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Bank Polski

Condensed interim financial statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna

for the six-month period ended 30 June 2012

SELECTED FINANCIAL DATA DERIVED FROM THE STAND-ALONE FINANCIAL STATEMENTS

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	period from 01.01.2012 to 30.06.2012	period from 01.01.2011 to 30.06.2011	period from 01.01.2012 to 30.06.2012	period from 01.01.2011 to 30.06.2011
Net interest income	3 986 735	3 519 460	943 695	887 117
Net fee and commission income	1 379 188	1 432 507	326 466	361 079
Operating profit	2 493 070	2 349 013	590 132	592 094
Profit before income tax	2 493 070	2 349 013	590 132	592 094
Net profit	2 005 686	1 895 164	474 764	477 696
Earnings per share for the period – basic (in PLN/EUR)	1.60	1.52	0.38	0.38
Earnings per share for the period – diluted (in PLN/EUR)	1.60	1.52	0.38	0.38
Net comprehensive income	1 825 639	1 842 600	432 145	464 447
Net cash flow from / used in operating activities	(68 959)	2 022 074	(16 323)	509 685
Net cash flow from / used in investing activities	2 318 533	(535 985)	548 817	(135 101)
Net cash flow from / used in financing activities	(2 116 168)	(18 045)	(500 916)	(4 548)
Total net cash flows	133 406	1 468 044	31 578	370 036

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	as at 30.06.2012	as at 31.12.2011	as at 30.06.2012	as at 31.12.2011
Total assets	188 175 877	188 372 690	44 159 265	42 649 133
Total equity	23 129 047	22 802 375	5 427 697	5 162 646
Share capital	1 250 000	1 250 000	293 338	283 010
Number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Book value per share (in PLN/EUR)	18.50	18.24	4.34	4.13
Diluted number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Diluted book value per share (in PLN/EUR)	18.50	18.24	4.34	4.13
Capital adequacy ratio	12.74%	11.93%	12.74%	11.93%
Basic funds (Tier 1)	18 753 871	16 225 262	4 400 974	3 673 533
Supplementary funds (Tier 2)	1 002 013	989 525	235 143	224 037
Short-term equity (Tier 3)	59 979	133 134	14 075	30 143

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

– income statement, statement of comprehensive income and statement of cash flows items – the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month of the six-month period ended 30 June 2012 and 2011, respectively: EUR 1 = PLN 4.2246 and EUR 1 = PLN 3.9673,

– statement of financial position items – average NBP exchange rate as at 30 June 2012: EUR 1 = PLN 4.2613 and as at 31 December 2011: EUR 1 = PLN 4.4168.

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INCOME STATEMENT
for the six-month periods ended 30 June 2012 and 30 June 2011 respectively

	Note	01.01-30.06.2012	01.01-30.06.2011
Continuing operations			
Interest and similar income	3	6 375 077	5 489 274
Interest expense and similar charges	3	(2 388 342)	(1 969 814)
Net interest income		**3 986 735**	**3 519 460**
Fee and commission income	4	1 749 918	1 788 993
Fee and commission expense	4	(370 730)	(356 486)
Net fee and commission income		**1 379 188**	**1 432 507**
Dividend income		91 196	93 765
Net income from financial instruments designated at fair value	5	14 796	(35 378)
Gains less losses from investment securities		5 574	15 110
Net foreign exchange gains		142 973	130 259
Other operating income	6	33 030	39 179
Other operating expense	6	(25 670)	(27 934)
Net other operating income and expense		**7 360**	**11 245**
Net impairment allowance and write-downs	7	(1 092 039)	(857 735)
Administrative expenses	8	(2 042 713)	(1 960 220)
Operating profit		**2 493 070**	**2 349 013**
Profit before income tax		**2 493 070**	**2 349 013**
Income tax expense	9	(487 384)	(453 849)
Net profit		**2 005 686**	**1 895 164**
Earnings per share	10		
– basic earnings per share for the period (PLN)		1.60	1.52
– diluted earnings per share for the period (PLN)		1.60	1.52
Weighted average number of ordinary shares during the period (in thousand)		1 250 000	1 250 000
Weighted average diluted number of ordinary shares during the period (in thousand)		1 250 000	1 250 000

Discontinued operations

In the first half of 2012 and in the first half of 2011 PKO Bank Polski SA did not carry out discontinued operations.

STATEMENT OF COMPREHENSIVE INCOME
for the six-month periods ended 30 June 2012 and 30 June 2011 respectively

	Note	01.01-30.06.2012	01.01-30.06.2011
Net profit		**2 005 686**	**1 895 164**
Other comprehensive income		**(180 047)**	**(52 564)**
Cash flow hedges (gross)	15	(241 976)	(94 406)
Deferred tax on cash flow hedges	9	45 975	17 937
Cash flow hedges (net)		(196 001)	(76 469)
Unrealised net gains on financial assets available for sale (gross)		19 696	29 512
Deferred tax on unrealised net gains on financial assets available for sale	9	(3 742)	(5 607)
Unrealised net gains on financial assets available for sale (net)		15 954	23 905
Total net comprehensive income		**1 825 639**	**1 842 600**

(in PLN thousand)

STATEMENT OF FINANCIAL POSITION
as at 30 June 2012 and as at 31 December 2011

	Note	30.06.2012	31.12.2011
ASSETS			
Cash and balances with the central bank		8 766 337	9 060 280
Amounts due from banks	12	2 831 260	2 320 198
Trading assets	13	394 696	1 311 089
Derivative financial instruments	14	2 857 555	3 065 149
Financial assets designated upon initial recognition at fair value through profit and loss	16	14 930 124	12 467 201
Loans and advances to customers	17	139 620 879	140 058 649
Investment securities available for sale	18	12 573 527	14 168 933
Investments in subsidiaries, jointly controlled entities, associates	19	1 332 213	1 497 975
Non-current assets held for sale		20 401	20 410
Intangible assets	20	1 501 812	1 522 568
Tangible fixed assets, of which:	20	2 216 258	2 013 314
investment properties		243	248
Deferred income tax asset	9	431 171	384 134
Other assets		699 644	482 790
TOTAL ASSETS		**188 175 877**	**188 372 690**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the central bank		2 868	3 454
Amounts due to banks	21	4 787 522	5 321 390
Derivative financial instruments	14	2 759 720	2 645 281
Amounts due to customers	22	150 497 206	150 030 681
Debt securities in issue	23	2 775 735	3 105 588
Subordinated liabilities		1 614 369	1 614 377
Other liabilities	24	1 921 841	2 156 523
Current income tax liabilities		66 652	77 532
Provisions	25	620 917	615 489
TOTAL LIABILITIES		**165 046 830**	**165 570 315**
Equity			
Share capital		1 250 000	1 250 000
Other capital		19 873 361	17 598 753
Net profit for the year		2 005 686	3 953 622
TOTAL EQUITY		**23 129 047**	**22 802 375**
TOTAL LIABILITIES AND EQUITY		**188 175 877**	**188 372 690**
Capital adequacy ratio	36.1.2	12.74%	11.93%
Book value (in PLN thousand)		23 129 047	22 802 375
Number of shares (in thousand)		1 250 000	1 250 000
Book value per share (in PLN)		18.50	18.24
Diluted number of shares (in thousand)		1 250 000	1 250 000
Diluted book value per share (in PLN)		18.50	18.24

(in PLN thousand)

STATEMENT OF CHANGES IN EQUITY

for the six-month periods ended 30 June 2012 and 30 June 2011 respectively

for the six-month period ended 30 June 2012	Share capital	Other capital						Unappropriated profits	Net profit for the period	Total equity
		Reserve capital	General banking risk fund	Other reserves	Financial assets available for sale	Cash flow hedges	Total other capital			
As at 1 January 2012	**1 250 000**	**12 898 111**	**1 070 000**	**3 319 621**	**(51 164)**	**362 185**	**17 598 753**	**-**	**3 953 622**	**22 802 375**
Transfer of net profit from previous years	-	-	-	-	-	-	-	3 953 622	(3 953 622)	-
Total comprehensive income, of which:	**-**	**-**	**-**	**-**	**15 954**	**(196 001)**	**(180 047)**	**-**	**2 005 686**	**1 825 639**
Net profit	-	-	-	-	-	-	-	-	2 005 686	2 005 686
Other comprehensive income	-	-	-	-	15 954	(196 001)	(180 047)	-	-	(180 047)
Transfer from unappropriated profits	-	2 300 000	-	66 122	-	-	2 366 122	(2 366 122)	-	-
The effect of the takeover of subsidiary's assets and liabilities by the Bank	-	-	-	-	-	-	-	88 533	-	88 533
Dividends paid	-	-	-	-	-	-	-	(1 587 500)	-	(1 587 500)
As at 30 June 2012	**1 250 000**	**15 198 111**	**1 070 000**	**3 385 743**	**(35 210)**	**166 184**	**19 784 828**	**88 533**	**2 005 686**	**23 129 047**

for the six-month period ended 30 June 2011	Share capital	Other capital						Unappropriated profits	Net profit for the period	Total equity
		Reserve capital	General banking risk fund	Other reserves	Financial assets available for sale	Cash flow hedges	Total other capital			
As at 1 January 2011	**1 250 000**	**12 098 111**	**1 070 000**	**3 283 412**	**(28 808)**	**217 924**	**16 640 639**	**-**	**3 311 209**	**21 201 848**
Transfer of net profit from previous years	-	-	-	-	-	-	-	3 311 209	(3 311 209)	-
Total comprehensive income, of which:	**-**	**-**	**-**	**-**	**23 905**	**(76 469)**	**(52 564)**	**-**	**1 895 164**	**1 842 600**
Net profit	-	-	-	-	-	-	-	-	1 895 164	1 895 164
Other comprehensive income	-	-	-	-	23 905	(76 469)	(52 564)	-	-	(52 564)
Transfer from unappropriated profits	-	800 000	-	36 209	-	-	836 209	(836 209)	-	-
Dividends declared	-	-	-	-	-	-	-	(2 475 000)	-	(2 475 000)
As at 30 June 2011	**1 250 000**	**12 898 111**	**1 070 000**	**3 319 621**	**(4 903)**	**141 455**	**17 424 284**	**-**	**1 895 164**	**20 569 448**

(in PLN thousand)

STATEMENT OF CASH FLOWS

for the six-month periods ended 30 June 2012 and 30 June 2011 respectively

	Note	01.01 – 30.06.2012	01.01 - 30.06.2011
Net cash flow from operating activities			
Profit before income tax		2 493 070	2 349 013
Adjustments:		(2 562 029)	(326 939)
Amortisation and depreciation		237 659	218 244
(Gains) losses from investing activities		1 657	(11 007)
Interest and dividends		(521 284)	(223 835)
Change in amounts due from banks		(83 453)	106 238
Change in trading assets and financial assets designated upon initial recognition at fair value through profit and loss		(1 546 530)	(1 687 797)
Change in derivative financial instruments (asset)		207 594	24 062
Change in loans and advances to customers		15 077	(5 753 927)
Change in other assets		(216 845)	(268 480)
Change in amounts due to banks		(534 454)	1 159 086
Change in derivative financial instruments (liability)		114 439	(145 910)
Change in amounts due to customers		466 525	6 263 732
Change in impairment allowances and provisions		385 628	481 221
Change in other liabilities		(96 613)	250 798
Income tax paid		(503 067)	(415 287)
Other adjustments		(488 362)	(324 077)
Net cash from / used in operating activities		**(68 959)**	**2 022 074**
Net cash flow from investing activities			
Inflows from investing activities		**10 165 850**	**2 176 072**
Proceeds from sale of a subsidiary		1 482	-
Proceeds and interest from sale of investment securities		10 088 247	2 113 947
Proceeds from sale of intangible assets and tangible fixed assets		383	12 374
Other investing inflows (dividends)		75 738	49 751
Outflows from investing activities		**(7 847 317)**	**(2 712 057)**
Purchase / increase in equity of a subsidiary		(19 713)	(42 000)
Purchase of investment securities available for sale		(7 644 271)	(2 515 855)
Purchase of intangible assets and tangible fixed assets		(183 333)	(154 202)
Net cash from / used in investing activities		**2 318 533**	**(535 985)**
Net cash flow from financing activities			
Proceeds from debt securities in issue		4 462 910	44 482
Redemption of debt securities in issue		(4 853 501)	(119)
Dividends paid		(1 587 500)	-
Repayment of interest from issued debt securities		(111 010)	(40 307)
Repayment of long-term borrowings		(27 067)	(22 101)
Net cash generated from financing activities		**(2 116 168)**	**(18 045)**
Net cash inflow/(outflow)		**133 406**	**1 468 044**
of which currency translation differences on cash and cash equivalents		(54 891)	18 293
Cash and cash equivalents at the beginning of the period		11 160 666	8 199 997
Cash and cash equivalents at the end of the period	28	**11 294 072**	**9 668 041**
of which restricted		4 041	5 447

NOTES TO THE FINANCIAL STATEMENTS

(in PLN thousand)

NOTES TO THE FINANCIAL STATEMENTS

1. General information

The condensed interim financial statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ('PKO Bank Polski SA', 'the Bank') have been prepared for the six-month period ended 30 June 2012 and include comparative data for the six-month period ended 30 June 2011 (as regards income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows) and include comparative data as at 31 December 2011 (as regards statement of financial position). Financial data has been presented in Polish zloty (PLN), rounded to thousand zloty, unless indicated otherwise.

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

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

The Bank's shareholding structure is as follows:

Name of entity	Number of shares	Number of votes %	Nominal value of 1 share	Share in equity %
As at 30 June 2012				
The State Treasury	512 406 277	40.99	PLN 1	40.99
Bank Gospodarstwa Krajowego	128 102 731	10.25	PLN 1	10.25
Other shareholders	609 490 992	48.76	PLN 1	48.76
Total	**1 250 000 000**	**100.00**	---	**100.00**
As at 31 December 2011				
The State Treasury	512 406 277	40.99	PLN 1	40.99
Bank Gospodarstwa Krajowego	128 102 731	10.25	PLN 1	10.25
Other shareholders	609 490 992	48.76	PLN 1	48.76
Total	**1 250 000 000**	**100.00**	---	**100.00**

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

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 the total number of 512 406 277 Bank's shares 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 is listed on the Warsaw Stock Exchange. According to the Warsaw Stock Exchange Bulletin ('Ceduła Giełdowa'), the Bank is classified under the macro-sector 'Finance', sector 'Banks'.

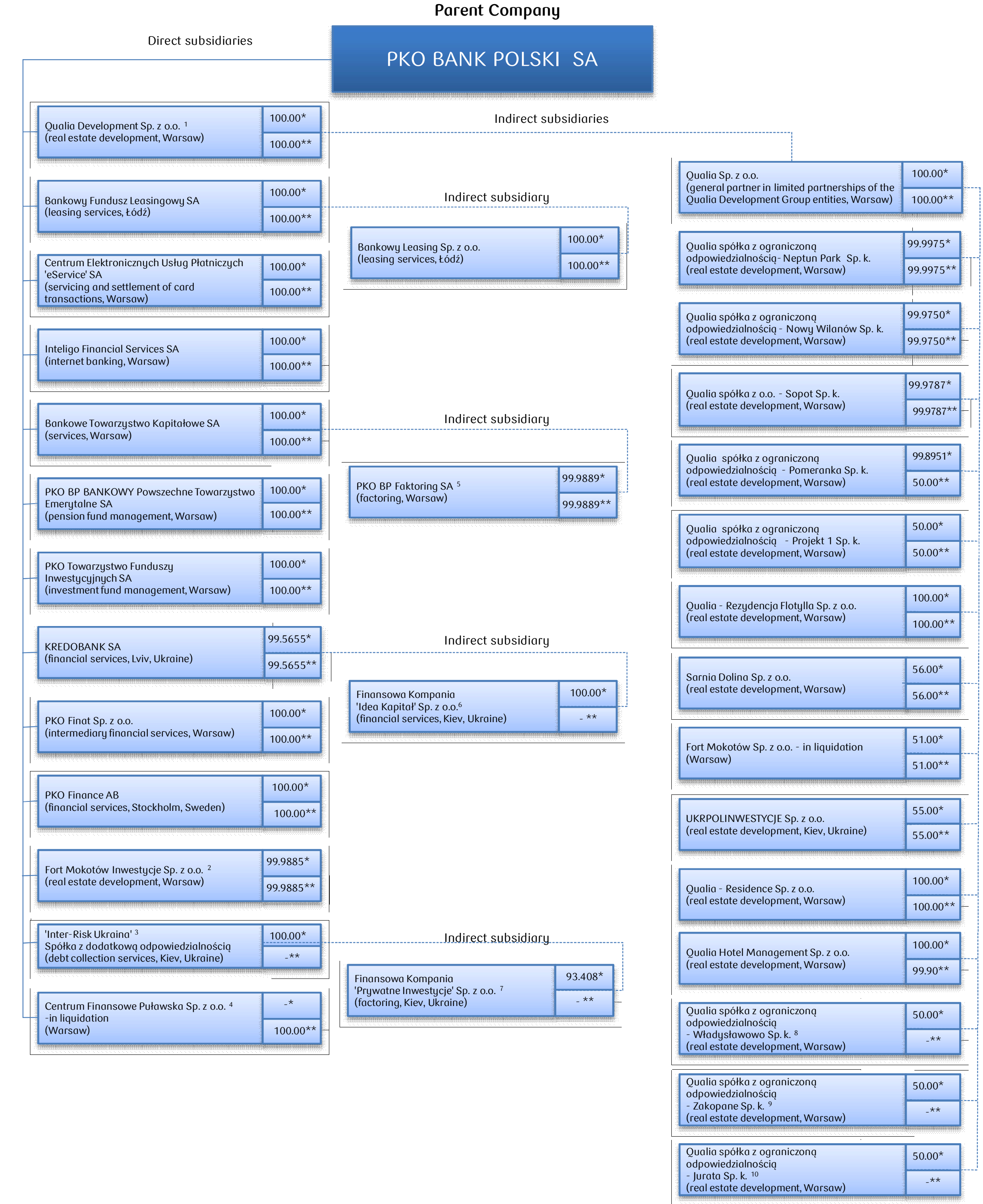
The Bank received a notification dated 27 July 2012 from the ING Otwarty Fundusz Emerytalny about increasing the stake in the PKO Bank Polski SA shares exceeding the threshold 5% of total number of votes at the General Shareholders' Meeting of the Bank. As a result of the acquisition of the PKO Bank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

Business activities of the Bank

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

Structure of the PKO Bank Polski SA Group

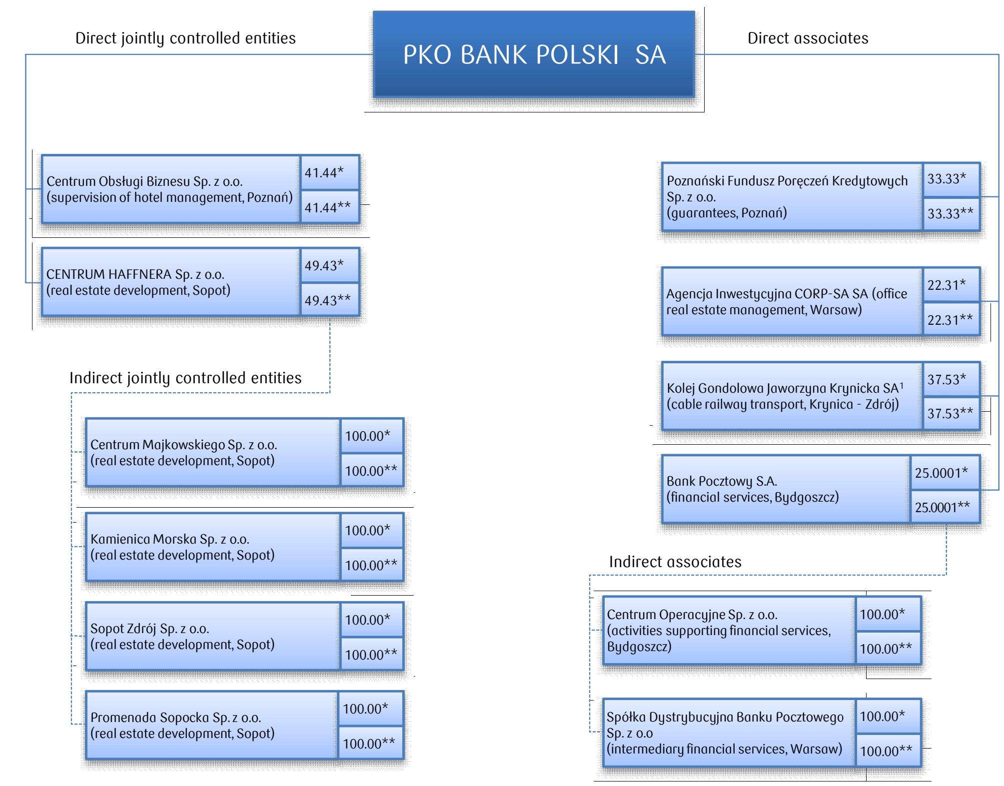
The PKO Bank Polski SA Group consists of the following entities:



* % share in equity as at 30.06.2012 ** % share in equity as at 31.12.2011

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

Additionally, the Bank holds the following jointly controlled entities and associates:



* % share in equity as at 30.06.2012 ** % share in equity as at 31.12.2011

1) In the first half of 2012 and 2011, shares of the Entity are recognised in non-current assets held for sale

Information on changes in the participation in the share capital of the subsidiaries is set out in Note 19 ‘Investments in subsidiaries, jointly controlled entities and associates’.

Internal organisational units of the Bank

The financial statements of the Bank comprising financial data for the six-month period ended 30 June 2012 and comparative financial data, were prepared on the basis of financial data submitted by all organisational units of the Bank through which the Bank performs its activities. As at 30 June 2012, these organisational units included: the Bank's Head Office in Warsaw, the Brokerage House of PKO Bank Polski SA, 12 specialised units, 12 regional retail branches, 13 regional corporate branches, 51 corporate centres, 1121 operational branches and 1218 agencies. None of the organisational units listed above prepares separate financial statements.

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

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

Seasonality or cyclicality in the interim period

The Bank's activities are not subject to significant seasonality or cyclicality.

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

1. As at 30 June 2012, the Bank's Management Board consisted of:

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

On 13 July 2012 Mr Andrzej Kołatkowski resigned from performing the function of Vice-President of the Management Board of PKO Bank Polski SA as of 13 July 2012.

2. As at 30 June 2012, the Bank's Supervisory Board consisted of:

- Cezary Banasiński — Chairman of the Supervisory Board
- Tomasz Zganiacz — Deputy-Chairman of the Supervisory Board
- Mirosław Czekaj — Secretary of the Supervisory Board
- Jan Bossak — Member of the Supervisory Board
- Zofia Dzik — Member of the Supervisory Board
- Krzysztof Kilian — Member of the Supervisory Board
- Piotr Marczak — Member of the Supervisory Board
- Marek Mroczkowski — Member of the Supervisory Board
- Ryszard Wierzba — Member of the Supervisory Board

On 6 June 2012 the General Shareholders' Meeting of PKO Bank Polski SA dismissed the member of the Supervisory Board – Ms Ewa Miklaszewska from the Supervisory Board of PKO Bank Polski SA and appointed Ms Zofia Dzik as a member of PKO Bank Polski SA's Supervisory Board.

Approval of financial statements

These condensed interim financial statements, reviewed by the Supervisory Board's Audit Committee of the Bank on 1 August 2012, have been approved for issue by the Management Board of the Bank on 31 July 2012.

These condensed interim financial statements are published together with condensed consolidated financial statements of the PKO Bank Polski SA Group for the six-month period ended 30 June 2012.

2. Summary of significant accounting policies and estimates and judgements

2.1. Summary of significant accounting policies

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

The accounting policies and calculations applied in these condensed interim financial statements are consistent to those, which were applied in the financial statements of the Bank for the year ended 31 December 2011.

These condensed financial statements for the first half of 2012 should be read together with financial statements of PKO Bank Polski SA for 2011 prepared in accordance with International Financial Reporting Standards, as approved by the European Union.

2.1.1. Standards and interpretations issued and approved in 2012 after the date of publishing financial statements for the year 2011

In 2012, after the publication date of the annual financial statements, i.e. after 5 March 2012, the European Union endorsed amendments to IAS 1 'Presentation of financial statements' and amendments to IAS 19 'Employee benefits' by the Decree of the European Union Commission No. 475/2012 dated 5 June 2012.

The revised IAS 1 introduces an option to present profit or loss and other comprehensive income as one or two separate statements, changing the name of 'statement of comprehensive income' into 'statement of profit or loss and other comprehensive income'. Use of a new terminology is not mandatory. The amendments are effective retrospectively for financial years starting on or after 1 July 2012, with permission to earlier application. If an entity applies the amendments for an earlier period, it shall disclose that fact.

Amendments in IAS 19 introduce new requirements of the recognition and measurement of defined benefit pension expense and termination benefits, as well as change the required disclosures for all employee benefits. The amendments are effective retrospectively for financial years starting on or after 1 January 2013, with permission to earlier application. If an entity applies the amendments for an earlier period, it shall disclose that fact.

The above mentioned amendments in IAS 1 and IAS 19 will be applied for the first time to the financial statements of the Bank for the year 2013.

2.2. Critical estimates and judgements

While preparing financial statements, the Bank makes certain estimates and assumptions, which have a direct influence on both the financial statements presented and the notes to the financial statements. The principles for making critical estimates and judgements are consistent with those used in preparing the annual financial statements of the Bank for the year ended 31 December 2011.

The estimates and assumptions that are used by the Bank in determining the value of assets and liabilities as well as revenues and costs, are made based on historical data and other factors which are available and are considered to be proper in the given circumstances. Assumptions regarding the future and the data available are used for assessing carrying amounts of assets and liabilities which cannot be determined unequivocally using other sources. In making estimates the Bank takes into consideration the reasons and sources of the uncertainties that are anticipated at the end of the reporting period. Actual results may differ from estimates.

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

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

2.2.1. Impairment of loans and advances

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

The adopted methodology used for estimating impairment allowances will be developed in line with the increasing possibilities of acquiring information indicating impairment from the existing and implemented IT systems and applications. As a consequence, acquiring new data could affect the level of impairment allowances in the future. The methodology and assumptions used in the estimates are reviewed on a regular basis to minimise the differences between the estimated and actual loss amounts. In the case of a -/+ 10% change in the present value of estimated cash flows for the loans and advances portfolio individually determined to be impaired, the estimated impairment allowances on loans and advances would increase by PLN 454 million or decrease by PLN 244 million respectively. This estimate was made for the loans and advances portfolio assessed for impairment on an individual analysis of future cash flows arising both from own repayments and recoveries from the collateral, i.e. the exposures for which an individual method is applied.

2.2.2. Impairment of investments in subsidiaries, associates and jointly controlled entities

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

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

The fair value of non-option derivatives and debt securities available for sale not listed on an active market is determined using valuation models based on discounted cash flows expected to be received from the given financial instrument. In the valuation of non-listed debt securities available for sale, assumptions are also made about the contractor's credit risk, which may have an impact on the pricing of the instruments. Any change in these assumptions could affect the valuation of the above mentioned financial instruments.

Options are valued on the basis of the data derived from regulated market, on the basis of the data received from counterparties of the Bank or using option pricing models. The variables used in a valuation are derived from available market data.

The valuation techniques used by the Bank for non-option derivative instruments are based on yield curve based on available market data (deposit margins on interbank market, IRS transactions quotations). The Bank conducted a simulation to assess the potential influence of change of the yield curve on the transaction valuation. Upwards movement of yield curve by 50 b.p. would result in decrease in non-option derivative instruments valuation by PLN 50 million. A similar downward movement would result in valuation increase by PLN 51.3 million (including financial instruments covered by hedge accounting: a decrease by PLN 72 million for upward movement of the yield curve and an increase by PLN 73.5 million for downward movement of the yield curve).

2.2.4. Calculation of provisions for employee benefits

The provision for retirement and pension benefits and anniversary bonuses is created individually for each employee on the basis of an actuarial valuation performed periodically by an independent actuarial consulting company. The basis for calculation of provisions for employee benefits are internal regulations and, in particular, the Collective Labour Agreement (‘Zakładowy Układ Zbiorowy Pracy’) being in force at the Bank. Valuation of the employee benefit provisions is performed using actuarial techniques and assumptions. The calculation of the provision includes all anniversary bonuses and retirement and pension benefits expected to be paid in the future. The provision was created on the basis of a list of people including all the necessary details of employees, in particular the length of their service, age and gender. The provisions calculated are equal to discounted future payments, taking into account staff turnover. Gains and losses resulting from actuarial calculations are recognised in the income statement.

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

(in PLN thousand)

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

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

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

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

If the useful life of assets being subject to depreciation and classified as land and buildings was changed by +/- 10 years, it would influence the financial result as follows: a decrease in depreciation costs by PLN 14 million or an increase in depreciation costs by PLN 149 million respectively.

NOTES TO THE INCOME STATEMENT

3. Interest income and expense

Interest and similar income

	01.01-30.06.2012	01.01-30.06.2011
Interest income calculated using the effective interest rate method, with respect to financial assets, which are not designated at fair value through profit and loss, of which:	**5 517 104**	**4 836 509**
Income from loans and advances to customers	5 032 078	4 499 424
Income from investment securities available for sale	361 892	237 031
Income from placements with banks	119 794	97 061
Other	3 340	2 993
Other income, of which:	**857 973**	**652 765**
Income from derivative hedging instruments	466 217	351 145
Income from financial assets designated upon initial recognition at fair value through profit and loss	359 288	256 316
Income from trading assets	32 468	45 304
Total	**6 375 077**	**5 489 274**

In the 'Income from derivative hedging instruments' the Bank presents interest income from derivative instruments designated for hedge accounting that are effective hedging instruments in respect of cash flow hedges. Details of hedging relationships applied by the Bank are included in Note 15 of the condensed interim financial statements of the Bank 'Derivative hedging instruments'.

In the six-month period ended 30 June 2012 the value of interest income from impaired loans amounted to PLN 224 030 thousand (in the six-month period ended 30 June 2011, it amounted to PLN 176 902 thousand). This income has been included in the position 'Income from loans and advances to customers'.

(in PLN thousand)

Interest expense and similar charges

	01.01-30.06.2012	01.01-30.06.2011
Interest expense calculated using the effective interest rate method, with respect to financial liabilities, which are not designated at fair value through profit and loss, of which:	**(2 387 527)**	**(1 968 695)**
Interest expense on amounts due to customers	(2 260 428)	(1 907 642)
Interest expense on debt securities in issue	(107 728)	(41 431)
Interest expense on deposits from banks	(14 379)	(19 399)
Premium expense on debt securities available for sale	(4 992)	(223)
Other expense	**(815)**	**(1 119)**
Total	**(2 388 342)**	**(1 969 814)**

4. Fee and commission income and expense

Fee and commission income

	01.01-30.06.2012	01.01-30.06.2011
Income from financial assets, which are not designated at fair value through profit and loss, of which:	**280 505**	**275 024**
Income from loans and advances granted	280 505	275 024
Other commissions	**1 467 593**	**1 512 762**
Income from payment cards	539 293	486 832
Income from maintenance of bank accounts	439 586	456 921
Income from loan insurance	202 821	262 157
Income from maintenance of investment funds (including management fees)	83 349	104 750
Income from cash transactions	61 994	76 910
Income from securities transactions	35 246	32 607
Income from servicing foreign mass transactions	24 124	23 393
Income from sale and distribution of court fee stamps	10 267	10 618
Other*	70 913	58 574
Income from fiduciary activities	**1 820**	**1 207**
Total	**1 749 918**	**1 788 993**

* 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 indebtedness of borrowers against the State budget.

Fee and commission expense

	01.01-30.06.2012	01.01-30.06.2011
Expenses on payment cards	(213 419)	(169 302)
Expenses on loan insurance	(54 820)	(68 464)
Expenses on acquisition services	(47 960)	(62 072)
Expenses on settlement services	(11 025)	(11 875)
Expenses on fee and commissions for operating services rendered by banks	(5 040)	(5 436)
Other*	(38 466)	(39 337)
Total	**(370 730)**	**(356 486)**

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

5. Net income from financial instruments designated at fair value

	01.01-30.06.2012	01.01-30.06.2011
Debt securities	16 625	(3 326)
Equity instruments	190	1 390
Structured bank securities designated at fair value through profit and loss[1)]	(523)	952
Derivative instruments[1)]	(1 496)	(34 393)
Other[1)]	-	(1)
Total	**14 796**	**(35 378)**

(in PLN thousand)

In the net income from financial instruments designated at fair value, position 'Derivative instruments', in the period ended 30 June 2012, an ineffective portion related to cash flow hedges was recognised and it amounted to PLN (12 187) thousand (in the period ended 30 June 2011, an ineffective portion related to cash flow hedges was recognised and it amounted to PLN (26 066) thousand).

01.01-30.06.2012	Gains	Losses	Net result
Trading assets	8 304 581	(8 303 354)	1 227
Financial assets designated upon initial recognition at fair value through profit and loss	80 698	(67 129)	13 569
Total	**8 385 279**	**(8 370 483)**	**14 796**

01.01-30.06.2011	Gains	Losses	Net result
Trading assets	6 351 993	(6 383 140)	(31 147)
Financial assets designated upon initial recognition at fair value through profit and loss	48 854	(53 085)	(4 231)
Total	**6 400 847**	**(6 436 225)**	**(35 378)**

The total change in fair values of financial instruments designated at fair value through profit and loss determined with use of valuation models (where no quotations from active market are available) in the period ended 30 June 2012 amounted to PLN (2 019)[*)] thousand (in the period ended 30 June 2011 PLN (33 442)[*)] thousand).

6. Other operating income and expense

	01.01-30.06.2012	01.01-30.06.2011
Other operating income		
Sundry income	9 383	8 398
Recovery of expired and written-off receivables	1 487	411
Sales and disposal of tangible fixed assets, intangible assets and assets held for sale	9 401	12 374
Other	12 759	17 996
Total	**33 030**	**39 179**

	01.01-30.06.2012	01.01-30.06.2011
Other operating expense		
Donations	(7 919)	(6 083)
Sundry expenses	(2 673)	(2 259)
Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(2 050)	(3 133)
Other	(13 028)	(16 459)
Total	**(25 670)**	**(27 934)**

[*)] Comprises the total amount of the items marked with [1)] in Note 5 'Net income from financial instruments designated at fair value'.

(in PLN thousand)

7. Net impairment allowance and write-downs

For the six-month period ended 30 June 2012	Note	Value at the beginning of the period	Increases		Decreases			Value at the end of the period	Net – impact on the income statement
			Recognised during the period	Other	Decrease due to derecognition of assets and settlement	Reversed during the period	Other		
Investment securities available for sale	**18**	**15 502**	**9 696**	**-**	**5 898**	**1 564**	**-**	**17 736**	**(8 132)**
Debt securities available for sale		12 998	-	-	5 898	1 564	-	5 536	1 564
Equity securities not admitted to public trading		2 504	9 696	-	-	-	-	12 200	(9 696)
Amounts due from banks	**12**	**33 710**	**409**	**-**	**-**	**281**	**388**	**33 450**	**(128)**
Loans and advances to customers measured at amortised cost	**17**	**4 982 790**	**2 900 896**	**31 397**	**604 375**	**1 881 673**	**23 552**	**5 405 483**	**(1 019 223)**
Non-financial sector		4 958 486	2 896 983	30 932	604 273	1 878 534	23 552	5 380 042	(1 018 449)
consumer loans		1 451 068	1 222 086	19 151	431 821	898 814	2 519	1 359 151	(323 272)
mortgage loans		1 234 974	506 773	3 169	12 881	301 193	12 282	1 418 560	(205 580)
corporate loans		2 272 444	1 168 124	8 612	159 571	678 527	8 751	2 602 331	(489 597)
Financial sector		8 525	2 565	160	102	2 178	-	8 970	(387)
corporate loans		8 525	2 565	160	102	2 178	-	8 970	(387)
Budget sector		15 779	1 348	305	-	961	-	16 471	(387)
corporate loans		15 779	1 348	305	-	961	-	16 471	(387)
Non-current assets held for sale		**1 278**	**-**	**-**	**3**	**-**	**-**	**1 275**	**-**
Tangible fixed assets	**20**	**143**	**2 804**	**-**	**-**	**-**	**-**	**2 947**	**(2 804)**
Intangible assets	**20**	**18 017**	**3 695**	**-**	**-**	**-**	**-**	**21 712**	**(3 695)**
Investments in subsidiaries, jointly controlled entities and associates	**19**	**475 669**	**16 705**	**-**	**-**	**-**	**-**	**492 374**	**(16 705)**
Other, of which:		**293 282**	**108 577**	**-**	**26 139**	**67 225**	**264**	**308 231**	**(41 352)**
provisions on legal claims and liabilities and guarantees granted		114 023	91 691	-	-	58 086	220	147 408	(33 605)
Total		5 820 391	3 042 782	31 397	636 415	1 950 743	24 204	6 283 208	(1 092 039)

(in PLN thousand)

For the six-month period ended 30 June 2011	Value at the beginning of the period	Increases		Decreases			Value at the end of the period	Net – impact on the income statement
		Recognised during the period	Other	Decrease due to derecognition of assets and settlement	Reversed during the period	Other		
Investment securities available for sale	**13 578**	**-**	**-**	**-**	**-**	**-**	**13 578**	**-**
Debt securities available for sale	13 045	-	-	-	-	-	13 045	-
Equity securities not admitted to public trading	533	-	-	-	-	-	533	-
Amounts due from banks	**32 570**	**-**	**-**	**-**	**1 505**	**2 015**	**29 050**	**1 505**
Loans and advances to customers measured at amortised cost	**4 265 484**	**1 844 903**	**14 768**	**336 696**	**1 005 176**	**-**	**4 783 283**	**(839 727)**
Non-financial sector	4 246 632	1 837 736	14 768	336 631	1 002 012		4 760 493	(835 724)
consumer loans	1 499 403	839 505	3 032	244 903	478 269	-	1 618 768	(361 236)
mortgage loans	907 343	546 622	10 952	76 002	237 191	-	1 151 724	(309 431)
corporate loans	1 839 886	451 609	784	15 726	286 552	-	1 990 001	(165 057)
Financial sector	5 718	5 742	-	65	261	-	11 134	(5 481)
corporate loans	5 718	5 742	-	65	261	-	11 134	(5 481)
Budget sector	13 134	1 425	-	-	2 903	-	11 656	1 478
corporate loans	13 134	1 425	-	-	2 903	-	11 656	1 478
Non-current assets held for sale	**1 281**	**-**	**-**	**-**	**-**	**-**	**1 281**	**-**
Tangible fixed assets	**18 381**	**-**	**-**	**17 254**	**-**	**-**	**1 127**	**-**
Intangible assets	**18 017**	**-**	**-**	**-**	**-**	**-**	**18 017**	**-**
Investments in subsidiaries, jointly controlled entities and associates	**450 962**	**-**	**-**	**-**	**-**	**-**	**450 962**	**-**
Other, of which:	**404 246**	**114 377**	**-**	**4 840**	**94 864**	**-**	**418 919**	**(19 513)**
provisions on legal claims and liabilities and guarantees granted	222 448	91 797	-	-	83 091	-	231 154	(8 706)
Total	**5 204 519**	**1 959 280**	**14 768**	**358 790**	**1 101 545**	**2 015**	**5 716 217**	**(857 735)**

8. Administrative expenses

	01.01-30.06.2012	01.01-30.06.2011
Staff costs	(1 114 517)	(1 056 229)
Overheads	(588 081)	(588 450)
Amortisation and depreciation	(237 659)	(218 244)
Taxes and other charges	(30 462)	(28 929)
Contribution and payments to the Bank Guarantee Fund	(71 994)	(68 368)
Total	**(2 042 713)**	**(1 960 220)**

Wages and salaries/Employee benefits

	01.01-30.06.2012	01.01-30.06.2011
Wages and salaries	(919 213)	(883 942)
Social Security, of which:	(161 913)	(142 099)
contributions for retirement pay and pensions*	(134 948)	(111 234)
Other employee benefits	(33 391)	(30 188)
Total	**(1 114 517)**	**(1 056 229)**

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

9. Income tax expense

	01.01-30.06.2012	01.01-30.06.2011
Income statement		
Current income tax expense	(492 188)	(497 724)
Deferred income tax related to temporary differences	4 804	43 875
Tax expense in the income statement	**(487 384)**	**(453 849)**
Tax expense in other comprehensive income related to temporary differences	42 233	12 330
Total	**(445 151)**	**(441 519)**

10. Earnings per share

Basic earnings per share

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

Earnings per share

	01.01-30.06.2012	01.01-30.06.2011
Profit per ordinary shareholder (in PLN thousand)	2 005 686	1 895 164
Weighted average number of ordinary shares during the period (in thousand)	1 250 000	1 250 000
Earnings per share (in PLN per share)	1.60	1.52

Earnings per share from discontinued operations

In the periods ended 30 June 2012 and 30 June 2011 respectively, there were no material income or expenses from discontinued operations.

Diluted earnings per share

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

There were no dilutive instruments in the first half of 2012 as well as in the first half of 2011.

(in PLN thousand)

Diluted earnings per share from discontinued operations

In the periods ended 30 June 2012 and 30 June 2011, the Bank did not report any material expenses or income from discontinued operations.

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

In accordance with the Resolution No. 8/2012 of the Ordinary General Shareholders' Meeting of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna dated 6 June 2012, the dividend for 2011 was set at a level of PLN 1 587 500 thousand, i.e. PLN 1.27 per share.

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

NOTES TO THE STATEMENT OF FINANCIAL POSITION

12. Amounts due from banks

	30.06.2012	31.12.2011
Deposits with banks	2 159 011	1 914 393
Loans and advances granted	277 214	158 162
Receivables due from repurchase agreements	217 626	-
Current accounts	208 654	279 622
Cash in transit	2 205	1 731
Total	2 864 710	2 353 908
Impairment allowances on receivables, of which:	(33 450)	(33 710)
impairment allowances on exposure to a foreign bank	(33 403)	(33 283)
Net total	2 831 260	2 320 198

13. Trading assets

	30.06.2012	31.12.2011
Debt securities	383 155	1 300 164
issued by the State Treasury, of which:	327 956	1 268 471
Treasury bonds	327 713	1 219 069
Treasury bills	243	49 402
issued by non-financial institutions, corporate bonds	19 388	14 947
issued by other financial institutions, of which:	18 084	239
bonds issued by WSE	12 866	-
bonds issued by PKO Finance AB in EUR	5 086	-
corporate bonds	132	239
issued by local government bodies, municipal bonds	14 809	14 783
issued by banks, BGK bonds	2 918	1 724
Shares in other entities – listed on stock exchange	10 083	10 925
Investment certificates	816	-
Rights issues	642	-
Total	394 696	1 311 089

As at 30 June 2012, in the trading assets portfolio, the carrying amount of assets pledge as collateral for liabilities due to sell-buy-back transactions was PLN 119 060 thousand (as at 31 December 2011, it was PLN 643 483 thousand respectively).

(in PLN thousand)

14. Derivative financial instruments

The Bank uses various types of derivatives in order to manage risk involved in its business activities. As at 30 June 2012 and 31 December 2011, the Bank held the following derivative instruments:

	30.06.2012		31.12.2011	
	Assets	Liabilities	Assets	Liabilities
Hedging instruments	534 180	352 009	516 925	342 598
Other derivative instruments	2 323 375	2 407 711	2 548 224	2 302 683
Total	**2 857 555**	**2 759 720**	**3 065 149**	**2 645 281**

Type of contract	30.06.2012		31.12.2011	
	Assets	Liabilities	Assets	Liabilities
IRS	2 072 418	1 874 517	1 941 725	1 925 161
CIRS	373 417	496 015	419 640	421 039
FX Swap	251 148	261 793	438 331	139 720
Options	77 950	50 109	106 492	70 112
Forward	44 959	41 823	119 293	56 271
FRA	37 608	34 915	38 117	31 965
Other	55	548	1 551	1 013
Total	**2 857 555**	**2 759 720**	**3 065 149**	**2 645 281**

The most frequently used types of derivatives in the Bank's activities are: IRS, CIRS, FX Swap, Options, Forward, FRA.

15. Derivative hedging instruments

As at 30 June 2012, the Bank applies the following hedging strategies:

1) hedges against fluctuations in cash flows from mortgage loans in CHF and negotiated term deposits in PLN, resulting from the risk of fluctuations in interest rates and foreign exchange rates, using CIRS transactions,
2) hedges against fluctuations in cash flows from floating interest rate loans in PLN, resulting from the risk of fluctuations in interest rates, using IRS transactions,
3) hedges against fluctuations in cash flows from floating interest rate loans in EUR, resulting from the risk of fluctuations in interest rates, using IRS transactions,
4) hedges against fluctuations in cash flows from floating interest rate loans in CHF, resulting from the risk of fluctuations in interest rates, using IRS transactions.

The characteristics of the cash flow hedges applied by the Bank are presented in the table below:

Hedging strategy:	Hedges against fluctuations in cash flows from mortgage loans in CHF and negotiated term deposits in PLN, resulting from the risk of fluctuations in interest rates and in foreign exchange rates, using CIRS transactions
Description of hedge relationship	Elimination of the risk of cash flow fluctuations generated by mortgage loans denominated in CHF and negotiated term deposits in PLN resulting from fluctuations in reference interest rates in CHF and PLN, and changes in foreign exchange rates CHF/PLN during the hedged period.
Hedged risk	Currency risk and interest rate risk.
Hedging instrument	CIRS transactions where the Bank pays coupons based on 3M CHF LIBOR rate, and receives coupons based on 3M WIBOR rate on the nominal amount defined in CHF and PLN respectively.
Hedged position	1) The portfolio of floating rate mortgage loans denominated in CHF. 2) The portfolio of short-term negotiated term deposits, including renewals in the future (high probability of occurrence). The Bank designated the hedged position according to the regulations of IAS 39.WS.99C as adopted by the European Union.
Periods in which cash flows are expected and in which they should have an impact on the financial result	July 2012 to October 2026

Hedging strategy:	Hedges against fluctuations in cash flows from floating interest rate loans in PLN, resulting from the risk of fluctuations in interest rates, using IRS transactions
Description of hedge relationship	Elimination of the risk of cash flow fluctuations generated by floating interest rate PLN loan portfolio resulting from the interest rate risk in the period covered by the hedge.
Hedged risk	Interest rate risk.
Hedging instrument	IRS transactions where the Bank pays coupons based on variable 3M WIBOR rate, and receives coupons based on a fixed rate on the nominal amount for which they were concluded.
Hedged position	The portfolio of loans in PLN indexed to the variable 3M WIBOR rate.
Periods in which cash flows are expected and in which they should have an impact on the financial result	July 2012 to October 2014

(in PLN thousand)

Hedging strategy:	Hedges against fluctuations in cash flows from floating interest rate loans in EUR, resulting from the risk of fluctuations in interest rates, using IRS transactions
Description of hedge relationship	Elimination of the risk of cash flow fluctuations generated by floating rate EUR loan portfolio resulting from the interest rate risk in the period covered by the hedge.
Hedged risk	Interest rate risk.
Hedging instrument	IRS transactions where the Bank pays coupons based on variable 3M EURIBOR rate, and receives coupons based on a fixed rate on the nominal amount for which they were concluded.
Hedged position	The portfolio of loans in EUR indexed to the variable EURIBOR rate.
Periods in which cash flows are expected and in which they should have an impact on the financial result	July 2012 to June 2016

Hedging strategy:	Hedges against fluctuations in cash flows from floating interest rate loans in CHF, resulting from the risk of fluctuations in interest rates, using IRS transactions
Description of hedge relationship	Elimination of the risk of cash flow fluctuations generated by floating rate CHF loan portfolio resulting from the interest rate risk in the period covered by the hedge.
Hedged risk	Interest rate risk.
Hedging instrument	IRS transactions where the Bank pays coupons based on variable 3M LIBOR CHF rate, and receives coupons based on a fixed rate on the nominal amount for which they were concluded.
Hedged position	The portfolio of loans in CHF indexed to the variable 3M LIBOR CHF rate.
Periods in which cash flows are expected and in which they should have an impact on the financial result	July 2012 to July 2016

Cash flow hedges

The fair value of derivative instruments constituting cash flow hedges related to the interest rate and/or foreign exchange rate as at 30 June 2012 and 31 December 2011 amounted respectively to:

Type of instrument:	Carrying amount/fair value					
	30.06.2012			31.12.2011		
	Assets	Liabilities	Total	Assets	Liabilities	Total
IRS	289 278	-	289 278	175 566	1 643	173 923
CIRS	244 902	352 009	(107 107)	341 359	340 955	404
Total	**534 180**	**352 009**	**182 171**	**516 925**	**342 598**	**174 327**

The nominal value of hedging instruments by maturity as at 30 June 2012 and as at 31 December 2011.

Type of instrument:	Nominal value as at 30 June 2012					
	up to 1 month	1 - 3 months	3 months – 1 year	1 – 5 years	Over 5 years	Total
IRS in PLN thousand	-	500 000	5 956 000	520 000	-	**6 976 000**
IRS						
in PLN thousand	-	-	-	2 011 334	-	**2 011 334**
in EUR thousand	-	-	-	472 000	-	**472 000**
IRS						
in PLN thousand	-	-	-	886 925	-	**886 925**
in CHF thousand	-	-	-	250 000	-	**250 000**
CIRS						
in PLN thousand	532 155	1 064 310	4 079 855	12 683 028	1 685 157	**20 044 505**
in CHF thousand	150 000	300 000	1 150 000	3 575 000	475 000	**5 650 000**

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

Other comprehensive income as regards cash flows hedges	01.01-30.06.2012	01.01-30.06.2011
Other comprehensive income at the beginning of the period (gross)	447 142	269 042
Gains/ losses transferred to other comprehensive income in the period	47 656	253 257
Amount transferred from other comprehensive income to profit and loss	(289 632)	(347 663)
-interest income	(466 217)	(351 145)
-net foreign exchange gains	176 585	3 482
Accumulated other comprehensive income at the end of the period gross	**205 166**	**174 636**
Tax effect	**(38 982)**	**(33 181)**
Accumulated other comprehensive income at the end of the period net	**166 184**	**141 455**
Ineffective part of cash flow hedges recognised through profit and loss	**(12 187)**	**(26 066)**
Effect on other comprehensive income in the period gross	**(241 976)**	**(94 406)**
Deferred tax on cash flow hedges	**45 975**	**17 937**
Effect on other comprehensive income in the period net	**(196 001)**	**(76 469)**

(in PLN thousand)

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

	30.06.2012	31.12.2011
Debt securities	14 930 124	12 467 201
issued by central banks, of which:	11 189 539	8 593 791
NBP money market bills	11 189 539	8 593 791
issued by the State Treasury, of which:	3 492 752	3 620 515
Treasury bonds PLN	2 543 161	1 318 278
Treasury bills	949 591	2 180 148
Treasury bonds EUR	-	122 089
issued by local government bodies, of which:	247 833	252 895
municipal bonds EUR	142 164	143 973
municipal bonds PLN	105 669	108 922
Total	14 930 124	12 467 201

17. Loans and advances to customers

	30.06.2012	31.12.2011
Gross loans and advances to customers, of which:	145 026 362	145 041 439
financial sector	3 445 478	3 215 123
corporate, of which:	3 445 478	3 215 123
receivables due from repurchase agreements	9 876	92 836
deposits of the Brokerage House in the Stock Exchange Guarantee Fund and initial deposit	5 729	6 891
non-financial sector	135 319 235	135 828 141
corporate, of which:	42 036 004	41 295 058
receivables due from repurchase agreements	108 446	-
contributions to equity of subsidiaries	222 262	186 943
mortgage	70 563 304	70 551 334
consumer	22 719 927	23 981 749
public sector	5 221 534	5 043 786
corporate	5 221 534	5 043 786
Interest	1 040 115	954 389
Impairment allowances on loans and advances to customers	(5 405 483)	(4 982 790)
Loans and advances to customers net	139 620 879	140 058 649

	30.06.2012	31.12.2011
Loans and advances to customers		
Valued with the individual method, of which:	6 023 512	5 145 413
impaired	5 133 628	4 459 538
not impaired	889 884	685 875
Valued with the portfolio method, impaired	6 354 995	5 936 241
Valued with the group method (IBNR)	132 647 855	133 959 785
Loans and advances to customers gross	145 026 362	145 041 439
Allowances on exposures valued with the individual method, of which:	(1 730 466)	(1 498 059)
impaired	(1 730 466)	(1 498 059)
Allowances on exposures valued with the portfolio method	(2 992 095)	(2 832 217)
Allowances on exposures valued with the group method (IBNR)	(682 922)	(652 514)
Allowances - total	(5 405 483)	(4 982 790)
Loans and advances to customers net	139 620 879	140 058 649

(in PLN thousand)

	30.06.2012	31.12.2011
Loans and advances granted gross, of which:	**145 026 362**	**145 041 439**
mortgage banking	65 303 010	65 342 083
corporate	37 131 658	33 636 213
retail and private banking	20 350 218	21 550 479
small and medium enterprises	14 189 867	15 344 788
housing market clients	6 623 424	7 886 768
contributions to equity of subsidiaries	222 262	186 943
receivables due from repurchase agreements	118 322	92 836
other receivables	47 486	46 940
Interests	**1 040 115**	**954 389**
Impairment allowances on loans and advances	**(5 405 483)**	**(4 982 790)**
Loans and advances granted net	**139 620 879**	**140 058 649**

In the first half of 2012, as a result of re-segmentation, PLN 839 138 thousand of loan volumes of small and medium enterprises and PLN 973 821 thousand of loan volumes of housing market clients were transferred to corporate segment.

The information regarding the Bank's operational segments was presented in condensed consolidated interim financial statements of the Powszechna Kasa Oszczędności Bank Polski SA Group for the six-month period ended 30 June 2012.

As at 30 June 2012, the share of impaired loans amounted to 7.9% (as at 31 December 2011: 7.2%), whereas the coverage ratio of impaired loans (calculated by dividing the balance of impairment allowances on loans and advances to customers by gross carrying amount of impaired loans and advances to customers) amounted to 47.1% (as at 31 December 2011: 47.9%).

As at 30 June 2012, the share of loans overdue by more than 90 days in the gross amount of loans and advances was 4.6% (as at 31 December 2011: 4.0%).

18. Investment securities available for sale

	30.06.2012	31.12.2011
Debt securities available for sale, gross	**12 485 335**	**14 104 181**
issued by the State Treasury, of which:	6 717 532	8 310 429
Treasury bonds PLN	6 717 532	8 298 709
Treasury bonds EUR	-	11 720
issued by local government bodies, municipal bonds	3 499 441	3 458 356
issued by non-financial institutions	2 063 317	2 132 269
corporate bonds	2 063 317	2 129 507
bills of exchange	-	2 762
issued by banks, corporate bonds	50 832	50 870
issued by other financial institutions, corporate bonds	154 213	152 257
Impairment allowances of debt securities available for sale	**(5 536)**	**(12 998)**
corporate bonds	(5 536)	(10 236)
bills of exchange	-	(2 762)
Total net debt securities available for sale	**12 479 799**	**14 091 183**
Equity securities available for sale, gross	**105 928**	**80 254**
Equity securities not admitted to public trading	69 719	40 897
Equity securities admitted to public trading	36 209	39 357
Impairment allowances of equity securities available for sale	**(12 200)**	**(2 504)**
Total net equity securities available for sale	**93 728**	**77 750**
Total net investment securities available for sale	**12 573 527**	**14 168 933**

(in PLN thousand)

As at 30 June 2012, in investment securities available for sale portfolio, the carrying amount of assets pledged as collateral for liabilities due to sell-buy-back transactions was PLN 917 938 thousand. As at 31 December 2011, in investment securities available for sale portfolio, there were no assets pledged as collateral for liabilities due to sell-buy-back transactions.

19. Investments in subsidiaries, jointly controlled entities and associates

As at 30 June 2012, the Bank's investments in subsidiaries, jointly controlled entities and associates have been recognised at acquisition cost adjusted by impairment allowances.

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

As at 30 June 2012	Gross value	Impairment	Carrying amount
Subsidiaries			
KREDOBANK SA	935 619	(423 723)	511 896
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	205 786	-	205 786
PKO Towarzystwo Funduszy Inwestycyjnych SA	186 989	-	186 989
Bankowy Fundusz Leasingowy SA	70 000	-	70 000
Inteligo Financial Services SA	59 602	-	59 602
Centrum Elektronicznych Usług Płatniczych 'eService' SA	55 500	-	55 500
Fort Mokotów Inwestycje Sp. z o.o.[1]	43 546	-	43 546
Bankowe Towarzystwo Kapitałowe SA	21 566	(10 666)	10 900
'Inter Risk Ukraina' Spółka z dodatkową odpowiedzialnością	19 713	-	19 713
PKO BP Finat Sp. z o.o.	11 693	-	11 693
Qualia Development Sp. z o.o. [2]	4 503	-	4 503
PKO Finance AB	172	-	172
Jointly controlled entities			
CENTRUM HAFFNERA Sp. z o.o.	44 371	(16 705)	27 666
Centrum Obsługi Biznesu Sp. z o.o.	17 498	-	17 498
Associates			
Bank Pocztowy SA	146 500	(39 780)	106 720
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	(1 500)	-
Agencja Inwestycyjna CORP-SA SA	29	-	29
Total	**1 824 587**	**(492 374)**	**1 332 213**

1) Value does not include capital contribution of PKO Bank Polski SA presented in the statement of financial position as loans and advances to customers in the amount of PLN 8 053 thousand.
2) Value does not include capital contribution of PKO Bank Polski SA presented in the statement of financial position as loans and advances to customers in the total amount of PLN 214 209 thousand.

(in PLN thousand)

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

1) Value does not include capital contribution of PKO Bank Polski SA presented in the statement of financial position as loans and advances to customers in the amount of PLN 8 053 thousand.
2) Value does not include capital contribution of PKO Bank Polski SA presented in the statement of financial position as loans and advances to customers in the total amount of PLN 178 890 thousand.

Selected information on associated entities

Entity name	Total assets	Total liabilities	Total revenue	Net profit	% share
30.06.2012					
The Bank Pocztowy SA Group	5 747 792	5 401 478	279 547	15 498	25.0001
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	18 239	134	209	285	33.33
Agencja Inwestycyjna CORP-SA SA	3 026	1 575	6 506	584	22.31
Total	**5 769 057**	**5 403 187**	**286 262**	**16 367**	**X**
31.12.2011					
The Bank Pocztowy SA Group	5 215 801	4 889 578	457 671	29 555	25.0001
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	17 666	137	513	18	33.33
Agencja Inwestycyjna CORP-SA SA	3 874	1 833	12 459	1 109	22.31
Total	**5 237 341**	**4 891 548**	**470 643**	**30 682**	**X**

Data for 2011 was derived from the audited financial statements; therefore, they could have changed as compared with the data presented in the financial statements for 2011, where the initial financial data was presented.

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

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

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

On 16 January 2012, the Bank was registered with the State Ukrainian Register of Businesses as the sole shareholder of 'Inter-Risk Ukraina' Additional Liability Company ('Inter-Risk Ukraina', 'the Company'). 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).

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

On 30 January 2012, the Bank made a capital contribution to the above mentioned Company of UAH 43 million (i.e. PLN 17 212.9 thousand at the average NBP exchange rate as at 27 January 2012 applicable in the Bank on 30 January 2012), conducted by increasing the nominal value of the Company's share. As a result of the above mentioned increase, the Company's share capital amounts to UAH 43 275 thousand.

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

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

In February 2012, the Bank carried out a transaction consisting of selling 2% interest in Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. ('Finansowa Kompania', 'the Company') to 'Inter-Risk Ukraina' for the price of PLN 29.6 thousand.

In February 2012 'Inter-Risk Ukraina' made a capital contribution to 'Prywatne Inwestycje' 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' holds part of 'Prywatne Inwestycje', 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 the Bank.

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 the Company 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 SA – a subsidiary of PKO Bank Polski SA – for a price equal to the nominal value of the shares taken up.

As a result of the above mentioned transaction Bankowy Fundusz Leasingowy SA remains the sole shareholder of Bankowy Leasing Sp. z o.o.

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 share capital of the Company. The above mentioned increase has to be registered in the National Court Register and will result in a change in the Group in the second half of this year.

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 value of limited partnership amount was increased from PLN 1 thousand to PLN 20 001 thousand. Above mentioned changes were registered in the National Court Register on 19 June 2012.

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 of 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. The transaction was stated as merger of jointly controlled entities and was settled using the values included in the consolidated financial statements. Individual assets and liabilities, including real estate in Warsaw where the Head Office of the Bank is located, were included in the carrying amounts in the respective positions of these financial statements.

(in PLN thousand)

The result of the settlement of the Company's shares, which carrying amount was PLN 167 288 thousand and the value of the Company's net assets overtaken was recognised in the Bank's equity in the amount of PLN 88 533 thousand.

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

20. Intangible assets and tangible fixed assets

Intangible assets	30.06.2012	31.12.2011
Software	1 402 129	1 411 429
Other, of which:	99 683	111 139
capital expenditure	82 977	101 354
goodwill related to assets acquired from subsidiary	7 785	-
Total	**1 501 812**	**1 522 568**

Tangible fixed assets	30.06.2012	31.12.2011
Land and buildings	1 610 355	1 375 234
Machinery and equipment	414 485	442 458
Assets under construction	124 402	133 508
Means of transport	297	464
Investment properties	243	248
Other	66 476	61 402
Total	**2 216 258**	**2 013 314**

As a result of the liquidation of a subsidiary Centrum Finansowe Puławska Sp. z o.o., the Bank took over the assets in bankruptcy of the value of the net tangible assets in the amount of PLN 243 674 thousand, including the net value of the real estate in Warsaw in the amount of PLN 199 112 thousand.
Except of this transaction, in the six-month period ended 30 June 2012, there were no significant transactions of purchase and sale of tangible fixed assets and significant liabilities due to purchase of tangible fixed assets.

21. Amounts due to banks

	30.06.2012	31.12.2011
Loans and advances received	3 362 699	3 443 872
Bank deposits	1 181 691	1 372 635
Amounts due from repurchase agreements	66 734	-
Current accounts	48 488	421 939
Other money market deposits	127 910	82 944
Total	**4 787 522**	**5 321 390**

In the six-month period ended 30 June 2012, loans and advances received are paid in a timely manner and with no significant violations of loan or advance agreement.

(in PLN thousand)

22. Amounts due to customers

	30.06.2012	31.12.2011
Amounts due to retail clients	**105 760 500**	**103 424 136**
Term deposits	57 687 500	54 897 173
Current accounts and overnight deposits	47 836 450	48 054 921
Other money market deposits	236 550	472 042
Amounts due to corporate entities	**39 738 366**	**42 784 326**
Term deposits	22 847 008	24 012 372
Current accounts and overnight deposits	9 245 142	11 187 998
Loans and advances received*	6 339 559	6 453 092
Amounts due from repurchase agreements	970 319	644 005
Other money market deposits	336 338	486 859
Amounts due to state budget entities	**4 998 340**	**3 822 219**
Term deposits	2 479 924	1 516 981
Current accounts and overnight deposits	2 435 597	2 241 309
Other money market deposits	82 819	63 929
Total	**150 497 206**	**150 030 681**

* In 'Loans and advances received' there is included a received loan of EUR 800 000 thousand and CHF 250 000 thousand from PKO Finance AB, the Bank's subsidiary, as funds gathered through Eurobonds issue.

In the six-month period ended 30 June 2012, loans and advances received are paid in a timely manner and with no significant violations of loan or advance agreement.

	30.06.2012	31.12.2011
Amounts due to customers, of which:	**150 497 206**	**150 030 681**
retail and private banking	102 374 684	99 631 256
corporate	27 944 429	28 873 527
small and medium enterprises	8 191 158	8 932 110
loans and advances received	6 339 559	6 453 092
housing market clients	4 535 887	5 405 545
amounts due from repurchase agreement	970 319	644 005
other liabilities	141 170	91 146
Total	**150 497 206**	**150 030 681**

In the first half of 2012, as a result of re-segmentation, PLN 62 677 thousand of deposit volumes of small and medium enterprises and PLN 402 317 thousand of deposits volumes of housing market clients were transferred to corporate segment.

23. Debt securities in issue

	30.06.2012	31.12.2011
Debt securities in issue		
Financial instruments designated at fair value through profit and loss, bank securities issued by PKO Bank Polski SA	312 236	175 615
Financial instruments measured at amortised cost – Bank bonds issued by PKO Bank Polski SA	2 463 499	2 929 973
Total	**2 775 735**	**3 105 588**

	30.06.2012	31.12.2011
Debt securities in issue by maturity:		
from 1 month to 3 months	2 463 499	2 929 973
from 3 months to 1 year	42 436	-
from 1 year to 5 years	269 800	175 615
Total	**2 775 735**	**3 105 588**

(in PLN thousand)

In the six-month period of 2012, the Bank issued bank securities and bank bonds with nominal value of PLN 4 520 232 thousand classified respectively as liabilities designated to be measured at fair value through profit and loss, in accordance with IAS 39.11A.a and measured at amortised cost. In the first half of 2012, bank securities and bank bonds with nominal value of PLN 4 853 501 thousand were redeemed.

24. Other liabilities

	30.06.2012	31.12.2011
Accounts payable	276 213	241 918
Deferred income	314 361	277 150
Other liabilities	1 331 267	1 637 455
Total	**1 921 841**	**2 156 523**

25. Provisions

For the six-month period ended 30 June 2012	Provision for legal claims	Provisions for anniversary bonuses and retirement benefits	Provisions for liabilities and guarantees granted	Other provisions*	Total
As at 1 January 2012, of which:	2 254	426 973	111 769	74 493	615 489
Short term provision	2 254	38 069	111 769	74 493	226 585
Long term provision	-	388 904	-	-	388 904
Increase/reassessment of provision	-	-	91 691	5 235	96 926
Use of provision	-	-	-	(33 192)	(33 192)
Release of provision	-	-	(58 086)	-	(58 086)
Other changes and reclassifications	-	-	(220)	-	(220)
As at 30 June 2012, of which:	2 254	426 973	145 154	46 536	620 917
Short term provision	2 254	38 069	145 154	46 536	232 013
Long term provision	-	388 904	-	-	388 904

* Included in 'Other provisions' is i.a.: restructuring provision of PLN 35 113 thousand and provision of PLN 5 150 thousand for potential claims on impaired loans portfolios sold.

In the six-month period ended 30 June 2012, there were no significant settlements due to court proceedings.

For the six-month period ended 30 June 2011	Provision for legal claims	Provisions for anniversary bonuses and retirement benefits	Provisions for liabilities and guarantees granted	Other provisions*	Total
As at 1 January 2011, of which:	6 311	410 723	216 137	81 267	714 438
Short term provision	6 311	29 537	81 965	81 267	199 080
Long term provision	-	381 186	134 172	-	515 358
Increase/reassessment of provision	-	-	91 797	4 318	96 115
Use of provision	-	-	-	(33 752)	(33 752)
Release of provision	-	-	(83 091)	-	(83 091)
Other changes and reclassifications	-	-	-	-	-
As at 30 June 2011, of which:	6 311	410 723	224 843	51 833	693 710
Short term provision	6 311	29 537	224 843	51 833	312 524
Long term provision	-	381 186	-	-	381 186

* Included in 'Other provisions' is i.a.: restructuring provision of PLN 36 395 thousand and provision of PLN 10 866 thousand for potential claims on impaired loans portfolios sold.

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

(in PLN thousand)

OTHER NOTES

26. Off – balance sheet liabilities

Contingent liabilities

Underwriting programmes

As at 30 June 2012, the Bank's underwriting agreements covered the following securities (maximum liability of the Bank to acquire securities):

Issuer of securities underwritten	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreement	Contract period	Sub-issue type
Company A	corporate bonds	1 633 000	15.06.2017	Bonds Issue Agreement*
Company B	corporate bonds	548 500	31.07.2013	Bonds Issue Agreement*
Company C	corporate bonds	121 842	31.12.2024	Bonds Issue Agreement*
Company D	corporate bonds	102 700	31.10.2013	Bonds Issue Agreement*
Company E	corporate bonds	100 000	31.12.2022	Bonds Issue Agreement*
Total		2 506 042		

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

As at 31 December 2011, the Bank's underwriting agreements covered the following securities (maximum liability of the Bank to acquire securities):

Issuer of securities underwritten	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreement	Contract period	Sub-issue type
Company B	corporate bonds	423 000	31.07.2013	Bonds Issue Agreement*
Company C	corporate bonds	136 013	31.12.2024	Bonds Issue Agreement*
Company D	corporate bonds	102 700	31.10.2013	Bonds Issue Agreement*
Company F	corporate bonds	24 900	30.12.2015	Bonds Issue Agreement*
Company G	corporate bonds	20 000	02.01.2012	Bonds Issue Agreement*
Total		706 613		

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

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

Contractual commitments

As at 30 June 2012, the amount of contractual commitments concerning intangible assets amounted to PLN 181 469 thousand (as at 31 December 2011, it amounted to PLN 98 233 thousand).

As at 30 June 2012, the amount of contractual commitments concerning tangible fixed assets amounted to PLN 67 641 thousand (as at 31 December 2011, it amounted to PLN 18 894 thousand).

Granted loan commitments

	30.06.2012	31.12.2011
Financial entities	1 484 914	1 609 576
Non-financial entities	26 843 036	28 238 271
State budget entities	3 334 215	823 897
Total	31 662 165	30 671 744
of which: irrevocable loan commitments	8 588 688	6 569 014

Granted loan commitments were presented in nominal values.

(in PLN thousand)

Guarantees issued

	30.06.2012	31.12.2011
Financial entities	1 069 833	1 214 684
Non-financial entities	10 651 489	6 014 910
State budget entities	455 361	174 459
Total	**12 176 683**	**7 404 053**

As at 30 June 2012 and as at 31 December 2011 the Bank did not issue any guarantees in respect of loans or advances and did not issue any guarantees to a subsidiary or other entity thereof with a total value accounting for 10% of the Bank's equity.

Information on provisions for contingent guarantees and financial liabilities is included in Note 25 'Provisions'.

Off-balance sheet liabilities received

	30.06.2012	31.12.2011
Financial	2 967 537	375 428
Guarantees	1 864 852	1 905 208
Total	**4 832 389**	**2 280 636**

The off-balance sheet liabilities received were presented at nominal values.

Assets pledged as collateral for contingent liabilities

As at 30 June 2012 and as at 31 December 2011 the Bank had no assets pledged as collateral for contingent liabilities.

27. Legal claims

As at 30 June 2012, the total value of court proceedings in which the Bank is a defendant was PLN 374 771 thousand (as at 31 December 2011 it was PLN 337 557 thousand), while the total value of court proceedings in which the Bank is the plaintiff was PLN 173 610 thousand (as at 31 December 2011 it was PLN 135 358 thousand).

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

a) unfair competition proceedings

The Bank is a party to proceedings initiated on the basis of a decision dated 23 April 2001 of the President of the Competition and Consumer Protection Office (Urząd Ochrony Konkurencji i Konsumentów - UOKiK) upon request of the Polish Trade and Distribution Organisation (Polska Organizacja Handlu i Dystrybucji – Związek Pracodawców) against the operators of the Visa and Europay payment systems and the banks issuing Visa and Europay/Eurocard/Mastercard banking cards.

The claims under these proceedings relate to the use of practices limiting competition on the market of banking card payments in Poland, consisting of applying pre-agreed 'interchange' fees for transactions made using Visa and Europay/Eurocard/Mastercard cards as well as limiting access to this market by external entities. On 29 December 2006, UOKiK decided that the practices, consisting of joint establishment of 'interchange' fee, did limit market competition and ordered that any such practices should be discontinued, and imposed a fine on, among others, PKO Bank Polski SA, in the amount of PLN 16 597 thousand. On 20 December 2011 a hearing was held during which no factual resolution of the appeals was reached. The Court obligated MasterCard to submit explanations concerning the issue until 31 January 2012 and set the date for another sitting of the Court for 9 February 2012. Upon the application of the plaintiffs' attorney, the date of hearing was postponed for 24 April 2012, on which the request for deferment of the case was dismissed until the end of September 2012 and postponed announcing the resolution on the request for suspension of the case until 8 May 2012. On 8 May 2012, the District Court in Warsaw, the Court for Competition and Consumer Protection, suspended proceedings until the final conclusion of proceedings before the European Union Court in the case MasterCard against the European Commission. On 24 May 2012, the European Union Court upheld the decision of the European Commission banning multilaterally agreed interchange fees applied by MasterCard.

(in PLN thousand)

On 28 May 2012 the participant to the proceedings, Visa Europe Ltd, and on 29 May 2012 the plaintiffs' attorney, including PKO Bank Polski SA, filed a complaint against the decision of the District Court in Warsaw, the Court for Competition and Consumer Protection dated 8 May 2012.

As at 30 June 2012 and 31 December 2011, the Bank had a liability in the amount of PLN 16 597 thousand.

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

As at the date of these financial statements, six administrative proceedings are pending to invalidate decisions issued by public administration authorities with respect to properties held by the Bank. These proceedings, in the event of an unfavourable outcome for the Bank, may result in re-privatisation claims being raised against the Bank and one administrative proceeding for the establishment of perpetual usufruct right to a property owned by the Bank. Given the current status of these proceedings as regards stating the invalidity of decisions and verdicts of public administration bodies, it is not possible to assess their potential negative financial effects for the Bank. Moreover, with respect to two properties of the Bank claims were submitted by their former owners (court proceedings are pending). In the opinion of the Management Board of PKO Bank Polski SA, in 2012 the probability of significant claims arising against the Bank in relation to the above mentioned proceedings is remote.

28. Supplementary information to the statement of cash flows

Cash and cash equivalents

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

	30.06.2012	31.12.2011	30.06.2011
Cash and balances with the central bank	8 766 337	9 060 280	7 571 825
Current receivables from financial institutions	2 527 735	2 100 386	2 096 216
Total	**11 294 072**	**11 160 666**	**9 668 041**

Cash flow from interests and dividends, both received and paid

Interest income – received	01.01-30.06.2012	01.01-30.06.2011
Income from loans and advances granted	4 298 595	3 775 849
Income from securities designated at fair value through profit and loss	426 757	297 225
Income from placements	138 731	104 026
Income from investment securities	445 546	174 084
Income from trading securities	32 462	45 077
Other interest received (mainly from current accounts, realised guarantees, purchased debts, previous years interest adjustments and other interest receivables from financial sector)	715 606	670 809
Total	**6 057 697**	**5 067 070**

Dividend income – received	01.01-30.06.2012	01.01-30.06.2011
Dividend income from subsidiaries, jointly controlled entities and associates	74 149	48 312
Dividend income from other entities	1 589	1 439
Total	**75 738**	**49 751**

(in PLN thousand)

Interest expense – paid	01.01-30.06.2012	01.01-30.06.2011
Interest expense on deposits – paid	(1 657 671)	(1 328 907)
Interest expense on loans and advances - paid	(27 067)	(22 101)
Interest expense on debt securities in issue - paid	(111 232)	(40 424)
Other interests paid (mainly premium from debt securities, interest expense on cash collateral liabilities, interest expense on current account of special purpose funds)	(518 623)	(550 020)
Total	**(2 314 593)**	**(1 941 452)**

29. Transactions with the State Treasury and related entities

As at 30 June 2012, the State Treasury has control over the Bank. The Bank's shareholding structure is described in detail in Note 1 'General Information' to these financial statements.

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

In accordance with the 30 November 1995 Act in relation to State support in the repayment of certain mortgage loans, reimbursement of guarantee premium paid and amendments of several acts (Journal of Laws, 2003; No. 119, item 1115 with subsequent amendments) PKO Bank Polski SA receives payments from the State budget in respect of interest receivable on mortgage loans.

	01.01-30.06.2012	01.01-30.06.2011
Income due to temporary redemption by the State budget of interest on mortgage loans from the 'old' portfolio recognised for this period	94 874	79 551
Income due to temporary redemption by the State budget of interest on mortgage loans from the 'old' portfolio received in cash	48 603	34 921
Difference between income recognised for this period and income received in cash – 'Loans and advances to customers'	46 271	44 630

The Act on the coverage of repayment of certain mortgage loans by the State Treasury (Journal of Laws, 2000, No. 122 item 1310 with subsequent amendments) guarantees was passed on 29 November 2000 and came into force on 1 January 2001. In execution of the provisions of the Act, on 3 August 2001 PKO Bank Polski SA signed an agreement with the Minister of Finance acting on behalf of the State Treasury under which the Bank was granted a pledge of repayment of debt arising from mortgage loans in the so-called 'old' portfolio. On 29 December 2011, the validity period of the agreement (originally until 31 December 2011) was extended until 31 December 2017. The coverage of the so-called 'old' portfolio mortgage loan receivables by the guarantees of the State Treasury results in the neutralisation of the default risk on these loans. The State Treasury guarantees are realised when a borrower fails to repay the loans on the dates specified in the loan agreement. The responsibility of the State Treasury is of an auxiliary nature and is effective if the recovery of the unpaid part of principal and interest which the Bank is obliged to commence, before the Bank lays claims to the State Treasury, becomes ineffective. The above mentioned law covers 90% of unpaid loans taken out by housing cooperatives. As a consequence of the realisation of the State Treasury's responsibilities as guarantor, the State Treasury itself enters into the rights of the satisfied creditor (the Bank) and thus becomes a creditor towards the borrower, in line with the concept of guarantee.

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

	01.01-30.06.2012	01.01-30.06.2011
Fee and commission income	2 304	2 468

As of 1 January 1996 the Bank is the general distributor of Treasury stamps and receives commissions in this respect from the State Treasury.

	01.01-30.06.2012	01.01-30.06.2011
Fee and commission income	10 267	10 618

(in PLN thousand)

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

	01.01-30.06.2012	01.01-30.06.2011
Fee and commission income	21 856	14 322

(in PLN thousand)

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

The transactions were concluded at arm's length.

	30.06.2012						31.12.2011					
Entity	Total receivables	Total liabilities	Contingent liabilities and commitments – financial and guarantee	Interest income	Fee and commission income	Interest expenses	Total receivables	Total liabilities	Contingent liabilities and commitments – financial and guarantee	Interest income	Fee and commission income	Interest expenses
Entity 1	-	5 476	2 080 000	-	1	(145)	-	-	-	-	-	-
Entity 2	343 746	100 279	418 597	2 846	199	(405)	399 939	-	368 959	4 980	909	(301)
Entity 3	191 421	10 362	186 711	4 357	1 171	(2 475)	132 802	150 000	477 545	13 039	2 797	(3 182)
Entity 4	148 644	39 475	74 459	5 120	241	(39)	178 132	15 474	144 912	3 898	578	(45)
Entity 5	140 197	-	-	5 489	1 280	-	130 940	-	-	18 230	245	(6 988)
Entity 6	107 405	-	11 768	3 473	180	(1)	102 811	-	20 357	6 228	605	(5)
Entity 7	106 756	9 905	43 279	2 736	246	(523)	54 758	11 045	95 264	3 420	783	(1 370)
Entity 8	76 194	9 400	60 000	2 584	17	(1 041)	85 308	12 543	60 000	5 731	156	(2 995)
Entity 9	52 006	-	121 842	1 398	2	(365)	58 103	7 000	136 013	2 923	11	(774)
Entity 10	46 850	46 000	-	305	3	(1 447)	48 749	45 850	-	565	5	(1 158)
Entity 11	32 991	-	46 348	1 010	61	(476)	41 060	10 000	50 000	2 927	97	(3 259)
Entity 12	30 459	-	19 833	478	10	(6)	-	-	30 000	-	-	(326)
Entity 13	20 563	-	-	658	4	(87)	25 048	-	-	1 507	8	(114)
Entity 14	20 113	11 600	6 000	691	12	(427)	20 115	5 105	6 000	1 441	32	(645)
Entity 15	13 591	-	692	551	20	-	19 556	-	3 434	1 340	76	-
Other significant exposures	99 936	1 129 670	5 610 994	3 756	1 790	(86 140)	172 297	1 980 756	2 900 763	27 033	4 071	(145 924)
Total	1 430 872	1 362 167	8 680 523	35 452	5 237	(93 577)	1 469 618	2 237 773	4 293 247	93 262	10 373	(167 086)

As at 30 June 2012 and respectively as at 31 December 2011, no significant impairment allowances were recognised for above mentioned receivables.

(in PLN thousand)

30. Related party transactions

All transactions presented below with subsidiaries, jointly controlled entities and associates were arm's length transactions. Repayment terms are within a range from 1 month to 10 years.

30 June 2012

Entity	Receivables	including loans	Liabilities	Total income	including interest and fee and commission income	Total expense	including interest and fee and commission expense	Contingent liabilities and commitments
Agencja Inwestycyjna CORP-SA SA	64	-	68	378	-	1 301	-	-
Bank Pocztowy SA	-	-	113	70	62	614	181	4 539
Bankowe Towarzystwo Kapitałowe SA	-	-	223	9	-	5	5	-
Bankowy Fundusz Leasingowy SA	175 866	21 282	20 041	4 501	3 327	6 389	123	1 085 550
Bankowy Leasing Sp. z o.o.	1 910 846	1 910 778	709	51 234	51 218	31	-	221 937
Centrum Elektronicznych Usług Płatniczych 'eService' SA	10 540	-	39 855	7 877	7 877	33 197	33 197	23 500
CENTRUM HAFFNERA Sp. z o.o.	-	-	265	5	5	-	-	-
Centrum Majkowskiego Sp. z o.o.	-	-	3 609	3	3	53	53	-
Centrum Obsługi Biznesu Sp. z o.o.	31 880	31 880	19 255	429	429	315	315	172
Centrum Operacyjne Sp. z o.o.	-	-	76	1	1	-	-	-
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	214 433	214 433	-	5 362	5 362	-	-	-
Fort Mokotów Inwestycje Sp. z.o.o.	8 053	-	1	2	2	6	6	-
Fort Mokotów Sp. z o.o. – in liquidation	-	-	4 872	-	-	99	99	-
Inteligo Financial Services SA	21 536	-	120 023	876	10	25 961	3 118	-
Kamienica Morska Sp. z o.o.	-	-	98	3	3	-	-	-
Kolej Gondolowa Jaworzyna Krynicka SA	6 991	6 991	4 014	235	235	61	61	-
KREDOBANK SA	235 010	218 607	2 466	3 010	3 010	-	-	68 463
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	69	-	10 101	263	25	162	162	-
PKO BP Faktoring SA	340 270	340 270	1 313	7 176	7 060	-	-	159 730
PKO BP Finat Sp. z o.o.	970	-	3 189	10	10	132	73	593
PKO Finance AB	-	-	4 413 007	-	-	79 084	78 829	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	12 070	-	2 279	74 581	74 045	822	822	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	18 128	1	1	234	234	-
Promenada Sopocka Sp. z o.o.	47 127	47 127	2 715	698	698	29	29	-
Qualia - Residence Sp. z o.o.	-	-	438	7	7	442	4	-
Qualia - Rezydencja Flotylla Sp. z o.o.	62 166	62 166	197	2 116	2 116	-	-	15 151
Qualia Development Sp. z o.o.	214 209	-	16 122	12	7	496	496	2 418
Qualia Hotel Management Sp. z o.o.	-	-	1 171	2	2	3	3	-
Qualia Sp. z o.o.	-	-	2	2	2	-	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Jurata Sp. k.	-	-	2	-	-	-	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Sp. k.	74 427	74 427	3 423	3 627	3 627	161	161	1 855
Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k.	99 943	99 943	10 138	3 986	3 986	107	107	97 557
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp. k.	12 670	12 670	8	850	850	-	-	71 028
Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Sp. k.	-	-	-	1	1	-	-	-
Qualia Spółka z ograniczoną odpowiedzialnością - Sopot Sp. k.	1 643	1 643	798	39	39	-	-	2 812
Qualia Spółka z ograniczoną odpowiedzialnością - Władysławowo Sp. k.	-	-	2	-	-	-	-	-
Qualia Spółka z ograniczoną odpowiedzialnością - Zakopane Sp. k.	-	-	2	-	-	-	-	-
Sarnia Dolina Sp. z o.o.	16 621	16 621	11	501	501	-	-	-
Sopot Zdrój Sp. z o.o.	226 791	226 791	3 181	2 189	2 189	26	26	-
TOTAL	3 724 195	3 285 629	4 701 915	170 056	166 710	149 730	118 104	1 755 305

(in PLN thousand)

31 December 2011

Entity	Receivables	including loans	Liabilities	Total income	including interest and fee and commission income	Total expense	including interest and fee and commission expense	Contingent liabilities and commitments
Agencja Inwestycyjna CORP-SA SA	-	-	76	691	-	2 552	-	-
Bank Pocztowy SA	-	-	983	346	325	486	481	24 974
Bankowe Towarzystwo Kapitałowe SA	-	-	355	23	3	19	19	7 000
Bankowy Fundusz Leasingowy SA	177 829	25 231	24 177	9 972	8 295	12 214	980	1 043 235
Bankowy Leasing Sp. z o.o.	1 205 779	1 205 697	14	65 594	65 547	48	5	224 454
BFL Nieruchomości Sp. z o.o.	394 295	394 295	58	19 312	19 312	27	27	9 650
Centrum Elektronicznych Usług Płatniczych 'eService' SA	568	-	28 243	14 250	13 737	54 172	53 780	23 500
Centrum Finansowe Puławska Sp. z o.o. – in liquidation	-	-	18 983	1 149	1 148	41 966	582	-
CENTRUM HAFFNERA Sp. z o.o.	-	-	2 797	18	18	-	-	-
Centrum Majkowskiego Sp. z o.o.	-	-	7 350	13	13	245	245	-
Centrum Obsługi Biznesu Sp. z o.o.	33 625	33 625	21 447	993	993	635	635	-
Centrum Operacyjne Sp. z o.o.	-	-	156	5	5	-	-	-
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	214 957	214 957	-	541	541	-	-	-
Fort Mokotów Inwestycje Sp. z.o.o.	8 053	-	1 410	3	3	82	82	-
Fort Mokotów Sp. z o.o. – in liquidation	-	-	5 252	2	2	226	226	-
Inteligo Financial Services SA	14 530	-	130 667	1 735	20	52 038	5 243	-
Kamienica Morska Sp. z o.o.	-	-	-	13	13	-	-	-
Kolej Gondolowa Jaworzyna Krynicka SA	8 479	8 479	217	479	479	58	58	2 976
KREDOBANK SA	130 285	118 234	1 012	7 260	7 260	-	-	172 346
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	13	-	1 605	2 664	2 492	156	156	-
PKO BP Faktoring SA	179 249	179 249	228	7 534	7 285	-	-	70 751
PKO BP Finat Sp. z o.o.	-	-	3 361	10	10	240	174	593
PKO Finance AB	-	-	4 475 542	-	-	139 833	139 833	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	12 798	-	21 585	175 676	175 378	360	360	467
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	1 047	2	2	907	907	-
Promenada Sopocka Sp. z o.o.	49 162	49 162	1 477	1 496	1 496	20	20	-
Qualia - Residence Sp. z o.o.	-	-	747	1	1	-	-	-
Qualia - Rezydencja Flotylla Sp. z o.o.	39 695	39 695	311	2 057	2 057	-	-	28 973
Qualia Development Sp. z o.o.	178 890	-	15 542	7	-	-	-	17 763
Qualia Hotel Management Sp. z o.o.	-	-	49	-	-	-	-	-
Qualia Sp. z o.o.	-	-	1	2	2	-	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Sp. k.	124 617	124 617	15 314	8 510	8 510	265	265	820
Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k.	122 088	122 088	13 638	9 159	9 159	689	689	77 912
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp. k.	-	-	-	1	1	-	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Sp. k.	-	-	1	1	1	-	-	-
Qualia Spółka z ograniczoną odpowiedzialnością - Sopot Sp. k.	782	782	6	84	84	-	-	7 173
Sarnia Dolina Sp. z o.o.	16 121	16 121	4	935	935	-	-	-
Sopot Zdrój Sp. z o.o.	235 466	235 466	3 318	7 322	7 322	71	71	-
TOTAL	3 147 281	2 767 698	4 796 973	337 860	332 449	307 309	204 838	1 712 587

(in PLN thousand)

31. Personal related party transactions

As at 30 June 2012, two entities were related to the Bank through the key management personnel of PKO Bank Polski SA or the close family members of the key management personnel (two entities as at 31 December 2011).

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

32. Remuneration – PKO Bank Polski SA key management

a) short-term employee benefits*

Remuneration received from PKO Bank Polski SA

	01.01 – 30.06.2012	01.01 – 30.06.2011
Management Board of the Bank		
Short-term employee benefits	7 694	7 023
Supervisory Board of the Bank		
Short-term employee benefits	621	494
Total remuneration	8 315	7 517

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

	01.01 – 30.06.2012	01.01 – 30.06.2011
Management Board of the Bank		
Short-term employee benefits	20	15
Total remuneration	20 **	15 ***

** Includes remuneration from associates in the amount of PLN 20 thousand.
*** Includes remuneration from associates in the amount of PLN 15 thousand.

b) post-employment benefits

In the six-month periods ended 30 June 2012 and 30 June 2011 respectively no post-employment benefits were paid.

c) other long-term employee benefits

In the six-month periods ended 30 June 2012 and 30 June 2011 respectively no ‘other long-term benefits’ were paid.

d) benefits due to termination of employment

In the six-month periods ended 30 June 2012 and 30 June 2011 respectively, no benefits due to termination of employment were paid.

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

	30.06.2012	31.12.2011
The Management Board members	160	130
The Supervisory Board members of the Bank	2 303	2 415
Total	2 463	2 545

Interest conditions and repayment periods of the receivables are set at arm’s length for the similar banking products.

33. Explanations of differences between previously published financial statements and these financial statements

In the first half of 2012 there were no changes as compared to the previously published financial statements.

* Includes remuneration from the Bank and the Bank’s subsidiaries, unless stated otherwise.

34. Changes in economic situation and business activity conditions, which have a significant impact on the fair value of financial assets and financial liabilities of the entity, regardless of whether those assets and liabilities are recognised at fair value or the adjusted acquisition cost (amortised cost)

There were no changes in economic situation and business activity conditions, which have a significant impact on the fair value of financial assets and financial liabilities of the entity, regardless of whether those assets and liabilities are recognised at fair value or the adjusted acquisition cost (amortised cost).

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS

35. Risk management in PKO Bank Polski SA

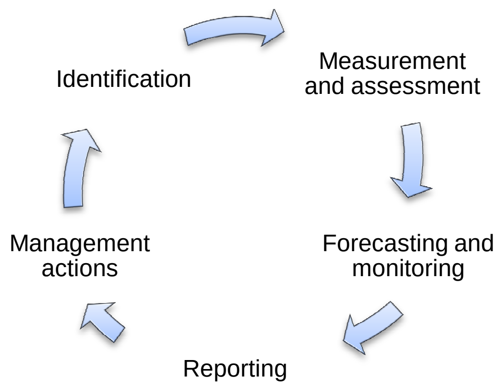
Risk management is one the most important internal processes in PKO Bank Polski SA. Risk management aims at ensuring an appropriate level of security and profitability of business activity in the changing legal and economic environment and the level of the risk plays an important role in the planning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

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

The process of banking risk management in PKO Bank Polski SA consists of the following stages:

- risk identification – the identification of current and potential sources of risk and estimation of the significance of the potential influence of a given type of risk on the financial situation of the Bank. Within the risk identification process, the types of risk which are perceived as material in the banking activity are identified,
- risk measurement and assessment – defining risk assessment tools adequate to the type and significance of the risk, data availability and quantitative risk assessment by means of determined tools, as well as risk assessment aimed at identifying the scale or scope of risk, taking into account the achievement of goals of risk management. Within risk measurement, stress-tests are being conducted on the basis of assumptions providing a fair risk assessment,
- risk forecasting and monitoring – preparing risk level forecasts and monitoring deviances from forecasts and adopted reference points (e.g. limits, thresholds, plans, measurements from the previous period, issued recommendations and suggestions). Risk monitoring is performed with the frequency adequate to the materiality and volatility of a specific risk type,
- risk reporting – periodic informing the Authorities of the Bank about the results of risk assessment, taken actions and recommendations. Scope, frequency and the form of reporting are adjusted to the managing level of the recipients,
- management actions – including, in particular, issuing internal regulations, establishing the level of risk tolerance, establishing limits and thresholds, issuing recommendations, making decisions about the use of tools supporting risk management. The aim of taking management actions is to form the risk management process and risk level.

The risk management process is described on the chart below:



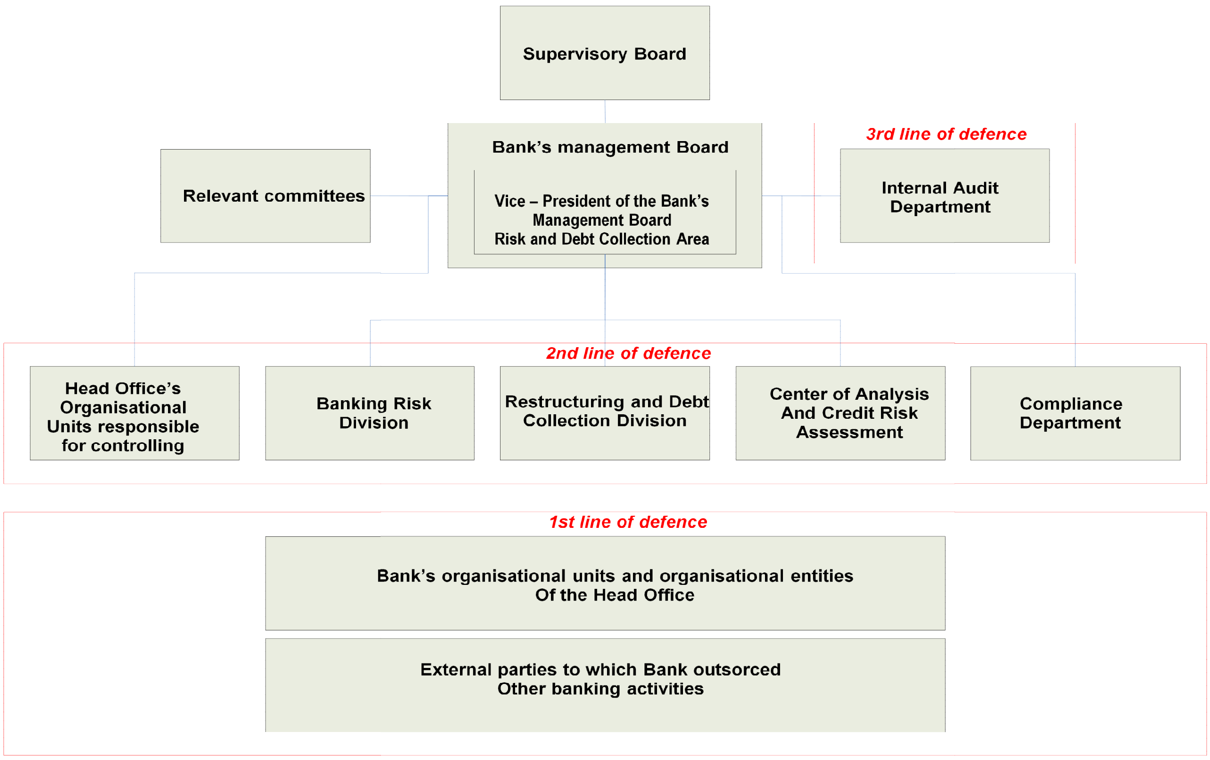
Risk management in PKO Bank Polski SA is based especially on the following principles:

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

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

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

The organisation of risk management chart



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

The 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 organisation of risk management,
3) the third line of defence, which is an internal audit.

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

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

The first line of defence is being performed in the organisational units of the Bank, the organisational units of the Head Office and the external entities to which the Bank commissioned to carry out the activities related to banking activities and concerns the activities of those units, cells and entities which may generate risk. The units and cells are responsible for identifying risks, designing and implementing appropriate control mechanisms, including in the external entities, unless control mechanisms have been implemented as part of the measures taken in the second line of defence.

The second line of defence is being performed, in particular, in the Risk and Debt Collection Area, the specialist organisational units of the Bank responsible for credit analyses, the organisational unit of the Head Office managing the compliance risk, as well as the organisational units of the Head Office responsible for controlling.

The third line of defence is being performed as part of internal audit, including the audit of the effectiveness of the system of managing the risk relating to the Bank's activities.

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

The Banking Risk Division is responsible for:

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

The Restructuring and Debt Collection Division is responsible for:

- recovering receivables from difficult clients swiftly and increasing the effectiveness of such measures,
- effective and early monitoring of delays in the collection of receivables from retail market clients,
- selling difficult receivables effectively and outsourcing the tasks carried out, as well as effective management of assets taken over as a result of recovering the Bank's receivables.

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

Risk management is supported by the following committees:

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

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

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

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

CCC supports the decisions taken by the relevant managing directors and the Management Board members with its recommendations and the credit committees operating in the regions support branch directors and directors of the Regional Corporate Branches in matters of bearing a higher risk level.

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

PKO Bank Polski SA's top priority is to maintain its strong capital position and to further increase in its stable sources of financing underlying the stable development of business activity, while maintaining the priorities in the area 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[3].

35.1. Identification of significant types of risk

The significance of the individual types of risk is established at the Bank's level. When determining criteria of classifying a given type of risk as significant, an influence of a given type of risk on the Bank's activities are taken into account, whereas three types of risk are recognised:

- considered as significant a priori – being managed actively,
- potentially significant – for which significance monitoring is being made,
- other non-defined or non-occurring in the Bank types of risk (insignificant and non-monitored).

Based on quantitative and qualitative information, an assessment of significance of given types of risk is performed in the Bank periodically. As a result of assessment, a given type of risk is being classified as 'significant' or 'insignificant'. In particular, monitoring is conducted if significant change in activities took place or the profile of the Bank changed.

35.2. Credit risk management

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

The objective of credit risk management is to minimise losses on the loan portfolio as well as to minimise the risk of occurrence of impaired loans exposure, while keeping expected level of profitability and value of loan portfolio.

The Bank applies the following principles of credit risk management:

- each loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
- credit risk relating to potential and concluded loan transactions is measured on a cyclical basis, taking into consideration changes in external conditions and in the financial standing of the borrowers,

[3] 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).

– credit risk assessment of exposures which are significant due to their risk levels or its 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 assessment of credit risk generated by the contract,
– loan granting decisions are made only by authorised persons, within their authority,
– credit risk is diversified by geographical location, by industry, by product and by clients,
– expected credit risk level is mitigated by legal collateral taken by the Bank, margins on the risk collected from clients and allowances (provisions) on credit 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 measurement method, which can be used while calculating capital requirements for credit risk after being approved by the Polish Financial Supervision Authority.

35.2.1. Measurement of credit risk

Credit risk measurement methods

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

- Probability of Default (PD),
- Expected Loss (EL),
- Credit Value at Risk (CVaR),
- effectiveness measures used in scoring methodologies (Accuracy Ratio),
- share and structure of impaired loans (according to IAS),
- coverage ratio of impaired loans with allowances (coverage ratio),
- cost of risk.

PKO Bank Polski SA extends regularly the scope of credit risk measures used, taking account of the internal rating-based method (IRB) requirements, and extends the use of risk measures to cover the whole Bank's loan portfolio with these methods.

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

The Bank performs analysis and stress-tests regarding the influence of potential changes in macroeconomic environment on the quality of the Bank's loan portfolio. The test results are reported to the Bank's Authorities. The above mentioned information enables the Bank to identify and take measures to limit the negative influence of unfavourable market changes on the Bank's performance.

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

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

The evaluation of credit risk related to financing institutional clients is performed in two dimensions: in respect of the client and of the transaction. The assessment measures comprise ratings of clients and transactions. The comprehensive measure of credit risk which reflects both risk factors is the aggregate rating. As of 1 September 2010, the Bank operates a scoring method for credit risk evaluation of clients in the SME segment, along with an appropriate software 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.

(in PLN thousand)

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

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

35.2.2. Forecasting and monitoring of credit risk

The Bank's exposure to credit risk

Amounts due from banks	Exposure	
	30.06.2012	31.12.2011
Amounts due from banks impaired, of which:	42 288	42 280
valued with the individual method	42 288	42 166
Amounts due from banks not impaired, of which:	2 822 422	2 311 628
not past due	2 822 422	2 311 628
Gross total	**2 864 710**	**2 353 908**
Impairment allowances	**(33 450)**	**(33 710)**
Net total by carrying amount	**2 831 260**	**2 320 198**

Loans and advances to customers	Exposure	
	30.06.2012	31.12.2011
Loans and advances impaired, of which:	11 488 623	10 395 779
valued with the individual method	5 133 628	4 459 538
Loans and advances not impaired, of which:	133 537 739	134 645 660
not past due	129 888 667	131 102 983
past due but not impaired	3 649 072	3 542 677
past due up to 4 days	932 534	774 863
past due over 4 days	2 716 538	2 767 814
Gross total	**145 026 362**	**145 041 439**
Impairment allowances	**(5 405 483)**	**(4 982 790)**
Net total by carrying amount	**139 620 879**	**140 058 649**

Investment securities available for sale – debt securities	Exposure	
	30.06.2012	31.12.2011
Debt securities impaired, of which:	5 536	12 998
valued with the individual method	5 536	12 998
Debt securities not impaired, of which:	12 479 799	14 091 183
not past due	12 479 799	14 091 183
with external rating	6 768 364	8 361 299
with internal rating	5 711 435	5 729 884
Gross total	**12 485 335**	**14 104 181**
Impairment allowances	**(5 536)**	**(12 998)**
Net total by carrying amount	**12 479 799**	**14 091 183**

(in PLN thousand)

Level of exposure to credit risk

The table below presents maximum exposure to credit risk of the Bank as at 30 June 2012 and as at 31 December 2011, excluding collaterals and related improvement of credit situation, by net carrying amount.

Items of the statement of financial position	30.06.2012	31.12.2011
Current account in the central bank	6 210 782	6 845 759
Amounts due from banks	2 831 260	2 320 198
Trading assets – debt securities	383 155	1 300 164
Derivative financial instruments	2 857 555	3 065 149
Financial instruments designated upon initial recognition at fair value	14 930 124	12 467 201
Loans and advances to customers	139 620 879	140 058 649
Investment securities available for sale - debt securities	12 479 799	14 104 181
Other assets - other financial assets	483 996	380 795
Total	**179 797 550**	**180 542 096**

Off-balance sheet items	30.06.2012	31.12.2011
Irrevocable loan commitments	8 588 688	6 569 014
Guarantees granted	7 988 766	5 657 237
Letters of credit granted	412 904	418 383
Underwriting of issues	3 775 013	1 328 433
Total	**20 765 371**	**13 973 067**

Financial assets valued with the individual method for which individual impairment allowance has been recognised by carrying amount gross

	30.06.2012	31.12.2011
Amounts due from banks	**42 288**	**42 166**
Loans and advances to customers	**5 133 628**	**4 459 538**
Non-financial sector	5 127 464	4 451 987
consumer loans	71 912	75 337
mortgage loans	1 367 748	1 108 920
corporate loans	3 687 804	3 267 730
Public sector	6 164	7 551
corporate loans	6 164	7 551
Investment debt securities available for sale issued by non-financial entities	**5 536**	**12 998**
Total	**5 181 452**	**4 514 702**

Allowances for credit losses

PKO Bank Polski SA performs a monthly review of loan exposures in order to identify non-performing loan exposures, measure the impairment of loan exposures and record impairment charges or provisions. The process of determining the impairment charges and provisions consists of the following stages:

- identifying the indications of impairment and events significant from the point of view of identifying those indications,
- registering in the Bank's IT systems the events that are material from the point of view of identifying indications of impairment of loan exposures,
- determining the method of measuring impairment,
- measuring impairment and determining an impairment charge or provision,
- verifying and aggregating the results of the impairment measurement,
- recording the results of impairment measurement.

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

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

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

PKO Bank Polski SA applies three methods of estimating impairment:

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

The structure of the loan portfolio and the impairment allowances of PKO Bank Polski SA's loan exposures are presented in Note 17 'Loans and advances to customers'.

Concentration of credit risk within the Bank

PKO Bank Polski SA defines credit concentration risk as one of arising from a considerable exposure to single entities or to group of entities whose repayment capacity depends on a common risk factor. The Bank analyses the concentration risk in respect of:

- the largest business entities,
- the largest groups,
- industries,
- geographical regions,
- loan currencies,
- exposures secured with mortgage collateral.

Concentration by the largest business entities

The Banking Law specifies maximum concentration limits for the Bank. According to Article 71 clause 1 and 1a of the Banking Law, the total value of the Bank's exposures, off-balance sheet liabilities and commitments granted or shares held by the Bank directly or indirectly in another entity, additional payments into a limited liability company as well as contributions or limited partnership amounts - whichever higher - in a limited partnership or limited joint-stock partnership with a risk of one entity or a group of entities related by capital or management, cannot exceed the concentration limit, which amounts to 25% of the Bank's own funds.

As at 30 June 2012 and as at 31 December 2011 concentration limits were not exceeded.

As at 30 June 2012, the level of the Bank risk concentration with respect to individual exposures was low – the largest exposure to a single entity was equal to 10.7%*, 10.5% of the Bank's own funds (as at 31 December 2011 amounted to 9.8%, 8.2* and 8.2% of the Bank's own funds).

* concentration partly exempt from concentration limits.

Concentration by the largest groups

The largest concentration of PKO Bank Polski SA towards the group of borrowers amounts to 2.34% of the Bank's loan portfolio.

As at 30 June 2012, the level of concentration risk towards the group of borrowers was low – the greatest exposure of PKO Bank Polski SA amounted to 17.2% of the Bank's own funds (as at 31 December 2011 it amounted to17.3*% and 11.1% of the Bank's own funds).

Concentration by industries

Industry sectors limits are applied in Bank, whose objective is to reduce the level of risk connected with financing of corporate customers running the business with the high level of credit risk in selected sectors and avoiding of excessive level of concentration in industry sectors.

As compared with 31 December 2011 the exposure of PKO Bank Polski SA in industry sectors has increased by above PLN 1.3 billion. The total exposure in the four largest industry sectors 'Industrial processing', 'Wholesale and retail trade, repair of vehicles including motorcycles', 'Business activity connected with maintenance of real estate' and 'Construction' amounted to approx. 63.4% of the total loan portfolio covered by the analysis of the sector.

Concentration by geographical regions

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

As at 30 June 2012 and as at 31 December 2011 the largest concentration of the Bank's loan portfolio was in the mazowiecki region. More than half of the Bank's loan portfolio is concentrated in four regions: mazowiecki, śląsko-opolski, wielkopolski and małopolsko-świętokrzyski, which is consistent with the regions' domination both in terms of population and economy in Poland.

Concentration of credit risk by currency

As at 30 June 2012, the share of exposure in convertible currencies, other than PLN, in the total portfolio of PKO Bank Polski SA amounted to 22.5% (as at 31 December 2011 amounted to 23.5%). The greatest parts of currency exposures of PKO Bank Polski SA are those in CHF.

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

Other types of concentration

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

As at 30 June 2012 and as at 31 December 2011 these limits were not exceeded.

35.2.3. Credit risk reporting

The Bank prepares monthly and quarterly credit risk reports for i.a.: ALCO, RC, BCC, the Management Board and the Supervisory Board. The reporting of credit risk covers cyclic information on the scale of risk exposure of the loan portfolio. In addition to the information concerning the Bank, the reports also contain information about the credit risk level for Group subsidiaries (i.a. the KREDOBANK SA Group and the BFL SA Group), which have significant credit risk levels.

35.2.4. Management decisions concerning credit risk

Basic credit risk management tools used by the Bank include, in particular:

- minimum transaction requirements (risk parameters) determined for a given type of transaction (e.g. minimum value of LTV, maximum loan amount, required collateral),
- the principles of defining credit availability, including cut-offs – the minimum number of points awarded in the process of creditworthiness assessment with the use of a scoring system (for retail clients) or the client's rating class or cumulative rating class (for corporate clients), which a client must obtain to receive a loan,

- concentration limits – the limits defined in art. 71 clause 1 of the Banking Law,
- industry-related limits – limits which reduce the risk level related to financing institutional clients that conduct business activities in industries characterised by high level of credit risk,
- limits on credit exposures related to the Bank's customers – the limits defining the appetite for credit risk as s result of i.a. the Recommendations S and T,
- loan limits defining the Bank's maximum exposure to a given client or country in respect of wholesale operations and settlement limits and limits for the period of exposure,
- competence limits – they define the maximum level of credit decision-making powers with regard to the Bank's clients; the limits depend primarily on the amount of the Bank's exposure to a given client (or a group of related clients) and the loan transaction period; the competence limit depends on the credit decision-making level (in the Bank's organisational structure),
- minimum credit margins – credit risk margins relating to a given credit transaction concluded by the Bank with a given institutional client, whereas the interest rate offered to a client cannot be lower than the reference rate plus credit risk margin.

Collateral management policy as regards credit risk plays a significant role in establishing minimum transaction terms. The Bank's collateral policy is meant to secure properly the credit risk, to which the Bank is exposed, including first of all the fact of establishing collateral that will ensure the highest possible level of recovery in the event of realisation of collateral.

The Bank follows the following rules with respect to accepting legal collateral for loans:

- in the case of substantial loans in terms of value, several types of collateral are established, including, if possible, personal guarantees combined with collateral established on tangible assets,
- liquid types of collateral i.e. collateral established on tangible assets, in which the disposal is possible without a substantial reduction in their prices at a time, which does not expose the Bank to change the value of the collateral because of the appropriate prices fluctuation of a particular collateral are preferred,
- when a tangible asset is accepted as collateral, an assignment of rights from the insurance policy relating to that tangible asset or the insurance agreement issued to the Bank are accepted as additional collateral,
- collateral is assessed in terms of the actual possibility of their use as a potential source of the Bank's claim. The basis of the value assessment of the collateral established on tangible assets is the market value,
- effective establishment of collateral in compliance with the loan agreement is necessary to make the funds available.

The policy regarding legal collateral is defined by the Bank's internal regulations.
The type of collateral depends on the product and the type of the client. With regard to real estate financing products, collateral is required to be established as mortgage on the property. Until an effective mortgage collateral is established, the following types of collateral are used (depending on type and amount of loan): insurance of receivables or a collateral in the form of a cession of receivables related to the construction agreement, a cession of a development contract and an open/closed fiduciary account / guarantee, bill of exchange or warranty.

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

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

35.3. Interest rate risk management

The interest rate risk is a risk of incurring losses on the Bank's statement of financial position and off-balance sheet items sensitive to interest rate fluctuations, as a result of changes in the interest rates on the market.

The objective of interest rate risk management is to mitigate the risk of incurring losses arising from market interest rate changes to an acceptable level by shaping the structure of statement of financial position and off-balance sheet items.

35.3.1. Measurement of interest rate risk

In the process of interest rate risk management, PKO Bank Polski SA uses in particular, the Value at Risk (VaR) model, interest income sensitivity measure, stress-tests and a repricing gap.

The value at risk (VaR) is defined as a potential loss arising from the maintained structure of statement of financial position and off-balance sheet items and the volatility of interest rates, with the assumed probability level and taking into account the correlation between the risk factors.

The sensitivity of interest income is a measure showing changes in interest income resulting from abrupt changes in the interest rates. This measure takes into account the diversity of revaluation dates of the individual interest-bearing items in each of the selected time horizons.

35.3.2. Forecasting and monitoring of interest rate risk

Exposure of PKO Bank Polski SA to interest rate risk was as at 30 June 2012, within accepted limits. The Bank was mainly exposed to PLN interest rate risk, which represents about 62% of value at risk (VaR) as at 30 June 2012. Interest rate risk was determined mainly by the risk of a timing mismatch between the repricing of interest rates of the Bank's assets and liabilities.

VaR of the Bank and stress-test analysis of PKO Bank Polski SA exposure to the interest rate risk are presented in the following table:

Name of sensitivity measure	30.06.2012	31.12.2011
VaR for a 10-day time horizon (PLN thousand)	58 487	62 661
Parallel movement of interest rate curves by 200 b.p. (PLN thousand) (stress-test)	470 562	486 121

As at 30 June 2012, the Bank's interest rate VaR for a 10-day time horizon (10-day VaR) amounted to PLN 58 487 thousand, which accounted for approximately 0.30% of the Bank's own funds. As at 31 December 2011, VaR for the Bank amounted to PLN 62 661 thousand, which accounted to approximately 0.36% of the Bank's own funds*.

35.3.3. Reporting of interest rate risk

The Bank prepares daily, weekly, monthly and quarterly reports addressing interest rate risk. Reports contain the information on interest rate risk exposure and usage of available limits regarding the risk. Reports are prepared mainly for: ALCO, RC, the Management Board and the Supervisory Board.

35.3.4. Management decisions concerning interest rate risk

The main tools used in interest rate risk management in PKO Bank Polski SA include:

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

The Bank established limits and thresholds for interest rate risk comprising the following, i.a.: price sensitivity, interest income sensitivity, limits and threshold for losses and limits on instruments sensitive to interest rate fluctuations.

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

35.4. Currency risk management

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

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

35.4.1. Measurement of currency risk

PKO Bank Polski SA measures currency risk using the Value at Risk model (VaR) and stress-tests.

The value at risk (VaR) is defined as a potential loss arising from currency position and foreign exchange rate volatility under the assumed probability level and taking into account the correlation between the risk factors.

35.4.2. Forecasting and monitoring of currency risk

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

Name of sensitivity measure	30.06.2012	31.12.2011
VaR for a 10-day time horizon with a confidence level of 99% threshold (PLN thousand)	2 012	1 470
Change in CUR/PLN by 20% (PLN thousand) (stress-test)	9 653	2 969

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

The currency positions for individual currency are presented in the table below:

Currency position	30.06.2012	31.12.2011
USD	(54 059)	(13 151)
GBP	38	49
CHF	(22 268)	(36 795)
EUR	70 579	70 224
Other (Global Net)	20 208	10 985

The volume of currency positions is a key factor determining the level of currency risk to which the Bank is exposed (except for volatility of foreign exchange rates). The level of currency positions is determined by all foreign currency transactions, which are concluded by the Bank, both in the statement of financial position (such as loans) and off-balance sheet (such as derivatives, CIRS transactions in particular). In accordance with the currency risk management principles at the Bank, the daily currency position opened by the Bank within the banking book (such as repayment in PLN of loans denominated in foreign currency by the clients, exposure currency conversion) is closed every day, also using derivative instruments. This means that the currency position of the Bank at the end of the day may constitute only of generated new position in banking book on this day and currency position in trading book within the limits which results in a low exposure of the Bank to currency risk (with reference to own funds, VaR for a 10-day time horizon for the Bank's currency position as at the end of the first half of 2012 amounted to approx. 0.01%).

35.4.3. Reporting of currency risk

The Bank prepares daily, weekly, monthly and quarterly reports addressing currency risk. Reports contain the information on currency risk exposure and usage of available limits regarding the risk. Reports are prepared mainly for ALCO, RC, the Management Board and the Supervisory Board.

35.4.4. Management decisions concerning currency risk

Main tools used in currency risk management in the Bank include:

– procedures for currency risk management,
– limits and thresholds for currency risk,

– defining allowable types of transactions in foreign currencies and the exchange rates used in such transactions.

The Bank set limits and threshold values on currency risk for i.a.: currency positions, Value at Risk calculated for a 10-day time horizon and daily loss on currency market.

35.5. Liquidity risk management

The liquidity risk is defined as the lack of possibility to pay the debts on time due to the lack of liquid assets. Lack of liquidity may arise from inappropriate structure of statement of financial position, misfit of cash flows, not received payments from contractors, sudden withdrawal of cash by clients or other market events.

The objective of liquidity risk management is to ensure necessary amount of funds in order to pay current and future debts (also potential) on time, taking into account the nature of performed activities and requirements which may occur due to changes in market environment, by shaping the structure of statement of financial position and off-balance sheet liabilities.

PKO Bank Polski SA's policy concerning liquidity is based on investing in liquid securities portfolio and increasing stable sources of financing (stable deposits, in particular). In its liquidity risk management policy, money market instruments are used, including NBP open market operations.

35.5.1. Measurement of liquidity risk

The Bank makes use of the following liquidity risk measures:

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

35.5.2. Forecasting and monitoring of liquidity risk

Liquidity gaps presented below include i.a. the Bank's items of the statement of financial position in real terms concerning permanent balances on deposits of non-financial sector and their maturity, permanent balances on loans in current accounts for non-financial entities and their maturity and liquid securities and their maturity.

	a'vista	0 - 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 24 months	24 - 60 months	over 60 months
								30.06.2012
Adjusted gap in real terms	8 852 814	7 939 882	800 336	1 592 594	2 977 083	8 980 253	13 472 212	(44 615 174)
Cumulative adjusted gap in real terms	8 852 814	16 792 696	17 593 032	19 185 626	22 162 709	31 142 962	44 615 174	-
								31.12.2011
Adjusted gap in real terms	7 426 100	12 228 512	(1 386 297)	1 477 225	(1 254 297)	10 195 400	15 701 903	(44 388 546)
Cumulative adjusted gap in real terms	7 426 100	19 654 612	18 268 315	19 745 540	18 491 243	28 686 643	44 388 546	-

In all time horizons, PKO Bank Polski SA's cumulative adjusted liquidity gap in real terms as at 30 June 2012 and as at 31 December 2011 was positive. This means a surplus of assets receivable over liabilities payable.

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

Name of sensitivity measure	29.06.2012	31.12.2011
Liquidity reserve up to 1 month* (PLN million)	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 in the Bank (excluding inter-bank market), which means a decrease by approx. (1.7) pp. as compared to the end of 2011.

35.5.3. Reporting of liquidity risk

The Bank prepares daily, weekly, monthly and quarterly reports addressing liquidity risk. Reports contain the information on liquidity risk exposure and usage of available limits regarding the risk. Reports are prepared mainly for ALCO, RC, the Management Board and the Supervisory Board.

35.5.4. Management decisions concerning liquidity risk

The main tools for liquidity risk management in PKO Bank Polski SA are:

- procedures for liquidity risk management, including in particular emergency plans,
- limits and thresholds mitigating liquidity risk,
- deposit, investment and derivative transactions, including structural currency transactions and transactions for sale or purchase of securities,
- transactions ensuring long-term financing of lending activities.

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

35.5.5. Management of 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.

The risk is managed by imposing limits on the activities of the Brokerage House of PKO Bank Polski SA divided into the banking portfolio and the trading portfolio, and by monitoring the utilisation thereof.

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

The Bank prepares monthly and quarterly reports addressing price risk of equity securities. Reports contain the information on price risk of equity securities exposure and usage of available limits regarding the risk. Reports are prepared mainly for ALCO, RC, the Management Board and the Supervisory Board.

35.5.6. Management of derivative instruments risk

The risk of derivative instruments is a risk of occurrence of losses due to the Bank's taking up 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,
- it does not require any initial net investment or requires only a small initial net investment compared with other types of contracts which similarly respond to changes in market terms,
- it is to be settled at a future date.

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

35.5.7. Measurement of the derivative instruments risk

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

35.5.8. Forecasting and monitoring the risk of the derivative instruments

Monitoring the risk of derivative instruments takes place as part of monitoring of other types of financial and credit risk. The Bank pays particular emphasis to monitor financial risk related to the maintenance of currency options portfolio and customer credit risk resulting from amounts due to the Bank in respect of derivative instruments.

35.5.9. Reporting the risk of the derivative instruments

The Bank prepares daily, weekly, monthly, and quarterly reports addressing the risk of derivative instruments. Reports present the information on the derivative instruments risk exposure and updates on available limits regarding the risk. Reports are prepared mainly for ALCO, RC, the Management Board and the Supervisory Board.

35.5.10. Management decisions concerning risk of derivative instruments

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

- procedures for derivative instruments risk management,
- limits and thresholds set for the risk related to derivative instruments,
- master agreements specifying i.a. settlement mechanisms.
- collateral agreements, under which selected clients of the Bank are required to establish a collateral on exposures due to derivative instruments.

Risk management is carried out by imposing limits on derivative instruments, monitoring their usage and reporting risk level.

Master agreements concluded by the Bank with the major business partners based on the standards developed by the Polish Bank Association (domestic banks) and ISDA (foreign banks and credit institutions), which allow offsetting mutual liabilities, both due (mitigation of settlement risk) and not yet due (mitigation of pre-settlement risk), are particularly important for mitigating the risk associated with derivative instruments. Additional collateral for exposures, resulting from derivative instruments are collateral deposits escrowed by counterparties as a part of CSA agreement (Credit Support Annex).

35.5.11. Operational risk management

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

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

Identification and assessment of operational risk comprises operational risk appearing in the existing products, processes and IT applications of the Bank.

35.5.12. Measurement of operational risk

Measurement of operational risk in the Bank aims at defining the scale of threats related to the existence of operational risk with the use of determined risk measures.

The measurement of operational risk comprises:

- calculation of key operational risk indicators (KRI),
- calculation of AMA,
- stress-tests,
- calculation of capital requirements and internal capital.

35.5.13. Forecasting and monitoring of operational risk

The objective of operational risk monitoring is to control operational risk and diagnose areas for management actions.

The Bank regularly monitors:
- utilisation level of strategic tolerance limits and losses limits on operational risk,
- effectiveness and timeliness of actions taken to reduce or transfer the operational risk,
- KRI values in relation to thresholds and critical values,
- operating events and their effects,
- effects of actions taken following external control recommendations or internal audits,

35.5.14. Reporting of operational risk

The Bank prepares reports concerning operational risk on a quarterly basis. The reports are addressed to Director of the Banking Risk Division, the ORC, the Management Board and the Supervisory Board. The reports contain among others:

- information on the results of measuring and monitoring operational risk,
- information on the operational risk profile of the Bank resulting from the process of identifying and assessing the threats for products, processes and IT applications of the Bank,
- actions taken to reduce operational risk and evaluate the effectiveness of such actions,
- recommendations and information about implementation of former recommendations,
- recommendations and decisions of the ORC or the Management Board.

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

35.5.15. Management decisions concerning operational risk

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

In order to mitigate exposure on the operational risk, the following operational risk management instruments are used by the Bank:

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

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

If the risk level is elevated or high, the Bank uses the following approach:
- risk reduction – mitigating the impact of risk factors or consequences of its materialisation,
- risk transfer – transfer of responsibility for covering potential losses on a third-party,
- risk avoidance – resignation from activity that generates risk or elimination the probability of the occurrence of a risk factor.

35.5.16. Compliance risk management

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

The objective of compliance risk management is to strengthen the image of the Bank as an institution acting in accordance with the law and adopted code of conduct, reliable, fair and honest and mitigation of possible loss of reputation or credibility, and mitigating the risk of occurring financial losses or legal sanctions resulting from breach of law regulations and ethical standards.

The Bank performs identification and assessment of compliance risk including in particular a specification for each of the relevant internal processes exposed on compliance risk, potential threats on the occurrence of breach of law and other standards of conduct, as well as the results of the materialisation of those threats and optimal solutions reducing the level of incurred risk.

The assessment also takes into account changes in the regulatory environment and the results of actions taken by external supervisory and control bodies and internal audit.

Reporting of information concerning the Bank's compliance risk is conducted on a quarterly basis. The reports are addressed to Risk Committee, the Bank's Management Board, the Supervisory Board's Audit Committee and the Supervisory Board. The reports contain i.a.:

- the results of the identification and assessment of compliance risk,
- cases of materialisation of the compliance risk in the Bank and the financial sector,
- the most important changes in the regulatory environment and actions carried out at the Bank in order to adapt to the new regulations and standards of conduct,
- the results of external audits performed at the Bank,
- implementation the post-inspection recommendations issued by the external supervisory and control bodies, as well as substantial correspondence between the Bank and such bodies.

Compliance risk management involves in particular:

- preventing involvement of the Bank in illegal activities,
- ensuring data protection,
- propagating of ethical standards and monitoring of their functioning,
- conflict of interest management,
- prevention from accepting and transferring benefits and incentives by the Bank's employees that could result in informal commitments in relations with representatives of public administration authorities, customers or counterparties and cause interest conflicts or otherwise adversely affect the way of the employees' duties performing,
- professional, fair and transparent formulation of product offers, advertising and marketing messages,
- prompt, fair and professional consideration of complaints, requests and quality claims of clients.

35.5.17. Strategic risk management

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

Managing the strategic risk is aimed at maintaining, on an acceptable level, the negative financial consequences resulting from wrong decisions, decisions made on the basis of an inappropriate assessment or failure to make correct decisions relating to the direction of the Bank's strategic development.

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

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

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

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

Management of strategic risk in the Bank is mainly applied in the form of actions undertaken if an elevated level of strategic risk occurs.

35.5.18. Reputation risk management

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

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

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

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

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

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

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

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

36. Capital adequacy

Objectives and principles of capital adequacy management were described in details in the annual PKO Bank Polski SA financial statements for the year 2011. In these financial statements was also included the information on the Bank's own funds components calculated for purposes of capital adequacy as well as the calculation methods of capital requirements concerning the individual risk types.

The level of capital adequacy of the Bank as at 30 June 2012 remained on a safe level, significantly above the statutory limits.

(in PLN thousand)

The capital adequacy ratio of the Bank, which is one of the main capital adequacy measures, as compared to 31 December 2011, increased by 0.81 pp., which was mainly caused by the increase of the Bank's own funds calculated for capital adequacy purposes.

36.1.1. Own funds for the capital adequacy requirements

As at 30 June 2012, the Bank's own funds calculated for capital adequacy purposes increased by PLN 2 467 942 thousand, which was mainly due to the recognition of profit earned by the Bank in 2011 after expected charges deduction (i.e. PLN 2 366 122 thousand) to the Bank's own funds.

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

BANK'S OWN FUNDS	30.06.2012	31.12.2011
Basic funds (Tier 1)	**18 753 871**	**16 225 262**
Share capital	1 250 000	1 250 000
Reserve capital	15 198 111	12 898 111
Other reserves	3 385 743	3 319 621
General banking risk fund for unidentified banking activities risk	1 070 000	1 070 000
Unappropriated profits from previous years, profit in the course of approval less any expected charges	88 533	-
Unrealised losses on debt and equity instruments and other receivables classified as available for sale	(95 985)	(127 287)
Assets valuation adjustments in trade portfolio	(19)	(143)
Intangible assets	(1 501 812)	(1 522 568)
Equity exposures	(640 700)	(662 472)
Supplementary funds (Tier 2)	**1 002 013**	**989 525**
Subordinated liabilities classified as supplementary funds	1 600 700	1 600 700
Unrealised profits on debt and equity instruments classified as available for sale (up to 80% of their values before tax)	42 013	51 297
Equity exposures	(640 700)	(662 472)
Short-term equity (Tier 3)	**59 979**	**133 134**
TOTAL OWN FUNDS	19 815 863	17 347 921

36.1.2. Capital requirements (Pillar 1)

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

Capital requirements	30.06.2012	31.12.2011
Credit risk	**11 082 754**	**10 486 573**
credit risk (banking book)	10 958 102	10 363 885
counterparty credit risk (trading book)	124 652	122 688
Market risk	**542 313**	**390 863**
equity securities risk	710	1 604
specific risk of debt instruments	442 695	294 836
general risk of interest rates	98 908	94 423
Operational risk	**820 104**	**757 943**
Total capital requirements	**12 445 171**	**11 635 379**
Capital adequacy ratio	**12.74%**	**11.93%**

An increase in the capital requirement due to credit risk was a consequence mainly of entry into force the provision of Resolution No. 153/2011 of the PFSA[*] due to which from the date of 30 June 2012, there was an increase in risk weights (from 75% to 100%) for retail exposures and for exposures secured on residential property, in which the instalment of principal or interest depend on changes in the exchange rate of the currency or currencies other than the currency of revenues generated by the debtor.

The increase of market risk capital requirement was mainly due to the increase in value of liabilities due to securities underwriting agreements of corporate bonds by approx. 184%.

[*] Resolution no 153/2011 of the Polish Financial Supervision Authority of 7 June 2011 amending the Resolution No. 76/2010 of the Polish Financial Supervision Authority on the scope and detailed procedures for determining capital requirements for particular types of risk (Official Journal of PFSA No. 8 of 29 July 2011, item 29).

The Bank's capital requirements in respect of operational risk was calculated under the advanced measurement approach (AMA) with the limitation on the drop in the capital requirement by no more than up to a level of 75% of the requirement calculated under the standardised approach (TSA). In consequence, an increase of requirement in respect of operational risk from PLN 758 million (as at 31 December 2011) to PLN 820 million (as at 30 June 2012) results from the annual revaluation of the requirement calculated under the standardised approach (TSA), including the difference in weighted profit before income tax between 2011 and 2008.

36.1.3. Internal capital (Pillar 2)

The principles of calculation of internal capital in the Bank were in details presented in the annual financial statements of PKO Bank Polski SA for 2011.

36.1.4. Disclosures (Pillar 3)

In accordance with § 6 of Resolution No. 385/2008 of the Polish Financial Supervision Authority dated 17 December 2008, on the detailed procedures and methods for banks to disclose qualitative and quantitative information concerning capital adequacy and the scope of the information to be announced (PFSA Journal of Laws 2008, No. 8, item 39, with subsequent amendments), Powszechna Kasa Oszczędności Bank Polski SA, which is the parent company within the meaning of § 3 of the Resolution, publishes information about capital adequacy in a separate document on annual basis, not later than within 30 days since the date of approval of the annual financial statements by the Ordinary General Shareholders' Meeting.

The report 'Capital adequacy and risk management (Pillar 3) of the PKO Bank Polski SA Group as at 31 December 2011' was published on the Bank's official website on 5 July 2012.

Details of the scope of capital adequacy information disclosed, the method of its verification and publication are presented in PKO Bank Polski SA capital adequacy information policies, which are available on the Bank's website (www.pkobp.pl).

INFORMATION ON THE EVENTS AFTER THE REPORTING PERIOD

37. Events after the reporting period

1. 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.
2. 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.
3. On 26 July 2012 PKO Bank Polski SA received a notification from the Minister of State Treasury of selling off a considerable block of Bank's shares by the State Treasury as a result of which the number of total votes held by the State Treasury in the Bank has changed. 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 the total number of 512 406 277 Bank's shares 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

(in PLN thousand)

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.

4. 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.
5. 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.

Signatures of all Members of the Management Board of the Bank

31.07.2012	Zbigniew Jagiełło	President of the Management Board	.... (signature)
31.07.2012	Piotr Alicki	Vice-President of the Management Board	.... (signature)
31.07.2012	Bartosz Drabikowski	Vice-President of the Management Board	.... (signature)
31.07.2012	Jarosław Myjak	Vice-President of the Management Board	.... (signature)
31.07.2012	Jacek Obłękowski	Vice-President of the Management Board	.... (signature)
31.07.2012	Jakub Papierski	Vice-President of the Management Board	.... (signature)

Signature of person responsible for
maintaining the books of account

31.07.2012
Danuta Szymańska

Director of the Accounting Division

....
(signature)