



Independent Registered Auditor's Opinion To the General Meeting of Shareholders and the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski SA

We have audited the accompanying financial statements of Powszechna Kasa Oszczędności Bank Polski SA (hereinafter called "the Bank"), with its registered office at 15 Puławska Street, in Warsaw, which comprise the statement of financial position as at 31 December 2013, showing total assets and total equity and liabilities of PLN 196,279,932 thousand; the income statement for the financial year from 1 January to 31 December 2013, showing a net profit of PLN 3,233,762 thousand; the statement of comprehensive income for the period from 1 January to 31 December 2013, showing a total comprehensive income of PLN 2,986,425 thousand; the statement of changes in equity, the statement of cash flows for the financial year and additional information on accounting policies and other relevant matters.

The Management Board of the Bank is responsible for preparing the financial statements and a Directors' Report in accordance with the applicable regulations, and for the correctness of the accounting records. The Management Board and Members of the Supervisory Board are required to ensure that the financial statements and the Director's Report meet the requirements set out in the Accounting Act of 29 September 1994 (uniform text, Journal of Laws of 2013, item 330 as amended, hereinafter referred to as "the Act").

Our responsibility was to perform an audit of the accompanying financial statements and to express an opinion on whether in all material respects the financial statements comply with the applicable accounting policies, whether they present fairly the Bank's financial position and results, and whether the accounting records constituting the basis for the preparation of the financial statements are properly maintained.

We conducted our audit in accordance with the following:

- (a) the provisions of Chapter 7 of the Act;
- (b) national auditing standards as issued by the National Chamber of Registered Auditors;
- (c) International Standards on Auditing.

Our audit was planned and performed to obtain reasonable assurance that the financial statements were free of material misstatements and omissions. The audit included examining, on a test basis, accounting documents and entries supporting the amounts and disclosures in the financial statements. The audit also included an assessment of the accounting policies applied by the Bank and significant estimates made in the preparation of the financial statements as well as an evaluation of the overall presentation thereof. We believe that our audit provides a reasonable basis for our opinion.

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**Independent Registered Auditor's Opinion
To the General Meeting of Shareholders and the Supervisory Board
of Powszechna Kasa Oszczędności Bank Polski SA (cont.)**

In our opinion, and in all material respects, the accompanying financial statements:

- (a) present fairly the Bank's financial position as at 31 December 2013 and the results of its operations for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union;
- (b) comply in form and content with the applicable laws and the Bank's Memorandum of Association;
- (c) have been prepared on the basis of properly maintained accounting records in accordance with the applicable accounting principles (policies).

The information in the Directors' Report for the year ended 31 December 2013 has been prepared in accordance with the provisions of the Decree of the Minister of Finance of 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equivalent information required by the laws of another state not being a member state ("*the Decree*" – Journal of Laws of 2014, item 133) and is consistent with the information presented in the audited financial statements.

Conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Firm No. 144:

Adam Celiński
Member of the Management Board

PricewaterhouseCoopers Sp. z o.o.

Principal Registered Auditor
No. 90033

Warsaw, 5 March 2014

Powszechna Kasa Oszczędności Bank Polski SA

Auditor's Report on the financial statements as at and for the year ended 31 December 2013

Auditor's report on the financial statements
For the year ended 31 December 2013
To the General Meeting of Shareholders and the Supervisory Board
of Powszechna Kasa Oszczędności Bank Polski SA

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Powszechna Kasa Oszczędności Bank Polski SA

Auditor's report on the financial statements

as at and for the year ended 31 December 2013

I. General information about the Bank

- (a) The Bank was established in 1919 as Pocztaowa Kasa Oszczędnościowa (Postal Savings Bank).

In 1950, the Bank began operating as Powszechna Kasa Oszczędności Bank Państwowy (state-owned bank). On 18 January 2000, on the basis of a Decree of the Council of Ministers, Powszechna Kasa Oszczędności Bank Państwowy was transformed into a joint-stock company wholly-owned by the State Treasury, under the name of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna. On 12 April 2000, the Bank was entered in the Commercial Register maintained by the District Court for the City of Warsaw, Business Court, 16th Registration Department. Currently, the Bank is registered with the reference number KRS 0000026438, and the District Court for the City of Warsaw, the 13th Business Department of the National Court Register, is the competent registration court.

On 14 June 1993, the Bank was assigned a tax identification number (NIP) 525-000-77-38 for making tax settlements. On 18 April 2000, the Bank was assigned a REGON number 016298263 for statistical purposes.

- (b) As at 31 December 2013, the Bank's registered share capital amounted to PLN 1,250,000 thousand and consisted of 1,250,000,000 ordinary shares, each of PLN 1, including:
- 312,500,000 A-series registered shares;
 - 197,500,000 A-series bearer shares;
 - 105,000,000 B-series bearer shares;
 - 385,000,000 C-series bearer shares;
 - 250,000,000 D-series bearer shares.

- (c) As at 31 December 2013, the Bank's shareholders were:

Shareholder's name	Number of shares held	Par value of shares held (PLN'000)	Type of shares held (ordinary / preference)	Votes (%)
State Treasury AVIVA Otwarty Fundusz	392,406,277	392,406	ordinary	31
Emerytalny ING Otwarty Fundusz	83,952,447	83,952	ordinary	7
Emerytalny	64,594,448	64,595	ordinary	5
Other	709,046,828	709,047	ordinary	57
Total	1,250,000,000	1,250,000	-	100

- (d) Based on art. 111 of the Act on trading in financial instruments dated 29 July 2005, the Bank conducts brokerage activities through a separate organizational unit (a branch office) of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Oddział – Dom Maklerski PKO Banku Polskiego w Warszawie, in Warsaw (hereinafter called “the Brokerage House of PKO BP SA”).

The Brokerage House of PKO BP SA has existed since 1991. Based on Resolution No. 17/91 of the Polish Securities Commission dated 26 August 1991, the Brokerage House of PKO BP SA obtained a licence for public trading in securities. By Resolution No. 24/91 of Giełda Papierów Wartościowych w Warszawie SA (the Warsaw Stock Exchange) dated 26 September 1991, the Brokerage House of PKO BP SA was entered in the register of direct participants in the National Depository for Securities.

Powszechna Kasa Oszczędności Bank Polski SA

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I. General information about the Bank (cont.)

(e) In the audited year, the Bank's operations comprised, *inter alia*:

- accepting cash deposits payable on demand or on an agreed date and maintaining accounts for such deposits;
- granting loans and cash advances;
- granting and confirming bank guarantees;
- clearing cash transactions;
- issuing cards and conducting transactions with the use of cards;
- conducting forward transactions.

At the same time, the Bank conducts brokerage activities through the Brokerage House of PKO BP SA and fiduciary services through the Fiduciary Office.

(f) During the audited year, the Management Board of the Bank comprised:

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

During the year ended 31 December 2013 there were no changes in the composition of the Bank's Management Board.

(g) As at the balance date, the Bank had the following related entities:

Bankowe Towarzystwo Kapitałowe SA	- subsidiary;
PKO Leasing SA	- subsidiary;
Inteligo Financial Services SA	- subsidiary;
Kredobank SA, Ukraine	- subsidiary;
PKO BP BANKOWY Powszechnie Towarzystwo Emerytalne SA	- subsidiary;
PKO BP Finat Sp. z o.o.	- subsidiary;
PKO Finance AB, Sweden	- subsidiary;
PKO Towarzystwo Funduszy Inwestycyjnych SA	- subsidiary;
Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o.	- subsidiary;
Qualia Development Sp. z o.o.	- subsidiary;
Inter-Risk Ukraina Additional Liability Company	- subsidiary;
Merkury Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Non-Public Assets Closed-End Investment Fund)	- subsidiary;
Centrum Elektronicznych Usług Płatniczych "eService" Sp. z o.o.	- jointly controlled entity;
Centrum Haffnera Sp. z o.o.	- jointly controlled entity;
Centrum Obsługi Biznesu Sp. z o.o.	- jointly controlled entity;
Bank Pocztowy SA	- associate;
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	- associate.

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I. General information about the Bank (cont.)

and the companies that are members of the capital groups of Bankowe Towarzystwo Kapitałowe SA, PKO Leasing SA, Qualia Development Sp. z o.o., Kredobank SA, Merkury Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, as well as indirect jointly controlled entities that are members of the capital group Centrum Haffnera Sp. z o.o. and indirect associates that are members of the capital group Bank Pocztowy SA.

- (h) The Bank is an issuer of securities admitted for trading on the Warsaw Stock Exchange. In accordance with the choice of selecting accounting policies permitted by the Accounting Act, the Bank has decided to prepare its financial statements in accordance with IFRS as adopted by the European Union since 2005.

The decision to prepare the Bank's financial statements in accordance with these standards was made by the General Meeting of Shareholders in their Resolution No. 28/2005 passed on 19 May 2005.

- (i) As the Parent Company of the Group, the Bank has also prepared consolidated financial statements according to IFRS as adopted by the European Union as at 4 March 2014. To better understand the Bank's financial position and its results of operations as the Parent Company, the financial statements should be read in conjunction with the consolidated financial statements.

- (a) The audit of the financial statements as at and for the year ended 31 December 2013 was conducted by PricewaterhouseCoopers Sp. z o.o., with its seat in Warsaw, Al. Armii Ludowej 14, registered audit firm no. 144. The audit was conducted on behalf of the registered audit firm under the supervision of the principal registered auditor, Adam Celiński (no. 90033).
- (b) PricewaterhouseCoopers Sp. z o.o. was appointed independent registered auditor to the Bank by Resolution No. 15/2011 of the Supervisory Board dated 28 March 2011 in accordance with paragraph 15, clause 1, item 3 of the Bank's Memorandum of Association.
- (c) PricewaterhouseCoopers Sp. z o.o. and the principal registered auditor conducting the audit are independent of the audited entity within the meaning of art. 56, clauses 2–4 of the Act on registered auditors and their council, entities entitled to provide audit of financial statements and public supervision of 7 May 2009 (Journal of Laws No. 77, item 649, as amended).
- (d) The audit was conducted in accordance with an agreement dated 14 April 2011, in the following periods:
 - interim audit from 28 October to 20 December 2013;
 - final audit from 7 January to 5 March 2014.

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III. The Bank's results and financial position

The financial statements do not take account of the impact of inflation. The consumer price index (from December to December) amounted to 0.7% in the audited year (2.4% in 2012).

The observations below are based on the knowledge obtained during the audit of the financial statements.

- As at 31 December 2013, total assets amounted to PLN 196,279,932 thousand and increased by PLN 5,591,173 thousand (i.e. 3%) compared with the balance as at 31 December 2012.
- This increase was mainly financed with an increase in amounts due to customers of PLN 5,217,097 thousand (i.e. 3%) – mainly as a result of an increase in retail clients' deposits, an increase in the balance of other liabilities of PLN 709,666 (i.e. 41%), accompanied by an increase in equity of PLN 736,425 thousand (i.e. 3%), which was offset by a drop in the balance of derivative financial instruments and provisions (a drop of PLN 636,021 thousand, i.e. 16% and PLN 425,211 thousand, i.e. 58% respectively) and a nil balance of current income tax liabilities as at 31 December 2013 (PLN 145,274 thousand as at the end of 2012).
- In 2013, amounts due to customers were the main source of financing for assets (similarly to the previous year). The balance of amounts due to customers amounted to PLN 159,957,671 thousand as at the balance date and represented 81% of total liabilities and equity (no change compared with the balance as at 31 December 2012). The change in the balance of amounts due to customers was mainly the effect of an increase in amounts due to retail clients (an increase of PLN 5,654,115 thousand, i.e. 5%, compared with the balance as at 31 December 2012), partially offset by a drop in the balance of amounts due to corporate entities (a drop of PLN 451,597 thousand, i.e. 1% compared with the balance as at 31 December 2012).
- The balance of amounts due to banks amounted to PLN 2,529,623 thousand as at the balance date (an increase of PLN 26,735 thousand, i.e. 1% compared with the previous year) and comprised mainly a consortium loan received in Swiss francs, whose value in Polish currency was PLN 1,389,847 thousand (PLN 1,393,048 thousand as at 31 December 2012). There was also a drop in the balances of interbank deposits accepted (a drop of PLN 46,635 thousand, i.e. 5%). At the same time, there was an increase in the balance of current accounts and amounts due from repurchase agreements (an increase of PLN 43,527 thousand, i.e. 61% and PLN 38,628 thousand respectively) (Note 12).
- As at 31 December 2013, liabilities in respect of the negative valuation of derivatives amounted to PLN 3,328,149 thousand (PLN 3,964,170 thousand as at 31 December 2012). The drop in the balance as at the balance date was mainly the result of a lower valuation of IRS transactions whose balance dropped by PLN 692,984 thousand (i.e. 22%) compared with the balance as at 31 December 2012 (Note 4).

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III. The Bank's results and financial position (cont.)

- The balance of subordinated liabilities amounted to PLN 1,620,857 thousand as at the balance date (PLN 1,631,256 thousand as at 31 December 2012) and related to the valuation of bonds issued by the Bank in 2012 in the nominal amount of PLN 1,600,700 thousand (Note 15).
- As at 31 December 2013, the balance of debt securities in issue amounted to PLN 983,123 thousand and related to short-term bonds issued to the Polish market in the amount of PLN 692,614 thousand and structured bank securities based on stock exchange indices or commodity prices in the amount of PLN 290,509 thousand. The increase in the balance of PLN 117,218 thousand (i.e. 14%) compared with the balance as at 31 December 2012 resulted mainly from an increase in the volume of short-term bonds issued to the Polish market (an increase of PLN 195,331 thousand, i.e. 39% compared with the balance as at 31 December 2012).
- As at 31 December 2013, the balance of other liabilities amounted to PLN 2,434,721 thousand and increased by PLN 709,666 thousand (i.e. 41%) compared with the end of 2012. The increase in the balance as at the balance date resulted mainly from an increase in the balance of liabilities relating to settlements of security transactions of PLN 230,819 thousand, i.e. 155%, liabilities relating to investment activities and internal operations (an increase of PLN 178,699 thousand, i.e. 90%) and a liability related to unpaid shares taken up by the Bank in the increased capital of Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o. in the amount of PLN 179,370 thousand (cf. Note 16).
- As at 31 December 2013, the value of equity amounted to PLN 25,111,242 thousand (PLN 24,374,817 thousand as at 31 December 2012). The increase in the balance was mainly brought about by the profit generated by the Bank in 2013 in the amount of PLN 3,233,762 thousand. At the same time, the Bank earmarked PLN 2,250,000 thousand worth of the profit for 2012 for the payment of a dividend. The remaining portion of the profit for 2012 was earmarked for increasing the reserve capital (PLN 1,400,000 thousand) and other reserves (PLN 31,150 thousand) (Note 18).
- The value of the Bank's own funds calculated on the regulatory basis amounted to PLN 20,523,753 thousand as at 31 December 2013 (PLN 19,561,511 thousand as at 31 December 2012) and was PLN 8,251,745 thousand higher than the total capital requirement (PLN 12,272,008 thousand as at the end of 2013). The capital adequacy ratio calculated as at the balance date on the basis of the banking portfolio and the trading portfolio amounted to 13.38% and increased by 0.64 pp. compared with the end of the previous year. The increase in the capital adequacy ratio resulted mainly from an increase in the Bank's own funds of PLN 962,242 thousand (i.e. 5%), mainly as a result of a portion of the net profit being earmarked for increasing the reserve capital.
- The higher level of financing mainly translated into an increase in the balance of loans and advances to customers – an increase of PLN 5,680,046 thousand (i.e. 4%).

Powszechna Kasa Oszczędności Bank Polski SA
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III. The Bank's results and financial position (cont.)

- As at the balance date, loans and advances to customers amounted to PLN 147,372,326 thousand and represented 75% of total assets (an increase of 1 pp. compared with the end of 2012). The gross value of the loan portfolio as at 31 December 2013 amounted to PLN 153,753,558 thousand and increased by PLN 5,832,649 thousand (i.e. 4%) compared with the balance as at 31 December 2012. This increase resulted mainly from an increase in the portfolio of mortgage loans (an increase of PLN 4,568,502 thousand, i.e. 6%) and receivables due to repurchase agreement from financial sector customers (an increase of PLN 2,038,423 thousand; there were none as at the end of the previous year) (Note 6).
- The quality of the loan portfolio as at the balance date, measured with the ratio of impaired loans to the total balance of loans and advances to customers improved compared with the end of 2012. As at 31 December 2013, the ratio of impaired loans to the total balance of loans and advances to customers dropped by 0.3 pp. and amounted to 8.0%. At the same time, the coverage ratio of impairment allowances to impaired loans and advances to customers amounted to 47.2% as at the balance date and increased by 1.7 pp.
- The structure of liquid assets changed as at the balance date. A decrease of PLN 3,040,824 thousand (i.e. 30%) and PLN 1,367,304 thousand (i.e. 40%) in cash and balances with the central bank and amounts due from banks financed an increase of PLN 2,564,271 thousand (i.e. 20%) in the balances of financial assets designated upon initial recognition at fair value through profit and loss and investment securities available for sale (an increase of PLN 1,675,292 thousand, i.e. 14%) and an increase of PLN 202,255 thousand in the balance of trading assets.
- Cash and balances with the central bank amounted to PLN 7,188,406 thousand as at the balance date. This was mainly due to a drop in the balance of cash with the central bank (of PLN 3,532,558 thousand, i.e. 47%), accompanied by an increase in cash in hand and in vaults (of PLN 491,585 thousand, i.e. 18%).
- The drop in amounts due from banks related both to deposits with banks, which decreased by PLN 1,020,327 thousand (i.e. 42%) compared with 31 December 2012, and to current accounts, which were PLN 190,082 thousand (i.e. 32%) lower as at the balance date compared with the end of 2012. There was also a drop in the balance of receivables due to the repurchase agreement (a drop of PLN 135,251 thousand compared with the balance as at 31 December 2012). Other changes in the balance of amounts due from banks are presented in Note 2. The balance of amounts due from banks amounted to PLN 2,089,087 thousand as at the balance date.
- The balance of financial assets designated upon initial recognition at fair value through profit and loss amounted to PLN 15,179,188 thousand as at the balance date. The increase in the balance (of PLN 2,564,271 thousand, i.e. 20%) resulted mainly from an increase in short-term NBP bills (an increase of PLN 4,001,928 thousand, i.e. 40%) accompanied by a drop in the balance of Treasury bills (a drop of PLN 1,040,863 thousand) (Note 5).
- The balance of investment securities available for sale amounted to PLN 13,736,698 thousand as at the balance date and was PLN 1,675,292 thousand (i.e. 14%) higher than the balance as at the end of 2012. The increase related mainly to Treasury bonds (an increase of PLN 898,928 thousand, i.e. 12%) and municipal bonds (an increase of PLN 660,541 thousand, i.e. 24%). The entire balance related to Polish issuers (Note 7).

Powszechna Kasa Oszczędności Bank Polski SA
Auditor's report on the financial statements
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III. The Bank's results and financial position (cont.)

- Trading assets amounted to PLN 484,485 thousand as at 31 December 2013. An increase of PLN 202,255 thousand (i.e. 72%) in trading assets was mainly due to an increase in the Bank's exposure to Polish Treasury bonds – between the end of 2012 and the end of 2013 the related balance increased by PLN 174,139 thousand (i.e. 80%) (Note 3).
- The Bank's liquidity ratios of up to 1 month and up to 3 months, calculated on the basis of data about the maturities of assets and liabilities according to real term maturity dates, amounted to 2.17 and 1.84 respectively (2.16 and 1.98 respectively as at the end of 2012). The loans to deposits ratio (L/D) amounted to 92.1% as at the end of 2013 (91.6% as at the end of 2012).
- The share of interest-bearing assets in total assets did not change compared with 31 December 2012 and amounted to 93.2% as at the end of 2013.
- The operating profit amounted to PLN 3,959,845 thousand in 2013 and was PLN 490,637 thousand (i.e. 11%) lower than in 2012. The operating profit comprised mainly: net interest income of PLN 6,580,450 thousand (a drop of PLN 1,398,468 thousand, i.e. 18%), net fee and commission income of PLN 2,655,482 thousand (an increase of PLN 5,563 thousand) and other operating income of PLN 639,615 thousand (an increase of PLN 571,716 thousand, i.e. 842%). At the same time, the operating profit was reduced by administrative expenses of PLN 4,220,766 thousand (a drop of PLN 36,131 thousand, i.e. 1%) and net impairment allowance and write-downs of PLN 2,087,567 thousand (a drop of PLN 371,023 thousand, i.e. 15%).
- Net interest income amounted to PLN 6,580,450 thousand in 2013 and was PLN 1,398,468 thousand (i.e. 18%) lower than in 2012. The drop was mainly due to lower income on loans and advances to customers (a drop of PLN 1,559,809 thousand, i.e. 15%) and on derivative hedging instruments (a drop of PLN 416,172 thousand, i.e. 48%). This drop was offset by a decrease of PLN 1,074,699 thousand (i.e. 22%) in interest expense. In 2013, the interest margin, calculated as the ratio of net interest income to interest income, increased by 1 pp. compared with 2012 and amounted to 63% (Note 19). The interest spread, calculated as the difference between the profitability ratio on interest-bearing assets and the cost of borrowings, amounted to 3.4% and dropped by 0.8 pp. compared with 2012.
- In 2013, net fee and commission income was higher than in 2012 and amounted to PLN 2,655,482 thousand (an increase of PLN 5,563 thousand). Compared with 2012, fee and commission income increased by PLN 220,197 thousand (i.e. 6%) to PLN 3,650,758, mainly as a result of an increase in income from payment cards and income from loan insurance (an increase of PLN 136,304 thousand, i.e. 12% and PLN 39,949 thousand, i.e. 18% respectively). Fee and commission expense increased to PLN 995,276 thousand (an increase of PLN 214,634 thousand, i.e. 27%), mainly due to increase in fee and commission expense on payment cards (an increase of PLN 184,126 thousand, i.e. 37%) (Note 20).

Powszechna Kasa Oszczędności Bank Polski SA
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III. The Bank's results and financial position (cont.)

- In 2013, other operating income increased by PLN 571,716 thousand and amounted to PLN 639,615 thousand. This increase resulted mainly from income earned as a result of the sale of 66% of shares in Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. in the amount of PLN 346,932 thousand and a gain on the fair value measurement of the remaining shares in the company, in the amount of PLN 178,722 thousand (Note 24).
- In 2013, administrative expenses were PLN 36,131 thousand (i.e. 1%) lower than in the previous year and amounted to PLN 4,220,766 thousand. Decreases in staff costs of PLN 67,835 thousand and overheads of PLN 38,981 thousand (i.e. 3%) were accompanied by an increase in depreciation and amortization of PLN 51,425 thousand (i.e. 11%) (Note 26). The overall business effectiveness, calculated as the costs to income ratio (the C/I ratio), deteriorated in 2013 (the ratio increased by 3.0 pp. to 41.1%). The negative change in the ratio was due to income being lower than in 2012.
- In 2013, net impairment allowance amounted to PLN 2,087,567 thousand (PLN 2,458,590 thousand in 2012). The drop in net impairment allowance (recognized in the income statement) was mainly related to mortgage loans to customers – a drop of PLN 210,735 thousand (i.e. 46%) and consumer loans – a drop of PLN 157,830 thousand (i.e. 28%), and it was offset by an increase in net impairment allowance on corporate loans (an increase of PLN 62,539 thousand, i.e. 5%). At the same time, there was income from the release of provisions for off-balance sheet liabilities in the amount of PLN 89,482 thousand (an increase of PLN 193,849 thousand, i.e. 186% – Note 25). The cost of risk amounted to 1.2% in 2013 (1.4% in 2012).
- Gross profitability (calculated as the profit before income tax to total income) amounted to 26.0% in the audited year and decreased by 0.2 pp. compared with the previous year.
- In 2013, the income tax expense amounted to PLN 726,083 thousand (PLN 867,846 thousand in 2012). The effective tax rate amounted to 18.3% in 2013 and dropped by 1.2 pp. compared with 2012.
- As a result, in 2013 the Bank generated a net profit of PLN 3,233,762 thousand which was PLN 348,874 thousand (i.e. 10%) lower than the net profit for 2012. Net profitability (calculated as the net profit to total income) amounted to 21.2% in 2013 (21.1% in 2012).
- The return on assets (calculated as the net profit to average total assets) amounted to 1.7% in 2013 and dropped by 0.2 pp. compared with 2012. In the audited year, the return on equity amounted to 13.1% and was 2.2 pp. lower than in 2012.

In 2013, the Bank changed its accounting policies on the recognition of commissions for intermediation in the sales of insurance products. The change was made retrospectively, with the comparative data for 2012 being changed. Detailed information about the change and its financial effect on the results for 2012 and the Bank's equity as at 31 December 2012 is presented in Note 2.23 "Differences between previously published financial statements and these financial statements" to the financial statements. The Bank's financial statements have been prepared in accordance with the going concern principle.

Powszechna Kasa Oszczędności Bank Polski SA
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IV. Discussion of financial statement components

STATEMENT OF FINANCIAL POSITION as at 31 December 2013

ASSETS		31.12.2013	31.12.2012 restated	31.12.2012 published	Change	Change	31.12.2013 Structure	31.12.2012 restated Structure
	Note	PLN'000	PLN'000	PLN'000	PLN'000	(%)	(%)	(%)
Cash and balances with the central bank	1.	7,188,406	10,229,230	10,229,230	(3,040,824)	(30)	4	5
Amounts due from banks	2.	2,089,087	3,456,391	3,456,391	(1,367,304)	(40)	1	2
Trading assets	3.	484,485	282,230	282,230	202,255	72	-	-
Derivative financial instruments	4.	3,002,220	3,861,456	3,861,456	(859,236)	(22)	2	2
Financial assets designated upon initial recognition at fair value through profit and loss	5.	15,179,188	12,614,917	12,614,917	2,564,271	20	8	7
Loans and advances to customers	6.	147,372,326	141,692,280	142,084,858	5,680,046	4	75	74
Investment securities available for sale	7.	13,736,698	12,061,406	12,061,406	1,675,292	14	7	6
Investments in subsidiaries, jointly controlled entities and associates	8.	1,578,926	1,171,005	1,171,005	407,921	35	1	1
Non-current assets held for sale		145,657	20,410	20,410	125,247	614	-	-
Intangible assets	9.	1,944,132	1,681,120	1,681,120	263,012	16	1	1
Tangible fixed assets	10.	2,296,981	2,382,658	2,382,658	(85,677)	(4)	1	1
Current income tax receivables		201,212	-	-	201,212	-	-	-
Deferred income tax assets	26.	387,192	432,632	369,007	(45,440)	(11)	-	-
Other assets	11.	673,422	803,024	803,024	(129,602)	(16)	-	1
Total assets		196,279,932	190,688,759	191,017,712	5,591,173	3	100	100

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IV. Discussion of financial statement components (cont.)

STATEMENT OF FINANCIAL POSITION as at 31 December 2013 (cont.)

LIABILITIES AND EQUITY	Note	31.12.2013	31.12.2012 restated	31.12.2012 published	Change	Change	31.12.2013 Structure	31.12.2012 restated Structure
		PLN'000	PLN'000	PLN'000	PLN'000	(%)	(%)	(%)
Amounts due to the central bank		4,065	3,128	3,128	937	30	-	-
Amounts due to banks	12.	2,529,623	2,502,888	2,502,888	26,735	1	1	1
Derivative financial instruments	4.	3,328,149	3,964,170	3,964,170	(636,021)	(16)	2	2
Amounts due to customers	13.	159,957,671	154,740,574	154,740,574	5,217,097	3	81	81
Debt securities in issue	14.	983,123	865,905	865,905	117,218	14	1	1
Subordinated liabilities	15.	1,620,857	1,631,256	1,631,256	(10,399)	(1)	1	1
Other liabilities	16.	2,434,721	1,725,055	1,799,363	709,666	41	1	1
Current income tax liabilities		-	145,274	145,274	(145,274)	(100)	-	-
Provisions	17.	310,481	735,692	719,095	(425,211)	(58)	-	-
Total liabilities		171,168,690	166,313,942	166,371,653	4,854,748	3	87	87
Share capital		1,250,000	1,250,000	1,250,000	-	-	1	1
Other capital		20,898,722	19,766,862	19,803,442	1,131,860	6	11	10
Unappropriated profits/ (Accumulated losses)		(271,242)	(224,681)	-	(46,561)	21	-	-
Net profit for the year		3,233,762	3,582,636	3,592,617	(348,874)	(10)	1	2
Total equity	18.	25,111,242	24,374,817	24,646,059	736,425	3	13	13
Total liabilities and equity		196,279,932	190,688,759	191,017,712	5,591,173	3	100	100

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IV. Discussion of financial statement components (cont.)

INCOME STATEMENT for the financial year ended 31 December 2013

		2013	2012 restated	2012 published	Change	Change	2013 Structure	2012 restated Structure
	Note	PLN'000	PLN'000	PLN'000	PLN'000	(%)	(%)	(%)
Interest and similar income		10,487,279	12,960,446	12,753,964	(2,473,167)	(19)	69	76
Interest expense and similar charges		(3,906,829)	(4,981,528)	(4,981,528)	1,074,699	(22)	35	40
Net interest income	19.	6,580,450	7,978,918	7,772,436	(1,398,468)	(18)		
Fee and commission income		3,650,758	3,430,561	3,619,650	220,197	6	24	21
Fee and commission expense		(995,276)	(780,642)	(815,066)	(214,634)	27	9	6
Net fee and commission income	20.	2,655,482	2,649,919	2,804,584	5,563	-		
Dividend income	21.	96,049	93,200	93,200	2,849	3	1	1
Net income from financial instruments designated at fair value	22.	54,389	95,092	95,092	(40,703)	(43)	-	1
Gains less losses from investment securities		66,909	81,605	81,605	(14,696)	(18)	-	-
Net foreign exchange gains	23.	237,638	254,153	254,153	(16,515)	(6)	2	1
Other operating income	24.	639,615	67,899	67,899	571,716	842	4	-
Other operating expense		(62,354)	(54,817)	(54,817)	(7,537)	14	1	-
Net impairment allowance and write-downs	25.	(2,087,567)	(2,458,590)	(2,458,590)	371,023	(15)	18	20
Administrative expenses	26.	(4,220,766)	(4,256,897)	(4,192,757)	36,131	(1)	37	34
Operating profit / Profit before income tax		3,959,845	4,450,482	4,462,805	(490,637)	(11)		
Income tax expense	27.	(726,083)	(867,846)	(870,188)	141,763	(16)		
Net profit		3,233,762	3,582,636	3,592,617	(348,874)	(10)		
Total income		15,232,637	16,982,956	16,965,563	(1,750,319)	(10)	100	100
Total expenses		(11,272,792)	(12,532,474)	(12,502,758)	1,259,682	(10)	100	100
Profit before income tax		3,959,845	4,450,482	4,462,805	(490,637)	(11)		

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IV. Discussion of financial statement components (cont.)

Selected ratios characterizing the Bank's financial position and results

The following ratios characterize the Bank's activities, its results of operations for the financial year and its financial position as at the balance date compared with the previous year (1):

	2013	restated 2012
Profitability ratios		
Gross profitability (profit before income tax / total income)	26.0%	26.2%
Net profitability (net profit / total income)	21.2%	21.1%
ROE (net profit / average net assets) (2)	13.1%	15.3%
ROA (net profit / average total assets) (2)	1.7%	1.9%
Cost to income ratio (administrative expenses / profit on banking activities) (3)	41.1%	38.1%
Profitability ratio on interest-bearing assets (interest income / average interest-bearing assets) (2)	5.8%	7.3%
Cost of borrowings (interest expense / average interest-bearing liabilities) (2)	2.4%	3.1%
Asset quality ratios		
Interest-bearing assets to total assets (4)	93.2%	93.2%
Impaired loans to total gross loans and advances to customers	8.0%	8.3%
Coverage of impaired loans and advances to customers with impairment allowances	47.2%	45.5%
Cost of risk (5)	1.2%	1.4%
Liquidity ratios		
Liquidity up to 1 month (6)	2.17	2.16
Liquidity up to 3 months (6)	1.84	1.98
Loans to deposits	92.1%	91.6%
Other ratios		
Capital adequacy ratio	13.38%	12,74%
Bank's own funds (PLN'000)	20,523,753	19,561,511
Total capital requirement (PLN'000)	12,272,008	12,283,274

(1) The values of the individual ratios may differ from the values presented in the financial statements due to a different calculation method being used.

(2) The average balances of balance sheet items were calculated on the basis of the balances of individual items at the beginning and end of the current financial year and the prior financial year.

(3) The profit on banking activities understood as operating profit less administrative expenses and net impairment allowances.

(4) Interest-bearing assets are defined as balances with the central bank (excluding cash), amounts due from banks, loans and advances to customers, investment securities designated at fair value through profit and loss and securities held for trading.

(5) The cost of risk calculated by dividing net impairment allowances for loans and advances to customers for the period by the average balance of gross loans and advances to customers.

(6) Liquidity ratios are understood as the ratio of assets receivable to liabilities payable at the real term maturities as at the balance date.

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IV. Discussion of financial statement components (cont.)

Statement of financial position as at 31 December 2013

1. Cash and balances with the central bank

As at 31 December 2013, the balance of "Cash and balances with the central bank" amounted to PLN 7,188,406 thousand (PLN 10,229,230 thousand as at the end of 2012) and included PLN 4,018,340 thousand worth of cash maintained by the Bank in an account with the National Bank of Poland (PLN 7,550,898 thousand as at 31 December 2012).

As at the balance date, the Bank calculated and maintained the mandatory reserve in accordance with Resolution No. 15/2004 of the Management Board of the National Bank of Poland dated 13 April 2004 on the principles and method of calculation and maintenance of the mandatory reserve by banks. As at 31 December 2013, the declared mandatory reserve to be maintained with the NBP amounted to PLN 5,144,217 thousand (PLN 4,999,918 thousand as at 31 December 2012).

2. Amounts due from banks

The balance of amounts due from banks as at the respective balance dates and the changes therein are presented in the table below:

	31.12.2013	31.12.2012	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Deposits with banks	1,425,588	2,445,915	(1,020,327)	(42)
Current accounts	399,057	589,139	(190,082)	(32)
Loans and advances granted	260,986	270,143	(9,157)	(3)
- including: to related entities	257,517	263,859	(6,342)	(2)
Receivables due to repurchase agreement	14,033	149,284	(135,251)	(91)
Receivables from unsettled transactions	28,543	29,373	(830)	(3)
Cash in transit	1,117	3,329	(2,212)	(66)
Total, gross	2,129,324	3,487,183	(1,357,859)	(39)
Impairment allowances	(40,237)	(30,792)	(9,445)	31
Total, net	2,089,087	3,456,391	(1,367,304)	(40)

The drop in the balance of amounts due from banks resulted mainly from a decrease in the balance of deposits with banks and in current accounts (a drop of PLN 1,020,327 thousand, i.e. 42% and PLN 190,082 thousand, i.e. 32% respectively compared with the balances as at 31.12.2012). Additionally, there was a decrease in the balance of receivables due to repurchase agreement – a drop in exposure of PLN 135,251 thousand, i.e. 91% compared with the balance as at 31 December 2012.

As at 31 December 2013, the impairment allowance for amounts due from banks amounted to PLN 40,237 thousand and was PLN 9,445 thousand (i.e. 31%) higher compared with the balance as at 31 December 2012. The balance mainly comprised an allowance for amounts due from banks in respect of unsettled transactions related to derivatives, declared as due and payable, in the amount of PLN 28,543 thousand (PLN 29,373 thousand as at 31 December 2012).

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IV. Discussion of financial statement components (cont.)

2. Amounts due from banks (cont.)

Amounts due denominated in foreign currencies represented an equivalent of PLN 1,331,266 thousand (i.e. 63%) of the gross balance of amounts due from banks as at the balance date (PLN 2,878,327 thousand, i.e. 83% of the balance as at 31 December 2012).

3. Trading assets

As at 31 December 2013, the balance of "Trading assets" with a value of PLN 484,485 thousand comprised the following items:

	31.12.2013	31.12.2012	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Treasury bonds (PLN)	390,660	216,521	174,139	80
Treasury bonds (EUR)	4,542	-	4,542	-
Municipal bonds	41,907	26,673	15,234	57
Corporate bonds	35,426	35,046	380	1
Other	11,950	3,990	7,960	199
Total	484,485	282,230	202,255	72

The increase in the valuation of trading assets of PLN 202,255 thousand (i.e. 72%) as at the balance date was due to an increase in the Bank's exposure to Polish Treasury bonds (an increase of PLN 174,139 thousand, i.e. 80%) and an increase in the Bank's exposure to municipal bonds (an increase of PLN 15,234 thousand, i.e. 57%). The portfolio of trading assets was subject to significant fluctuations as at the end of the individual months of the audited period, reaching the highest balance as at the end of June 2013 (PLN 3,381,882 thousand).

As at 31 December 2013, Polish Treasury bonds represented 81% of the balance of all trading assets (77% as at the end of 2012).

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IV. Discussion of financial statement components (cont.)

4. Derivative financial instruments

The balance of receivables in respect of the positive valuation of derivatives dropped by PLN 859,236 thousand (i.e. 22%) compared with the end of 2012 and amounted to PLN 3,002,220 thousand as at 31 December 2013. The balance of liabilities in respect of the negative valuation of derivatives amounted to PLN 3,328,149 thousand and decreased by PLN 636,021 thousand (i.e. 16%) compared with the end of 2012. The above amounts comprised the following items:

	31.12.2013	31.12.2013	31.12.2012	31.12.2012
	Assets	Liabilities	Assets	Liabilities
	PLN'000	PLN'000	PLN'000	PLN'000
Interest rate swaps	2,858,674	3,047,359	3,654,976	3,632,552
- including CIRS	252,941	545,073	357,675	370,043
Options	75,443	61,961	63,301	61,932
Currency forwards	64,460	216,432	143,009	268,280
Other	3,643	2,397	170	1,406
Total	3,002,220	3,328,149	3,861,456	3,964,170

The changes in the above balances as at 31 December 2013 compared with the balances as at 31 December 2012 are presented in the table below:

	Change	Change	Change	Change
	Assets	Assets	Liabilities	Liabilities
	PLN'000	%	PLN'000	%
Interest rate swaps	(796,302)	(22)	(585,193)	(16)
- including CIRS	(104,734)	(29)	175,030	47
Options	12,142	19	29	-
Currency forwards	(78,549)	(55)	(51,848)	(19)
Other	3,473	2,043	991	70
Total	(859,236)	(22)	(636,021)	(16)

In 2013, there was a decrease in both the positive and negative valuation of derivative transactions. The most significant change related to a decrease in the positive and negative valuation of interest rate transactions (IRS) (a decrease in the positive valuation of PLN 630,612 thousand, i.e. 20% and in the negative valuation of PLN 692,984 thousand, i.e. 22% compared with the balances as at 31 December 2012) and was partly offset on the liabilities side by an increase in the valuation of interest rate transactions (CIRS) of PLN 175,030 thousand (i.e. 47%).

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IV. Discussion of financial statement components (cont.)

4. Derivative financial instruments (cont.)

As from 2009 the Bank has applied hedge accounting (a macro cash flow hedge) in accordance with IAS 39 F6.2 – F6.3. In 2013, the Bank established new hedging relationships and used the hedging relationships created in the previous years:

- a hedge of the cash flow volatility on mortgage loans denominated in CHF and negotiated deposits in PLN, as a result of the interest rate risk and the exchange risk, using CIRS transactions – in 2013, a net amount of PLN (13,565) thousand was recognized in the statement of comprehensive income;
- a hedge of the cash flow volatility on floating interest rate loans in EUR, as a result of the interest rate risk, using IRS transactions – in 2013, a net amount of PLN (32,500) thousand was recognized in the statement of comprehensive income;
- a hedge of the cash flow volatility on floating interest rate loans in PLN, as a result of the interest rate risk, using IRS transactions – in 2013, a net amount of PLN (822) thousand was recognized in the statement of comprehensive income;
- a hedge of the cash flow volatility on floating interest rate loans in CHF, as a result of the interest rate risk, using IRS transactions – in 2013, a net amount of PLN (10,222) thousand was recognized in the statement of comprehensive income;
- a hedge of the cash flow volatility on floating interest rate loans in convertible currencies, as a result of the interest rate risk and the exchange risk, and a hedge of the cash flow volatility on fixed interest rate financial liabilities in convertible currencies, as a result of the interest rate risk, using CIRS transactions – due to the strategy implemented and pursued in 2013 a net amount of PLN (120,383) thousand was recognized in the statement of comprehensive income.

In total, as a result of the application of hedge accounting the Bank recognized PLN 177,492 thousand net of deferred income tax (PLN 310,286 thousand net of deferred income tax in 2012) in the statement of comprehensive income. At the same time, the Bank recognized the ineffective portion of the cash flow volatility hedges in the amount of PLN 24,333 thousand in the income statement (PLN 7,938 thousand in 2012) (Note 22).

PLN (341,264) thousand worth of the comprehensive income was recognized in the income statement (PLN 1,296,830 thousand in 2012) (Note 19).

In accordance with the Bank's accounting policies, the measurement of derivative hedging transactions is decomposed and affects the following items:

- foreign exchange differences on the revaluation of the nominal amount – net foreign exchange gains;
- interest accrued as at the balance date – net interest income;
- mark-to-market (MTM) – the revaluation reserve (the effective portion) and net income from financial instruments designated at fair value (the ineffective portion).

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IV. Discussion of financial statement components (cont.)

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

The balance of "Financial assets designated upon initial recognition at fair value through profit and loss" increased by PLN 2,564,271 thousand (i.e. 20%) compared with the end of 2012 and amounted to PLN 15,179,188 thousand as at 31 December 2013. The portfolio comprised the following categories of securities:

	31.12.2013	31.12.2012	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
NBP bills	13,997,228	9,995,300	4,001,928	40
Treasury bonds (PLN)	931,325	1,322,226	(390,901)	(30)
Municipal bonds (EUR)	136,700	145,343	(8,643)	(6)
Municipal bonds (PLN)	113,935	111,185	2,750	2
Treasury bills	-	1,040,863	(1,040,863)	(100)
Total	15,179,188	12,614,917	2,564,271	20

The increase in the balance of financial assets designated upon initial recognition at fair value through profit and loss resulted mainly from a change in the Bank's exposure to short-term securities – compared with the end of 2012 the balance of NBP bills increased by PLN 4,001,928 thousand (i.e. 40%) and was offset by a decrease in the Bank's exposure to Treasury bills (a decrease of PLN 1,040,863 thousand; there were none in the portfolio as at the end of 2013) and Treasury bonds denominated in PLN (a decrease of PLN 390,901 thousand, i.e. 30%).

All of the financial assets designated upon initial recognition at fair value through profit and loss were issued by Polish entities. As at the balance date, instruments quoted on organized stock exchanges represented 7% of the balance (11% as at the end of 2012).

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IV. Discussion of financial statement components (cont.)

6. Loans and advances to customers

In 2013, the portfolio of loans and advances to customers, measured by reference to the gross value of loans granted, increased by PLN 5,832,649 thousand (i.e. 4%) compared with the balance as at 31 December 2012, reaching PLN 153,753,558 thousand. This increase was largely due to an increase in the balance of the portfolio of mortgage loans (an increase of PLN 4,568,502 thousand, i.e. 6%) and receivables due to repurchase agreements from financial sector institutions (an increase of PLN 2,038,423 thousand; there were none in the previous year).

The analysis of the structure and quality of the loan portfolio is presented in the points below.

a) Structure of the Bank's loan portfolio by type of loans

	31.12.2013	31.12.2012	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Financial sector (excluding banks)	5,719,004	3,177,999	2,541,005	80
corporate loans	3,680,581	3,177,999	502,582	16
receivables due to repurchase agreements	2,038,423	-	2,038,423	-
Non-financial sector	140,999,378	137,137,910	3,861,468	3
mortgage loans	76,482,811	71,914,309	4,568,502	6
corporate loans	43,172,563	42,719,131	453,432	1
consumer loans	20,399,493	21,601,402	(1,201,909)	(6)
receivables due to repurchase agreements	105,665	-	105,665	-
debt securities	838,846	903,068	(64,222)	(7)
Public sector	7,035,176	7,605,000	(569,824)	(7)
corporate loans	6,057,017	6,429,961	(372,944)	(6)
debt securities	978,159	1,175,039	(196,880)	(17)
Total loans and advances, gross	153,753,558	147,920,909	5,832,649	4
Impairment allowance	(6,381,232)	(6,228,629)	(152,603)	2
Total loans and advances, net	147,372,326	141,692,280	5,680,046	4

As at the balance date, PLN 29,520.862 thousand (i.e. 19%) worth of the balance of gross loans represented amounts due in foreign currencies (PLN 29,949,022 thousand, i.e. 20% as at 31 December 2012), of which 67% related to the Swiss franc (a drop of 5 pp. compared with 31 December 2012).

The effect of changes in foreign exchange rates was not material in 2013. After eliminating this effect, the increase in the gross loan portfolio in 2013 would amount to approx. PLN 5.8 bn (i.e. 4%), which mainly resulted from the CHF/PLN exchange rate being similar as at the end of 2013 and 2012.

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IV. Discussion of financial statement components (cont.)

6. Loans and advances to customers (cont.)

b) The Bank's loan portfolio in terms of quality

	31.12.2013	31.12.2012	31.12.2013	31.12.2012
	PLN'000	PLN'000	Structure	Structure
			%	%
Impaired loans and advances	12,265,138	12,287,936	8.0	8.3
Not impaired loans and advances, gross	141,488,420	135,632,973	92.0	91.7
Total loans and advances, gross	153,753,558	147,920,909	100.0	100.0
Allowances on impaired loans and advances	(5,810,735)	(5,686,056)	91.1	91.3
Allowances on incurred but not reported losses (IBNR)	(570,497)	(542,573)	8.9	8.7
Total impairment allowances on loans and advances	(6,381,232)	(6,228,629)	100.0	100.0
Total loans and advances, net	147,372,326	141,692,280		

As at the end of 2013, the share of impaired loans in the total loan portfolio decreased slightly compared with the end of 2012 and amounted to 8.0% (8.3% as at 31 December 2012). At the same time, the coverage ratio of impairment allowances for impaired loans increased and amounted to 47.2% (45.5% as at 31 December 2012).

The improvement in the quality of the loan portfolio related mainly to loans to corporate clients and mortgage loans. The sale of loans is an important part of managing non-performing loans. The sales performed in 2013 (mainly in the area of corporate loans) limited the growth of the non-performing loans ratio (had there been no sales of the portfolio in 2013, the impaired loans ratio would have amounted to 8.6% as at the end of 2013).

The total gross carrying amount of loans sold was PLN 1,014,316 thousand (the net amount was PLN 258,348 thousand).

The share of allowances for exposures valued under the individualized method in total allowances was higher than in the previous year – as at the balance date, the said allowance amounted to PLN 3,677,518 thousand (58% of the total allowances), whereas as at 31.12.2012 it amounted to PLN 3,424,393 thousand (55% of the total allowances).

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IV. Discussion of financial statement components (cont.)

6. Loans and advances to customers (cont.)

b) The Bank's loan portfolio in terms of quality (cont.)

The reconciliation of the change in the balance of impairment allowances on loans and advances to customers in the statement of financial position and the net impairment allowance as at 31 December 2013 is presented below (in PLN'000):

	consumer loans	housing and developer loans	corporate loans and debt securities	Total
Impairment allowances on loans and advances to customers in the statement of financial position as at 31 December 2012	(1,417,720)	(1,639,861)	(3,171,048)	(6,228,629)
Net impairment allowance on loans recognized	(407,820)	(246,440)	(1,168,264)	(1,822,524)
Other changes	197	561	(5,287)	(4,529)
Decrease in impairment allowances due to the derecognition of assets, not affecting the income statement	424,679	181,336	1,068,435	1,674,450
Impairment allowances on loans and advances to customers in the statement of financial position as at 31 December 2013	(1,400,664)	(1,704,404)	(3,276,164)	(6,381,232)

The item "Other changes" in the amount of PLN (4,529) thousand includes, among others, foreign exchange differences relating to impairment allowances on loans and advances denominated in foreign currencies.

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IV. Discussion of financial statement components (cont.)

7. Investment securities available for sale

As at 31 December 2013, the balance of "Investment securities available for sale" increased by PLN 1,675,292 thousand (i.e. 14%) compared with the balance as at 31 December 2012 and amounted to PLN 13,736,698 thousand (PLN 12,061,406 thousand as at 31 December 2012).

	31.12.2013	31.12.2012	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Treasury bonds	8,518,450	7,619,522	898,928	12
Municipal bonds	3,440,753	2,780,212	660,541	24
Corporate bonds	1,589,468	1,517,239	72,229	5
Listed equity instruments	44,227	32,498	11,729	36
Other	143,800	111,935	31,865	28
Total	13,736,698	12,061,406	1,675,292	14

The change in the balance as at the balance date was mainly due to an increase in the Bank's exposure to Treasury bonds and municipal bonds (an increase of PLN 898,928 thousand, i.e. 12% and PLN 660,541 thousand, i.e. 24% respectively compared with the balance as at 31.12.2012).

The balance of "Other" includes, *i.a.*, the Bank's exposure to the Marguerite Fund. This exposure amounted to PLN 137,140 thousand as at 31.12.2013 (an increase of PLN 47,630 thousand, i.e. 53% compared with the end of 2012).

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IV. Discussion of financial statement components (cont.)

8. Investments in subsidiaries, jointly controlled entities and associates

As at 31 December 2013, the balance of investments in subsidiaries, jointly controlled entities and associates amounted to PLN 1,578,926 thousand and was PLN 407,921 thousand (i.e. 35%) higher than the balance as at 31 December 2012. In accordance with IAS 27.37a, the Bank measures its subsidiaries, jointly controlled entities and associates at cost, net of impairment allowances.

	31.12.2013	31.12.2012	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Subsidiaries	1,257,116	1,040,822	216,294	21
- value at cost	2,013,505	1,644,924	368,581	22
- impairment allowance	(756,389)	(604,102)	(152,287)	25
Jointly controlled entities	215,090	23,434	191,656	818
- value at cost	259,461	61,869	197,592	319
- impairment allowance	(44,371)	(38,435)	(5,936)	15
Associates	106,720	106,749	(29)	-
- value at cost	148,000	148,029	(29)	-
- impairment allowance	(41,280)	(41,280)	-	-
Shares in subsidiaries, jointly controlled entities and associates	1,578,926	1,171,005	407,921	35

The increase in the net balance of investments in subsidiaries, jointly controlled entities and associates of PLN 407,921 thousand (i.e. 35%) was caused mainly by the Bank taking up shares in the increased capital of Qualia Development Sp. z o.o. in the amount of PLN 235,808 thousand (the conversion of repayable contributions from shareholders presented in "Loans and advances to customers" in the previous year), the fair value measurement of shares in Centrum Elektronicznych Usług Platniczych eService Sp. z o.o. which remained after the disposal of a part of shares in the company (in 2013, the Bank sold a block of 66% of the company's shares; the gain on the measurement of the remaining shares amounted to PLN 178,722 thousand) and the purchase of investment certificates of Merkur Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych in the amount of PLN 120,000 thousand. In 2013, the Bank also contributed shares in Fort Mokotów Inwestycje Sp. z o.o. in the amount of PLN 77,474 thousand to Qualia Development Sp. z o.o.

The increase in the balance was partly offset by the impairment allowances recognized by the Bank in 2013 for shares in the following subsidiaries: Kredobank SA in the amount of PLN 172,000 thousand and in a jointly controlled entity, Centrum Haffnera, in the amount of PLN 5,936 thousand.

In 2013, the Bank also took up shares in the increased capital of Finansowa Kompania "Prywatne Inwestycje" sp. z o.o. in the amount of PLN 190,696 thousand to pay off a loan raised by the company with the Bank. As at 31 December 2013, the Bank measured these shares at fair value less costs to sell and reclassified them to "Non-current assets held for sale" (the decrease in the value of these shares amounted to PLN 142,164 thousand). As at 31 December 2013, the shares taken up had not been paid for yet, and the Bank showed a related liability in "Other liabilities" (Note 16).

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IV. Discussion of financial statement components (cont.)

8. Investments in subsidiaries, jointly controlled entities and associates (cont.)

The Bank's key investments in subsidiaries, jointly controlled entities and associates as at 31 December 2013 are described in the table below:

	Gross value	Impairment	Net value	Structure
	PLN'000	PLN'000	PLN'000	(%)
Subsidiaries	2,013,505	(756,389)	1,257,116	80
KREDOBANK SA	999,412	(745,723)	253,689	16
Qualia Development Sp. z o.o.	317,785	-	317,785	20
PKO BP BANKOWY PTE SA	205,786	-	205,786	13
PKO Towarzystwo Funduszy Inwestycyjnych SA	186,989	-	186,989	12
MERKURY Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	120,000	-	120,000	8
other	183,533	(10,666)	172,867	11
Jointly controlled entities	259,461	(44,371)	215,090	13
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	197,592	-	197,592	12
other	61,869	(44,371)	17,498	1
Associated	148,000	(41,280)	106,720	7
Bank Pocztowy SA	146,500	(39,780)	106,720	7
other	1,500	(1,500)	-	-
Shares in subsidiaries, jointly controlled entities and associates	2,420,966	(842,040)	1,578,926	100

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IV. Discussion of financial statement components (cont.)

9. Intangible assets

As at the balance date, the balance of intangible assets amounted to PLN 1,944,132 thousand and was PLN 263,012 thousand (i.e. 16%) higher than the balance as at 31 December 2012. An analytical breakdown of the balance is presented in the table below.

	31.12.2013	31.12.2012	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Software	3,320,724	2,731,205	589,519	22
Other intangible assets	210,264	280,821	(70,557)	(25)
Total, gross	3,530,988	3,012,026	518,962	17
Accumulated amortization	(1,569,702)	(1,313,752)	(255,950)	19
Impairment allowances	(17,154)	(17,154)	-	-
Total, net	1,944,132	1,681,120	263,012	16

As at 31 December 2013, the most significant item of intangible assets was the Integrated Information System ("ZSI") whose net book value amounted to PLN 731,882 thousand (PLN 709,428 thousand as at 31 December 2012). The expenditure on the ZSI system amounted to PLN 68,069 thousand in the audited year (PLN 63,448 thousand in 2012).

In the audited year, the balance of impairment allowances did not change compared with the balance as at 31 December 2012.

The wear and tear of intangible assets measured with the ratio of accumulated amortization to the gross carrying amount of the intangible assets amounted to 44% as at the balance date (44% as at 31 December 2012).

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IV. Discussion of financial statement components (cont.)

10. Tangible fixed assets

As at the balance date, the net carrying amount of "Tangible fixed assets" amounted to PLN 2,296,981 thousand and dropped by PLN 85,677 thousand (i.e. 4%) compared with the end of 2012.

	31.12.2013	31.12.2012	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Land and buildings	2,475,169	2,488,526	(13,357)	(1)
Machinery and equipment	1,894,510	1,952,522	(58,012)	(3)
Fixed assets under construction	125,630	251,065	(125,435)	(50)
Means of transport	823	862	(39)	(5)
Investment properties	203	793	(590)	(74)
Other	490,973	438,422	52,551	12
Tangible fixed assets, gross	4,987,308	5,132,190	(144,882)	(3)
Accumulated depreciation	(2,690,293)	(2,749,498)	59,205	(2)
Impairment allowance	(34)	(34)	-	-
Tangible fixed assets, net	2,296,981	2,382,658	(85,677)	(4)

As at the balance date, the gross amount of tangible fixed assets dropped by PLN 144,882 thousand (i.e. 3%) compared with the end of the previous year. The drop in the balance related mainly to a decrease in the value of fixed assets under construction (a drop of PLN 125,435 thousand, i.e. 50%) and the value of machinery and equipment (a drop of PLN 58,012 thousand, i.e. 3%).

The wear and tear of tangible fixed assets (excluding fixed assets under construction) measured with the ratio of accumulated depreciation to gross tangible fixed assets amounted to 54% as at the balance date (54% as at 31 December 2012).

Tangible fixed assets are measured at cost less accumulated depreciation and impairment allowances.

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IV. Discussion of financial statement components (cont.)

11. Other assets

The value of other assets dropped by PLN 129,602 thousand (i.e. 16%) and amounted to PLN 673,422 thousand as at the balance date. The balance comprised the following asset categories:

	31.12.2013	31.12.2012	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Settlements of payment cards transactions	232,327	432,047	(199,720)	(46)
Settlements of financial instruments (a)	149,379	123,077	26,302	21
Receivables from customers	130,857	47,955	82,903	173
Receivables related to other transactions with financial and non-financial institutions	55,488	59,282	(3,794)	(6)
Prepayments and deferred costs	52,985	36,582	16,403	45
Receivables from unsettled transactions related to derivatives	51,280	64,564	(13,284)	(21)
Inventory related to utilization, auxiliary operations and investment	17,043	16,218	825	5
Receivables from the State budget due to the distribution of court fee stamps	6,632	8,412	(1,780)	(21)
Receivables and settlements of securities turnover	2,950	25,453	(22,503)	(88)
Unregistered capital of a subsidiary	-	20,000	(20,000)	(100)
Other (b)	117,816	118,984	(1,168)	(1)
Total, gross	816,757	952,573	(135,816)	(14)
Impairment allowance (c)	(143,335)	(149,549)	6,214	(4)
Total, net	673,422	803,024	(129,602)	(16)

- (a) As at the balance date, settlements of financial instruments comprised mainly the settlement of the premium paid in respect of the purchase of currency options in the amount of PLN 64,205 thousand (PLN 62,783 thousand as at 31 December 2012).
- (b) As at 31 December 2013, the item "Other" comprised mainly receivables due to shortages and losses with a gross amount of PLN 59,990 thousand, i.e. 51% of the balance (PLN 54,879 thousand, i.e. 47% of the balance as at 31 December 2012).
- (c) The balance of other assets as at 31 December 2013 was decreased by impairment allowances of PLN 143,335 thousand (PLN 149,549 thousand as at 31 December 2012). They comprised mainly allowances for receivables in respect of shortages and losses in the amount of PLN 59,760 thousand and receivables from unsettled transactions related to derivatives in the amount of PLN 43,922 thousand (PLN 56,113 thousand as at 31 December 2012).

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IV. Discussion of financial statement components (cont.)

12. Amounts due to banks

As at 31 December 2013, the balance of amounts due to banks increased compared with the end of 2012 (an increase of PLN 26,735 thousand, i.e. 1%) and comprised the following items:

	31.12.2013	31.12.2012	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Loans and advances received	1,389,847	1,393,048	(3,201)	-
Bank deposits	959,712	1,006,347	(46,635)	(5)
Current accounts	115,066	71,539	43,527	61
Amounts due from repurchase agreements	38,628	-	38,628	-
Other money market deposits	26,370	31,954	(5,584)	(17)
Total	2,529,623	2,502,888	26,735	1

As at 31 December 2013, the entire balance of loans and advances received related to a loan granted to the Bank for a three-year period with a value of CHF 410,000 thousand by a consortium of Polish and foreign banks.

The increase in the balance as at the end of 2013 resulted from an increase in the balance of current accounts and amounts due from repurchase agreements (an increase of PLN 43,527 thousand, i.e. 61% and PLN 38,628 thousand respectively; there were none as at the end of 2012). This increase was partially offset by a drop in bank deposits of PLN 46,635 thousand (i.e. 5%) compared with the balance as at 31 December 2012.

As at the balance date, foreign currency payables represented 78% of the balance of amounts due to banks (83% as at 31 December 2012).

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IV. Discussion of financial statement components (cont.)

13. Amounts due to customers

As at the balance date, amounts due to customers amounted to PLN 159,957,671 thousand and increased by PLN 5,217,097 (i.e. 3%) compared with the end of 2012:

	31.12.2013	31.12.2012	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Amounts due to retail clients	115,781,467	110,127,352	5,654,115	5
term deposits	62,907,642	62,895,895	11,747	-
current accounts and overnight deposits	52,653,562	47,026,306	5,627,256	12
other amounts due to customers	220,263	205,151	15,112	7
Amounts due to corporate entities	40,702,728	41,154,325	(451,597)	(1)
term deposits	13,590,035	17,381,502	(3,791,467)	(22)
current accounts and overnight deposits	12,904,415	11,545,398	1,359,017	12
loans and advances received (a)	11,609,183	10,709,239	899,944	8
amounts due from repurchase agreement	1,647,950	851,416	796,534	94
other amounts due to customers	951,145	666,770	284,375	43
Amounts due to State budget entities	3,473,476	3,458,897	14,579	-
current accounts and overnight deposits	3,018,628	2,870,735	147,893	5
term deposits	430,639	562,397	(131,758)	(23)
other amounts due to customers	24,209	25,765	(1,556)	(6)
Total amounts due to customers	159,957,671	154,740,574	5,217,097	3

(a) The balance of loans and advances received related mainly to a loan from a subsidiary, PKO Finance AB (Sweden) in the amount of USD 1,000,000 thousand, CHF 750,000 thousand and EUR 850,000 thousand as at the balance date, including accrued interest, from the issue of the Bank's eurobonds under the EMTN program earmarked for international markets.

In 2013, the Bank continued to increase its deposit base. This objective was pursued by active acquisition of new funds through products addressed to retail clients (an increase in funds in current accounts of PLN 5,627,256 thousand, i.e. 12%).

In 2013, the structure of amounts due to customers changed slightly – the share of term deposits decreased by 4 pp. (48% as at 31.12.2013 compared with 52% in the previous year), and the share of funds in current accounts and overnight deposits increased to 43% of the balance of amounts due to customers (40% as at the end of 2012).

Liabilities denominated in foreign currencies represented 13% of the balance (no change compared with the balance as at 31 December 2012).

As at 31 December 2013, the value of the loans to deposits ratio (L/D) increased and amounted to 92.1% (91.6% as at 31 December 2012).

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IV. Discussion of financial statement components (cont.)

14. Debt securities in issue

	31.12.2013	31.12.2012	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Financial instruments measured at amortized cost				
– bank bonds issued	692,614	497,283	195,331	39
Financial instruments designated at fair value through profit and loss – bank securities issued	290,509	368,622	(78,113)	(21)
Total	983,123	865,905	117,218	14

In 2013, under the Bond Issue Program (the issue limit was set at PLN 5 bn) the Bank issued six-month zero-coupon bonds denominated in PLN. As at 31 December 2013, the Bank had bond liabilities in the nominal amount of PLN 700,000 thousand, at a discount rate of 2.76%, issued in November 2013, maturing in May 2014.

Moreover, in 2013 the Bank offered its customers structured bank securities based on the value of the EuroStoxx50 index, the NASDAQ100 index, a basket of shares of American companies, the USD/JPY exchange rate, and a basket of assets (oil, silver, and copper). As at 31 December 2013, the Bank's liability in respect of the securities issued amounted to PLN 290,509 thousand (PLN 368,622 thousand as at 31 December 2012). In accordance with IAS 39.11A (a), the Bank does not separate the embedded derivative from its host contract and measures the entire instrument at fair value through profit and loss.

15. Subordinated liabilities

As at 31 December 2013, the balance of subordinated liabilities in the amount of PLN 1,620,857 thousand (PLN 1,631,256 thousand as at 31 December 2012) comprised 10-year bonds issued by the Bank in 2012 with a total nominal value of PLN 1,600,700 thousand and maturing on 14 September 2022 (with an option of early redemption in 2017).

The bonds were issued on the basis of the Act on Bonds dated 29 June 1995 with a view to increasing the Bank's supplementary funds in accordance with Article 127 par. 3, clause 2b of the Banking Law, pursuant to a decision of the Polish Financial Supervision Authority dated 18 September 2012 (the supplementary funds are increased by the nominal value of the bonds).

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IV. Discussion of financial statement components (cont.)

16. Other liabilities

As at 31 December 2013, the balance of other liabilities amounted to PLN 2,434,721 thousand and increased by PLN 709,666 thousand (i.e. 41%) compared with the end of 2012. The balance comprised the following items:

	31.12.2013	31.12.2012	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Deferred income	321,376	285,655	35,721	13
Accounts payable	423,175	318,690	104,485	33
Other liabilities relating to:	1,690,170	1,120,710	569,460	51
liabilities relating to settlements of security transactions	379,391	148,572	230,819	155
liabilities relating to investment activities and internal operations	376,362	197,663	178,699	90
interbank settlements	280,070	280,633	(563)	-
liabilities relating to the Bank taking up shares in the increased capital of Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o.	179,370	-	179,370	-
liabilities arising from foreign currency activities	106,138	81,306	24,832	31
liabilities arising from social and legal transactions	87,161	95,687	(8,526)	(9)
financial instruments settlements	73,868	59,547	14,321	24
liabilities due to suppliers	58,683	45,222	13,461	30
liabilities due to insurance companies	24,072	19,547	4,525	23
liabilities relating to interest on interest temporarily redeemed by the State budget	18,987	26,599	(7,612)	(29)
liabilities arising from transactions with financial and non-financial institutions	17,609	8,686	8,923	103
liabilities arising from sale of value marks	11,483	11,816	(333)	(3)
liabilities related to payment cards	10,396	78,248	(67,852)	(87)
settlement of acquisition of machines, equipment and materials, works and services regarding the construction of tangible assets and their usage	10,236	19,236	(9,000)	(47)
other	56,344	47,948	8,396	18
Total	2,434,721	1,725,055	709,666	41

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IV. Discussion of financial statement components (cont.)

16. Other liabilities (cont.)

As at the balance date, deferred income of PLN 321,376 thousand – an increase of PLN 35,751 thousand (i.e. 13%) compared with the balance as at 31 December 2012 and accounts payable in the amount of PLN 423,175 thousand – an increase of PLN 104,485 thousand (i.e. 33%) compared with the balance as at 31 December 2012 had the largest shares in the balance of other liabilities.

The increase in the balance as at 31 December 2013 resulted mainly from an increase in the balance of liabilities relating to settlements of security transactions of PLN 230,819 thousand (i.e. 155%) in respect of, *i.a.*, a liability to a selling shareholder related to the provision of issue stabilization services in the amount of PLN 105,665 thousand (there were none as at the end of 2012), as well as liabilities relating to investment activities and internal operations (an increase of PLN 178,699 thousand, i.e. 90%), mainly due to a significant payment for the purchase of IT equipment to one of the contractors. The increase in the balance was also due to liabilities related to the Bank taking up shares in the increased capital of Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o. in the amount of PLN 179,370 thousand reported as at the end of 2013 (Note 8).

17. Provisions

As at 31 December 2013, provisions comprised the following items:

	31.12.2013	31.12.2012	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Provisions for anniversary bonuses and retirement benefits	35,386	429,728	(394,342)	(92)
Provisions for liabilities and guarantees granted	115,667	215,619	(99,952)	(46)
Provision for legal claims	29,457	18,851	10,606	56
Other provisions	129,971	71,494	58,477	82
Total	310,481	735,692	(425,211)	(58)

The drop in the balance of provisions as at the end of 2013 resulted mainly from a decrease in the level of provisions for retirement benefits of PLN 394,342 thousand (i.e. 92%) and for liabilities and guarantees granted of PLN 99,952 thousand (i.e. 46%). This drop resulted mainly from the revaluation of guarantees and unused credit limits granted to corporate clients. The drop in provisions for employee benefits resulted from changes in the Collective Labour Agreement introduced in May 2013, liquidating entitlement to anniversary bonuses and retirement benefits not arising from the Labour Code. In this respect, the Bank paid its employees compensation in the amount of PLN 179,429 thousand, included in the item "Administrative expenses" (Note 26).

As at 31 December 2012, the provision for retirement benefits was based on the calculations of an independent actuary included in the report dated January 2014. The report was prepared on the basis of the balances as at the balance date.

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IV. Discussion of financial statement components (cont.)

17. Provisions (cont.)

As at 31 December 2013, the item "Other provisions" included, *inter alia*, a restructuring provision in the amount of PLN 91,842 thousand. The restructuring provision covers future liabilities in respect of compensation and severance pay to employees whose employment contracts will be terminated for reasons other than their fault. In accordance with IAS 37.72, the basis for creating this provision is the Bank's employment restructuring plan.

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IV. Discussion of financial statement components (cont.)

18. Equity

Changes in equity in the audited year are shown in the table below:

	Share capital	Reserve capital	General banking risk fund	Other reserves	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses	Total other capital	Unappropriated profits	Net profit for the period	Total equity
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
As at 31.12.2012 published	1,250,000	15,198,111	1,070,000	3,385,743	9,156	51,899	-	19,714,909	88,533	3,592,617	24,646,059
Change in accounting policies	-	-	-	-	-	-	51,953	51,953	(313,214)	(9,981)	(271,242)
As at 31.12.2012 after the change in accounting policies	1,250,000	15,198,111	1,070,000	3,385,743	9,156	51,899	51,953	19,766,862	(224,681)	3,582,636	24,374,817
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	3,582,636	(3,582,636)	-
Total comprehensive income, of which:	-	-	-	-	(62,169)	(177,492)	(7,676)	(247,337)	-	3,233,762	2,986,425
Net profit	-	-	-	-	-	-	-	-	-	3,233,762	3,233,762
Other comprehensive income	-	-	-	-	(62,169)	(177,492)	(7,676)	(247,337)	-	-	(247,337)
Transfer of net profit to capital	-	1,400,000	-	31,150	-	-	-	1,431,150	(1,431,150)	-	-
Transfer from other comprehensive income to unappropriated profits	-	-	-	-	-	-	(51,953)	(51,953)	51,953	-	-
Dividend paid	-	-	-	-	-	-	-	-	(2,250,000)	-	(2,250,000)
As at 31.12.2013	1,250,000	16,598,111	1,070,000	3,416,893	(53,013)	(125,593)	(7,676)	20,898,722	(271,242)	3,233,762	25,111,242

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IV. Discussion of financial statement components (cont.)

18. Equity (cont.)

The adjustment to unappropriated profits of PLN (313,214) thousand related to a change in the accounting policies for the recognition of revenue from the sales of insurance products. In 2013, the Bank changed its accounting policies for the recognition of revenue from the sales of insurance products. The change related to dividing revenue from the sales of such products into:

- revenue relating directly to the financial instrument being recognized – and deferred; and
- revenue relating to intermediation in the sales of insurance products – recognized in the period in which the intermediation service is provided.

The change in the accounting policies was made retrospectively. As a result of this change, the Bank's equity as at 1 January 2012 decreased by PLN 313,214 thousand (i.e. 1% of the equity as at 31 December 2012), whereas the net profit for 2012 was decreased by PLN 41,972 thousand (i.e. 1% of the net profit for 2012). These changes are not material from the perspective of the correctness of the financial statements for the previous years.

In 2013, due to the revision of IAS 19, actuarial gains and losses on the valuation of post-employment benefits in the amount of PLN (7,676) thousand were also recognized in the item "Other comprehensive income". The Bank also recognized retrospectively actuarial gains and losses for the previous period in the amount of PLN 51,953 thousand.

On 20 June 2013, the General Meeting of the Shareholders of Powszechna Kasa Oszczędności Bank Polski SA passed a resolution relating to the appropriation of profit for 2012, in the amount of PLN 3,582,636 thousand, according to which PLN 1,400,000 thousand was to be transferred to the reserve capital, PLN 31,150 thousand was to be transferred to other reserves, and PLN 2,250,000 thousand was to be paid out as a dividend.

As at 31 December 2013, the Bank's share capital amounted to PLN 1,250,000 thousand and consisted of 1,250,000,000 ordinary shares with a nominal value of PLN 1 each, including:

- 312,500,000 A-series registered shares;
- 197,500,000 A-series bearer shares;
- 105,000,000 B-series bearer shares;
- 385,000,000 C-series bearer shares;
- 250,000,000 D-series bearer shares.

The Bank's own funds, calculated in accordance with the Banking Law and Resolution No. 325/2011 of the Polish Financial Supervision Authority, amounted to PLN 20,498,570 thousand as at the balance date (PLN 19,874,725 thousand as at 31 December 2012) and were PLN 8,238,901 thousand higher than the total capital requirement (PLN 12,259,669 thousand as at the end of 2013). As at the balance date, the capital adequacy ratio calculated on the basis of the banking and trading portfolios amounted to 13.38% (12.93% as at 31 December 2012).

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IV. Discussion of financial statement components (cont.)

Income statement for the financial year ended 31 December 2013

19. Net interest income

In 2013, net interest income amounted to PLN 6,580,450 thousand and dropped by PLN 1,398,468 thousand (i.e. 18%) compared with 2012. The net interest income comprised the following items:

	2013	2012	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Interest income:	10,487,279	12,960,446	(2,473,167)	(19)
Income from loans and advances to customers	8,817,600	10,377,409	(1,559,809)	(15)
Income from investment securities available for sale	514,278	667,074	(152,796)	(23)
Income from financial assets designated upon initial recognition at fair value through profit and loss	468,445	729,572	(261,127)	(36)
Income from derivative hedging instruments	454,278	870,450	(416,172)	(48)
Income from placements with banks	165,082	249,826	(84,744)	(34)
Income from trading assets	63,901	59,264	4,637	8
Other	3,695	6,851	(3,156)	(46)
Interest expense:	(3,906,829)	(4,981,528)	1,074,699	(22)
Interest expense on amounts due to customers	(3,724,662)	(4,736,087)	1,011,425	(21)
Interest expense on debt securities in issue	(103,008)	(205,435)	102,427	(50)
Premium expense on debt securities available for sale	(38,737)	(9,911)	(28,826)	291
Interest expense on deposits from banks	(17,120)	(26,979)	9,859	(37)
Other expenses	(23,302)	(3,116)	(20,186)	648
Net interest income	6,580,450	7,978,918	(1,398,468)	(18)

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IV. Discussion of financial statement components (cont.)

19. Net interest income (cont.)

The drop in interest income of PLN 2,473,167 thousand (i.e. 19%) in 2013 was caused mainly by interest income on loans and advances to customers which was lower than in 2012 (a drop of PLN 1,559,809 thousand, i.e. 15%). This was mainly due to a drop in reference interest rates (the average annual WIBOR 1M rate amounted to 3.04% in 2013 compared with 4.77% in 2012). The drop in interest income on derivative hedging instruments and securities (a drop of PLN 416,172 thousand and PLN 409,286 thousand respectively) also contributed significantly to the decrease in the balance.

The rate of decrease in interest expense was higher and amounted to 22%, which translated into a drop in interest expense of PLN 1,074,699 thousand in 2013. This was mainly the result of lower interest expense on amounts due to customers and the lower costs of issuing own debt securities (a drop of PLN 1,011,425 thousand, i.e. 21% and of PLN 102,427 thousand, i.e. 50%). This drop resulted mainly from a decrease in the balance of amounts due to customers in respect of term deposits (a drop of PLN 3,911,478 thousand, i.e. 5% in 2013 compared with the previous year (Note 13)) in favour of funds in current accounts and lower interest rates on deposits.

As a result, the interest margin calculated as the ratio of the net interest income to interest income increased by 1 pp. in 2013 and amounted to 63%. The interest spread, calculated as the difference between the ratio of interest income to interest-bearing assets and the cost of borrowings, amounted to 3.4% and dropped by 0.8 pp. compared with 2012.

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IV. Discussion of financial statement components (cont.)

20. Net fee and commission income

In 2013, the net fee and commission income amounted to PLN 2,655,482 thousand and increased by PLN 5,563 thousand compared with 2012. The net fee and commission income comprised the following items:

	2013	2012	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Fee and commission income	3,650,758	3,430,561	220,197	6
Income from payment cards	1,300,222	1,163,918	136,304	12
Income from maintenance of bank accounts	875,578	865,290	10,288	1
Income from loans and advances	573,483	567,904	5,579	1
Income from loan insurance	266,199	226,250	39,949	18
Income from maintenance of investment funds (including management fees)	217,323	182,289	35,034	19
Income from cash transactions	113,189	122,841	(9,652)	(8)
Income from securities transactions	79,310	82,794	(3,484)	(4)
Income from servicing foreign mass transactions	52,290	48,785	3,505	7
Income from performing the role of an agent for the issue of Treasury bonds	29,022	39,295	(10,273)	(26)
Income from sale and distribution of court fee stamps	20,927	25,624	(4,697)	(18)
Other	118,872	101,872	17,000	17
Income from fiduciary activities	4,343	3,699	644	17
Fee and commission expense	(995,276)	(780,642)	(214,634)	27
Expenses on payment cards	(677,073)	(492,947)	(184,126)	37
Expenses on loan insurance	(94,474)	(76,896)	(17,578)	23
Expenses on acquisition services	(90,210)	(94,636)	4,426	(5)
Expenses on settlement services	(24,380)	(24,053)	(327)	1
Expenses on fee and commissions for operating services rendered by banks	(11,021)	(9,994)	(1,027)	10
Other	(98,118)	(82,116)	(16,002)	19
Net fee and commission income	2,655,482	2,649,919	5,563	-

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IV. Discussion of financial statement components (cont.)

20. Net fee and commission income (cont.)

In 2013, fee and commission income increased by PLN 220,197 thousand, i.e. 6%. This increase resulted mainly from an increase of PLN 136,304 thousand (i.e. 12%) in income from payment cards, an increase of PLN 35,034 thousand (i.e. 19%) in income from maintenance of investment funds, and an increase of PLN 39,949 thousand (i.e. 18%) in income from loan insurance. The increase in income from payment cards resulted mainly from an increase in the number of payment card transactions compared with the previous year (a 9% increase compared with 2012) and an increase in the average transaction value (a 6% increase compared with the previous year), whereas the increase in income from maintenance of investment funds was due to a significant increase in sales of units in the PKO TFI investment funds (an increase in the volume of units sold of 269% y/y).

The increase in income from loan insurance resulted mainly from an increase in the volume of mortgage loans granted (an increase in the volume of PLN 4,568,502 thousand, i.e. 6% (Note 6) and the average level of saturation of these products with insurance.

The data for 2012 has been restated to ensure comparability with the data for 2013 due to the change in the accounting policies. A detailed description of the change in the accounting policies is presented in Note 18.

In 2013, the balance of fee and commission expense increased by PLN 214,634 thousand (i.e. 27%) compared with 2012. This increase was caused mainly by an increase of PLN 184,126 thousand (i.e. 37%) in expenses on payment cards, mainly as a result of an increase in the number of payment card transactions. The growth rate of commission expense on payment cards was much higher than the rate of growth of related income due to a reduction in the level of interchange fees collected from accepting merchants. This increase was additionally strengthened by an increase in commission expense on loan insurance (an increase of PLN 17,578 thousand, i.e. 23%) as a result of an increase in the volume of products sold with insurance (mainly mortgage loans).

21. Dividend income

In 2013, dividend income amounted to PLN 96,049 thousand and was PLN 2,849 thousand (i.e. 3%) higher than in 2012. This amount comprised mainly the dividends paid by Centrum Elektronicznych Usług Płatniczych "eService" SA – PLN 44,428 thousand (PLN 10,000 thousand in 2012), PKO Towarzystwo Funduszy Inwestycyjnych SA – PLN 24,045 thousand (PLN 37,884 thousand in 2012) and Inteligo Financial Services SA – PLN 20,435 thousand (PLN 19,898 thousand in 2012).

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IV. Discussion of financial statement components (cont.)

22. Net income from financial instruments designated at fair value through profit and loss

In 2013, the gain on financial instruments designated at fair value through profit and loss amounted to PLN 54,389 thousand (a gain of PLN 95,092 thousand in the previous year):

	2013	2012	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Derivative instruments	64,443	3,899	60,544	1.553
Debt instruments	9,581	103,534	(93,953)	(91)
Structured Bank securities at fair value through profit and loss	(18,842)	(11,306)	(7,536)	67
Equity instruments	(793)	(1,035)	242	(23)
Total	54,389	95,092	(40,703)	(43)

The item "Derivative instruments" includes the net realized income and the measurement of derivative instruments with the exception of foreign currency transactions the value of which is recognized in net foreign exchange gains (losses) (Note 23).

The item "Net income from derivative instruments" also includes the ineffective portion of cash flow hedges recognized in the income statement in the amount of PLN 24,333 thousand (PLN 7,938 thousand in 2012) (Note 4).

23. Net foreign exchange gains

In 2013, net foreign exchange gains amounted to PLN 237,638 thousand (PLN 254,153 thousand in 2012) and included gains and losses on revaluation and on transactions in assets and liabilities in foreign currencies, and the fair value measurement of foreign exchange derivatives (FX forward, FX swap, CIRS and currency options). Compared with 2012, net foreign exchange gains dropped by PLN 16,515 thousand (i.e. 6%).

24. Other operating income

In 2013, other operating income amounted to PLN 639,615 thousand and increased by PLN 571,716 thousand compared with the previous year. This increase resulted mainly from income earned as a result of the sale of 66% of shares in Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. in the amount of PLN 346,932 thousand and a gain on the fair value measurement of the remaining shares in the company, in the amount of PLN 178,722 thousand.

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IV. Discussion of financial statement components (cont.)

25. Net impairment allowance and write-downs

In 2013, the net impairment allowance and write-downs were negative (an excess of allowances and write-downs recognized over those reversed) and amounted to PLN 2,087,567 thousand (a drop in the negative balance of PLN 371,023 thousand) compared with 2012.

	2013	2012	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Loans and advances to customers	(1,822,524)	(2,108,797)	286,273	(14)
Investments in subsidiaries, jointly controlled entities and associates	(177,936)	(208,148)	30,212	(15)
Non-current assets held for sale – measured at fair value less estimated costs to sell	(143,798)	-	(143,798)	-
Investment securities available for sale	(16,183)	(14,988)	(1,195)	8
Other	(12,652)	(11,341)	(1,311)	12
Amounts due from banks	(10,239)	(174)	(10,065)	5,784
Intangible assets	-	(3,695)	3,695	(100)
Tangible fixed assets	267	(3,257)	3,524	(108)
Provisions for future liabilities	6,016	(3,823)	9,839	(257)
Provisions for legal claims and liabilities and guarantees granted	89,482	(104,367)	193,849	(186)
Net impairment allowance and write-downs	(2,087,567)	(2,458,590)	371,023	(15)

A drop in net impairment allowances for mortgage loans of PLN 210,735 thousand (i.e. 46%) and a drop in net impairment allowances for consumer loans of PLN 157,830 thousand (i.e. 28%), as well as a net gain on the release of provisions for off-balance sheet liabilities granted and legal claims in the amount of PLN 89,482 thousand (a net loss of PLN 104,367 thousand in 2012) contributed significantly to the change in the balance in 2013. This result partially deteriorated due to an increase in net impairment allowances for corporate loans of PLN 62,539 thousand (i.e. 5%). The cost of risk amounted to 1.2% in 2013 and was 0.2 pp. lower than in the previous year. Detailed information on the quality of the loan portfolio is presented in Note 6.

Additionally, in 2013 the Bank recognized an impairment allowance for its shares in Kredobank SA (PLN 172,000 thousand) and Centrum Haffnera (PLN 5,936 thousand). The shares in Finansowa Kompania Prywatne Inwestycje presented as non-current assets held for sale were remeasured to their estimated fair value, less anticipated costs to sell (Note 8).

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IV. Discussion of financial statement components (cont.)

26. Administrative expenses

Administrative expenses incurred by the Bank in 2013 amounted to PLN 4,220,766 thousand and were PLN 36,131 thousand (i.e. 1%) lower than the expenses incurred in 2012:

	2013	2012	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Staff costs	(2,304,366)	(2,372,201)	67,835	(3)
Overheads	(1,160,424)	(1,199,405)	38,981	(3)
Depreciation and amortization	(531,417)	(479,992)	(51,425)	11
Taxes and fees	(56,856)	(61,311)	4,455	(7)
Contribution and payments to the Bank Guarantee Fund	(167,703)	(143,988)	(23,715)	16
Total	(4,220,766)	(4,256,897)	36,131	(1)

The drop in administrative expenses in 2013 resulted mainly from a decrease in staff costs of PLN 67,835 thousand, which was due to the inclusion of the release of provisions for retirement benefits and anniversary bonuses less related compensation paid to the employees, totalling PLN 179,429 thousand, in this item. If this item were not included, staff costs would increase by PLN 111,594 thousand (i.e. 5%) in 2013.

The drop in overheads in 2013 comprised mainly a decrease of PLN 38,954 thousand (i.e. 11%) in administrative activity costs which amounted to PLN 232,270 thousand in 2013, a decrease of PLN 28,011 thousand (i.e. 8%) in the costs of maintenance and rental of non-current assets, and a decrease of PLN 11,388 thousand in promotion and advertising costs which amounted to PLN 323,504 thousand and PLN 123,256 thousand respectively in 2013. This drop was partly offset by an increase in other costs which amounted to PLN 109,752 thousand in 2013 (PLN 35,265 thousand in 2012).

The Bank's effectiveness ratios in the audited year were as follows:

	2013	2012
	PLN'000	PLN'000
Administrative expenses	(4,220,766)	(4,256,897)
Average annual number of employees	25,110	26,044
Administrative expenses per employee	(168)	(163)
Net profit per employee	129	138

The cost to income ratio for the audited year amounted to 41.1% (38.1% for 2012). The deterioration in the C/I ratio was mainly caused by a drop in income. At the same time, the net profit per employee decreased (a 7% drop compared with 2012). Administrative expenses per employee increased mainly as a result of a drop in the number of employees of 934 (the annual average).

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IV. Discussion of financial statement components (cont.)

27. Income tax expense

The total income tax expense for the audited year was as follows:

	2013 PLN'000	2012 PLN'000	Change PLN'000	Change (%)
Deferred income tax	(103,455)	(71,421)	(32,034)	45
Current income tax expense	(622,628)	(796,425)	173,797	(22)
Income tax expense recognized in the income statement	(726,083)	(867,846)	141,763	(16)
Income tax expense recognized in other comprehensive income	58,015	46,449	11,566	25
Total	(668,068)	(821,397)	153,329	(19)

The effective tax rate amounted to 18.3% in 2013 and dropped by 1.2 pp.

(a) Deferred income tax

Deferred income tax is the difference between the book values of assets and liabilities and their tax bases. The deferred income tax balance comprised deductible and taxable temporary differences:

	Statement of financial position 31.12.2013 PLN'000	Statement of financial position 31.12.2012 PLN'000	Income statement PLN'000
Deferred income tax provision			
Interest accrued on receivables	206,564	193,308	(13,256)
Difference between the carrying values of tangible fixed assets and their tax bases	336,603	333,554	(3,049)
Interest capitalized on "pass" mortgage loans	155,285	169,830	14,545
Interest on securities	22,438	14,567	(7,871)
Valuation of derivatives, including:	-	18,450	x
- recognized in the income statement	-	6,276	6,276
- recognized in other comprehensive income	-	12,174	x
Valuation of securities, including:	-	6,037	x
- recognized in the income statement	-	3,889	3,889
- recognized in other comprehensive income	-	2,148	x
Gross deferred income tax provision	720,890	735,746	x
- recognized in the income statement	720,890	721,424	534
- recognized in other comprehensive income	-	14,322	x

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IV. Discussion of financial statement components (cont.)

27. Income tax expense (cont.)

(a) Deferred income tax (cont.)

	Statement of financial position 31.12.2013 PLN'000	Statement of financial position 31.12.2012 PLN'000	Income statement PLN'000
Deferred income tax assets			
Impairment allowances	506,795	494,933	11,862
Adjustment to EIR valuation	184,089	187,166	(3,077)
Interest accrued on liabilities	159,134	235,244	(76,110)
Provisions for anniversary bonuses and retirement benefits, and other employee benefits:	83,164	131,770	x
- recognized in the income statement	69,176	119,583	(50,407)
- recognized in other comprehensive income	13,988	12,187	x
Temporary differences due to bancassurance adjustment	62,878	63,625	(747)
Valuation of securities, including:	13,909	-	x
- recognized in the income statement	1,477	-	1,477
- recognized in other comprehensive income	12,432	-	x
Valuation of derivative financial instruments, including:	9,225	10,661	x
- recognized in the income statement	(20,235)	10,661	(30,896)
- recognized in other comprehensive income	29,460	-	x
Interest on securities	1,212	-	1,212
Other	87,676	44,979	42,697
Gross deferred income tax assets	1,108,082	1,168,378	x
- recognized in the income statement	1,052,202	1,156,191	(103,989)
- recognized in other comprehensive income	55,880	12,187	x
Net impact of the deferred income tax on the income statement	-	-	(103,455)

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IV. Discussion of financial statement components (cont.)

27. Income tax expense (cont.)

(b) Current income tax

In the current financial year, corporate income tax was calculated at a rate of 19% based on profit before income tax determined on the basis of IFRS regulations as adopted by the EU, adjusted for non-taxable income and non-deductible costs.

	2013	2012	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Profit before income tax	3,959,845	4,450,482	(490,637)	(11)
Current tax at 19%	(752,371)	(845,592)	93,221	(11)
Permanent differences between profit/loss before income tax and taxable income, including:	23,700	(75,150)	98,850	(132)
Impact of recognition of an allowance which does not constitute tax-deductible costs (Kredobank)	(32,680)	(28,500)	(4,180)	15
Impact of the fair value measurement of the remaining shares in eService	33,957	-	33,957	-
Impact of revaluation of impairment allowances for exposures, which does not constitute tax-deductible costs/ taxable income	(2,518)	(42,388)	39,870	(94)
Other non-deductible costs	(11,215)	(22,029)	10,814	(49)
Dividend income	18,249	17,708	541	3
Other	17,907	59	17,848	30,251
Other differences, including donations	2,588	52,896	(50,308)	(95)
Corporate income tax recognized in the income statement	(726,083)	(867,846)	141,763	(16)
Effective tax rate	18.3%	19.5%	-1.2 pp.	
Temporary difference resulting from deferred tax, recognized in the income statement	(103,455)	(71,421)	(32,034)	45
Total current income tax expense	(622,628)	(796,425)	173,797	(22)

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IV. Discussion of financial statement components (cont.)

28. Off-balance sheet items

The value of off-balance sheet liabilities granted and received as at the balance date is presented in the table below:

	31.12.2013	31.12.2012	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Off-balance sheet liabilities granted, including:	45,514,244	44,029,485	1,484,759	3
Financing granted	34,197,471	32,476,929	1,720,542	5
Guarantees and warranties granted – nominal value	11,316,773	11,552,556	(235,783)	(2)
Off-balance sheet liabilities received, including:	2,534,944	2,963,532	(428,588)	(14)
Guarantees and warranties received	2,490,472	1,707,143	783,329	46
Financing received	44,472	1,256,389	(1,211,917)	(96)

The increase in off-balance sheet liabilities granted of PLN 1,484,759 thousand was caused by an increase in off-balance sheet liabilities related to financing of PLN 1,720,542 thousand (i.e. 5%), mainly credit lines for non-financial institutions, accompanied by a drop in the nominal value of guarantees and warranties granted of PLN 235,783 thousand (i.e. 2%).

Off-balance sheet liabilities received decreased by PLN 428,588 thousand (i.e. 14%) in 2013. This drop resulted from a decrease in the balance of financial liabilities received of PLN 1,211,917 thousand (i.e. 96%), mainly because there were no deposits as at the end of 2013 that were concluded at the end of the year, with a value date in the following year (a drop of PLN 905,892 thousand) and the utilization of credit lines from CEB (a drop of PLN 306,615 thousand), and was offset by an increase in the balance of warranties and guarantees received, mainly as a result of an increase in guarantees received from BGK under the 'de minimis' guarantees programme. The item "Guarantees and warranties received" relates mainly to guarantees of loan repayment received, including PLN 1,210,768 thousand relating to a State Treasury guarantee of repayment of mortgage loans of the so-called "old portfolio" in accordance with the Act of 29 November 2000 on the State Treasury guaranteeing the repayment of specific mortgage loans (PLN 1,380,228 thousand as at 31 December 2012).

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V. Statements of the independent registered auditor

- (a) The Management Board of the Bank provided all the information, explanations, and representations required by us in the course of the audit and provided us with a representation letter confirming the completeness of the information included in the accounting records and the disclosure of all contingent liabilities and subsequent events which occurred up to the date on which that letter was signed.
- (b) The scope of the audit was not limited.
- (c) The Bank has up-to-date documentation of its accounting policies, approved by the Management Board. The Bank's accounting policies were tailored to its needs and ensured the recognition of all events with a material effect on the assessment of its financial position and results, taking into consideration the prudence principle. There were no changes to the accounting policies compared with the previous year besides change in the approach to recognition of remuneration from bancassurance products distribution – described in note 2.23 to the financial statements.
- (d) The closing balances as at the end of the previous year were correctly brought forward as the opening balances of the current financial year in all material respects.
- (e) The counts of assets and liabilities were carried out and reconciled in accordance with the Accounting Act, and the results were included in the accounting records for the audited year.
- (f) The financial statements of the Bank as at and for the year ended 31 December 2011 were approved by Resolution No. 3/2013 passed by the General Meeting of Shareholders on 20 June 2013 filed with the National Court Register in Warsaw on 2 July 2013.
- (g) On 20 June 2013, the General Meeting of Shareholders of Powszechna Kasa Oszczędności Bank Polski SA passed a resolution relating to the appropriation of profit for 2012, in the amount of PLN 3,582,636 thousand, according to which PLN 1,400,000 thousand was to be transferred to reserve capital, PLN 31,150 thousand was to be transferred to other reserves and PLN 2,250,000 thousand was to be paid out as a dividend.
- (h) The financial statements for the previous year were audited by PricewaterhouseCoopers Sp. z o.o. The registered auditor issued an unqualified opinion.
- (i) We have assessed the operation of the accounting system. Our assessment covered in particular:
 - the accuracy of the documentation relating to business transactions;
 - the fairness, accuracy and verifiability of the books of account, including computerized books of account;
 - the methods used for controlling access to data and the computerized data processing system;
 - the safeguarding of the accounting documentation, books of account, and financial statements.

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V. Statements of the independent registered auditor (cont.)

This assessment, together with our verification of individual items of the financial statements, provides the basis for expressing a general and comprehensive opinion on these financial statements. The audit was not intended to provide a comprehensive opinion on the operations of the said system.

- (j) We determined the materiality levels at the planning stage. Materiality levels specify the limits up to which identified irregularities may be left unadjusted without any detriment to the quality of the financial statements and to the correctness of the underlying books of account, since failing to make such adjustments will not be misleading for the readers of the financial statements. Materiality measures both the quantity and quality of audited items and that is why it varies for different statement of financial position and income statement items. Due to the complexity and quantity of the materiality levels adopted for audit purposes, they are included in the audit documentation.
- (k) The notes to the financial statements present all significant information required by IFRS as adopted by the European Union.
- (l) The information in the Directors' Report for the year ended 31 December 2013 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (Journal of Laws 2014, item 133) and is consistent with the information presented in the audited financial statements.
- (m) The total capital requirement, together with the requirement concerning the risk of excessive capital exposure, amounted to PLN 12,272,008 thousand as at the balance date. The capital adequacy ratio as at 31 December 2013 amounted to 13.38%. As at the balance date, the Bank complied with the prudence principle in all material respects.



VI. Final information and comments

This report has been prepared in connection with our audit of the financial statements of Powszechna Kasa Oszczędności Bank Polski SA with its registered office in Warsaw, 15 Puławska Street. The financial statements were signed by the Banks's Management Board and the person entrusted with maintaining the books of account on 4 March 2014.

This report should be read in conjunction with the Independent Registered Auditor's unqualified Opinion to the General Meeting of Shareholders and the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski SA dated 5 March 2014, concerning the said financial statements. The opinion on the financial statements expresses a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the financial statements as a whole.

Conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Firm No. 144:

Adam Celiński
Member of the Management Board

PricewaterhouseCoopers Sp. z o.o.

Principal Registered Auditor
No. 90033

Warsaw, 5 March 2014