank Polski SA amounted to PLN 115.1 billion. Since the beginning of the year, the volume has increased by PLN 1.1 billion (i.e. 1.0%) as a result of an increase in retail and private banking deposit volumes (+2.8% since the beginning of the year), including specifically the volume of term deposits.

Table 17. Deposits of PKO Bank Polski SA – in the retail segment (in PLN million)*

	30.06.2012	31.12.2011	30.06.2011**	Change since: 31.12.2011	Change since: 30.06.2011**
Clients deposits, of which:					
- retail and private banking	102 375	99 631	94 389	2.8%	8.5%
- small and medium enterprises	8 191	8 932	7 799	-8.3%	5.0%
- housing market clients	4 536	5 406	4 625	-16.1%	-1.9%
Total deposits	**115 102**	**113 969**	**106 813**	**1.0%**	**7.8%**

Source: Management data of the Bank.

* In the first half of this year, as a result of re-segmentation, PLN 63 million of deposit volumes of small and medium enterprises and PLN 402 million of deposit volumes of housing market clients were transferred to corporate segment.

** Change in relation to business volumes previously presented results from a change in presentation; i.a. volumes currently presented include also valuation adjustments.

As at 30 June 2012, the gross value of loans to the retail segment of PKO Bank Polski SA was PLN 106.5 billion which constituted a decrease of PLN 3.7 billion (i.e. 3.3%) since the beginning of the year.

Table 18. Gross loans of PKO Bank Polski SA – in the retail segment (in PLN million)*

	30.06.2012	31.12.2011	30.06.2011**	Change since: 31.12.2011	Change since: 30.06.2011**
Gross loans, of which:					
- retail and private banking	20 350	21 550	22 533	-5.6%	-9.7%
- small and medium enterprises	14 190	15 345	15 494	-7.5%	-8.4%
- mortgage banking	65 303	65 342	61 218	-0.1%	6.7%
- housing market clients (including refinanced by the state budget)	6 623	7 887	7 137	-16.0%	-7.2%
Total loans	**106 467**	**110 124**	**106 382**	**-3.3%**	**0.1%**

Source: Management data of the Bank.

* In the first half of this year, as a result of re-segmentation, PLN 839 million of loan volumes of small and medium enterprises and PLN 974 million of loan volumes of housing market clients were transferred to corporate segment.

** Change in relation to business volumes previously presented results from a change in presentation; i.a. volumes currently presented include also valuation adjustments.

PKO Bank Polski SA remains the market leader in terms of the number of current accounts, which was about 6.1 million as at the end of the first half of 2012. In the first half of this year, the Bank's activities were focused on maintaining of the share in the bank accounts market as well as on providing the Bank's customers with new, remote channels for opening them through the website.

As at the end of the first half of 2012, PKO Bank Polski SA had 7.4 million retail clients and 0.68 million Inteligo clients.

Table 19. Accounts and banking cards of PKO Bank Polski SA (in thousands of units)*

	30.06.2012	31.12.2011	30.06.2011	Change since: 31.12.2011	Change since: 30.06.2011
Number of current accounts	6 126	6 146	6 282	(20)	(156)
Number of banking cards, of which:	7 122	7 166	7 086	(45)	35
- credit cards	977	1 009	997	(32)	(20)

*Presentation change in number of current accounts for 2011 resulting from accounts reclassification.

The Bank's own ATM network reached 2 525 machines as at the end of the first half of 2012, which allowed a further reduction in costs of cash service and expansion of services availability to clients. Important addition to the network of branches and ATMs is a network of agencies (approx. 1.2 thousand agencies). The Bank has prepared a new development strategy for the external sales channels in the period 2012-2014, determining the directions of a network of intermediaries, in particular, introducing changes that will allow:

1) ensuring an appropriate network structure by introducing new types of branches,

2) increasing the effectiveness of the branch network management,
3) enabling adaptation of the branches to business needs of various micro-markets and clients and ensuring high quality of client service,
4) adapting the structure and area of operations of regional retail branches to current organisational and business purposes.

Table 20. Branches and ATMs of PKO Bank Polski SA

	30.06.2012	31.12.2011	30.06.2011	Change since: 31.12.2011	Change since: 30.06.2011
Total number of branches	1 197	1 198	1 201	(1)	(4)
- in the retail segment	1 130	1 131	1 134	(1)	(4)
- other branches	3	-	-	3	3
Number of ATMs	2 525	2 457	2 426	68	99
Number of agencies	1 218	1 400	1 709	(182)	(491)

The main activities aimed at specified groups of products and services to retail segment customers are detailed below.

Table 21. Activities and achievements of PKO Bank Polski SA in the retail segment in the first half of 2012

New products and services	Activity – Deposits
'PLUS' Savings Account	In the first half of 2012, PKO Bank Polski SA prepared a change in the interest rate for the 'PLUS' Savings Account including a separate offer for the private banking customers. From 3 April, the interest rate of the 'PLUS' Savings Account, depending on the amount ranges and customers to whom the account is offered, is 3.90% (PLN 999.99) to 4.10% (above PLN 19 999.99). The interest rate above PLN 199 999.99 for the private banking customers is 4.35% and for the remaining customers it is 4.25%.
School Savings Unions (SKO) Account	In the first half of this year, the activities of PKO Bank Polski SA were focused on carrying out the project 'Implementation of the new SKO offer' which was aimed at revitalising the SKO programme by developing a new model of servicing young customers. As a result, as part of the project, schools were offered 5 new SKO packages, differing according to preferences: SKO Account for the School, SKO Account for the Pupil, SKO Account for the Parent Council, SKO Account – School's Plan and SKO Account - Parent Council's Plan.
Fixed-term deposit 12M for owners of fixed-term deposit 5M accounts and 5M for new funds with daily capitalisation of interest	From 21 March to 2 June 2012 a 12-month fixed-term deposit was introduced into the Bank's offer for owners of the 5-month fixed-term deposit accounts with daily capitalisation of interest or the 5-month fixed-term deposit accounts for new funds with daily capitalisation of interest. 12-month fixed-term deposit account is opened for a period of 12 months. The interest rate on the deposit is 5.0% p.a. The minimum payment is PLN 1 000.
Fixed-term deposit 3M with structured deposit based on Crude Oil Price	From 5 to 30 March of this year, a 3-month fixed-term deposit linked to the structured deposit based on crude oil price was introduced into the Bank's offer. Half of the invested funds is placed on a safe 3-month fixed-term deposit with an interest rate of 8.0% per annum, and the second half is invested in a 2.5-year structured deposit with a 100% guarantee of principal after keeping the contractual period, where the interest for the contractual period depends on the price of crude oil. The minimum investment amount is PLN 5 000. At the end of the contractual period, the customer will receive an amount depending on the price of Brent crude oil listed on the London Stock Exchange (ICE Futures Europe) stated in US dollars per barrel.
1+3+5 odd deposit and 1+3+5 odd deposit for new funds	An innovative product in the Bank's offer from 21 May 2012 is opened for the period of 9 months. An odd deposit is the progressive deposit with the possibility of partial withdrawals during the contractual period without loss of interest. Thanks to the deposit, the customer receives 3 terms in 1 product - in case of the odd deposit the interest rate increases after the 1st month, after the next 3 months and after the following 5 months. The interest rate on an annual basis for maintaining the period of 9 months that is dependent on the amount of deposit at the end of the contractual period: –for amounts to PLN 19 999 - 4.50% per annum (4.80% for new funds), –for amounts from PLN 20 000 to PLN 49 999 - 4.70% per annum (5.00% for new funds), –for amounts from PLN 50 000 - 5.00% per annum (5.30% for new funds). The minimum amount of deposit is PLN 1 000.
2+4+6 even deposit and 2+4+6 even deposit for new funds	An innovative product in the Bank's offer from 21 May 2012 is opened for a period of 12 months. An even deposit is a progressive deposit with the possibility of partial withdrawals during the contractual period without loss of interest. Thanks to the deposit, the customer receives 3 terms in 1 product - in case of the even deposit the interest rate increases after the 2nd month, after the next 4 months and after the following 6 months. The interest rate on an annual basis for maintaining the period of 12 months that is dependent on the amount of deposit at the end of the contractual period: –for amounts to PLN 19 999 - 4.70% per annum (5.00% for new funds), –for amounts from PLN 20 000 to PLN 49 999 - 5.00% per annum (5.20% for new funds), –for amounts from PLN 50 000 - 5.20% per annum (5.50% for new funds). The minimum amount of deposit is PLN 1 000.
3-month fixed term deposit linked to the structured deposit based on PALLAD price	In the Bank's offer from 4 to 30 June of this year. The attractive investment product linked to the deposit with the attractive interest rate of 8.0% per annum. Pallad was chosen for the underlying asset of the structured deposit due to the increase in the price of this commodity prospects. The deposit is characterised by the fact that half of the funds is placed on a safe 3-month fixed-term deposit, and the second half is invested in a 2.5-year structured deposit with a 100% guarantee of principal after keeping the contractual period, where the interest for the contractual period depends on the price of pallad. The minimum investment amount is PLN 5 000.

3, 6 or 12-month investment deposit with subfunds	From 23 April of this year, 3, 6 or 12-month investment deposit account with subfunds: PKO Akcji Plus, PKO Akcji Małych i Średnich Spółek Plus, PKO Zrównoważony Plus, PKO Stabilnego Wzrostu Plus and PKO Papierów Dłużnych was introduced to the Bank's offer. The interest rate on the deposit is differed according to the funds allocation, amount and term of deposit - maximum 8.00%.
6 or 12-month investment deposit with subfunds	From 11 June of this year, 6 or 12-month investment deposit account with subfunds: PKO Akcji Plus, PKO Akcji Małych i Średnich Spółek Plus, PKO Zrównoważony Plus and PKO Papierów Dłużnych was introduced to the Bank's offer. The interest rate on the deposit is differed according to the amount and term of deposit - maximum 5.75%.
Structured Bank Securities (BS) based on the basket of shares of American companies	From 23 January to 17 February of this year, Structured Bank Securities based on the basket of shares of seven globally known American companies from the S&P500 and NASDAQ index were offered: Intel Corporation, Philip Morris International, McDonald's Corporation, Procter & Gamble Company, Kraft Foods, Pfizer, Merck & Co. The minimum investment amount was PLN 5 000 and the investment period is 2 years. The product ensures a 120% share in the increase in value of the basket of shares. The sum of average quarterly rates of return (8 observations) for each of the companies is taken into account in the calculation of the rate of return. The share of the rates of return for all the shares is equal and amounts to 1/7. The participation ratio is 120%.
Structured 6-month deposit based on the USD/PLN exchange rate	From 16 January to 29 June of this year, structured 6-month deposit based on the USD/PLN exchange rate has been introduced to the Bank's offer. It is a short-term investment product addressed to investors who wish to achieve higher profits than those of a deposit, while having a limited investment risk. The amount of interest is dependent on the USD/PLN exchange rate. The minimum deposit payment is PLN 5 000. The interest rate during the subscription is 3% per annum.
9M Progresja	From 1 January 2012, the 9-month fixed-term deposit 9M Progresja was introduced into the Bank's offer. The interest rate of the deposit is progressive and amounts to 4.56% on average p.a. During the saving period, the customer gains the most after keeping to the contractual period of 9 months (the interest rate grows from 0.5 pp. for 1M to even 3pp. in 9M). The minimum payment is PLN 1 000.
Housing Savings Book (Oszczędnościowa Książeczka Mieszkaniowa)	From January of this year, 5 saving thresholds based on a fixed interest rate were introduced to the Housing Book offer. The minimum payment is PLN 5 000. The interest rate is from 4.05% to 4.25% p.a.
Housing fiduciary account (Mieszkaniowy rachunek powierniczy)	In the first half of this year, the Bank took measures to adapt its product offer to the provisions of the Act dated 16 September 2011 on protecting the rights of buyers of apartments or family houses. The fiduciary accounts introduced into the Bank's offer are fully adapted to the requirements of the above mentioned Act which introduced an obligation for the developers to ensure protection (in the form of housing fiduciary accounts) for buyers – for developer undertakings the sales of which will be commenced after 29 April 2012 (i.e. after the Act comes into force).
2+3M deposit for new funds for housing market customers	The introduced product is the second edition of deposit for customers of the housing market with the special interest rate offered to clients transferring new funds from competitive banks. The deposit is offered for 5 months. The minimum deposit amount is PLN 5 000. The interest rate on funds accumulated on deposit account is calculated on an annual basis and is fixed during the contractual period. In exchange for maintaining the full period of deposit (5 months) the interest at the level of 4.60% per annum will be paid.
SME Packages	For the period from February of this year to the end of January 2013 a promotion relating to the terms of serving SME customers was introduced as part of the European Programme. The promotion relates to customers who are owners of Business Partner packages and: - apply for granting of loans for the financing of undertakings co-financed with European Union funds, - execute undertakings or other projects co-financed with European Union funds with or without the participation of funds obtained from loans from PKO Bank Polski SA for which it is necessary to open and maintain a separate bank account. The purpose of introducing the promotion is to establish the Bank's position as a leader on the market of serving customers who avail themselves of European Union funds and to create the EU budget as part of the so-called New Financial Perspective for the years 2014-2020, which assumes a considerable increase in funds designated for supporting the sector of small and medium enterprises, in particular the execution of projects related to supporting the development of new technologies and innovations and execution and implementation of new editions of regional operational programmes.
'Biznes Waluta' Package	As a part of 'Biznes Waluta' Package, the campaign addressed to import-export customers that are not Bank's customers was started-up. Promotion from March to June is associated with preferential pricing terms on credit products. In the dedicated to import-export customers Biznes Waluta Package, the number of currencies in which support accounts for SME customers can be opened and maintained was expanded. Currently, all available currencies comprise: PLN, EUR, USD, CHF, GBP, AUD, CZK, DKK, JPY, CAD, LTL, NOK, RUB, SEK, HUF.

New products and services	Activity - Inteligo
'Hop' Deposit	The Inteligo deposit offer was enriched with a new product – the 'Hop' deposit. The deposit is offered for a period of 6 or 12 months and is progressive. The minimum amount on one deposit is PLN 1 000. The average fixed interest rate on the 6M deposit is 5.00%, and on the 12M deposit - 5.23%. Within saving, customer gains the most after meeting the contractual period of 6 and 12 months, i.e. 10% p.a. (the interest rate for the 6M 'Hop' Deposit grows from 1 pp. for 1M to even 4 pp. for 6M, and for the 12M deposit the interest rate grows from 1 pp. for 1M to 4 pp. for the 12M deposit). Gains on the deposits are subject to taxation.
'IGO' deposit with monthly capitalisation of interest	From 3 February a new deposit product with monthly capitalisation of interest – the 'IGO' deposit was introduced into the offer. The deposit is available both for customers holding Inteligo Account and those not holding the account. The minimum amount of one deposit is PLN 1 000. Gains on the deposit are subject to taxation. Nominal interest rates of the 'IGO' deposit ranges from 5.00% to 5.40% depending on the period for which the deposit has been opened.

New products and services	Activity - Loans
Cash loan	In order to make the consumer loans more attractive and unified, a new offer of a Cash loan was introduced from 20 February 2012, while the Fast Credit Service (Szybki Serwis Kredytowy) was withdrawn from sales. The Bank addressed the new offer both to its regular customers and those who have not used the Bank's credit offer so far. The key changes in the new loan offer include: – increasing the maximum possible loan amount to PLN 150 000, – introducing the terms for debt consolidation with one of the longest lending periods available on the market (up to 120 months) and lower commission for granting the loan compared with the standard offer, – attractive lending terms for customers who are already using or will use other products of the Bank, – lower interest rate with higher loan amounts - for amounts above PLN 30 000 and above PLN 100 000, – attractive pricing terms for customers who have liquid assets which may constitute collateral for the loan – an interest rate of only 9.99%.

'Aurum Platinium' loan	In relation to the loan to private banking customers: - changes were introduced in the loan offer which comprised shortening the maximum lending period for secured loans by a deduction clause or blank promissory note, – a special promotion offer was made available to customers who will finish the repayment of their loans within the next 3 months.
Mortgage loan	Another promotion of the mortgage loan was launched under the banner: 'Drzwi otwarte do Twojego własnego mieszkania' ('Open door to your own apartment'). The customers who filled in declarations in branches, agencies and with finance and credit intermediaries on 15, 16 or 19 March could avail themselves of the special offer of a mortgage loan. The offer provides for, among other things, a margin of 0.99% for the first two years of lending and 1.4% in the remaining period, regardless of the level of the LTV ratio (loan amount to the value of property) and the loan amount. Customers who are insured against loss of employment and hospitalisation will be released from payment of the commission and those who choose life insurance will pay commission amounting to only 0.5%. The Bank will not charge commission for estimating the value of the real property.
SME Loans	As part of the credit offer to SME, beginning from 4 January 2012 the range of loans granted from the Council of Europe Development Bank (CEB) line was extended to comprise working capital loans for SME as non-renewable working capital loans in PLN, next to the former investment loans for SME. Thanks to the possibility of granting working capital loans as part of the CEB line, the SME customers can avail themselves of the preferential terms relating to the loan margin, which is reduced by 0.5 pp. compared with the standard rate.
'NOWY DOM' investor loan	In January, changes in the product offer that tightened the terms of financing developer projects by: shortening the maximum lending period, limiting the possibility of applying the grace period in the repayment of principal and interest, lack of possibility of the one-off repayment of the loan, the need to make the entire required own contribution before launching the loan were introduced. In April of this year, changes aimed at adapting the Bank's offer to the provisions of the Act on protecting the rights of buyer of apartment or family house were introduced. It was performed by setting credit terms when there is an obligation to maintain housing fiduciary account (mieszkaniowy rachunek powierniczy) for the credit investment as well as when the fiduciary account is not required.
'Nasz Remont' loan	As regards loans from the 'Nasz Remont' loan group, the Bank took measures to implement the credit scoring for loans to housing communities. At the same time, in this group of loans in the first half, the Bank still maintained its leading position on the market, granting more than 75% of loans which financed needs of multifamily housing stock owners.

4.3.2. Corporate segment

In the first half of 2012, PKO Bank Polski SA consistently developed the image of a partner of Polish business established in previous years. Financing both the entrepreneurs' current operations (via working capital loans), and their future projects (via investment loans), and help to complete local government projects were the key priorities of the Bank's corporate segment over the last six months.

The corporate loan market in the first half of this year compared with the corresponding period of the previous year maintained a positive growth dynamics of 12% according to NBP data. At the same time, the risk related to the uncertain economic conditions in the euro zone induced the banks to tighten their lending policy which was largely offset by growing competitive pressure. PKO Bank Polski SA is active on the corporate loans market and tries to satisfy the borrowing needs of entrepreneurs. This strategy, verified in the previous periods, related to the Bank's conservative approach to risk, enabled it to achieve success both in terms of an increase in the volumes of loans and the results of corporate banking. In the first half of 2012 the volume of loans granted to corporate clients increased by PLN 3.5 billion, i.e. 10.4% compared with the end of 2011.

During the first six months of this year, the Bank systematically monitored the situation in the corporate segment and adapted its current offer of products and services. The corporate banking of PKO Bank Polski SA successfully pursues the project for specialised servicing of strategic clients ensuring that they are provided high quality services and professional advice. Such activities enhance cooperation with those clients, which on the part of the Bank translates into a higher quality of the corporate credit portfolio and an increase in the results achieved.

High involvement of the Bank in sales of corporate products (accompanied by a dynamic increase in the credit base) also translated into maintaining a high volume of deposits, at a level similar to that noted at the end of 2011. As at the end of the first half of 2012, the funds achieved from corporate clients amounted to approx. PLN 28 billion.

Table 22. Gross loans and deposits of PKO Bank Polski SA – in the corporate segment (in PLN million)*

	30.06.2012	31.12.2011	30.06.2011**	Change since:	
				31.12.2011	30.06.2011*
Gross corporate loans	37 132	33 636	30 924	10.4%	20.1%
Corporate deposits	27 944	28 874	28 104	-3.2%	-0.6%

Source: Management data of the Bank.

* In the first half of this year, as a result of re-segmentation, PLN 839 million of loan volumes and PLN 63 million of deposit volumes of small and medium enterprises as well as PLN 974 million of loan volumes and PLN 402 million of deposits volumes of housing market clients were transferred to corporate segment.

** Change in relation to business volumes previously presented results from a change in presentation; i.a. volumes currently presented include also valuation adjustments

In the six months of 2012, PKO Bank Polski SA made comprehensive changes to the tariff for services provided to corporate clients in respect of transaction banking. This was aimed at adapting the current prices to the new highest level service standards, which in consequence had an impact on gradual increase in the Bank's revenues.

In its corporate banking activities, PKO Bank Polski SA constantly expands its 'flagship' product, i.e. iPKO Biznes. In the first half of 2012 this system was expanded by further facilities. Among other things, the possibility of automatic change in the currency of transfer transactions was introduced, and the possibility of creating own groups of counterparties by users was implemented (for the Bank's corporate clients), facilitating settlements. On the iPKO Biznes platform corporate clients were allowed access to a new card module which enables the current monitoring of card transactions. At the same time the Bank introduced microchip protection to its Business cards under the EMV standard.

In the first half of 2012 PKO Bank Polski SA also introduced new products for corporate clients who engage in developer activities, i.e. a closed and open housing fiduciary account to accumulate funds paid in by the real estate purchasers. Funds from those accounts are transferred in part or in full (on specific terms and conditions) to entities that conduct the construction investments and are at the same time corporate clients of the Bank.

Additionally, PKO Bank Polski SA introduced new solutions in the area of Business to Business operations, which had a favourable impact on the quality of the services offered in cash and non-cash transactions.

Table 23. Branches of PKO Bank Polski SA

	30.06.2012	31.12.2011	30.06.2011	Change since: 31.12.2011	Change since: 30.06.2011
Total number of branches	1 197	1 198	1 201	(1)	(4)
- in the corporate segment:	**64**	**67**	**67**	**(3)**	**(3)**
regional corporate branches	13	13	13	-	-
corporate centres	51	54	54	(3)	(3)

4.3.3. Investment segment

The investment segment covers treasury activities, brokerage and fiduciary activities, structural financing and corporate supervision. The results of the segment are determined by the conditions on the global financial markets described in detail in Chapter 2.

In the area of treasury activities, the Bank focused on developing relationships with corporate customers and diversifying the sources and costs of financing. In the short-term, debt securities issues organised by the Bank on the domestic market of approx. PLN 4.3 billion was earned. At the same time, the Bank tried to use periods of good credit market and currency swap conditions to refinance the maturing transactions which financed the currency asset portfolio.

The importance of electronic distribution channels for treasury products continued to increase. The trading activities on the money, currency and debt markets focused on market making for PLN instruments, while maintaining a conservative approach to market risk in activities on its own account. Bank's high activity on the interests rate and foreign currency market, allowed to have a high – 3rd position in the contest for the Treasury Securities Dealer and the 2nd position in Dealer Activity Index. The Bank increases also the volume of funds obtained due to issue of structured products.

As regards brokerage activities, in the first half of 2012 the share of the Brokerage House in the session trading on the shares market increased, which enabled it to achieve the high 4th position among brokerage houses operating on the WSE (compared to the 7th position in 2011). In the period under analysis, the Brokerage House also recorded the highest growth in the number of investment accounts served (an increase by 16.5 thousand to the level of 178.6 thousand at the end of June 2012). As part of the development of the distribution channels, the transaction system for internet customers was replaced and modernised, and the development, restructuring and modernisation of the customer service points network were continued. The network of customer service points (POK) of the Brokerage House, together with the network of brokerage service points located in the Bank's branches, enable brokerage services to be offered in more than 1 000 outlets, i.e. the highest number among the financial institutions operating in Poland. The improvement of the position of the Brokerage House in the segment of corporate clients has been achieved by rebuilding competencies in the scope of capital market analyses and strengthening the area of institutional sales. Works to modernise and make more attractive the offer of Treasury saving bonds were conducted in cooperation with the Ministry of Finance. The Brokerage House continued its activities on the primary market and in financial advisory services. Operations on its own account focused on market making on the shares' markets (WSE, New Connect) and derivative instruments (futures, index options).

In the scope of fiduciary activities, the Bank focused on gaining assets from domestic corporate clients and offering its services in the scope of the Polish classes of assets to foreign customers.

The Bank maintained its leading position in respect of the issuance of debt instruments for the local government segment, actively participating in transactions on the syndicated loans markets and in issuance of debt for corporate clients.

In the area of corporate governance, efforts related to the reorganisation of the Group and implementation of consistent methods for governance and cooperation between subsidiaries and the Bank were continued. The above efforts resulted in significant strengthening the Bank's position in all the main business lines of the investment segment.

Table 24. Treasury activities in the first half of 2012

	Investment activity	Activity
Treasury activities	Treasury products sales	**Development strategy and results**
		Treasury instruments are sold to individual and corporate clients via network of the Bank's branches and dedicated Treasury dealers. In the first half of 2012, sales of foreign exchange SPOT transactions increased (by approx. 1%) and sales of other traditional Treasury trading products such as FORWARD and OPTIONS transactions decreased compared with the first half of 2011. The value of turnover of FORWARD and OPTIONS transactions decreased by 8% and 18% respectively (mainly due to a decrease in strategic clients activity). In November 2010, the Bank offered the Internet Transaction Platform to its corporate clients, which enables exercising foreign exchange transactions. Number of transactions performed with this distribution channel during a half-year increased from 5.5 thousand in the first half of 2011 to 21.0 thousand in the first half of 2012.
	interbank market	**Achieved results**
		The Bank is the Treasury Securities Dealer, it holds a high level of trading in the interest rate and foreign exchange market. In the Ministry of Finance's contest for the Treasury Securities Dealer, which assessed banks' activity on the interest rate market, PKO Bank Polski SA after 3 quarters (in the competition lasting from October 2011) took the 3th place. According to the data for the end of May 2012, the Bank's share (cumulatively) in FRA transactions was 17.8% compared with 24.9% in the corresponding period of 2011, while in the IRS market increased to the level of 19.7% compared with 19.3% as at the end of May 2011. The Bank is still one of the primary market-makers in the foreign exchange market. As at the end of May 2012, the share of PKO Bank Polski SA in the spot foreign exchange market amounted to 8.1%. The Bank is also an active participant in the money market and it acts as a Money Market Dealer. The Bank takes the 2nd place in the IAD (Dealer Activity Index) assessment of market activity conducted by NBP.
		In the first half, the SBS market experienced positive trends which led to significant improvements in result on trading activities and in result on the investment portfolio.
		Own securities issues of PKO Bank Polski SA are conducted from August 2011, the issues of PLN 4.3 billion was placed in the market in the first half of 2012.
		Risk
		In order to secure its trading, in the first half of 2012 the Bank concluded with foreign banks: 2 annexes to ISDA agreements, 1 annex to CSA, 1 GMRA agreement, with domestic banks: 2 annexes to hedging agreements. The Bank actively managed the financial risk (liquidity, interest rate and currency), focusing on minimising the exposure.

Table 25. Brokerage activities in the first half of 2012

	Investment activity	Activity
Brokerage activities	shares' market	In the first half of 2012 the value of turnover of the Brokerage House on the shares' market amounted to PLN 14.6 billion, which represents an increase of more than 16.3% compared with the first half of 2011. The turnover on this market decreased by more than 30% during this period. The share of the Brokerage House in the turnover amounted to 6.94%, giving 4th position in ranking (11th position as at the end of the first half of 2011 with a 4.06% market share).
	primary market	In the first quarter of 2012, the Brokerage House finished servicing the incentive plan of Selena FM SA. In February 2012 the invitation to subscribe shares of Sygnity SA where the Brokerage House acts as an intermediary was announced by Asseco Poland SA. In the second quarter of this year, the initial public offering prospectus of a public company PCC EXOL SA, where the Brokerage House of PKO BP is the Joint Offerer and the Joint Bookrunner was approved. The Offer will be terminated in July 2012. In the second quarter of 2012 the Brokerage House of PKO BP participated in the issue of shares, in recognition of preference rights of GTC SA, as the Joint Offerer and Joint Bookrunner. The Offer has terminated in June 2012. Moreover, the Brokerage House of PKO BP discontinued operating the incentive program of TIM SA and introduced corporate bonds of Multimedia Polska SA to trading. In the second quarter of 2012, a call for subscription to the shares of Fabryka Farb i Lakierów Śnieżka SA (buyback) was made. The Brokerage House of PKO BP performed the function of intermediary in the transaction. The call was ended in May 2012. The Brokerage House of PKO BP participated in the calls to subscribe for the sale of the following companies' shares: Sygnity SA, Zakłady Azotowe 'Puławy' SA, BGŻ SA. As at the end of June 2012, the Brokerage House serviced the units of 169 funds and subfunds managed by 13 Investment Funds.
	NewConnect market	As at the end of the first half of 2012, the Brokerage House achieved a turnover of more than PLN 76.42 million in the NewConnect market and held the 7th place with a 4.3% market share. The Brokerage House was the market maker in the NewConnect market for 54 companies, which gives it 2nd place in the market.
	bonds' market	The Brokerage House ranked 2nd place in the market with a 23.72% share.
	futures/forward market	In the first half of 2012, the turnover of the Brokerage House on the contracts market amounted to 457.3 thousand of contracts. The Brokerage House achieved a share of 4.06% with the 8th position on the market. The turnover of the Brokerage House, as on the contracts market, is lower by 20% compared with the first half of previous year. In the first half of 2012, the turnover of the Brokerage House on the option market amounted to 85.7 thousand of contracts. The Brokerage House took 3rd position on the market with the share of 14.4%. As at the end of the first half of 2012 the number of signed agreements on acting as the market maker by the Brokerage House amounted to 51 (3rd position on the market) and 21 agreements on acting as the issue underwriter (4th position on the market).
	number of accounts	As at the end of the first half of 2012, as part of its operations, the Brokerage House maintained 178.64 thousand of securities and cash accounts and 147.9 thousand of registration accounts. In terms of number of securities accounts, according to data from the National Depository for Securities (KDPW), the Brokerage House holds the 4th place among the 46 participants of the market.

Table 26. Fiduciary activities and structured finance in the first half of 2012

	Investment activity	Activity
Fiduciary activities	activities on the market	The Bank is a direct participant in the National Depository for Securities and the Securities Register (NBP) and a member of the Council of Depositary Banks and the Non-Treasury Debt Securities Council of the Polish Banks Association. The Bank maintains securities accounts and handles transactions on the domestic and the foreign markets. It also provides fiduciary services and acts as a depositary for pension and investment funds and actively participates in creating market regulations and standards.
	the value of fiduciary assets	As at the end of June 2012, the Bank maintained around 1.4 thousand of securities accounts as part of its fiduciary function. The Bank continued its activities aimed at optimising the structure of customers' securities serviced within its fiduciary function and of profits achieved. The Bank's acquisition activity was focused on gaining customers with a large assets portfolio and settlement potential. This resulted in an increase of the amount of assets held by clients as part of fiduciary function by 3.2% from nearly PLN 50.7 billion as at the end of the first half of 2011 to nearly PLN 52.3 billion as at the end of the first half of 2012.
Structural financing	non-Treasury debt securities issue	The Bank is still one of the leading financial institutions that organise non-Treasury debt securities issues in Poland. In the first half of 2012 the Bank concluded 39 contracts of municipal bond issues with total value of PLN 342.3 million and 4 contracts (including one in the form of bank consortium) and 1 annex to the contract for corporate bond issue in the form of bank consortium that was previously concluded, where the total amount of concluded contracts of issues and annexes amounted to PLN 6.4 million, including Bank's share of PLN 2.4 million.

4.4. ACTIVITIES OF OTHER ENTITIES OF THE PKO BANK POLSKI SA GROUP[6]

	SIGNIFICANT EVENTS IN THE FIRST HALF OF 2012
KREDOBANK SA (data according to IFRS/IAS)	1. On 23 March 2012, KREDOBANK SA acquired share in the company Finansowa Kompania 'Idea Kapitał' Sp. z o.o. constituting 100% of the Company's share capital, thus constituting the KREDOBANK Group. The Company's activities comprise provision of financial services. 2. The value of equity of the KREDOBANK Group as at 30 June 2012 amounted to PLN 260 857 thousand (UAH 617 999 thousand). 3. As at the end of June 2012, the KREDOBANK Group incurred a net loss of PLN 13 913 thousand (UAH 34 405 thousand). In the corresponding period of 2011, the net profit of KREDOBANK SA amounted to PLN 2 988 thousand (UAH 8 526 thousand). 4. KREDOBANK SA's gross loan portfolio in the first half of 2012 increased by PLN 97 million, i.e. by 10.9% (the gross loan portfolio as denominated in UAH increased by UAH 246 million, i.e. by 11.8%) and amounted to PLN 984 million (UAH 2 331 million) as at the end of June 2012. 5. In the first half of 2012 clients' term deposits of KREDOBANK SA decreased by PLN 22 million, i.e. by 3.0% (term deposits denominated in UAH decreased by UAH 39 million, i.e. by 2.3%). As at 30 June 2012, term deposits amounted to PLN 709 million (UAH 1 679 million). 6. As at 30 June 2012, the network of KREDOBANK SA branches consisted of 1 branch and 130 subordinated branches in 22 out of 24 Ukrainian districts and in the Autonomous Republic of the Crimea. The financial information concerning the statement of financial position was recalculated using the average NBP exchange rates prevailing at the last day of the month – as at the end of June 2012 UAH 1 = PLN 0.4221 and as at the end of 2011 UAH 1 = PLN 0.4255. The financial result was recalculated using arithmetical mean of the average NBP exchange rates prevailing at the last day of the each month of the first half of the year - for the first half of 2012 - UAH 1 = PLN 0.4044 and for the first half of 2011 UAH 1 = PLN 0.3505.
'Inter-Risk Ukraina' Additional Liability Company (data according to IFRS/IAS)	1. In the first half of 2012, as a result of acquisition and capital contribution to 'Inter-Risk Ukraina' Additional Liability Company performed by PKO Bank Polski SA (100% share in the share capital) as well as acquisition and capital contribution to Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. performed by 'Inter-Risk Ukraina' ALC (93.41% share in the share capital) the Inter-Risk Ukraina Group was formed. 2. The Inter-Risk Ukraina Group was established in order to conduct an effective debt collection of KREDOBANK SA receivables portfolio and the receivables portfolio acquired by Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. 3. The value of equity of the Inter-Risk Ukraina Group as at 30 June 2012 amounted to PLN 21 029 thousand (UAH 49 820 thousand). 4. As at the end of June 2012, the Inter-Risk Ukraina Group recorded a net profit in the amount of PLN 195 thousand (UAH 483 thousand). 5. The gross loan portfolio of Inter-Risk Ukraina Group amounted to PLN 650 million (UAH 1 539 million) as at the end of June 2012 and decreased by PLN 51 million, i.e. by 7.2% in relation to the value of loan portfolio of Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. as at the end of 2011 (the gross loan portfolio as denominated in UAH decreased by UAH 106 million, i.e. by 6.5%). The financial information concerning the statement of financial position was recalculated using the average NBP exchange rates prevailing at the last day of the month – as at the end of June 2012 UAH 1 = PLN 0.4221 and as at the end of December 2011 UAH 1 = PLN 0.4255. The financial result was recalculated using arithmetical mean of the average NBP exchange rates prevailing at the last day of the each month of the first half of this year - for the first half of 2012 - UAH 1 = PLN 0.4044.
PKO Towarzystwo Funduszy Inwestycyjnych SA	1. The value of equity of PKO TFI SA as at the end of June 2012 amounted to PLN 35 429 thousand. 2. In the first half of 2012, the Company recorded a net profit in the amount of PLN 12 007 thousand (in the corresponding period, the Company's net profit amounted to PLN 19 852 thousand). 3. The asset value of the funds managed by the Company amounted to PLN 8.37 billion as at the end of June 2012, which is an increase of the assets by PLN 310 million compared with the end of 2011. 4. PKO TFI SA ranked 6th place in terms of the value of net assets with a 6.52%* share in the investment funds market. 5. In the first half of 2012, the Company introduced into its offer new fund PKO Zabezpieczenia Emerytalnego - sfio with 5 Subfunds, changed its investment policy as well as the name of the PKO Papierów Dłużnych EURO Subfund for PKO Złota Subfund and carried out an issuance of investment certificates of PKO Obligacji Korporacyjnych and PKO Globalnej Makroekonomii - closed investment funds. 6. As at 30 June 2012 PKO TFI SA managed 35 investment funds and subfunds. 7. In the first half of 2012, the Company paid dividend to PKO Bank Polski SA for 2011 in the gross amount of PLN 37 884 thousand. * Source: Chamber of Fund and Asset Management.

[6] In respect of the Qualia Development Group and the KREDOBANK Group, the description presents the financial result attributable to the parent company of the Group, and in respect of the other Groups, the full result of the Group is presented (the non-controlling shareholders in those companies are the Bank or a Group entity).

PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	1. The value of equity of PKO BP BANKOWY PTE SA as at the end of June 2012 amounted to PLN 247 211 thousand. 2. In the first half of 2012, PKO BP BANKOWY PTE SA recorded a net profit in the amount of PLN 6 283 thousand (in the corresponding period of 2011, the Company's net profit amounted to PLN 5 266 thousand). 3. As at the end of June 2012, the net assets value of PKO BP Bankowy OFE managed by PKO BP BANKOWY PTE SA, amounted to PLN 8.4 billion, which is an increase of 11% in comparison to the end of 2011. The increase in the net assets value of PKO BP Bankowy OFE resulted from positive trends on WSE and acquisition of new members resulting from sampling conducted in January of this year. 4. As at 30 June 2012, the number of participants of PKO BP Bankowy OFE amounted to 598 931, which represents an increase by 11.02% in comparison with the end of 2011. 5. PKO BP Bankowy OFE holds the 9th place regarding the net assets value on the pension funds market and the 9th place regarding the number of OPF's members*. 6. According to the ranking of the Polish Financial Supervision Authority PKO BP Bankowy OFE for the period from 31 March 2009 to 30 March 2012 reached a rate of return of 31.747% (the weighted average rate of return of 31.628%) occupying thereby 4th place in the ranking of OPF for that period. 7. In 2012 the Company's offer was extended for PKO Dobrowolny Fundusz Emerytalny (DFE) which engages in the operations of maintaining individual pension accounts (IKE) and individual pension security accounts (IKZE). * Source: www.knf.gov.pl
PKO BP Finat Sp. z o.o.	1. The value of equity of PKO BP Finat Sp. z o.o. as at the end of June 2012 amounted to PLN 12 119 thousand. 2. In the first half of 2012, the Company recorded a net profit in the amount of PLN 1 211 thousand (in the corresponding period of 2011, the Company's net profit amounted to PLN 954 thousand). 3. As at 30 June 2012 the Company provided transfer agent services for PKO TFI SA's funds and for PKO BP BANKOWY PTE SA (for Open Pension Funds (OPF) and Voluntary Pension Funds (VPF)) as well as transfer agent services or bookkeeping services of investment funds for 5 companies outside the PKO Bank Polski SA Group. 4. In April 2012, General Shareholders' Meeting of the Company decided to pay dividend to PKO Bank Polski SA for 2011 in the gross amount of PLN 970 thousand.
Inteligo Financial Services SA	1. The value of equity of Inteligo Financial Services SA as at the end of June 2012 amounted to PLN 142 157 thousand. 2. In the first half of 2012, the Company recorded a net profit in the amount of PLN 9 443 thousand (in the first half of 2011, the Company's net profit amounted to PLN 8 961 thousand). 3. As at the end of the first half of 2012, the Company provided electronic banking systems to more than 4 160 thousand of PKO Bank Polski SA's customers using iPKO services. 4. The Company provided services to over 643 thousand Inteligo account customers. 5. In the first half of 2012, the Company paid dividend to PKO Bank Polski SA for 2011 in the gross amount of PLN 19 898 thousand.
Centrum Elektronicznych Usług Płatniczych eService SA	1. The value of equity of CEUP eService SA as at the end of June 2012 amounted to PLN 88 475 thousand. 2. In the first half of 2012, the Company recorded a net profit in the amount of PLN 11 548 thousand (in the first half of 2011, the Company's net profit amounted to PLN 9 458 thousand). The increase of the net profit results from the growth in the scale of the Company's operations. 3. As at the end of June 2012, the Company operated 57.8 thousand of payment terminal units reaching, according to Company's estimates, 21.5% market share. 4. In the first half of 2012, in CEUP eService SA terminals processed transactions valued to PLN 12.9 billion (PLN 11.1 billion in the corresponding period of 2011). 5. In terms of the value of generated card transactions, market share estimated by the Company as at the end of June of this year amounted to 25.6%. 6. In the first half of 2012, the Company expanded its own ATM network to 149 units. 7. In May 2012, the General Shareholders' Meeting of the Company decided to pay dividend to PKO Bank Polski SA for 2011 in the gross amount of PLN 10 000 thousand.
Bankowy Fundusz Leasingowy SA	1. The value of equity of the BFL Group (Bankowy Fundusz Leasingowy SA and its subsidiary Bankowy Leasing Sp. z o.o.) as at the end of June 2012 amounted to PLN 114 181 thousand. 2. In the first half of 2012, the Group recorded a net profit in the amount of PLN 6 067 thousand (in the first half of 2011, the Group's net profit amounted to PLN 2 538 thousand). 3. In the first half of 2012, the BFL SA Group entities leased out assets with a total value of PLN 1 001 million, i.e. an increase of 30.6% compared with the first half of 2011. The increase in sales was a result of i.a. increase in synergy between PKO Bank Polski SA and the BFL Group entities as regards maximum usage of banking sale channels. 4. As at the end of June 2012, in terms of the value of assets leased, the BFL Group ranked 3th position on the market, according to the preliminary data published by Rzeczpospolita. 5. The total carrying amount of the lease investments of the BFL SA Group entities amounted to PLN 3 074 million as at the end of June 2012 (as at the end of 2011 this value amounted to PLN 2 806 million).

Bankowe Towarzystwo Kapitałowe SA	1. The value of equity of the BTK SA Group (Bankowe Towarzystwo Kapitałowe SA and its subsidiary PKO BP Faktoring SA) as at the end of June 2012 amounted to PLN 3 975 thousand. 2. In the first half of 2012, the Group incurred a net loss of PLN 76 thousand (in the corresponding period of 2011, the net loss of the Group amounted to PLN 2 077 thousand). 3. In the first half of 2012, PKO BP Faktoring SA – the subsidiary of BTK SA – was providing domestic and export factoring services, both with and without the acceptance of risk (with recourse) and reverse factoring. 4. In the first half of 2012, the value of factoring turnover amounted to PLN 1 444 million (an increase of 86% compared with the value of turnover in the first half of 2011). 5. As at the end of June of this year, PKO BP Faktoring SA ranked 8th place among factoring companies associated in the Polish Factors' Association, with a market share of 3.8%.
Qualia Development Sp. z o.o.	1. The value of equity of the Qualia Development Sp. z o.o. Group (Qualia Development Sp. z o.o. and its subsidiaries) as at the end of June 2012 amounted to PLN 237 834 thousand. 2. In the first half of 2012, the Qualia Development Sp. z o.o. Group incurred a net loss of PLN 5 414 thousand (in the corresponding period of 2011, the net loss of the Group amounted to PLN 2 161 thousand). 3. In the first half of 2012, the Group's activities were focused on: – continuing its projects: Nowy Wilanów in Warsaw and Rezydencja Flotylla in Międzyzdroje as well as residential building with an office function in Sopot, – completing the Pomeranka project in Gdańsk Jelitkowo, – analysing a business formula for the new projects in Jurata-Władysławowo and Zakopane on properties purchased from PKO Bank Polski SA (in January of this year Qualia Residence Sp. z o.o. bought an organised part of business OSW Daglezja in Zakopane), – implementing a new business model based on execution and management of hotel apartments and conducting intensive preparation to open the first hotel facility Golden Tulip Międzyzdroje Residence.
Fort Mokotów Inwestycje Sp. z o.o.	1. The value of equity of Fort Mokotów Inwestycje Sp. z o.o. as at the end of June 2012 amounted to PLN 104 633 thousand. 2. In the first half of 2012, the Company incurred a net loss of PLN 454 thousand (the net loss of the Company in the first half of 2011 amounted to PLN 241 thousand). The loss results from the fact that the Company incurred cost related to current stage of the investment. 3. In the first half of 2012, the Company continued working on the organisation of a development investment project on the plot of land located at Racławicka Street and Żwirki i Wigury Street in Warsaw.
PKO Finance AB	1. The value of equity of PKO Finance AB as at 30 June 2012 amounted to PLN 1 013 thousand (EUR 238 thousand). 2. As at the end of June 2012, the Company recorded a net profit in the amount of PLN 152 thousand (EUR 36 thousand). In the corresponding period of 2011, the Company's net profit amounted to PLN 41 thousand (EUR 10 thousand). 3. The Company's core activity is to raise funds for PKO Bank Polski SA, deriving from the issue of bonds. 4. In the first half of this year, the Company serviced bonds issued in October 2010 for a total amount of EUR 800 million and bonds issued in July 2011 for a total amount of CHF 250 million. * The value of the Company's equity was recalculated using the average NBP exchange rate prevailing at 30 June 2012 - EUR 1 = PLN 4.2613. The financial result of the Company was recalculated using the following exchange rates - for the first half of 2012 - EUR 1 = PLN 4.2246 and for the first half of 2011 EUR 1 = PLN 3.9673.
Centrum Finansowe Puławska Sp. z o.o. - in liquidation	1. On 1 March 2012 the Bank took over the assets in liquidation of Centrum Finansowe Puławska Sp. z o.o. 2. In March of this year the Company paid dividend to PKO Bank Polski SA in the total amount of PLN 16 119 thousand. 3. In accordance with the decision dated 7 May 2012 of the District Court for the Capital City of Warsaw, the Company was removed from the National Court Register, effective as at 28 May 2012.

4.5. Activities taken by PKO Bank Polski SA towards KREDOBANK SA

In the first half of 2012, the Management Board of PKO Bank Polski SA undertook a series of activities which directly contributed to the result of KREDOBANK SA operations, in particular by the corporate supervision over the investment in Ukraine and the monitoring of the costs and optimisation expenses of KREDOBANK SA in particular the staff costs and costs of rental of space.

PKO Bank Polski SA's strategy towards KREDOBANK SA

In 2011 PKO Bank Polski SA in cooperation with its advisor with experience in building banking strategies on the Ukrainian market developed a new strategy for PKO Bank Polski SA in respect of KREDOBANK SA. The strategy stipulates restructuring and reorganising business and implementing best market practices in consideration of concentration on selected areas of the Ukrainian market.

The implementation of the new strategy was divided into stages:

Stage 1. restructuring the credit portfolio – which was carried out in December 2011,

Stage 2. repairs of the operating base, i.a. by: changing the credit policy, streamlining the credit processes, developing a marketing plan, optimising the organisational structure, increasing revenues by cross-selling, sales of other entities' products in own network and implementing new credit products,

Stage 3. a new development strategy – segment concentration on retail and SME customers, using strong competitive position in Western Ukraine, developing the product offer adapted to the market and increasing its presence in selected largest cities of Eastern Ukraine.

Currently, tasks of stage 2 and 3 are being implemented.

5. INTERNAL ENVIRONMENT

5.1. Organisation of the PKO Bank Polski SA Group

As at 30 June 2012 the PKO Bank Polski SA Group consisted of the Bank as a parent company and 31 entities as direct and indirect subsidiaries.

The consolidated financial data include: PKO Bank Polski SA – the parent company of the PKO Bank Polski SA Group and its subsidiaries as defined in IAS 27 'Consolidated and Separate Financial Statements'.

Table 27. Entities comprising the PKO Bank Polski SA Group

No.	Entity name	The value of exposure at acquisition cost (PLN thousand)	The share in the share capital (%)	Consolidation method
	Parent company			
1	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna			
	Direct subsidiaries			
2	KREDOBANK SA	935 619	99.5655	full method
3	Qualia Development Sp. z o.o.*	218 712	100	full method
4	PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	205 786	100	full method
5	PKO Towarzystwo Funduszy Inwestycyjnych SA	186 989	100	full method
6	Bankowy Fundusz Leasingowy SA	70 000	100	full method
7	Inteligo Financial Services SA	59 602	100	full method
8	Centrum Elektronicznych Usług Płatniczych eService SA	55 500	100	full method
9	Fort Mokotów Inwestycje Sp. z o.o. * [1]	51 599	99.9885	full method
10	Bankowe Towarzystwo Kapitałowe SA	21 566	100	full method
11	'Inter-Risk Ukraina' Additional Liability Company	19 713	100	full method
12	PKO BP Finat Sp. z o.o.	11 693	100	full method
13	PKO Finance AB	172	100	full method
	Subsidiaries of Qualia Development Sp. z o.o. [2]			
14	Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k. [3]	82 980	99.9750	full method
15	Qualia - Residence Sp. z o.o. *	55 630	100	full method
16	Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp. k.	20 001	99.8951	full method
17	Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Sp. k. [4]	19 000	99.9975	full method
18	Sarnia Dolina Sp. z o.o. *	8 187	56	full method
19	Qualia - Rezydencja Flotylla Sp. z o.o.*	7 575	100	full method
20	Qualia spółka z ograniczoną odpowiedzialnością - Sopot Sp. k.	4 700	99.9787	full method
21	Fort Mokotów Sp. z o.o. – in liquidation *	2 040	51	full method
22	Qualia Hotel Management Sp. z o.o. *	1 549	100	full method
23	UKRPOLINWESTYCJE Sp. z o.o.	519	55	full method
24	Qualia Sp. z o.o.*	65	100	full method
25	Qualia spółka z ograniczoną odpowiedzialnością - Władysławowo Sp. k.	1	50	full method
26	Qualia spółka z ograniczoną odpowiedzialnością - Jurata Sp. k.	1	50	full method
27	Qualia spółka z ograniczoną odpowiedzialnością - Zakopane Sp. k.	1	50	full method
28	Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Sp. k.	1	50	full method
	Subsidiary of Bankowy Fundusz Leasingowy SA			
29	Bankowy Leasing Sp. z o.o.	66 924	100	full method
	Subsidiary of 'Inter-Risk Ukraina' ALC			
30	Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. [5]	18 176	93.408	full method
	Subsidiary of Bankowe Towarzystwo Kapitałowe SA			
31	PKO BP Faktoring SA [5]	13 329	99.9889	full method
	Subsidiary of KREDOBANK SA			
32	Finansowa Kompania 'Idea Kapitał' Sp. z o.o.	1 731	100	full method

* The position comprises the value of shares at acquisition cost and inclusive of specific capital injections.

1 - The second shareholder of the Company is Qualia Development Sp. z o.o.

2 - In limited partnerships of the Qualia Development Group, the limited partner is Qualia Development Sp. z o.o. and the general partner - Qualia Sp. z o.o.; in the position of value of exposure, value of contributions made by the limited partner is presented; in the position of share capital, the total contributions made by the limited partner is presented.

3 - The Company was established as a result of transformation of the company PKO BP Inwestycje – Nowy Wilanów Sp. z o.o.; in the position of value of exposure, acquisition cost of shares and the value of capital contributions before transformation into limited partnership is presented.

4 - The Company was established as a result of transformation of the company PKO BP Inwestycje – Neptun Park Sp. z o.o.; in the position of value of exposure, acquisition cost of shares and the value of capital contributions before transformation into limited partnership is presented.

5 - The second shareholder of the Company is PKO Bank Polski SA.

Table 28. Other subordinated entities included in the consolidated financial statements

No.	Entity name	The value of exposure at acquisition cost (PLN thousand)	The share in the share capital (%)	Consolidation method
	Jointly controlled entities			
1	CENTRUM HAFFNERA Sp. z o.o.	44 371	49.43	equity method
2	Centrum Obsługi Biznesu Sp. z o.o.	17 498	41.44	equity method
	Subsidiaries of CENTRUM HAFFNERA Sp. z o.o.			
3	Sopot Zdrój Sp. z o.o.*	68 026	100	equity method
4	Promenada Sopocka Sp. z o.o.	10 058	100	equity method
5	Centrum Majkowskiego Sp. z o.o.	3 833	100	equity method
6	Kamienica Morska Sp. z o.o.	976	100	equity method
	Associates			
7	Bank Pocztowy SA	146 500	25.0001	equity method
8	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	33.33	equity method
9	Agencja Inwestycyjna CORP-SA SA	29	22.31	equity method
	Subsidiaries of Bank Pocztowy SA			
10	Centrum Operacyjne Sp. z o.o.	3 284	100	equity method
11	Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o.	2 680	100	equity method

* The position comprises the value of shares at acquisition cost and inclusive of specific capital injections.

In addition, PKO Bank Polski SA holds shares in an associate Kolej Gondolowa Jaworzyna Krynicka SA (37.53% interest in the Company's share capital), disclosed as non-current assets held for sale.

5.2. Changes to the organisation of subordinated entities

In the first half of 2012, the structure of the PKO Bank Polski SA Group was affected by the following events:

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

On 16 January 2012, PKO Bank Polski SA was registered with the State Ukrainian Register of Businesses as the sole shareholder of 'Inter-Risk Ukraina' Spółka z dodatkową odpowiedzialnością. The additional liability means that the shareholder is responsible for the Company's liabilities up to 103% of its share in the Company's share capital, i.e. the Bank as the Company's shareholder, in case of insufficient amount of the Company's share capital to fulfil liabilities, bears additional liability up to 103% in the Company's share capital, i.e. up to UAH 44 573 thousand (PLN 18 814 thousand as at 30 June 2012).
PKO Bank Polski acquired from Towarzystwo Ubezpieczeniowe 'PZU Ukraina' SA and Towarzystwo Ubezpieczeniowe 'PZU Ukraina Ubezpieczenia na Życie' SA a total of 1 share in the above mentioned Company in the nominal value of UAH 275 thousand, which represents 100% of the Company's share capital and entitles to 100% of the votes at the General Shareholders' Meeting. The acquisition price was PLN 2 500 thousand.
On 30 January 2012, the Bank made a capital contribution to the above mentioned Company of UAH 43 million (i.e. PLN 17 212.9 thousand at the average NBP exchange rate as at 27 January of this year, applicable in the Bank as at 30 January of this year), conducted by increasing the nominal value of the Company's share. As a result of the above mentioned increase, the Company's share capital amounts to UAH 43 275 thousand.
The main purpose of acquiring and subsequently the operation of the Company is to use it to perform effective debt collection in Ukraine, including: the impaired loans portfolio purchased by Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. and the impaired loans portfolio of KREDOBANK SA.

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

In February 2012, PKO Bank Polski SA carried out a transaction consisting of selling 2% interest in Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. to 'Inter-Risk Ukraina' Spółka z dodatkową odpowiedzialnością. The acquisition price was PLN 29.6 thousand.
In February 2012 'Inter-Risk Ukraina' Spółka z dodatkową odpowiedzialnością made a capital contribution to Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. in the amount of UAH 43 million, conducted by increasing the nominal value of the Company's share. As a result of the above mentioned increase, the Company's share capital amounts to UAH 46 101 thousand. The increase in the Company's share capital

was registered with the State Ukrainian Register of Businesses on 27 February of this year.
As a result of the above mentioned changes 'Inter-Risk Ukraina' Spółka z dodatkową odpowiedzialnością holds part of Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o., constituting 93.408% of the Company's share capital, which entitles to 93.408% of the votes at the General Shareholders' Meeting. The remaining part of the Company's share is owned by PKO Bank Polski SA.

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

On 23 March 2012 KREDOBANK SA was registered with the State Ukrainian Register of Businesses as a sole shareholder of Finansowa Kompania 'Idea Kapitał' Sp. z o.o.
KREDOBANK SA acquired from Towarzystwo Ubezpieczeniowe 'PZU Ukraina' SA 1 share in the above mentioned Company in the nominal value of UAH 4 100.0 thousand, constituting 100% of the Company's share capital which entitles to 100% of the votes at the General Shareholders' Meeting. The acquisition price was UAH 4 100.2 thousand.
The Company's activities comprise provision of financial services.

4. Taking up shares in the increased share capital of Bankowy Leasing Sp. z o.o. by Bankowy Fundusz Leasingowy SA

On 31 January 2012 an increase in the share capital of Bankowy Leasing Sp. z o.o. of PLN 9 500 thousand was registered in the National Court Register. As a result of the above mentioned increase, the share capital of Bankowy Leasing Sp. z o.o. amounts to PLN 66 914.5 thousand and consists of 133 829 shares, each of PLN 500 nominal value.
All the shares in the increased share capital were acquired by Bankowy Fundusz Leasingowy – a subsidiary of PKO Bank Polski SA - for a price equal to the nominal value of the shares taken up.
As a result of the above mentioned transaction Bankowy Fundusz Leasingowy SA remains the sole shareholder of Bankowy Leasing Sp. z o.o.

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

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

a) Qualia spółka z ograniczoną odpowiedzialnością – Władysławowo Spółka komandytowa was created (the Company was registered in the National Court Register on 14 February 2012);
The partners are: Qualia Development Sp. z o.o. (limited partner, amount of contribution: PLN 1 thousand) and Qualia Sp. z o.o. (general partner, amount of contribution: PLN 1 thousand).
b) Qualia spółka z ograniczoną odpowiedzialnością – Zakopane Spółka komandytowa was created (the Company was registered in the National Court Register on 15 March 2012);
The partners are: Qualia Development Sp. z o.o. (limited partner, amount of contribution: PLN 1 thousand) and Qualia Sp. z o.o. (general partner, amount of contribution: PLN 1 thousand).
c) Qualia spółka z ograniczoną odpowiedzialnością – Jurata Spółka komandytowa was created (the Company was registered in the National Court Register on 27 March 2012);
The partners are: Qualia Development Sp. z o.o. (limited partner, amount of contribution: PLN 1 thousand) and Qualia Sp. z o.o. (general partner, amount of contribution: PLN 1 thousand).
d) amount of contribution and limited partnership amount in Qualia spółka z ograniczoną odpowiedzialnością – Pomeranka Spółka komandytowa were increased;
On 17 April 2012, by the partners' resolution of the Company, the limited partner's – Qualia Development Sp. z o.o. amount of contribution was increased from PLN 1 thousand to PLN 20 001 thousand and the general partner's – Qualia Sp. z o.o. amount of contribution was increased from PLN 1 thousand to PLN 21 thousand, and the limited partnership amount was increased from PLN 1 thousand to PLN 20 001 thousand. Above mentioned changes were registered in the National Court Register on 19 June 2012.
e) Qualia Development Sp. z o.o. became a sole shareholder of Qualia Hotel Management Sp. z o.o.;
On 1 June 2012 Qualia Development Sp. z o.o. acquired 1 share in Qualia Hotel Management Sp. z o.o. in the nominal value of PLN 50 from Qualia Sp. z o.o. The purchase price is equal to the nominal value of the share.
As a result of the above mentioned transaction Qualia Development Sp. z o.o. holds shares of Qualia Hotel Management Sp. z o.o. constituting 100% of the Company's share capital which entitles to 100% of the votes at the General Shareholders' Meeting.

In the first half of 2012 the following additional payments to companies of the Qualia Development Sp. z o.o. Group were made:

- PKO Bank Polski SA made additional payments to Qualia Development Sp. z o.o. in the total amount of PLN 35 319 thousand,
- Qualia Development Sp. z o.o. made additional payments to Qualia Residence Sp. z o.o. in the total amount of PLN 13 600 thousand,
- Qualia Development Sp. z o.o. made additional payments to Qualia Hotel Management Sp. z o.o. in the total amount of PLN 1 498.5 thousand,
- Qualia Development Sp. z o.o. made an additional payment to Qualia Sp. z o.o. in the amount of PLN 35 thousand,
- Qualia Sp. z o.o. made additional payments to Qualia Hotel Management Sp. z o.o. in the total amount of PLN 1.5 thousand.

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

In the first half of 2012, as part of the liquidation of the subsidiary Centrum Finansowe Puławska Sp. z o.o.:

- on 1 March of this year PKO Bank Polski SA took over the assets in bankruptcy of the above mentioned Company, including real estate in Warsaw where the Head Office of the Bank is located,
- the result of the settlement of the Company's shares and the value of the Company's assets and liabilities overtaken was recognised in the Bank's equity.

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

7. In June 2012, the following event, that will result in a change in the Group in the second half of this year, took place:

On 29 June 2012 Bankowy Fundusz Leasingowy SA transferred funds in the amount of PLN 15 500 thousand to Bankowy Leasing Sp. z o.o. as the taking up shares in the increased capital of the Company. The above mentioned increase must be registered in the National Court Register.

5.3. Transactions with related parties

In the first half of 2012, PKO Bank Polski SA provided services, on arm's length, to its related (subordinated) entities. The services comprised maintaining bank accounts, accepting deposits, granting loans and advances, issuing debt securities, granting guarantees and current foreign exchange transactions, as well as offering investment fund units, lease products, rental of terminals and payment transactions of billing services offered by the entities of the PKO Bank Polski SA Group. At the same time, in connection with the takeover, as at 1 March 2012, of real estate where the Bank's Head Office is located, as a result of the liquidation of Centrum Finansowe Puławska Sp. z o.o., PKO Bank Polski SA leased space in above mentioned building to selected Companies of the Group.

A list of major transactions concluded by PKO Bank Polski SA with subordinated entities, including their indebtedness in relation to the Bank as at 30 June 2012 was presented in the Condensed interim financial statements of PKO Bank Polski SA for the six month ended 30 June 2012.

6. PRINCIPLES OF RISK MANAGEMENT

Risk management is one of the most important internal processes in PKO Bank Polski SA as well as in the other Group entities. The objectives of risk management are to ensure an adequate level of security and profitability of business operations in the changing legal and economic environment. The level of risk plays an important role in the planning process.

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

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

– the Group manages all of the identified types of banking risk,
– the risk management process is appropriate to the scale of the operations and to the materiality, scale and complexity of a given risk and tailored to new risk factors and sources on a current basis,
– the risk management methods (in particular the models and their assumptions) and the risk measurement systems are tailored to the scale and complexity of the risk and verified and validated on a periodical basis,
– the area of risk and debt collection remains organisationally independent of business activities,
– the risk level is monitored on a current basis,
– the risk management is integrated with the planning and controlling systems,
– the risk management process supports the pursuit of the Group's strategy in keeping with the risk management strategy, in particular with regard to the level of tolerance of the risk.

The risk management process is supervised by the Supervisory Board, which is informed on a regular basis about the risk profile of the Bank and the Group and about the most important activities taken in the area of risk management.

The 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 Management Board takes the most important decisions affecting the risk level of the Bank and enacts internal regulations defining the risk management system.

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

1) the first line of defence, which is functional internal control that ensures using risk controls and compliance of the activities with the generally applicable laws,
2) the second line of defence, which is the risk management system, including risk management methods, tools, process and risk management organisation,
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 is subordinated directly to the President of the Management Board.

The Bank supervises activities of the individual subsidiaries of the Group. As part of this supervision, the Bank sets out and approves development strategies of the entities, including the level of the risk. The Bank also supervises the entities' risk management systems and provides support in the development of these systems. Additionally, it reflects business risk of the particular Group entities in the risk reporting and risk monitoring system of the entire Group.

The internal regulations concerning management of certain types of risk in the Group entities are defined by internal regulations implemented by those entities, after taking the Bank's opinion and having taken into account the recommendations issued to the entities by the Bank. The internal regulations of the entities concerning risk management allow for consistent and comparable assessment of particular types of risk within the Bank and the Group entities, taking into consideration the specific nature of the entity's activity and the market on which it operates.

The PKO Bank Polski SA Group's priority is to maintain its strong capital position and to increase its stable sources of financing, which constitute a basis for the stable development of business activity, while maintaining the priorities of efficiency and effective cost control.

In respect of operational risk, in the first half of 2012, work on development of the Advanced Measurement Approach (AMA) was continued and a policy of AMA methods changes compatible with the guidelines of the European Banking Authority was implemented in the Bank[7].

6.1. Credit risk

Credit risk is defined as a risk of occurrence of losses due to a 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 a counterparty's ability to repay due amounts.

The objective of credit risk management is to reduce losses of loan portfolio and to minimise the risk of loans with impairment, while maintaining an expected level of yield and loan portfolio value.

The Bank and the Group's subsidiaries apply mainly the following principles of credit risk management:

– a loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
– credit risk assessment related to loan transactions is measured on the stage of a loan request review and 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 their value is subject to additional verification by credit risk assessment teams, which are independent of the business teams,
– terms of loan contracts that are offered to a client depend on the credit risk generated by the contract,
– loan granting decisions are made only by authorised persons within their authority,
– credit risk is diversified in particular by geographical location, by industry, by product and by clients,
– expected credit risk level is mitigated by setting by the Bank legal collateral, credit margins collected from clients and impairment allowance on loan exposures.

The above mentioned policies are executed by the Bank through the use of advanced credit risk management methods, both on the level of individual exposures and on the level of the whole credit portfolio of the Bank. These methods are verified and developed to ensure compliance with the internal ratings based requirements (IRB), i.e. advanced credit risk management method, which can be used while calculating capital requirements for credit risk after being approved by the Polish Financial Supervision Authority.

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

Credit risk relating to the financing of corporate clients is assessed on two levels: the client and the transaction. These assessments are based on the ratings of the client and the transaction. The so-called cumulative rating is a synthetic measure of credit risk. Since 1 September 2010, the Bank has implemented a scoring method of credit risk assessment of small and medium enterprises customers along with a dedicated IT application. This method is available next to the rating method. Its implementation resulted in shortening the assessment process of loan applications as well as improvement of credit risk management effectiveness. As a result of positive assessment of corporate client portfolio scoring in November 2011, the range of use of scoring has been extended.

In the first half of 2012 the Bank added to its rating system the identification of events of default, i.e. events whose occurrence, in the Bank's opinion, would make it impossible to collect receivables without using such measures as cashing the security or restructuring. The rating scale was extended as follows: 10 rating classes were introduced in place of the former 8 rating classes (7 classes of clients who are in compliance with their obligations and 3 classes of clients who are not in compliance) and, in principle, the conditions of availability of financing were maintained.

[7] European Banking Authority (EBA) imposed on banks that have received approval to apply the Advanced Measurement Approach (AMA) for operational risk, the obligation to implement policy of AMA methods changes in accordance with guidelines contained in the document: EBA Guidelines on Advanced Measurement Approach (AMA) - Extensions and Changes (GL 45).

Information on 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 amounts above which independent credit assessment services are activated and in the credit risk assessment and reporting system.

In the first half of 2012 the EWS (Early Warning System – a tool for reducing the response time to warning signs indicating the elevated credit risk levels) application has been developed, in result of which in June 2011 the automatic identification of adverse events was implemented.

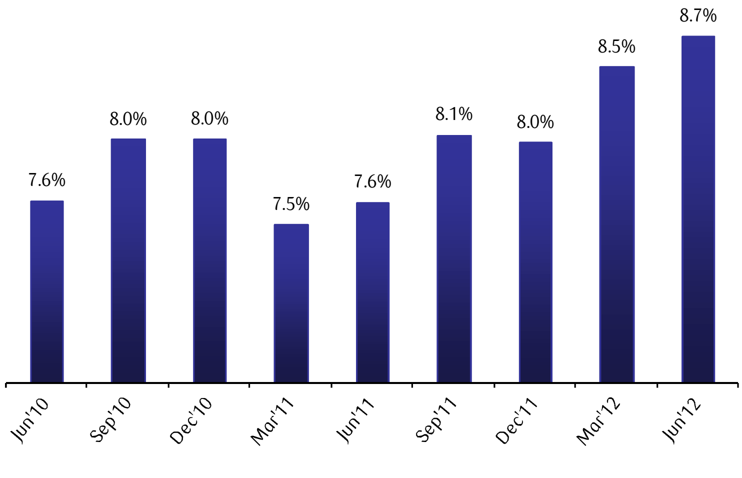
The Group entities, whose activities are related to credit risk, reviewed and updated the regulations on credit risk management. Moreover, in KREDOBANK SA active efforts were continued to automate the lending process, including the assessment of credit risk based on IT tools.

Table 29. The structure of loan portfolio and impairment allowances of the PKO Bank Polski SA Group (in PLN million)

	30.06.2012	31.12.2011	Change
Loans and advances to customers:			
Valued with the individual method	7 164.7	6 549.4	9.4%
Impaired	6 266.2	5 701.5	9.9%
Not impaired	898.5	847.8	6.0%
Valued with the portfolio method	6 522.9	6 095.7	7.0%
Impaired	6 522.9	6 095.7	7.0%
Valued with the group method (IBNR)	133 660.6	134 647.7	-0.7%
Loans and advances to customers – gross	**147 348.2**	**147 292.7**	**0.04%**
Allowances on exposures valued with the individual method	(2 247.6)	(2 079.6)	8.1%
Impaired	(2 247.6)	(2 079.6)	8.1%
Allowances on exposures valued with the portfolio method	(3 077.1)	(2 910.0)	5.7%
Allowances on exposures valued with the group method (IBNR)	(692.4)	(668.6)	3.6%
Allowances – total	(6 017.1)	(5 658.2)	6.3%
Loans and advances to customers – net	**141 331.2**	**141 634.5**	**-0.2%**

In the first half of 2012, the value of gross loans granted by the Group and evaluated under the individual method increased by PLN 615 million, and those evaluated under the portfolio method increased by PLN 427 million.

Chart 3. Share of impaired loans and advances in the PKO Bank Polski SA Group



The share of impaired loans in the Group's gross loan portfolio as at 30 June 2012 amounted to 8.7% and increased by 0.7 pp. in comparison with 31 December 2011.

Coverage ratio for impaired loans for the Group as at 30 June 2012 amounted to 47.0%, compared with 48.0% as at 31 December 2011.

The Group entities, which have significant credit risk levels (KREDOBANK SA Group, the BFL SA Group, the BTK SA Group) manage their credit risk individually, but the methods used by them for credit risk assessment and measurement are adjusted to the methods used by PKO Bank Polski SA, taking into account the specific nature of the activities of these entities.

Any changes to the solutions used by the Group subsidiaries are agreed each time with the Bank's units responsible for risk management.

The BFL SA Group, the BTK SA Group and KREDOBANK SA Group measure credit risk regularly and the results of such measurements are submitted to the Bank.

Appropriate organisational units of the Banking Risk Division participate in managing the credit risk in the Group entities by giving their opinions on projects and periodically reviewing internal regulations of the companies relating to the assessment of credit risk and preparation of recommendations relating to amendments in the drafts of regulations. The Bank supports implementation of the recommended changes in principles for assessing credit risk in the Group entities.

6.2. Interest rate risk

The interest rate risk is a risk of incurring losses on 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 potential losses arising from market interest rate changes to an acceptable level by shaping the structure of balance and off-balance sheet items.

In the process of interest rate risk management, the Group uses the Value at Risk (VaR) model, interest income sensitivity measure, stress testing and a reprising gap.

Methods of interest rate risk management in the Group entities are defined by internal regulations implemented by those entities which are characterised by significant values of interest rate risk measure outcomes. These regulations are developed after consultation with the Bank and take into account recommendations issued by the Bank for entities.

The PKO Bank Polski SA Group's exposure to interest rate risk as at 30 June 2012 and 31 December 2011 consisted mainly of the Bank's exposure. The interest rate risk for such currencies as PLN, EUR and CHF, generated by the Group entities, did not have a material influence on the interest rate risk of the whole Group and, as a result, did not change significantly its risk profile. Interest rate risk for USD was changed significantly by the exposure of the Group entities, in which the most significant exposure concerned KREDOBANK SA.

Table 30. VaR of PKO Bank Polski SA and stress tests of the Group's exposure to the interest rate risk (in PLN thousand)

Name of sensitivity measure	30.06.2012	31.12.2011
VaR for a 10-day time horizon*	58 487	62 661
Parallel movement of the interest rate curves by 200 b.p. (stress-test)	516 362	530 726

* Due to the nature of the activities carried out by the other Group entities generating significant interest rate risk as well as the specific nature of the market on which they operate, the Group does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. KREDOBANK SA uses the 10-day interest rate VaR for the main currencies, which amounted to PLN 22 323 thousands as at 30 June 2012 and PLN 29 673 thousand as at 31 December 2011, respectively.

As at 30 June 2012, the Bank's interest rate VaR for the holding period of 10 days amounted to PLN 58 487 thousand, which accounted for approx. 0.30% of the value of the Bank's own funds. As at 31 December 2011, VaR for the Bank amounted to PLN 62 661 thousand, which accounted for approx. 0.36% of the Bank's own funds (own funds calculated in accordance with regulations governing calculation of the capital adequacy ratio).

6.3. Currency risk

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

The objective of managing the currency risk is to reduce potential losses arising from exchange rate changes to an acceptable level by shaping the currency structure of balance and off-balance sheet items.

The Bank measures currency risk using the Value at Risk (VaR) model and stress tests.
Methods of currency risk management in the Group's subsidiaries are defined by internal regulations implemented by entities, for which currency risk measurement tools obtain a significant value. The regulations are developed after consulting the Bank's opinion and taking into account recommendations issued to the entities by the Bank. These regulations are developed by entities, for which currency risk measurement tools obtain a significant value, after consulting the Bank's opinion and taking into account recommendations issued to the entities by the Bank.

Table 31. VaR of PKO Bank Polski SA and stress tests of the Group's exposure to the currency risk, cumulatively for all currencies (in PLN thousand)

Name of sensitivity measure	30.06.2012	31.12.2011
VaR for a 10-day time horizon*	2 012	1 470
Change of CUR/PLN by 20% (stress test)	25 551	17 210

* Due to the nature of the activities carried out by the other Group entities generating significant currency risk as well as the specific nature of the market on which they operate, the Bank does not calculate consolidated VaR. These entities apply their own risk measures in the currency risk management. KREDOBANK SA uses the 10-day VaR, which amounted to approx. PLN 519 thousand as at 30 June 2012 and approx. PLN 467 thousand as at 31 December 2011.

The level of currency risk was low both as at 30 June 2012 and as at 31 December 2011.

Table 32. The Group's currency position for particular currencies (in PLN thousand)

Currency	Currency position as at 30.06.2012	Currency position as at 31.12.2011
USD	(225 776)	(180 781)
GBP	35	50
CHF	(54 715)	(37 266)
EUR	101 148	83 153
Other (global net)	17 784	11 630

6.4. Liquidity risk

The liquidity risk is a risk of the lack of the possibility to pay the debts on time due to the lack of liquid assets; lack of liquidity may arise from an inadequate structure of the statement of financial position, mismatch of cash flows, not received payments from contractors, sudden withdrawal of cash by clients or other market events.

The objective of liquidity risk management is to ensure the appropriate level of capital necessary 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.

The Group's policy concerning liquidity is based on keeping a portfolio of liquid securities and growth of stable sources of financing (in particular a stable deposit base). In its liquidity risk management policy, money market instruments, including NBP open market operations, are used.

Methods of liquidity risk management in the Group entities are defined by internal regulations implemented by entities, for which currency risk measurement tools obtain a significant value. These regulations are developed after consulting the Bank and taking into account recommendations issued to the entities by the Bank.

The table below presents the Bank's liquidity reserve as at 29 June 2012 and 31 December 2011:

Table 33. Liquidity reserve of the Bank (in PLN million)

	29.06.2012	31.12.2011
Liquidity reserve to 1 month*	12 789	17 723

* Liquidity reserve equals the gap between the most liquid assets and expected and potential liabilities which mature in a given period of time.

As at 30 June 2012, the level of permanent balances on deposits constituted approx. 93.1% of all deposits of the Bank (excluding interbank market), which is a decrease by approx. 1.7 pp. as compared to the end of 2011.

6.5. Price risk of equity securities

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

The price risk of equity securities results from operations conducted as part of trading activities (the Brokerage House of PKO Bank Polski SA), investing activities and from other operations as part of banking activities generating a position in equity securities.
Managing the equity securities risk is aimed at limiting possible losses due to changes in the prices of equity securities on the public market or stock exchange indices to a level acceptable to the Bank, by optimising the positions taken in instruments sensitive to changes in these market parameters.

Risk management is carried out by imposing limits on the activity of the Brokerage House of PKO Bank Polski BP divided into trading and banking portfolios, and monitoring of their utilisation.

An influence of the price risk of equity securities on the financial position of the Bank was assessed as immaterial. The positions taken in equity securities and index instruments are limited, and the Bank does not expect them to increase significantly.

6.6. Derivative instruments risk

The risk of derivative instruments is a risk of incurring losses arising from taking up by the Bank a position in financial instruments, which meet all of the following conditions:

- the value of an instrument changes with the change of the underlying instrument,
- the instrument 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,
- the instrument is to be settled at a future date.

The process of derivatives risk management in the Bank is integrated with the management of interest rate, currency, liquidity and credit risks. However, due to the specific nature of derivatives it is subject to special control specified in the internal regulations of the Bank.

The Bank measures the derivative instruments risk using i.a. the Value at Risk (VaR) model.

Risk management is carried out by imposing limits on derivative instruments divided into trading and banking portfolios, monitoring the use of limits and reporting risk level.

Master agreements concluded by the Bank with the major business partners based on the standards developed by the Polish Banks 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 agreements (CreditSupportAnnex).

Methods of derivative instruments risk management in the Group's subsidiaries are defined by internal regulations implemented by entities which take positions in derivative instruments or plan to take positions in such instruments. These regulations are developed after consulting the Bank and taking into account the recommendations issued by the Bank for the entities.

6.7. Operational risk

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

The objective of operational risk management is to optimise operational efficiency by reducing operating losses, costs streamlining and improving the timing and adequacy of the response of the Group to events which are beyond its control.

Operational risk management is performed through systemic solutions as well as regular ongoing management of the risk. Systemic operational risk management is centralised at the PKO Bank Polski SA Head Office level. The ongoing operational risk management is conducted by every organisational unit of the Bank.

The main tools for managing the operational risk are as follows:

- control instruments,
- human resources management (staff selection, enhancement of professional qualifications of employees, motivation packages),
- setting threshold values of Key Risk Indicators (KRI),
- strategic tolerance limits and limits on operational risk losses,
- contingency plans,
- insurance,
- outsourcing,
- business continuance plans.

In the first half of 2012, the dominant impact on the operational risk profile of the Group was exercised by the following three entities: PKO Bank Polski SA, the BFL SA Group and KREDOBANK SA. The other Group entities, considering their significantly smaller scale and type of activity, generate only reduced operational risk. Group's subsidiaries manage operational risk according to principles of risk management in PKO Bank Polski SA, considering their specific nature and scale of activity.

In the first half of 2012 the process of unification of IT solutions for operating risk management at the BFL SA Group and at KREDOBANK SA was commenced.

On 21 June 2011 PKO Bank Polski SA obtained the consent of the Polish Financial Supervision Authority (PFSA) for applying statistical methods to calculate capital requirements for operational risk (AMA) as at 30 June 2011, with a temporary limitation (until the conditions set by the PFSA have been met) on the drop of the capital requirement by not more than up to a level of 75% of the requirement calculated under the standardised approach.

6.8. Compliance risk

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

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

Compliance risk management involves in particular:

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

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

6.9. Strategic risk

The strategic risk is defined as a risk related to the possibility of negative financial consequences resulting from erroneous decisions, decisions made on the basis of an incorrect assessment or failing to make appropriate decisions to the direction of strategic development of the Bank.

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

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

- external factors,
- factors related to the growth and development of the banking activities,
- factors related to the management of human resources,
- factors related to investment activities,
- factors related to the organisation's culture.

6.10. Reputation risk

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

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

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

6.11. Capital adequacy[8]

Capital adequacy is the maintenance of own funds by the Group which exceeds capital requirements (the so-called Pillar 1) and internal capital requirements (the so-called Pillar 2).

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

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

- identifying and monitoring significant types of risks,
- assessing internal capital to cover the individual risk types and total internal capital,
- monitoring, reporting, forecasting and limiting of capital adequacy,
- performing internal capital allocations to business segments, client segments and entities in the Group in connection with profitability analyses,
- using tools affecting the capital adequacy level (of which: tools affecting the level of equity, the scale of equity item reductions and the level of the loan portfolio).

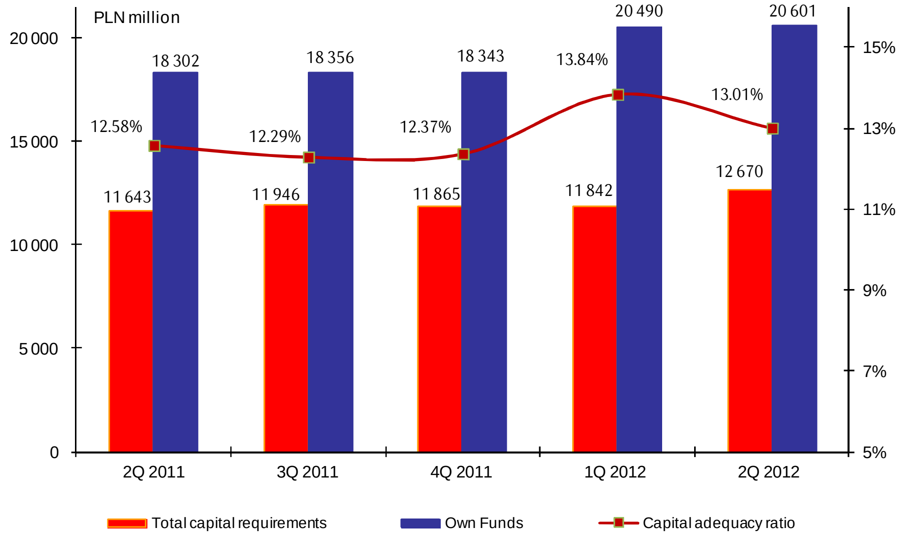
[8] Own funds for the purposes of capital adequacy are calculated in accordance with the provisions of the Banking Law and Resolution of the Polish Financial Supervision Authority No. 325/2011 of 20 December 2011 on deductions from own funds, their amount, their scope and conditions of their deduction from a bank's own funds, other financial position statement items included in supplementary capital, their amount, their scope and the conditions of their inclusion in bank's supplementary capital, deductions from supplementary capital, their amount, their scope and conditions of their deduction from supplementary capital and the scope and manner of treating the activity of banks that are members of conglomerates in calculating own funds (Official Journal of PFSA No. 13), item 49 of 30 December 2011.

The main measures of capital adequacy are:

- the capital adequacy ratio, of which minimum level in accordance with the Banking Law is 8%,
- the ratio of own funds to internal capital, of which acceptable minimum level in accordance with the Banking Law is 1.0,
- capital adequacy ratio for core equity (Common Equity Tier 1 ratio) – a quotient of basic funds (Tier 1) excluding hybrid instruments and sum of capital requirements, multiplied by 8%, for which the acceptable minimum level is 9%.

The capital adequacy level of the Group in the first half of 2012 remained at a safe level and was significantly above the statutory limits.

Chart 4. Capital adequacy of the PKO Bank Polski SA Group



As at 30 June 2012 compared with 31 December 2011, the Group's capital adequacy ratio increased by 0.64 pp. to 13.01%, as a result of an increase in the Group's own funds by 12.3% compared with the increase in the Group's total capital requirement by 6.8%.

As at 30 June 2012 compared with 31 December 2011, the Group's total capital requirement increased by PLN 806 million mainly as a result of an increase in the capital requirement in respect of credit risk (an increase of PLN 600 million compared with the end of 2011), as a consequence of entry into force of the provisions of Resolution No. 153/2011 of the PFSA[9], due to which from 30 June 2012 an increase in risk weights (from 75% to 100%) was introduced for retail exposures and for exposures secured by residential property, in which the instalment of principal or interest depends on changes in the exchange rate of the currency or currencies other than the currency of revenues earned by the debtor and the capital requirement for market risk due to increased value of liabilities due to corporate bonds underwriting agreements.

In the first half of 2012, the capital requirement in respect of market risk for the Group increased by 40.9% to the amount of PLN 501 million, mainly as a result of the increase of the value of liabilities due to corporate bonds underwriting agreements by approx. 222%.

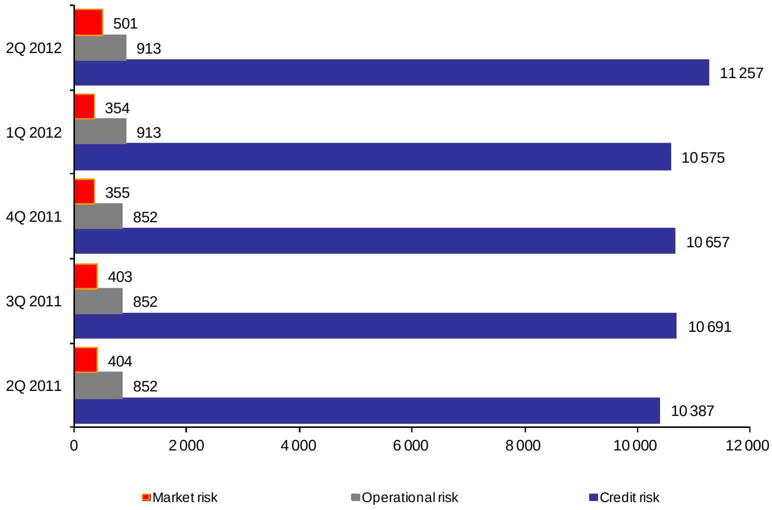
In the first half of 2012 capital requirement in respect of operational risk increased by 7.1% to PLN 913 million, which results from the annual revaluation of the requirement calculated under the standardised approach (TSA) and the basic indicator approach (BIA), including the difference in weighted profit before income tax between 2011 and 2008.

As at 30 June 2012, own funds of the Group calculated for capital adequacy purposes increased by PLN 2 258 million, which was mainly due to the recognition of profit earned by the Bank in 2011 as funds.

[9]Resolution No. 153/2011 of the Polish Financial Supervision Authority dated 7 June 2011 amending the resolution No. 76/2010 of the Polish Financial Supervision Authority on the scope and detailed rules of determining capital requirements in respect of particular types of risk (Official Journal of PFSA No. 8 of 29.07.2011, item 29).

The Group calculates capital requirements in accordance with PFSA Resolution No. 76/2010 of 10 March 2010 with subsequent amendments[10]: in respect of credit risk – the standardised approach (TSA), in respect of the Bank's operational risk – the advanced approach (AMA) as of 30 June 2011 taking into account the above mentioned limitations imposed by PFSA and the additional requirement in respect of activities of the Group entities – the basic index approach (BIA), in respect of market risk – the basic approach.

Chart 5. Capital requirements of the PKO Bank Polski SA Group (in PLN million) [11]



[10] Amendments to the Resolution 76/2010 were introduced by the following PFSA Resolutions: No. 369/2010 of 12 October 2010, No. 153/2011 of 7 June 2011, No. 206/2011 of 22 August 2011 and No. 324/2011 of on 20 December 2011.

7. Information for investors

Shareholders holding, directly or indirectly through subsidiaries, at least 5% of votes at the General Shareholders' Meeting

To the best knowledge of PKO Bank Polski SA, the shareholders holding, directly or indirectly significant shareholding (at least 5% of total votes at the General Shareholders' Meeting of the Bank) are three entities: the State Treasury, Bank Gospodarstwa Krajowego and ING Otwarty Fundusz Emerytalny, holding as at the date of submission of this Report respectively 417 406 277, 128 102 731 and 64 594 448 shares of PKO Bank Polski SA.

The percentage share of the State Treasury, of Bank Gospodarstwa Krajowego and ING Otwarty Fundusz Emerytalny in the share capital of PKO Bank Polski SA amounts to respectively 33.39%, 10.25% and 5,17% and matches the percentage share in the total number of votes at the General Shareholders' Meeting of PKO Bank Polski SA.

Table 34. The shares held by the Shareholders as at the date of submitting the report

Shareholders	As at the date of submission of the report for the first half of 2012		As at the date of submission of the report for the first quarter of 2012		Change of the share in the number of votes on GSM (pp.)
	Number of shares	Share in the number of votes on GSM	Number of shares	Share in the number of votes on GSM	
State Treasury	417 406 277	33.39%	512 406 277	40.99%	-7.60
Bank Gospodarstwa Krajowego	128 102 731	10.25%	128 102 731	10.25%	0.00
ING Otwarty Fundusz Emerytalny	64 594 448	5.17%	-	x	x
Other shareholders*	639 896 544	51.19%	609 490 992	48.76%	2.43
Total	1 250 000 000	100.00%	1 250 000 000	100.00%	0.00

*As at the date of submission of the Report for the first quarter of 2012 including ING OFE.

On 26 July 2012 PKO Bank Polski SA received a notification from the Minister of State Treasury of selling off a considerable block of the Bank's shares by the State Treasury as a result of which the number of total votes held by the State Treasury in the Bank has changed.

According to the notification received by the Bank on 24 July 2012, 95 000 000 Bank's shares held by the State Treasury were sold off in block transactions. Prior to the sell-off transaction conducted, the State Treasury held 512 406 277 Bank's shares in total giving the same number of votes at the General Shareholders' Meeting of the Bank. These shares amounted to 40.99% of the share capital and the same share in the total number of votes in the Bank.

As a result of the above mentioned sell-off transaction on 24 July 2012 the State Treasury holds 417 406 277 Bank's shares giving the same number of votes at the General Shareholders' Meeting of the Bank. These shares amount to 33.39% of the share capital and the same share in the total number of votes in the Bank.

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

Prior to the above mentioned shares' sell-off transaction, the State Treasury and BGK held the total number of 640 509 008 Bank's shares giving the same number of votes at the General Shareholders' Meeting of the Bank. These shares amounted to 51.24% of the Bank's share capital and the same share in the total number of votes in the Bank.

After the above mentioned shares' sell-off transaction, the State Treasury and BGK hold the total number of 545 509 008 Bank's shares giving the same number of votes at the General Shareholders' Meeting of the Bank. These shares amount to 43.64% of the Bank's share capital and the same share in the total number of votes in the Bank.

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

Changes in the number and rights of PKO Bank Polski SA shares held by Management or Supervisory Board Members

Table 35. Shares held by PKO Bank Polski SA's Management or Supervisory Board Members

No.	Name	Number of shares as at the date of submission of the report for the first half of 2012	Purchase	Disposal	Number of shares as at the date of submission of the report for the first quarter of 2012
I.	The Management Board of PKO Bank Polski SA				
1.	Zbigniew Jagiełło, President of the Management Board	9000	0	0	9000
2.	Piotr Alicki, Vice-President of the Management Board	2627	0	0	2627
3.	Bartosz Drabikowski, Vice-President of the Management Board	0	0	0	0
4.	Jarosław Myjak, Vice-President of the Management Board	0	0	0	0
5.	Jacek Obłękowski, Vice-President of the Management Board	512	0	0	512
6.	Jakub Papierski, Vice-President of the Management Board	3000	0	0	3000
II.	The Supervisory Board of PKO Bank Polski SA				
1.	Cezary Banasiński, Chairman of the Supervisory Board	0	0	0	0
2.	Tomasz Zganiacz, Deputy-Chairman of the Supervisory Board	0	0	0	0
3.	Mirosław Czekaj, Secretary of the Supervisory Board	0	0	0	0
4.	Jan Bossak, Member of the Supervisory Board	0	0	0	0
5.	Zofia Dzik*, Member of the Supervisory Board	0	0	0	0
6.	Krzysztof Kilian, Member of the Supervisory Board	0	0	0	0
7.	Piotr Marczak, Member of the Supervisory Board	0	0	0	0
8.	Marek Mroczkowski, Member of the Supervisory Board	0	0	0	0
9.	Ryszard Wierzba, Member of the Supervisory Board	2570	0	0	2570

* Holds the position since 30 June 2012

Co-operation with rating agencies

Currently, the financial reliability ratings of PKO Bank Polski SA are awarded by three meaningful rating agencies:

– Moody's Investors Service and Standard & Poor's assign a rating to the Bank at a charge, in accordance with its own bank assessment procedure,
– Fitch Ratings assigns a free-of-charge rating (not ordered by the Bank), on the basis of publicly available information, including primarily interim and annual reports, and information on the Bank made available during direct contacts of representatives of the agency with the Bank.

In the first half of 2012:

– on 8 May 2012 Standard and Poor's rating agency awarded the Bank the following rating, at the Bank's commission:
  – the Bank's long-term credit rating at the 'A-' level, with stable perspective,
  – the Bank's short-term credit rating at the 'A-2' level, with stable perspective,
– on 20 June 2012 Standard and Poor's rating agency awarded a rating the Eurobond issue program of EUR 3 000 million (EMTN), established by PKO Finance AB on behalf of PKO Bank Polski (of which PKO Bank Polski SA informed in its current report No. 35/2008). The unsecured debt issued under the program was rated 'A-',
– on 28 June 2012 Moody's Investors Service Ltd. rating agency ('Moody's') reduced the potential rating for the subordinated debt of PKO Bank Polski under the Eurobond issue program (MTN) to (P)Baa3 from (P)A3 in connection with the withdrawal of Moody's of the assumption relating to the systemic support for this class of debt.
  The decrease is the result of a review initiated in November 2011 and relating to reassessing the assumption as to the systemic support of the subordinated debt of a group of European banks, which led Moody's to the conclusion that there will be no systemic support for this class of debt. This conclusion shows that Poland is perceived by Moody's in a manner similar to other European countries, where the systemic support for subordinated debt may not be sufficiently predictable any more to support the rating of instruments used to reinforce capital.
  At the same time, PKO Bank Polski informed that as at the date of the rating it did not issue any subordinated debt instruments under the Eurobond program (MTN).

Table 36. Ratings awarded to PKO Bank Polski SA as at 30 June 2012

Rating with a charge	
Moody's Investors Service	
Long-term rating for deposits in foreign currencies	A2 with a stable perspective
Short-term rating for deposits in foreign currencies	Prime-1 with a stable perspective
Long-term rating for deposits in domestic currency	A2 with a stable perspective
Short-term rating for deposits in domestic currency	Prime-1 with a stable perspective
Financial strength	C- with negative perspective
Standard and Poor's	
Long-term loan rating of the Bank in foreign and domestic currencies	A- with a stable perspective
Short-term loan rating of the Bank in foreign and domestic currencies	A-2 with a stable perspective
Rating not requested by the Bank	
Fitch Ratings	
Support Rating	2

The rating awarded to KREDOBANK SA in November 2011 by Standard & Poor's agency did not change in the first half of 2012:

- long-term credit rating on the international scale – 'B-',
- forecast - 'Stable',
- short-term credit rating on the international scale - 'C',
- rating on the Ukrainian scale - 'uaBBB-'.

Amendments to the Memorandum of Association of PKO Bank Polski SA

In accordance with the Bank's knowledge, there was no amendments to the Memorandum of Association of PKO Bank Polski SA in the first half of 2012.

8. OTHER INFORMATION

Identification data

PKO Bank Polski SA, with its registered Head Office in Warsaw at 15 Puławska Street, is registered in the District Court for the capital city of Warsaw in Warsaw, XIII Economic Department of the National Court Register, under entry No. KRS 0000026438. The Company was granted a statistical No. REGON 016298263 and tax identification number (NIP) 525-000-77-38.

The authorities of PKO Bank Polski SA in the reporting period

Table 37. The Management Board of PKO Bank Polski SA as at 30 June 2012

No.	Name	Function	Date of appointment
1.	Zbigniew Jagiełło	President of the Management Board	appointed on 2 March 2011 to the position of President of the Management Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna, for the joint term of the Management Board, which began on 30 June 2011.
2.	Piotr Alicki	Vice-President of the Management Board	appointed on 1 April 2011 to the position of Vice-President of the Management Board of PKO Bank Polski SA for the joint term of the Management Board, which began on 30 June 2011.
3.	Bartosz Drabikowski	Vice-President of the Management Board	appointed on 1 April 2011 to the position of Vice-President of the Management Board of PKO Bank Polski SA for the joint term of the Management Board, which began on 30 June 2011.
4.	Andrzej Kołatkowski*	Vice-President of the Management Board	appointed on 16 May 2011 to the position of Vice-President of the Management Board responsible for Risk and Debt Collection Area, for a joint term of the Management Board which began on 30 June 2011, provided that he obtains the approval of the PFSA for performing this function. On 9 August 2011, the PFSA approved Mr Andrzej Kołatkowski as Vice-President of the Management Board of PKO Bank Polski SA.
5.	Jarosław Myjak	Vice-President of the Management Board	appointed on 1 April 2011 to the position of Vice-President of the Management Board of PKO Bank Polski SA for the joint term of the Management Board, which began on 30 June 2011.
6.	Jacek Obłękowski	Vice-President of the Management Board	appointed on 1 April 2011 to the position of Vice-President of the Management Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna for the joint term of the Management Board, which began on 30 June 2011. Vice-President of the Management Board J. Obłękowski assumed function on 30 June 2011.
7.	Jakub Papierski	Vice-President of the Management Board	appointed on 1 April 2011 to the position of Vice-President of the Management Board of PKO Bank Polski SA for the joint term of the Management Board, which began on 30 June 2011.

* on 13 July 2012, Vice-President of the Management Board A. Kołatkowski resigned from performing his function of the Vice-President of the Management Board of PKO Bank Polski SA as of 13 July 2012

Table 38. The Supervisory Board of PKO Bank Polski SA as at 30 June 2012

No.	Name	Function	Date of appointment/recalling
1.	Cezary Banasiński	Chairman of the Supervisory Board	appointed on 30 June 2011 for the joint term of the Supervisory Board, which began that day. On 30 June 2011 the Minister of State Treasury appointed Cezary Banasiński, a member of the Supervisory Board, as a Chairman of the Supervisory Board.
2.	Tomasz Zganiacz	Deputy-Chairman of the Supervisory Board	appointed on 30 June 2011 for the joint term of the Supervisory Board, which began that day. On 30 June 2011 the Minister of State Treasury appointed Tomasz Zganiacz, a member of the Supervisory Board, as a Deputy-Chairman of the Supervisory Board.
3.	Mirosław Czekaj	Secretary of the Supervisory Board	appointed on 30 June 2011 for the joint term of the Supervisory Board, which began that day. On 6 July 2011 the Supervisory Board chose Mr Mirosław Czekaj as Secretary of the Supervisory Board.
4.	Jan Bossak	Member of the Supervisory Board	appointed on 30 June 2011 for the joint term of the Supervisory Board, which began that day.
5.	Zofia Dzik	Member of the Supervisory Board	appointed on 6 June 2012 for the joint term of the Supervisory Board, which began 30 June 2011.
6.	Krzysztof Kilian	Member of the Supervisory Board	appointed on 30 June 2011 for the joint term of the Supervisory Board, which began that day.
7.	Ewa Miklaszewska	Member of the Supervisory Board	appointed on 30 June 2011 for the joint term of the Supervisory Board, which began that day. On 6 June 2012, Ordinary General Shareholders' Meeting of PKO Bank Polski SA dismissed Ms Ewa Miklaszewska from the Supervisory Board of PKO Bank Polski SA as at 6 June 2012.
8.	Piotr Marczak	Member of the Supervisory Board	appointed on 30 June 2011 for the joint term of the Supervisory Board, which began that day.
9.	Marek Mroczkowski	Member of the Supervisory Board	appointed on 30 June 2011 for the joint term of the Supervisory Board, which began that day.
10.	Ryszard Wierzba	Member of the Supervisory Board	appointed on 30 June 2011 for the joint term of the Supervisory Board, which began that day.

Seasonality or cyclical nature 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 fluctuations to those affecting the entire Polish economy. The activities of other companies of the PKO Bank Polski SA Group also do not show any particular seasonality or cyclical characteristics.

Activities in the area of sponsoring, charity and promotion

Sponsoring activities carried out in the first half of 2012 were aimed at creating a positive image of PKO Bank Polski SA, enhancing the brand value and prestige, as well as supporting business activity. In accordance with its sponsorship plan, the Bank focuses on a few selected areas of social life, in particular projects with noble aims which contribute to the development of culture, education and the knowledge of history and national heritage, or promote patriotism and encourage an active and healthy lifestyle. As one of the banking market leaders in Poland, PKO Bank Polski SA makes every effort to participate actively in the organisation of congresses and conferences at which different business circles exchange their experience and creative solutions.

The leading sponsorship projects executed in this period were: continued cooperation with the Planetarium at the Copernicus Science Centre, patronage of the digital reconstruction of the Polish cinema classic films and a partnership with the University of Warsaw in the implementation of World Championship in Team Programming.

The Planetarium sponsorship agreement is the biggest sponsorship investment of the Bank initiated in 2010 and the biggest education project. Cooperation with the Copernicus Science Centre is aimed at modifying the image of PKO Bank Polski SA by making it more youthful and dynamic. The Bank cooperates with the Planetarium in a number of initiatives, in particular in the context of the education programme addressed to children and youth, aimed at revitalisation of the School Savings Bank (SKO).

The Bank willingly involves in projects supporting native culture, which are an investment in future generations. Especially appreciated initiative is acting to protect and popularise of the achievements of Polish cinema, and thus a part of national heritage. Thanks to the Bank's patronage of the digital reconstruction of Polish cinema film library, young people will be able to watch films from years past, a testimony to Polish history and culture – in contemporary quality.

In order to communicate the patronage of digitalisation, the Bank was involved for the first time in sponsoring the 37th Gdynia Film Festival. It is one of the biggest film events, with the longest tradition in Poland, and also the only one that promotes Polish cinema on such a large scale – both in the country and abroad. The Festival's programme also provided a broadcast of one of the films that have been subjected to digital reconstruction.

Another important trend of the Bank's sponsorship activities is supporting actions aimed at saving the national heritage, which include in particular continued cooperation with the National Museum on the renovation of the 'Battle of Grunwald' painting, for which the Bank also financed a new reconstructed frame.

For years PKO Bank Polski SA has been consistently supporting initiatives which promote able and ambitious students. Through multi-dimensional actions it forms the image of an institution open to young, able and ambitious people. The Academic World Championships in Team Programming (Akademickie Mistrzostwa Świata w Programowaniu Zespołowym) is the most prestigious global IT competition for students. The Warsaw University hosted this prestigious event and the Bank undertook patronage and sponsorship cooperation. The Bank was also for the first time awarded the title of Local Strategic Partner of the Finals of the Academic World Championships in Team Programming ACM ICPC 2012. Earlier, the Bank also sponsored the Academic Polish Championships and Central European Championships in Team Programming. The Foundation of PKO Bank Polski SA was also involved in the event – among other things as the founder of the academic scholarships for the best Polish team.

Other important sponsorship projects realised in the first half of 2012 also included: Bieg Piastów and Bieg Konstytucji 3 Maja races, supported as part of the Race Triad (Bieg 3 Maja, Bieg Powstania Warszawskiego, Bieg Niepodległości). Moreover, the Bank sponsored many business and economic events in various parts of the country: the Polish Business Congress (Polski Kongres Gospodarczy) in Warsaw, the European Business Congress (Europejski Kongres Gospodarczy) in Katowice, the European Financial Congress (Europejski Kongres Finansowy) in Sopot, the first CFO Congress (I Kongres CFO) in Ossa, the CEE IPO SUMMIT conference. Other events on a smaller scale, important to the local communities, also gained the Bank's support.

Charity activities of the Bank are carried out by the PKO Bank Polski Foundation. In the first half of 2012 the Foundation awarded 527 grants. The Foundation, while implementing strategic projects as well as local and individual projects, granted financing in six programme areas:

– HEALTH 42% - i.a. for life-saving operations, treatment and rehabilitation, including the purchase of rehabilitation equipment and organisation of rehabilitation camps, funding of medicines and dressing materials for hospices and social welfare homes and for a programme of building the Polish Artificial Heart,

- EDUCATION 25% - i.a. for educational trips for children and youth, summer and winter holidays for children from underprivileged families, purchase of teaching aids for schools, a scholarship program for teachers and individual scholarships for gifted students and social scholarships for students from underprivileged families,
- HOPE 18% - i.a. for the provisions of social assistance, including supplementary meals for children and youth in schools and foster care homes, support for orphanages' charges, driving courses for disabled people,
- TRADITION 10% - i.a. for publications in the field of the history of Poland, the prizes in a competition dedicated to the national memory for secondary school youth, supporting projects promoting loyalty to the national heritage,
- ECOLOGY 4% - mainly on conducting the strategic project dedicated to the protection of water reservoirs in Poland,
- CULTURE and SPORT less than 1%.

Promotional activities of the Bank carried out in the first half of this year were mainly aimed at supporting the sale of existing products, and they were communicated mainly via television, Internet, outdoor and windows of bank outlets. All campaigns continued existing communication platform using the image of Szymon Majewski, who played different characters.

Promotional activities of the Group entities performed in the first half of 2012 were aimed mainly to promote products and services offered by the Entities, primarily via press, Internet and television.

Prizes and awards

In the first half of 2012, PKO Bank Polski SA and other entities of the PKO Bank Polski SA Group were granted the following prizes and awards:

1. Wektory 2011 (Vectors 2011)

Zbigniew Jagiełło, the President of the Management Board of PKO Bank Polski SA, received a 'Vector 2011' reward for 'the spectacular success of PKO Bank Polski SA during the financial crisis and strong competition for the vision of the bank's development and effective strengthening of the leadership position on the market of Central and Eastern Europe'.

2. Złoty Bankier (Golden Banker)

For the third time, the internet service Bankier.pl and PayU company organised a poll aimed at awarding the best financial services and products offered by Polish banks. PKO Bank Polski received the largest number of positive opinions from internet users in the best mortgage loan category, thus winning 1st place and getting 38% of the votes.
Zbigniew Jagiełło, the President of the Management Board of PKO Bank Polski SA received an award in the special category 'Personality of the Year 2011' 'for his vision of modernising the largest Polish bank and its fulfilment'.

3. Lider świata bankowości (Banking Leader)

PKO Bank Polski SA was the winner in the large banks category in the 'Banking Leaders' competition. This was the 1st edition of a competition which was held as part of the Polish Economic Congress. Awards are granted to personages and firms that contributed the most to the development of the Polish financial sector in the previous year.

4. Przyjazne Konto Internetowe 2011 (User-friendly Internet Account 2011)

The Inteligo account was appreciated in the Polish Internet competition organised by The World Internet Foundation and was awarded in the category 'User-friendly Internet Account 2011'.

5. Byki i Niedźwiedzie (Bulls and Bears)

During the 18th edition of the 'Bulls and Bears' awards organised by Gazeta Giełdy Parkiet, Zbigniew Jagiełło received the statuette of the President of the Year. Also the Brokerage House of PKO Bank Polski was awarded in the competition for carrying out the largest initial offerings and gaining the largest number of new investment accounts.

6. Distinction for the Brokerage House of PKO Bank Polski

The Brokerage House of PKO Bank Polski was awarded by the Warsaw Stock Exchange for achievements in 2011 and received a reward for the highest IPO value of companies introduced to the primary market of the Warsaw Stock Exchange.

7. Pension fund of 2012 in Poland

PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA received the above mentioned title from the World Finance magazine gathering together journalists and correspondents specialising in financial issues, published by World News Media in London.

8. Order Finansowy 2012 (Financial Order 2012)

PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA received the above mentioned award granted by the Home&Market monthly magazine in the pension funds category.

9. 100 Most Valuable Firms according to Newsweek

In the ranking of the '100 most valuable firms according to Newsweek' PKO Bank Polski SA ranked 1st place in the 'Banking' category. In accordance with the adopted methodology, as of the end of 2009 its value increased by approx. 84%.

10. Lamparty (Leopards)

PKO Bank Polski SA received this statuette for promotional activities in 2011 – the industry appreciated mainly its good advertising and brand promotion.

11. PKO Bank Polski Marką Godną Zaufania (PKO Bank Polski – a Reliable Brand)

For the eighth time PKO Bank Polski SA received the Golden Statuette of the Reliable Brand in the 'Bank' category. The winning brand was chosen by 28% of participants in the annual survey conducted by the monthly Reader's Digest, the aim of which is to select the most trustworthy brands among European consumers.

12. The Ideal Employer

PKO Bank Polski SA was one of the ten best employers in the 'Business' category and received the title of Ideal Employer 2012 (it ranked 8th place, up from 9th place in the previous year) in one of the most prestigious student rankings.

13. Ranking '100 best financial institutions'

PKO Bank Polski SA won the ranking organised by Gazeta Finansowa. The Bank ranked first in the financial institutions ranking by revenue for 2011. The purpose of the project is to present and promote the key financial institutions in Poland, which despite the difficult market conditions maintained stable position and demonstrated dynamic development.

14. Nomination to the Business Award of the President of Poland (Nagroda Gospodarcza Prezydenta RP)

PKO Bank Polski SA was one of three firms nominated to the Business Award of the President of Poland. It was appreciated for compliance with corporate governance and actions regarding corporate social responsibility.

15. Ranking '50 largest banks in Poland 2012'

PKO Bank Polski SA received the main prize in the seventeenth edition of the ranking of the '50 largest banks in Poland 2012' conducted by the Bank monthly. Among other things, the growth dynamics of the Bank's total assets and its overall market activity were appreciated.

16. Solidny Pracodawca 2011 (Reliable Employer 2011)

PKO Bank Polski SA received the title of 'Reliable Employer' and 'Reliable Employer 2011 in the Finance Industry'. The title awarded for 2011 is a token of appreciation for the Bank for creating appropriate working conditions for its employees and the possibility of professional development.

17. Top Employers

PKO Bank Polski SA received the international Top Employers certificate for the highest HR standards. PKO Bank Polski SA is perceived as a stable and modern institution which offers its employees development possibilities both through training and internal promotions.

18. Menedżer Roku (Manager of the Year)

For the twentieth time, Gazeta Bankowa selected leaders of the Polish finance sector and announced the ranking results for the 'Best Banks'. The banking environment honoured the President of PKO Bank Polski SA – Zbigniew Jagiełło – with the title of the Banking Manager of the year 2011. At the same time, the Bank was awarded with the 'Highest Effectiveness' award in its category.

19. Złote strzały (Golden Arrows)

In the seventh edition of the Golden Arrow competition PKO Bank Polski SA was awarded two 'Golden Arrows'. In the 'Campaign' category the project of launching the zero cost account PKO Konto za Zero received an integrated statuette. In the 'Golden Arrow open' category – the marketing campaign for relaunching our brand.

Underwriting agreements and guarantees issued to the subsidiaries

As at 30 June 2012, bonds' issues of Bankowy Fundusz Leasingowy SA – a subsidiary of PKO Bank Polski SA – regulates Underwriting Agreement for Organisation, Conducting and Servicing of the Bond Issuance Program as at 10 November 2011. In accordance with the above mentioned agreement, the total nominal value of bonds issued and not redeemed by the Company, which issuance is organised by the Bank, will not be higher than PLN 600 million.

As at 30 June 2012, indebtedness of Bankowy Fundusz Leasingowy SA in respect of the bonds issued amounted to PLN 280 million, including bonds with a value of PLN 124 million which were sold on the secondary market, and bonds with a value of PLN 156 million which were included in the portfolio of PKO Bank Polski SA.

In the first half of 2012 PKO Bank Polski SA granted:

a) a guarantee up to the limit of PLN 810 thousand in favour of a Contractor 1 for the company Centrum Elektronicznych Usług Płatniczych eService SA (service performance bond); the guarantee was granted for the period ended 30 September 2014,
b) a guarantee up to the limit of PLN 1 035 thousand in favour of a Contractor 2 for the company Qualia Spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k., due to agreement regarding driveway construction; the guarantee was granted for the period ended 30 June 2014.

Loans and advances taken, guarantee and warranties agreements not related to operating activity of the Bank

In the first half of 2012 PKO Bank Polski SA did not take out any loans or advances or receive any guarantees or warranties that were not related to its operating activity.

In the first half of 2012, KREDOBANK SA did not take out any loans or advances or receive any guarantees or warranties that were not related to its operating activity.

Significant contracts and important agreements with the central bank or supervisory authorities

In first half of 2012, PKO Bank Polski SA did not conclude any significant agreements with the central bank or with the supervisory authorities.

In the first half of 2012, subsidiaries of PKO Bank Polski SA did not conclude any significant agreements with the central bank or with the supervisory authorities.

Benefits for supervisors and managers

Full information regarding the remuneration and other benefits provided to the members of the Management Board of PKO Bank Polski SA and the Supervisory Board of PKO Bank Polski SA in the reporting period was disclosed in the Condensed interim consolidated financial statements of the PKO Bank Polski SA Group for the six-month period ended 30 June 2012.

Number of employees in PKO Bank Polski SA and in the PKO Bank Polski SA Group

As at the end of first half of this year employment in the PKO Bank Polski SA Group decreased by 982 positions compared to the end of 2011. The change resulted from a decrease in the number of employees in PKO Bank Polski SA.

Table 39. Number of employees in PKO Bank Polski SA and in the PKO Bank Polski SA Group as at 30 June 2012 and 30 June 2011

	As at 30.06.2012	As at 30.06.2011	Change in employment
PKO Bank Polski SA	25 437	26 490	(1 053)
Other Group entities	3 115	3 044	71
Total	**28 552**	**29 534**	**(982)**

Results of changes in the entity's structure, including the effects of merger, takeover or disposal of the Group entities, long-term investments, division, restructuring and discontinuation of activities

The results of changes in the entity's structure, including the results of merger, takeover or sale of the Group entities have been described in point 5.2 of this Report.

Factors which may affect future financial performance within at least the next quarter

Results of the Bank and the PKO Bank Polski SA Group within next quarters will be affected by economic processes which will take place in the Polish and global economies, as well as by a response of the financial markets. The interest rate policy applied by the Monetary Policy Council and by other largest central banks will also have a great influence on the performance.

Information on guarantees or warranties on loans and advances granted by the issuer or by the issuer's

subsidiary - cumulatively to single entity or its subsidiary if the total value of existing warranties or guarantees constitutes at least 10% of the issuer's own funds

In the first half of 2012 PKO Bank Polski SA did not grant any guarantees or warranties on loans or advances to a single entity or its subsidiary that would constitute at least 10% of the Bank's own funds.

In the first half of 2012 subsidiaries of PKO Bank Polski SA did not grant any guarantees or warranties on loans or advances to a single entity or its subsidiary that would constitute at least 10% of the Bank's own funds.

Proceedings pending before the court, arbitration tribunal or public administrative authority

As of 30 June 2012, the total value of court proceedings against the PKO Bank Polski SA Group entities amounted to PLN 466 832 thousand, of which PLN 80 898 thousand concerned court proceedings in Ukraine (as at 31 December 2011 the total value of above mentioned court proceedings amounted to PLN 428 623 thousand), while the total value of court proceedings initiated by the PKO Bank Polski SA Group entities amounted to PLN 424 565 thousand, of which PLN 190 506 thousand concerned court proceedings in Ukraine, related mainly to recovery of loans granted by KREDOBANK SA (as at 31 December 2011 the total value of above mentioned court proceedings amounted to PLN 698 971 thousand).

No court proceedings with the participation of the Bank are in progress, the value of which amounts to at least 10% of the own funds. No other Group entities have conducted any proceedings pending before court, arbitration tribunal or public administration authority concerning liabilities or receivables, the value of which amounts to at least 10% of the own funds of PKO Bank Polski SA.

Position of PKO Bank Polski SA Management Board in regards to possibility of achieving previously published forecasts for given year

PKO Bank Polski SA did not publish any financial result forecasts for the year 2012.

Information on dividend paid (or declared)

1. On 4 April 2012, PKO Bank Polski adopted the following dividend policy:
   'The general principle of the Bank's dividend policy is the stable execution of dividend payments over a long period in keeping with the principle of prudent management and in line with the Bank's and the Group's financial capabilities determined based on the adopted criteria. The objective of the dividend policy is to optimally shape the Bank's and the Group's capital structure, taking into account the return on capital employed and its cost, capital requirements related to development, accompanied by the necessity to ensure an appropriate level of the capital adequacy ratios.
   The Management Board's intention is to recommend to the General Shareholders' Meeting in the future passing resolutions on dividend payments in amounts exceeding the adopted capital requirements indicated below:
   – the capital adequacy ratio (CAR) of the Bank and the Group will be above 12.00%, and the necessary capital buffer will be maintained,
   – the common equity Tier 1 ratio of the Bank and the Group will be above 9.00%, and the necessary capital buffer will be maintained.
   However, the dividend payment policy may be amended by the Management Board as required, and the decision in this matter will be made taking into account a number of factors related to the Bank and the Group, in particular, the current and anticipated financial standing and regulatory requirements. In accordance with the provisions of the law, each resolution on the payment of dividend will be considered by the General Shareholders' Meeting.'
   The dividend policy as presented above was approved by the Bank's Supervisory Board.

2. On 9 May 2012 the Bank's Management Board adopted a resolution and decided to submit a recommendation to the Ordinary General Meeting on payment of a dividend for the year 2011 in the amount of PLN 1 587.5 million that is PLN 1.27 per share and proposed 12 June 2012 to be the date relevant establishing the right to the dividend (dividend day) and 27 June 2012 to be the dividend payment date.
   In the opinion of the Management Board, the decision on the recommended distribution of profit for 2011 was in accordance with the Bank's dividend policy adopted on 4 April 2012. In the Bank's Management Board opinion a dividend payment in the recommended amount was to guarantee that the capital adequacy ratio is maintained above 12% and that the Tier 1 ratio is maintained above 9%, while maintaining the necessary capital buffer. In the Management Board opinion a dividend payment in the recommended amount should allow the Bank to maintain its good capital and liquidity position.

The proposed dividend level was in line with the recommendation of the Polish Financial Supervision Authority ('PFSA') with regard to strengthening banks' capital bases. In accordance with a letter from the PFSA dated 29 December 2011, a bank may recommend payment of a dividend if:

- it has a capital adequacy ratio above 12%,
- its Tier 1 ratio is above 9%,
- it receives a BION rating of at least 2.5,
- the share of foreign currency loans to private individuals in its loan portfolio for private individuals does not exceed 50%.

PKO Bank Polski SA met all the above criteria such that the Management Board might recommend a payment of a dividend. The Management Board's recommendation on payment of a dividend was considered by and obtained a positive opinion of the Supervisory Board in accordance with § 9 clause 2 of the Memorandum of Association of the Bank. In accordance with Article 395 § 2 clause 2 of the Commercial Companies Code and § 34 of the Memorandum of Association of the Bank, the recommendation was submitted for consideration by the Bank's Ordinary General Shareholders' Meeting approving the financial statements for the financial year ending on the 31 December 2011.

3. On 6 June 2012, the Ordinary General Shareholders' Meeting of PKO Bank Polski SA, as a result of PKO Bank Polski SA profit appropriation for financial year 2011, allocated PLN 1 587.5 million (i.e. 40.15% of profit) as a shareholders dividend, representing PLN 1.27 per share. The General Meeting set the following dates:
   - dividend day (day of acquisition of the dividends right) on 12 June 2012,
   - the dividend payment date on 27 June 2012.

   All of the shares of PKO Bank Polski SA, i.e. 1 250 000 000 were covered by the dividend.
4. The dividend from profit of PKO Bank Polski SA for the year 2011 was paid on 27 June 2012.

Other disclosures significant for evaluation of the issuer's human resources, financial situation, financial performance, and any changes therein

1. On 10 January 2012, the PKO Bank Polski SA signed an agreement with one of the client for opening and maintaining consolidated accounts and execution of mass payments for a period of 4 years. As part of the agreement, the Bank will grant an intra-day credit limit of up to PLN 2 080 million. In the event of failing to repay the debit balance arising on a given day, PKO Bank Polski SA will be entitled to suspend the execution of the customer's orders until the debit balance is covered in full. In such case, PKO Bank Polski SA shall be entitled to default interest in the amount of statutory interest.

   The revenue of PKO Bank Polski SA in respect of execution of the contract is based, among other things, on income related to the customer's funds, funds remaining on the accounts of individuals on behalf of whom the transactions are executed and on foreign exchange differences arising from the realisation of the payment of benefits abroad.

   In case of failure of the PKO Bank Polski SA to meet the deadlines for making the system fully operational within 90 days from the date of signing the agreement, as well as opening the accounts not later than within 30 days from the date of signing the agreement, the Bank shall pay the Client a contractual penalty in the amount of PLN 10 000 for each day of failure to meet any of the deadlines.

   In case of an unjustified withdrawal from the agreement by the Bank, the Bank shall pay the Client a contractual penalty in the amount of PLN 500 000. When the contract cannot be executed due to the fault of the PKO Bank Polski SA, the customer may withdraw from the contract while maintaining the right to accrue the contractual penalty in the above-mentioned amount.

   Payment of the above-mentioned penalties may result in exceeding the amount of EUR 200 000 referred to in § 9 clause 5 of the Decree of the Minister of Finance dated 19.02.2009 on current and periodical information submitted by issuers of securities and the conditions of considering as equivalent the information required by law of a non-member country (Journal of Laws No. 33/2009, item 259) ('the Decree'). Payment of contractual penalties does not preclude the right to claim compensation exceeding the amount of the penalties.

   Concluding the contract resulted in meeting the conditions giving rise to the obligation to give information that PKO Bank Polski SA concluded a significant contract because the total value of the services arising from the contracts concluded by the Bank with a customer of PKO Bank Polski SA met the criteria referred to in § 2 clause 1.44.a and in association with § 2 clause 2 of the Decree.

   The total exposure of PKO Bank Polski SA in respect of the agreements concluded by the Bank with the customer and its subsidiaries in the last 12 months before the date of agreement is PLN 4 580 million.

As part of the above contract, making a global intra-day debit limit available, made it the contract of the highest value among those concluded by PKO Bank Polski SA with a customer during the 12 month period preceding its conclusion.

2. On 10 February 2012, PKO Bank Polski SA carried out an issue of own bonds based on the Scheme for Issuing bonds for the domestic market, which PKO Bank Polski SA gave information about in its current report No. 32/2011 of 21 June 2011. The information concerning the issue was announced publicly. The terms of issue are as follows:
   a. the bonds have been issued based on the Bonds Act, and the funds obtained from the issue were designated for the general financing purposes of PKO Bank Polski SA,
   b. the bonds issued are zero-coupon discount bearer bonds; the redemption of the bonds issued as part of the issue will be performed at their nominal value,
   c. the nominal value of the bonds issued on 10 February 2012 as part of the issue is PLN 1 500 million,
   d. the nominal value of one bond issued as part of the issue is PLN 100 000,
   e. the issue price of the bonds issued as part of the issue is equal to PLN 1 480 650 000.

   As a result of the issue carried out on 10 February 2012, the total value of the bonds issued by PKO Bank Polski SA as part of the issue scheme not yet redeemed, together with the value of the bonds issued as part of the Issue, exceeded 10% of the own funds of PKO Bank Polski.

3. On 6 June 2012 the Bank carried out an issue of own bonds ('the Issue') based on the Scheme for Issuing bonds for the domestic market, which PKO Bank Polski SA gave information about in its current report No. 32/2011 of 21 June 2011 ('the Issue Program'). Below the Bank announces to the public the following information concerning the Issue:
   1) bonds issued within the Issue were issued on the basis of the Bonds Act and the proceeds from the Issue were used for general financing purposes of the Bank;
   2) bonds issued within the Issue are bearer bonds;
   3) nominal value of bonds issued on 6 June 2012 within the Issue is PLN 650 million,
   4) total value of bonds issued under the Issue Program, including the value of bonds issued within the Issue, is PLN 2 480.7 million on the day of the Issue;
   5) nominal value of one share issued within the Issue is PLN 100 000;
   6) issue price of bonds issued within the Issue is PLN 640 897 400;
   7) bonds issued within the Issue are zero-coupon, discount bonds, and the redemption of bonds issued within the Issue will be conducted on the basis of their nominal value;
   8) value of liabilities of the Bank as at 31 March 2012, in accordance with the latest published financial statements, was PLN 163 815 831 000;
   9) projections of liabilities under the bonds until their complete redemption should be estimated on the basis of statements and information provided by the Bank as a public company, in accordance with the Act of 29 July 2005 on Public Offering, Conditions for Introducing Financial Instruments to an Organised Trading System, and on Public Companies.

   As a result of the Issue conducted on 6 June 2012 the total value of not bought back bonds issued by the Bank within the Issue Program, including the value of bonds issued under the Issue, exceeded the level of 10% of the Bank's own funds.

4. On 6 June 2012 the General Shareholders' Meeting of PKO Bank Polski SA on the basis of art 385 § 1 of the Commercial Companies Code dismissed the member of the Supervisory Board – Ms Ewa Miklaszewska from the Supervisory Board of PKO Bank Polski SA and appointed Ms Zofia Dzik.

5. On 12 June 2012 the Bank concluded a credit agreement ('Agreement') with a client of the Bank ('Client' or 'Borrower') for a total amount of PLN 2 000 million. Under the terms of the Agreement, the following activities may be taken up upon instructions from the Client:
   – providing bank guarantees,
   – granting investment loans consisting of two tranches: an amortised investment loan of PLN 1 120 million and an unamortised investment loan of PLN 280 million and a bridging loan of PLN 600 million.

The Borrower must pay the final instalment of the loan no later than 30 September 2018. Interest on the individual tranches of the loan is based on the WIBOR rate, plus the Bank's margin.

The funding has been secured with, among other things, registered pledges, mortgages and bank transfers of potential claims. The Bank's total engagement under credit agreements concluded with the Client and Client's related parties over the past 12 months before the date of conclusion of the Agreement amounted to PLN 2 679 million.

This Agreement represented the biggest transaction among those concluded with the Client and Client's related parties over the 12-month period preceding its conclusion.

Subsequent events which took place after the reporting period

1. On 4 July 2012 the Bank concluded the agreement with a client of the Bank ('Client') for a total amount of PLN 600 million. The Client must pay the final instalment of the loan granted according to the Agreement no later than on 31 December 2015. Interest on the loan granted according to the Agreement is based on the WIBOR rate, plus the Bank's margin.
   The claim from the loan granted has been secured with, among others, registered pledges on Client's assets. The Bank's total engagement under credit agreements concluded with the Client and Client's associates over the past 12 months before the date of agreement amounts to PLN 2 796 million.

2. On 17 July 2012 the Management Board of the Bank adopted a resolution on an intended premature redemption of all subordinated bonds (the 'call option') for the total nominal value of PLN 1 600 700 000 issued by the Bank on 30 October 2007 (the '2007 Issue'); this issue having been reported in current reports No. 43/2007 and 47/2007. Exercising the call option with respect to the 2007 Issue is dependent upon the Bank's receipt of the required permission from the Polish Financial Supervision Authority (the 'PFSA'). The Bank will promptly announce receipt of the permission from the PFSA for exercising the call option in a separate current report.
   At the same time, the Bank announces that on 17 July 2012 it adopted a resolution approving an issue of subordinated bonds (the 'New Issue') in 10NC5 format, i.e., with a maturity of 10 years, whereby the Bank has the right to redeem prematurely all the shares in the New Issue (the 'call option') within five years from the issue date, pending approval from the PFSA. The total nominal value of the shares issued under the New Issue shall not exceed PLN 1 600 700 000. The bonds shall be issued under the terms of the Bonds Act, while the proceeds from the New Issue shall, pending approval from the PFSA, be used to augment the Bank's supplementary funds under the terms of Article 127 § 3 clause 2 letter b of the Banking Act. The nominal value of one bond shall be not less than PLN 1 000. The benefits under the bonds shall be pecuniary only. The bonds shall earn interest under market conditions at six-month intervals. The interest shall be calculated on the nominal value.
   The Bank wants the proceeds from the New Issue to replace the proceeds earned by the Bank from the 2007 Issue in connection with the intended call option regarding the 2007 Issue. Subject to prior approval from the PFSA, the call option regarding the 2007 Issue shall be exercised after the New Issue. During the period between the New Issue and the call option regarding the 2007 Issue, the Bank's total level of liabilities under the 2007 Issue and New Issue shall amount to PLN 3 201 400 000.

3. On 18 July 2012 the Bank made aware of:
   - a resolution No. 711/2012 adopted by the Management Board of the Warsaw Stock Exchange dated 18 July 2012 in which WSE stated that 197 500 000 ordinary bearer series A shares of the Bank, assigned the code 'PLPKO0000073' by the National Depository for Securities (KDPW) are admitted for trading on the primary market and in which WSE decided on the floating of 197 500 000 shares of the Bank, assigned the code 'PLPKO0000073' by the KDPW, on the primary market under an ordinary procedure as at 19 July 2012,
   - a resolution No. 535/12 of the Management Board of the KDPW dated 18 July 2012 pursuant to which it was decided to assimilate on 19 July 2012 197 500 000 shares of the Bank assigned the code 'PLPKO0000073' with 740 000 000 shares of the Bank assigned the code 'PLPKO0000016'.

   The shares covered by the assimilation are assigned the code 'PLPKO0000016'.
   As at 19 July 2012, the Bank's shares in the total number of 1 250 000 000 include:
   - 312 500 000 ordinary registered shares assigned the code 'PLPKO0000024',
   - 937 500 000 bearer shares (listed on the stock exchange) assigned the code 'PLPKO0000016'.

4. On 20 July 2012 Extraordinary General Shareholders' Meeting of Fort Mokotów Inwestycje Sp. z o.o. - a subsidiary of the Bank - passed a resolution on the increase of the Company's share capital by PLN 21 685 thousand. The shares in the increased capital will be acquired by the present shareholders, i.e. PKO Bank Polski SA, which will acquire shares for PLN 21 682 thousand and Qualia Development Sp. z o.o., which will acquire shares for the amount of PLN 3 thousand.
5. On 24 July 2012 the Bank and other institutions financing the activities of Polimex-Mostostal SA, signed a standstill agreement with the Company for a period of four months. As at the end of June 2012, the Bank was exposed with both on-balance and off-balance sheet exposures towards the Company. As at the balance date the Bank classified these exposures as not impaired based on the analysis of the financial standing of the Company and terms of the above mentioned standstill agreement, which do not introduce any significant changes to the terms of cooperation with the Client. The Bank monitors the financial and economic standing of the Client on an ongoing basis.
6. On 27 July 2012, the Bank received funds in the amount of CHF 410 million due to a loan, in accordance with an agreement signed on 19 June 2012 between PKO Bank Polski SA and a consortium of banks. The repayment of the loan will take place once on 19 June 2015.

Declaration of the Management Board of PKO Bank Polski SA

The Management Board of PKO Bank Polski SA certifies that, to the best of its knowledge:

1. the consolidated interim financial statements and comparative data have been prepared in accordance with binding accounting and reporting standards and present a true and fair view of financial condition and results of the PKO Bank Polski SA Group,
2. the interim Directors' Report presents a true view of the development and achievements as well as condition of the PKO Bank Polski SA Group, including a description of the basic risks and threats.

The Management Board of PKO Bank Polski SA certifies that the entity authorised to audit the financial statements and which is performing the review of the consolidated interim financial statements, has been elected as the auditor in compliance with applicable laws. The entity as well as the certified auditor performing the review fulfilled all criteria for providing unbiased and independent review report in compliance with applicable laws and professional norms.

The Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group Directors' Report for the first half of 2012 consists of 59 sequently numbered pages.

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President of the Management Board
Zbigniew Jagiełło

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Vice-President of the Management Board
Piotr Alicki

_ _
Vice-President of the Management Board
Bartosz Drabikowski

_ _
Vice-President of the Management Board
Jarosław Myjak

_ _
Vice-President of the Management Board
Jacek Obłękowski

_ _
Vice-President of the Management Board
Jakub Papierski