



Bank Polski

# Financial Statements of PKO Bank Polski SA for the year ended 31 December 2013



Bank Polski

## SELECTED FINANCIAL DATA DERIVED FROM THE FINANCIAL STATEMENTS

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	period from 01.01.2013 to 31.12.2013	period from 01.01.2012 to 31.12.2012 restated	period from 01.01.2013 to 31.12.2013	period from 01.01.2012 to 31.12.2012 restated
Net interest income	6 580 450	7 978 918	1 562 681	1 911 759
Net fee and commission income	2 655 482	2 649 919	630 606	634 924
Operating profit	3 959 845	4 450 482	940 357	1 066 341
<b>Profit before income tax</b>	<b>3 959 845</b>	<b>4 450 482</b>	<b>940 357</b>	<b>1 066 341</b>
<b>Net profit</b>	<b>3 233 762</b>	<b>3 582 636</b>	<b>767 932</b>	<b>858 404</b>
<b>Earnings per share for the period – basic (in PLN/EUR)</b>	<b>2.59</b>	<b>2.87</b>	<b>0.61</b>	<b>0.69</b>
<b>Earnings per share for the period – diluted (in PLN/EUR)</b>	<b>2.59</b>	<b>2.87</b>	<b>0.61</b>	<b>0.69</b>
<b>Net comprehensive income</b>	<b>2 986 425</b>	<b>3 384 623</b>	<b>709 196</b>	<b>810 960</b>
Net cash flow from / used in operating activities	(1 092 517)	1 805 037	(259 444)	432 489
Net cash flow from / used in investing activities	(756 946)	1 137 854	(179 754)	272 631
Net cash flow from / used in financing activities	(1 741 269)	(1 868 143)	(413 505)	(447 609)
Total net cash flows	(3 590 732)	1 074 748	(852 703)	257 511

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	as at 31.12.2013	as at 31.12.2012 restated	as at 31.12.2013	as at 31.12.2012 restated
Total assets	196 279 932	190 688 759	47 328 302	46 643 696
Total equity	25 111 242	24 374 817	6 054 987	5 962 237
Share capital	1 250 000	1 250 000	301 408	305 758
Number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Book value per share (in PLN/EUR)	20.09	19.50	4.84	4.77
Diluted number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Diluted book value per share (in PLN/EUR)	20.09	19.50	4.84	4.77
Capital adequacy ratio	13.38%	12.74%	13.38%	12.74%
Basic funds (Tier 1)	19 346 921	18 344 766	4 665 056	4 487 248
Supplementary funds (Tier 2)	1 022 720	1 087 104	246 605	265 913
Short-term equity (Tier 3)	154 112	129 641	37 160	31 711

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

- the income statement, the statement of comprehensive income and the cash flow statement items – the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month of 2013 and 2012 respectively: EUR 1 = PLN 4.2110 and EUR 1 = PLN 4.1736,
- the statement of financial position items – average NBP exchange rate as at 31 December 2013: EUR 1 = PLN 4.1472 and as at 31 December 2012: EUR 1 = PLN 4.0882.

**FINANCIAL STATEMENTS OF PKO BANK POLSKI SA**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**  
**(IN PLN THOUSAND)**

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**INCOME STATEMENT**

	Note	2013	2012 restated
<b>Continuing operations</b>			
Interest and similar income	3	10 487 279	12 960 446
Interest expense and similar charges	3	(3 906 829)	(4 981 528)
<b>Net interest income</b>		<b>6 580 450</b>	<b>7 978 918</b>
Fee and commission income	4	3 650 758	3 430 561
Fee and commission expense	4	(995 276)	(780 642)
<b>Net fee and commission income</b>		<b>2 655 482</b>	<b>2 649 919</b>
Dividend income	5	96 049	93 200
Net income from financial instruments measured at fair value	6	54 389	95 092
Gains less losses from investment securities	7	66 909	81 605
Net foreign exchange gains (losses)		237 638	254 153
Other operating income	8	639 615	67 899
Other operating expense	8	(62 354)	(54 817)
<b>Net other operating income and expense</b>		<b>577 261</b>	<b>13 082</b>
Net impairment allowance and write-downs	9	(2 087 567)	(2 458 590)
Administrative expenses	10	(4 220 766)	(4 256 897)
<b>Operating profit</b>		<b>3 959 845</b>	<b>4 450 482</b>
<b>Profit before income tax</b>		<b>3 959 845</b>	<b>4 450 482</b>
Income tax expense	11	(726 083)	(867 846)
<b>Net profit</b>		<b>3 233 762</b>	<b>3 582 636</b>
Earnings per share	12		
- basic earnings per share for the period (PLN)		2.59	2.87
- diluted earnings per share for the period (PLN)		2.59	2.87
Weighted average number of ordinary shares during the period (in thousand)		1 250 000	1 250 000
Weighted average diluted number of ordinary shares during the period (in thousand)		1 250 000	1 250 000

**Discontinued operations**

In years 2013 and 2012, PKO Bank Polski SA did not have discontinued operations.

**STATEMENT OF COMPREHENSIVE INCOME**

	Note	2013	2012 restated
<b>Net profit</b>		<b>3 233 762</b>	<b>3 582 636</b>
<b>Other comprehensive income</b>		<b>(247 337)</b>	<b>(198 013)</b>
<b>Items that may be reclassified to the income statement</b>		<b>(239 661)</b>	<b>(249 966)</b>
Cash flow hedges (gross)	18	(219 126)	(383 069)
Deferred tax on cash flow hedges	11	41 634	72 783
Cash flow hedges (net)		(177 492)	(310 286)
Unrealised net gains on financial assets available for sale (gross)	7	(76 749)	74 467
Deferred tax on unrealised net gains on financial assets available for sale	11	14 580	(14 147)
Unrealised net gains on financial assets available for sale (net)		(62 169)	60 320
<b>Items that may not be reclassified to the income statement</b>		<b>(7 676)</b>	<b>51 953</b>
Actuarial gains and losses (net)		(7 676)	51 953
Actuarial gains and losses (gross)		(9 477)	64 140
Deferred tax on actuarial gains and losses	11	1 801	(12 187)
<b>Total net comprehensive income</b>		<b>2 986 425</b>	<b>3 384 623</b>

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## STATEMENT OF FINANCIAL POSITION

	Note	31.12.2013	31.12.2012 restated	01.01.2012 restated
<b>ASSETS</b>				
Cash and balances with the central bank	14	7 188 406	10 229 230	9 060 280
Amounts due from banks	15	2 089 087	3 456 391	2 320 198
Trading assets	16	484 485	282 230	1 311 089
Derivative financial instruments	17	3 002 220	3 861 456	3 065 149
Financial assets designated upon initial recognition at fair value through profit and loss	19	15 179 188	12 614 917	12 467 201
Loans and advances to customers	20	147 372 326	141 692 280	139 678 644
Investment securities available for sale	21	13 736 698	12 061 406	14 168 933
Investments in subsidiaries, jointly controlled entities and associates	22	1 578 926	1 171 005	1 497 975
Non-current assets held for sale	23	145 657	20 410	20 410
Intangible assets	24	1 944 132	1 681 120	1 522 568
Tangible fixed assets, of which:	25	2 296 981	2 382 658	2 013 314
investment properties		187	238	248
Current income tax receivables	11	201 212	-	-
Deferred income tax asset	11	387 192	432 632	457 604
Other assets	26	673 422	803 024	482 790
<b>TOTAL ASSETS</b>		<b>196 279 932</b>	<b>190 688 759</b>	<b>188 066 155</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Liabilities</b>				
Amounts due to the central bank	27	4 065	3 128	3 454
Amounts due to banks	28	2 529 623	2 502 888	5 321 390
Derivative financial instruments	17	3 328 149	3 964 170	2 645 281
Amounts due to customers	29	159 957 671	154 740 574	150 030 681
Debt securities in issue	30	983 123	865 905	3 105 588
Subordinated liabilities	31	1 620 857	1 631 256	1 614 377
Other liabilities	32	2 434 721	1 725 055	2 146 605
Current income tax liabilities	11	-	145 274	77 532
Provisions	33	310 481	735 692	632 086
<b>TOTAL LIABILITIES</b>		<b>171 168 690</b>	<b>166 313 942</b>	<b>165 576 994</b>
<b>Equity</b>				
Share capital		1 250 000	1 250 000	1 250 000
Other capital		20 898 722	19 766 862	17 598 753
Unappropriated profits		(271 242)	(224 681)	3 640 408
Net profit for the year		3 233 762	3 582 636	-
<b>TOTAL EQUITY</b>		<b>25 111 242</b>	<b>24 374 817</b>	<b>22 489 161</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>196 279 932</b>	<b>190 688 759</b>	<b>188 066 155</b>
Capital adequacy ratio	60	13.38%	12.74%	11.93%
Book value (in PLN thousand)		25 111 242	24 374 817	22 489 161
Number of shares (in thousand)	1	1 250 000	1 250 000	1 250 000
Book value per share (in PLN)		20.09	19.50	17.99
Diluted number of shares (in thousand)		1 250 000	1 250 000	1 250 000
Diluted book value per share (in PLN)		20.09	19.50	17.99

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## STATEMENT OF CHANGES IN EQUITY

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

for the year ended 31 December 2012	Share capital	Other capital							Unappropriated profits	Net profit for the period	Total equity
		Reserves			Other comprehensive income			Total other capital			
		Reserve capital	General banking risk fund	Other reserves	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses				
As at 1 January 2012 (before restatement)	1 250 000	12 898 111	1 070 000	3 319 621	(51 164)	362 185	-	17 598 753	3 953 622	-	22 802 375
Change in accounting policies	-	-	-	-	-	-	-	-	(313 214)	-	(313 214)
As at 1 January 2012 (restated)	1 250 000	12 898 111	1 070 000	3 319 621	(51 164)	362 185	-	17 598 753	3 640 408	-	22 489 161
Total comprehensive income (restated), of which:	-	-	-	-	60 320	(310 286)	51 953	(198 013)	-	3 582 636	3 384 623
Net profit (restated)	-	-	-	-	-	-	-	-	-	3 582 636	3 582 636
Other comprehensive income (restated)	-	-	-	-	60 320	(310 286)	51 953	(198 013)	-	-	(198 013)
Transfer from unappropriated profits	-	2 300 000	-	66 122	-	-	-	2 366 122	(2 366 122)	-	-
The effect of the takeover of subsidiary's assets and liabilities by the Bank	-	-	-	-	-	-	-	-	88 533	-	88 533
Dividends paid	-	-	-	-	-	-	-	-	(1 587 500)	-	(1 587 500)
As at 31 December 2012	1 250 000	15 198 111	1 070 000	3 385 743	9 156	51 899	51 953	19 766 862	(224 681)	3 582 636	24 374 817

\* unappropriated profits include transfer from net profit for 2011 year.

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## STATEMENT OF CASH FLOWS

	Note	2013	2012 restated
<b>Net cash flow from operating activities</b>			
<b>Profit before income tax</b>		<b>3 959 845</b>	<b>4 450 482</b>
<b>Adjustments:</b>		<b>(5 052 362)</b>	<b>(2 645 445)</b>
Amortisation and depreciation		531 417	479 992
(Gains) losses from investing activities	36	(432 805)	4 332
Interest and dividends	36	(654 111)	(965 369)
Change in amounts due from banks	36	807 951	(1 227 477)
Change in trading assets and financial assets designated upon initial recognition at fair value through profit and loss		(2 766 526)	881 143
Change in derivative financial instruments (asset)		859 236	(796 307)
Change in loans and advances to customers	36	(6 046 858)	(3 259 475)
Change in other assets and non-current assets held for sale		3 895	(320 234)
Change in amounts due to banks		27 672	(755 780)
Change in derivative financial instruments (liability)		(636 021)	1 318 889
Change in amounts due to customers	36	4 274 346	96 976
Change in provisions and impairment allowances	36	(319 377)	1 287 892
Change in other liabilities and subordinated liabilities	36	1 221 201	82 264
Income tax paid		(968 654)	(728 683)
Other adjustments	36	(953 728)	1 256 392
<b>Net cash from / used in operating activities</b>		<b>(1 092 517)</b>	<b>1 805 037</b>
<b>Net cash flow from investing activities</b>			
<b>Inflows from investing activities</b>		<b>46 413 620</b>	<b>40 899 132</b>
Proceeds from sale of an associate classified as assets held for sale		25 450	-
Proceeds from sale of a subsidiary		-	1 482
Proceeds from sale of a subsidiary, net of cash proceeded		383 561	-
Proceeds from sale and interest of investment securities available for sale		45 869 201	40 802 423
Proceeds from sale of intangible assets and tangible fixed assets		39 982	4 165
Other investing inflows (dividends)		95 426	91 062
<b>Outflows from investing activities</b>		<b>(47 170 566)</b>	<b>(39 761 278)</b>
Purchase / increase in equity of a subsidiary		(225 393)	(49 948)
Purchase of investment securities available for sale		(46 125 500)	(38 939 721)
Purchase of intangible assets and tangible fixed assets		(819 673)	(771 609)
<b>Net cash from / used in investing activities</b>		<b>(756 946)</b>	<b>1 137 854</b>
<b>Net cash flow from financing activities</b>			
Proceeds from debt securities in issue		2 119 934	5 907 813
Proceeds from subordinated bonds		-	1 600 700
Redemption of subordinated bonds		-	(1 696 042)
Redemption of debt securities in issue		(2 032 020)	(8 251 390)
Dividends paid	36	(2 250 000)	(1 587 500)
Repayment of interest from issued debt securities and subordinated loans		(123 748)	(206 364)
Long-term borrowings		942 751	6 324 373
Repayment of long-term borrowings		(398 186)	(3 959 733)
<b>Net cash used in financing activities</b>		<b>(1 741 269)</b>	<b>(1 868 143)</b>
<b>Net cash flow</b>		<b>(3 590 732)</b>	<b>1 074 748</b>
of which currency translation differences on cash and cash equivalents		(11 397)	(172 091)
Cash and cash equivalents at the beginning of the period		12 235 414	11 160 666
<b>Cash and cash equivalents at the end of the period</b>	<b>36</b>	<b>8 644 682</b>	<b>12 235 414</b>
of which restricted	14	32 078	6 661

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## NOTES TO THE FINANCIAL STATEMENTS

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**NOTES TO THE FINANCIAL STATEMENTS**
**1. General information**

The financial statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ('PKO Bank Polski SA', 'the Bank') have been prepared for the year ended 31 December 2013 and include comparative data for the year ended 31 December 2012. Financial data have been presented in Polish zloty (PLN), rounded to thousand zloty, unless indicated otherwise.

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

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

According to information available as at 31 December 2013 the Bank's shareholding structure is as follows:

Name of entity	Number of shares	Number of votes %	Nominal value of 1 share	Share in equity %
<b>As at 31 December 2013</b>				
The State Treasury	392 406 277	31.39	PLN 1	31.39
Aviva Otwarty Fundusz Emerytalny	83 952 447	6.72	PLN 1	6.72
ING Otwarty Fundusz Emerytalny*	64 594 448	5.17	PLN 1	5.17
Other shareholders	709 046 828	56.72	PLN 1	56.72
<b>Total</b>	<b>1 250 000 000</b>	<b>100.00</b>	<b>---</b>	<b>100.00</b>
<b>As at 31 December 2012</b>				
The State Treasury	417 406 277	33.39	PLN 1	33.39
Bank Gospodarstwa Krajowego	128 102 731	10.25	PLN 1	10.25
ING Otwarty Fundusz Emerytalny*	64 594 448	5.17	PLN 1	5.17
Other shareholders	639 896 544	51.19	PLN 1	51.19
<b>Total</b>	<b>1 250 000 000</b>	<b>100.00</b>	<b>---</b>	<b>100.00</b>

\*According to information provided by the shareholder on 27 July 2012.

According to the Resolution of the Extraordinary General Shareholders' Meeting No. 3/2011 dated 14 April 2011, on amending the Memorandum of Association of PKO Bank Polski SA, a decrease in share of the State Treasury in the equity of PKO Bank Polski SA (maximum up to 25%) will not lead to limiting the control of the State Treasury over the Bank's strategic decisions.

On 31 January 2013 PKO Bank Polski SA received notification from Bank Gospodarstwa Krajowego ('BGK') and the Minister of the State Treasury of selling off a considerable block of shares on 24 January 2013, through the Warsaw Stock Exchange ('WSE') in block transactions. As a result of these transactions BGK sold all of Bank's shares held (128 102 731 shares), which constituted 10.25% of the share capital and the total number of votes at the General Shareholders' Meeting of the Bank, whereas the State Treasury sold 25 000 000 of 417 406 277 of Bank's shares held (which amounted to 2.00% of the share capital and the total number of votes at the General Shareholders' Meeting of the Bank).

On 1 February 2013, PKO Bank Polski SA received a notification from Aviva Powszechnie Towarzystwo Emerytalne Aviva BZ WBK SA about increasing by the Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK ('Aviva OFE') the stake of the Bank's shares and exceeding the 5% threshold of the total number of votes in the Bank as the result of the purchase transaction concluded on 24 January 2013. Prior to the settlement of the above mentioned transaction Aviva OFE as at 28 January 2013 held 57 152 447 Bank's shares representing 4.57% of the Bank's share capital and the total number of votes at the Bank's General Shareholders' Meeting. After conclusion and settlement of the above mentioned transaction, as at 29 January 2013 Aviva OFE held 83 952 447 Bank's shares representing 6.72% of share capital and the total number of votes at the Bank's General Shareholders' Meeting.

On 1 March 2013 the Bank received a copy of a letter from the Ministry of the State Treasury ('MSP') sent to MSP by BGK, informing that with reference to the sale of all the Bank's shares held by BGK and thus the loss of the Bank's shareholder Status by BGK, the Agreement on cooperation in the joint exercise of corporate governance (joint control) over the Bank concluded on 21 April 2010 between the State Treasury and BGK ceased to be binding.

The Bank is a listed company on the Warsaw Stock Exchange. According to the Warsaw Stock Exchange Bulletin (Cedula Giełdowa), the Bank is classified under the macro-sector 'Finance', sector 'Banks'.

The structure of PKO Bank Polski SA share capital:

Series	Type of shares	Number of shares	Nominal value of 1 share	Series amount by nominal value
Series A	registered ordinary shares	312 500 000	PLN 1	PLN 312 500 000
Series A	bearer ordinary shares	197 500 000	PLN 1	PLN 197 500 000
Series B	bearer ordinary shares	105 000 000	PLN 1	PLN 105 000 000
Series C	bearer ordinary shares	385 000 000	PLN 1	PLN 385 000 000
Series D	bearer ordinary shares	250 000 000	PLN 1	PLN 250 000 000
<b>Total</b>	<b>---</b>	<b>1 250 000 000</b>	<b>---</b>	<b>PLN 1 250 000 000</b>

In 2013, there were no changes in the amount of the share capital of PKO Bank Polski SA. Issued shares of PKO Bank Polski SA are not preferred shares and are fully paid.

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**Business activities of the Bank**

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

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**Structure of the PKO Bank Polski SA Group**

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

NAME OF ENTITY	HEAD OFFICE	RANGE OF ACTIVITY	% SHARE IN EQUITY*	
			31.12.2013	31.12.2012
PKO Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	investment fund management	100.00	100.00
PKO BP Bankowy PTE SA	Warsaw	pension fund management	100.00	100.00
PKO Leasing SA <sup>1</sup>	Łódź	leasing services	100.00	100.00
PKO Bankowy Leasing Sp. z o.o. <sup>2</sup>	Łódź	leasing services	100.00	100.00
PKO Leasing Sverige AB <sup>3</sup>	Stockholm, Sweden	leasing services	100.00	0.00
Bankowe Towarzystwo Kapitałowe SA	Warsaw	services	100.00	100.00
PKO BP Faktoring SA <sup>4</sup>	Warsaw	factoring	99.9889	99.9889
Inteligo Financial Services SA	Warsaw	development and maintenance of IT systems	100.00	100.00
PKO BP Finat Sp. z o.o.	Warsaw	transfer agent services	100.00	100.00
KREDOBANK SA	Lviv, Ukraine	banking activities	99.5655	99.5655
Finansowa Kompania 'Idea Kapital' Sp. z o.o.	Kiev, Ukraine	financial services	100.00	100.00
'Inter-Risk Ukraina' Additional Liability Company <sup>5</sup>	Kiev, Ukraine	debt collection services	100.00	100.00
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. <sup>6</sup>	Kiev, Ukraine	factoring	91.8766	6.5920
PKO Finance AB	Stockholm, Sweden	financial services	100.00	100.00
Qualia Development Sp. z o.o. <sup>7</sup>	Warsaw	real estate development	100.00	100.00
Qualia Sp. z o.o.	Warsaw	general partner in limited partnerships of the Qualia Development Group entities	100.00	100.00
Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Sp. k.	Warsaw	real estate development	99.9975	99.9975
Qualia spółka z ograniczoną odpowiedzialnością - Sopot Sp. k.	Warsaw	real estate development	99.9787	99.9787
Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k.	Warsaw	real estate development	99.9750	99.9750
Qualia spółka z ograniczoną odpowiedzialnością - Jurata Sp. k.	Warsaw	real estate development	99.9608	50.00
Qualia spółka z ograniczoną odpowiedzialnością - Zakopane Sp. k.	Warsaw	real estate development	99.9123	50.00
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp. k.	Warsaw	real estate development	99.8951	99.8951
Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Sp. k.	Warsaw	real estate development	50.00	50.00
Qualia spółka z ograniczoną odpowiedzialnością - Władysławowo Sp. k.	Warsaw	real estate development	50.00	50.00
Qualia Hotel Management Sp. z o.o.	Warsaw	real estate development	100.00	100.00
Qualia - Residence Sp. z o.o.	Warsaw	real estate development	100.00	100.00
Qualia - Rezydencja Flotyła Sp. z o.o.	Warsaw	real estate development	100.00	100.00
Fort Mokotów Inwestycje Sp. z o.o. <sup>8</sup>	Warsaw	real estate development	100.00	0.0109
Sarnia Dolina Sp. z o.o.	Warsaw	real estate development	100.00	56.00
Giełda Nieruchomości Wartościowych Sp. z o.o.	Warsaw	intermediation in the sale of real estate	100.00	0.00
Fort Mokotów Sp. z o.o. in liquidation	Warsaw	in liquidation	51.00	51.00
Merkury - fiz an <sup>9</sup>	Warsaw	placement of funds collected from fund members	100.00	0.00
'Zarząd Majątkiem Górczewska' Sp. z o.o.	Warsaw	real estate management	100.00	0.00
Molina Sp. z o.o.	Warsaw	general partner in limited joint-stock partnership entities of the Fund	100.00	0.00
Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	Warsaw	purchasing and selling of real estate	100.00	0.00
Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.	Warsaw	purchasing and selling of real estate	100.00	0.00
Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A.	Warsaw	purchasing and selling of real estate	100.00	0.00
Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.	Warsaw	purchasing and selling of real estate	100.00	0.00
Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.	Warsaw	purchasing and selling of real estate	100.00	0.00
Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.	Warsaw	purchasing and selling of real estate	100.00	0.00

\* % share in equity of direct parent entity

- 1) formerly Bankowy Fundusz Leasingowy SA,
- 2) formerly Bankowy Leasing Sp. z o.o.,
- 3) the Company was registered in Sweden on 18 September 2013,
- 4) the second shareholder of the Entity is PKO Bank Polski SA,
- 5) in 2013 the shares in the Entity is recognised in non-current assets held for sale,
- 6) the second shareholder of the Entity is 'Inter-Risk Ukraina' Sp. z o.o. In 2013 the share in the Entity is recognised in non-current assets held for sale.
- 7) Until 9 September 2013 the Entity was a direct subsidiary of 'Inter-Risk Ukraina' Sp. z o.o. (the share in equity of the Entity as at the end of 2012 was 93.408%), the total contributions made by the limited partner - Qualia Development Sp. z o.o. are presented in the position 'Share in equity',
- 8) Until 30 December 2013 the Entity was a direct subsidiary of PKO Bank Polski SA; (the share in equity of the Entity as at the end of 2012 was 99.9891%)
- 9) PKO Bank Polski SA has investment certificates of the Fund; the share of possessed investment certificates of the Fund is presented in the position 'Share in equity'; the Fund's subsidiaries are consolidated on the level of PKO Bank Polski SA Group.

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Additionally, the Bank holds the following jointly controlled entities and associates included in the consolidated financial statements:

NAME OF ENTITY	HEAD OFFICE	RANGE OF ACTIVITY	% SHARE IN EQUITY*	
			31.12.2013	31.12.2012
Jointly controlled-entities				
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. <sup>1</sup>	Warsaw	servicing and settlement of card transactions	34.00	100.00
Centrum Obsługi Biznesu Sp. z o.o.	Poznań	hotel management	41.44	41.44
CENTRUM HAFNERA Sp. z o.o.	Sopot	subsidiaries real estate management	49.43	49.43
Sopot Zdrój Sp. z o.o.	Sopot	hotel management	100.00	100.00
Promenada Sopocka Sp. z o.o.	Sopot	rental services and real estate management	100.00	100.00
Centrum Majkowskiego Sp. z o.o. in liquidation	Sopot	in liquidation	100.00	100.00
Kamienica Morska Sp. z o.o. in liquidation <sup>2</sup>	Sopot	in liquidation	100.00	100.00
Associates				
Bank Pocztowy SA	Bydgoszcz	banking activities	25.0001	25.0001
Centrum Operacyjne Sp. z o.o.	Bydgoszcz	activities supporting financial services	100.00	100.00
Spółka Dystrybucyjna Banku Poczowego Sp. z o.o.	Warsaw	intermediary financial services	100.00	100.00
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Poznań	guarantees	33.33	33.33
Kolej Gondolowa Jaworzyna Krynicka SA <sup>3</sup>	Krynica - Zdrój	cable railway transport	0.00	37.53
Agencja Inwestycyjna CORP-SA SA <sup>4</sup>	Warsaw	office real estate management	0.00	22.31

\* % share in equity of direct parent entity

1) Until 30 December 2013 the Entity was a direct subsidiary of PKO Bank Polski SA,

2) On 24 January 2014 the Entity was removed from the National Court Register,

3) Shares of the Entity were sold on 24 September 2013,

4) Shares of the Entity were sold on 31 October 2013.

Information on changes in the participation in the share capital of the subsidiaries is set out in Note 22 'Investments in subsidiaries, jointly controlled entities and associates and description of changes to the entities of the Group'.

**Internal organisational units of the Bank**

The financial statements of the Bank comprising financial data for the year ended 31 December 2013 and comparative financial data, were prepared on the basis of financial data submitted by all organisational units of the Bank through which the Bank performs its activities. As at 31 December 2013, these organisational units included: the Bank's Head Office in Warsaw, the Brokerage House of PKO Bank Polski SA, 12 specialised organisational units, 11 regional retail branches, 13 regional corporate branches, 1136 branches. None of the organisational units listed above prepares separate financial statements.

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

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

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

As at 31 December 2013, the Bank's Management Board consisted of:

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

During the year ended 31 December 2013 no changes took place in the composition of the Bank's Management Board. Moreover, on 8 January 2014 the Supervisory Board of PKO Bank Polski SA passed the Resolutions appointing above mentioned persons to perform indicated functions, for the joint term which commence with the end of the current joint term of the Bank's Management Board.

As at 31 December 2013, the Bank's Supervisory Board consisted of:

- |                                    |  |
|------------------------------------|--|
| • Cezary Banasiński                | Chairman of the Supervisory Board        |
| • Tomasz Zganiacz                  | Deputy-Chairman of the Supervisory Board |
| • Mirosław Czekaj                  | Secretary of the Supervisory Board       |
| • Zofia Dzik                       | Member of the Supervisory Board          |
| • Piotr Marczak                    | Member of the Supervisory Board          |
| • Marek Mroczkowski                | Member of the Supervisory Board          |
| • Ryszard Wierzbą                  | Member of the Supervisory Board          |
| • Elżbieta Mącznyńska - Ziemiańska | Member of the Supervisory Board          |

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During the year ended 31 December 2013 the Ordinary General Shareholders' Meeting of PKO Bank Polski SA appointed as of 20 June 2013 Mrs Elżbieta Mączyńska - Ziemacka as a member of the Supervisory Board of PKO Bank Polski SA and at the same time dismissed from the Supervisory Board of PKO Bank Polski SA Mr Jan Bossak. Moreover, on 21 November 2013 the Bank's Management Board has accepted resignation of Mr Krzysztof Kilian from performing the function of the Bank's Supervisory Board member.

**Approval of financial statements**

These financial statements, reviewed by the Bank's Supervisory Board's Audit Committee on 5 March 2014, have been approved for issuance by the Bank's Management Board on 4 March 2014.

**2. Summary of significant accounting policies and estimates and judgements**

**2.1. Compliance with accounting standards**

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU as at 31 December 2013, and in the areas not regulated by these standards, in accordance with the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2013, no. 330 with subsequent amendments) and the respective secondary legislation issued on its basis, as well as the requirements relating to issuers of securities registered or applying for registration on an official quotations market.

The European Commission has approved IAS 39 'Financial Instruments: Recognition and Measurement' except some decisions concerning hedge accounting. Due to the fact that the Bank applies IFRS as adopted by the European Union ('EU'), the Bank has applied the IAS 39 AG99C in the form adopted by the EU, which allows to designate as a hedged item a portion of cash flows from variable rate deposits for which the effective interest rate is lower than the reference interest rate (not including margins). The IAS 39 as issued by the International Accounting Standards Board introduces limitations in that respect.

**2.2. Going concern**

The financial statements of the Bank have been prepared on the basis that the Bank will continue as a going concern during a period of 12 months from the publication date, i.e. since 10 March 2014. As at the date of signing these financial statements, the Bank's Management Board is not aware of any facts or circumstances that would indicate a threat to the continuing activity of the Bank for 12 months following the publication date as a result of any intended or compulsory withdrawal or significant limitation in the activities of the Bank.

**2.3. Basis of preparation of the financial statements**

These financial statements have been prepared on a fair value basis in respect of financial assets and liabilities measured at fair value through profit and loss, including derivatives and financial assets available for sale, except of those for which the fair value cannot be reliably estimated. Other financial assets and liabilities (including loans and advances) are measured at amortised cost impairment or at price impairment.

Non-current assets are stated at acquisition cost less accumulated depreciation and impairment allowances. Non-current assets (or groups of the above-mentioned assets) classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

**2.4. Foreign currencies**

**2.4.1. Transactions and balances denominated in foreign currencies**

Foreign currency transactions are translated into the functional currency using exchange rate prevailing at the dates of the transactions. At each balance date items are translated using the following principles:

- 1) monetary assets denominated in foreign currency, using a closing rate, i.e. the average rate announced by the National Bank of Poland prevailing as at the balance date,
- 2) non-monetary assets measured at historical acquisition cost in foreign currency, using exchange rate as of the date of the transaction,
- 3) non-monetary assets measured at fair value in foreign currency are translated, using exchange rates prevailing as at the date of the determination of fair value.

Gains and losses on settlements of these transactions and the carrying amount of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

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

**2.5. Financial assets and liabilities**

**2.5.1 Classification**

The Bank classifies financial assets into the following categories: financial assets measured at fair value through profit and loss; financial assets available for sale, loans, advances and other receivables, financial assets held to maturity. Financial liabilities are classified as follows: financial liabilities measured at fair value through profit and loss and other financial liabilities. The classification of financial asset and liability is determined by the Bank on initial recognition.

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

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

- 1) they are classified as held for trading. Financial assets or financial liabilities are classified as held for trading if they are acquired or incurred principally for the purpose of selling or repurchasing it in the near term, are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also classified as held for trading except for derivatives that are designated and effective hedging instruments.
- 2) upon initial recognition they are classified as designated at fair value through profit and loss. The Bank may use this designation only when:
  - a) the designated financial asset or liability is a hybrid instrument which includes one or more embedded derivatives qualifying for separate recognition, and the embedded derivative financial instrument cannot significantly change the cash flows resulting from the host contract or its separation from the hybrid instrument is forbidden;
  - b) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch' that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on a different basis);
  - c) a group of financial assets, financial liabilities or both is properly managed and its performance is evaluated on a fair value basis, in accordance with the written risk management principles or investment strategy of the Bank.
- 3) The Bank has a policy of financial assets and liabilities management according to which financial assets and liabilities classified as held for trading and financial assets and liabilities portfolio designated upon initial recognition at fair value through profit and loss are managed separately.

### **2.5.1.2 Financial assets available for sale**

Financial assets available for sale are non-derivative financial assets that are designated as available for sale or are not classified as financial assets:

- 1) designated by the Bank upon initial recognition at fair value through profit and loss;
- 2) held to maturity;
- 3) those that meet the definition of loans and advances.

### **2.5.1.3 Loans, advances and other receivables**

Loans, advances and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, other than:

- 1) financial assets that the Bank intends to sell immediately or in the near term, which are classified as held for trading, and those that were upon initial recognition designated as at fair value through profit and loss,
- 2) financial assets that the Bank designates upon initial recognition as available for sale,
- 3) financial assets for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

### **2.5.1.4 Financial assets held to maturity**

As at 31 December 2013 and as at 31 December 2012, the Bank did not hold any assets classified to this category.

### **2.5.1.5 Other financial liabilities**

Other financial liabilities are financial liabilities other than designated at fair value through profit and loss which have the nature of a deposit, a loan or an advance received.

### **2.5.1.6 Reclassification of financial assets**

A financial asset classified as available for sale, which meets the definition of loans and advances, can be reclassified by the Bank from the category of financial assets available for sale to the category of loans and advances, if the Bank has the intention and ability to hold that financial asset in the foreseeable future or to maturity.

The Bank does not reclassify financial instruments to or from the category of designated at fair value through profit and loss since they are held or issued. The Bank can reclassify financial instruments classified as held for trading, other than derivative financial instruments and financial instruments designated upon initial recognition at fair value through profit or loss, to loans, advances and other receivables category, if they meet criteria described in Note 2.5.1.3.

## **2.5.2 Accounting for transactions**

Financial assets and financial liabilities, including forward transactions giving rise to an obligation or a right to acquire or sell in the future a given number of specified financial instruments at a given price, are recognised in the books of account under trade date, irrespective of the settlement date provided in the contract.

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### **2.5.3 Derecognition of financial instruments from a statement of financial position**

Financial assets are derecognised from the statement of financial position when contractual rights to the cash flows from the financial asset expire, or when the Bank transferred the financial asset to another entity. The financial asset is transferred when the Bank:

- 1) the contractual rights to receive the cash flows from the financial asset are transferred, or
- 2) retains the contractual rights to receive cash flows from the financial asset, but assumes a contractual obligation to pay cash flows to an entity outside the Bank.

When the Bank transfers a financial asset, it evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. In such a case:

- 1) if all the risks and rewards of ownership of the financial asset are substantially transferred, then the Bank derecognises the financial asset from the statement of financial position,
- 2) if all the risks and rewards of ownership of the financial asset are substantially retained, then the financial asset continues to be recognised in the statement of financial position,
- 3) if substantially all the risks and rewards of ownership of the financial asset are neither transferred nor retained, then a determination is made as to whether control of the financial asset has been retained. If the Bank has retained control, it continues to recognise the financial asset in the statement of financial position to the extent of its continuing involvement in the financial asset, if control has not been retained, then the financial asset is derecognised.

The Bank removes a financial liability (or a part of a financial liability) from its statement of financial position when the obligation specified in the contract is discharged or cancelled or expires.

The Bank derecognises loans when they have been extinguished, when they are expired, or when they are not recoverable. Loans, advances and other amounts due are written off against impairment allowances that were recognised for these accounts. In the case where no allowances were recognised against the account or the amount of the allowance is less than the amount of the loan, advance or other receivable, the loan, advance or other receivable is written-off after, the amount of the impairment allowance is increased by the difference between the value of the receivable and the amount of the allowances that have been recognised to date.

### **2.5.4 Valuation**

When a financial asset or liability is initially recognised, it is measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or the issue of the financial asset or liability.

Subsequent to the initial recognition financial instruments are valued as follows:

#### **2.5.4.1 Assets and liabilities designated at fair value through profit and loss**

They are designated at fair value through profit and loss to the item net income from financial instruments at fair value through profit and loss.

#### **2.5.4.2 Financial assets available for sale**

They are designated at fair value, and gains and losses arising from changes in fair value (except for impairment allowances) are recognised in other comprehensive income, until the amount included in other comprehensive income is reclassified to the income statement when the asset is derecognised from the statement of financial position. Interest determined using effective interest rate from financial assets available for sale is presented in the net interest income.

#### **2.5.4.3 Loans, advances and investments held to maturity**

They are measured at amortised cost with the use of an effective interest rate with an allowance for impairment losses. In case of loans and advances for which it is not possible to reliably estimate the future cash flows and the effective interest rate, loans and advances and investments held to maturity are measured at cost to pay.

#### **2.5.4.4 Other financial liabilities including liabilities resulting from the issue of securities**

They are measured at amortised cost. If the time schedule of cash flows from a financial liability cannot be determined, and thus the effective interest rate cannot be determined fairly, this liability is measured at cost to pay.

Debt instruments issued by the Bank are recognised as financial liabilities and measured at amortised cost.

### **2.5.5 Derivative instruments**

#### **2.5.5.1 Recognition and measurement**

Derivative financial instruments are recognised at fair value from the trade date. A derivative instrument becomes an asset if its fair value is positive and it becomes a liability if its fair value is negative.

In the valuation of these instruments assumptions about the contractor's credit risk and the Bank's own credit risk are taken into account.

When the estimated fair value is lower or higher than the fair value as of the preceding balance date (for transactions concluded in the reporting period – initial fair value), the Bank includes the difference respectively in the net income from financial instruments designated at fair value through profit and loss or in net foreign exchange gains in correspondence with 'Derivative financial instruments'. The above mentioned recognition method applies to derivative instruments which do not qualify to the application of hedge accounting. The method of recording hedging derivatives is presented in Note 2.5.6.4.



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The result of the ultimate settlement of derivative instruments transactions is reflected in the result from financial instruments designated at fair value through profit and loss or in the net foreign exchange gains.

The notional amounts of the underlying derivative instruments are presented in off-balance sheet items from the date of the transaction until maturity.

### **2.5.5.2 Embedded derivative instruments**

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract (both of a financial or non-financial nature), with the effect that some of the cash flows of the combined instrument vary in a way similar to the cash flows of a stand-alone derivative. An embedded derivative causes some or all of the cash flows required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, or other variable, provided that the non-financial variable is not specific to a party to the contract.

An assessment of whether a given contract contains an embedded derivative instrument is made at the date of entering into a contract. A reassessment can only be made when there is a change in the terms of the contract that significantly modifies the cash flows required under the contract.

Derivative instruments separated from host contracts and recognised separately in the account books are designated at fair value. Valuation is presented in the statement of financial position under 'Derivative financial instruments'. Changes in the valuation of fair value of derivative instruments are recorded in the income statement under the 'Net income from financial instruments measured at fair value or 'Net foreign exchange gains'.

Derivative instrument is recognised separately, if all of the following conditions are met:

- 1) the hybrid (combined) instrument is not designated at fair value through profit and loss,
- 2) the economic characteristics and risks related of the embedded instrument are not closely related to the economic characteristics of the host contract and related risks,
- 3) a separate instrument with the same characteristics as the embedded derivative instrument would meet the definition of a derivative.

In case of contracts which are not financial instruments and which include an instrument that fulfils the above conditions, embedded derivatives are recorded in the income statement under the 'Net income from financial instruments measured at fair value or 'Net foreign exchange gains'.

## **2.5.6 Hedge accounting**

### **2.5.6.1 Hedge accounting criteria**

The Bank applies hedge accounting when all the terms and conditions below, specified in IAS 39, have been met:

- 1) upon setting up the hedge, a hedge relationship, the purpose of risk management by the entity and the hedging strategy were officially established. The documentation includes the identification of the hedging instrument, the hedged item or transaction, the nature of the hedged risk and the manner in which the entity will assess the effectiveness of the hedging instrument in compensating the threat of changes in fair value of the hedged item or the cash flows related to the hedged risk,
- 2) a hedge is expected to be highly effective in compensating changes to the fair value or cash flows resulting from the hedged risk in accordance with the initially documented risk management strategy relating to the specific hedge relationship,
- 3) in respect of cash flow hedges, the planned hedged transaction must be highly probable and must be exposed to changes in cash flows which may, as a result, have an impact on the income statement,
- 4) the effectiveness of a hedge may be reliably assessed, i.e. the fair value or cash flows related to the hedged item and resulting from the hedged risk, and the fair value of the hedging instrument, may be reliably measured,
- 5) the hedge is assessed on a current basis and its high effectiveness in all reporting periods for which the hedge had been established is determined.

### **2.5.6.2 Discontinuing hedge accounting**

The Bank discontinues hedge accounting when:

- 1) a hedge instrument expires, is sold, released or exercised (replacing one hedge instrument with another or extending the validity of a given hedge instrument is not considered to be expiration or release if the replacement or extension of period to maturity is part of the documented hedging strategy adopted by the entity). In such an instance accumulated gains or losses related to the hedging instrument which were recognised directly in other comprehensive income over the period in which the hedge was effective are recognised in a separate item in other comprehensive income until the planned transaction is effected,
- 2) the hedge ceases to meet the hedge accounting criteria. In such an instance accumulated gains or losses related to the hedging instrument which were recognised directly in other comprehensive income over the period in which the hedge was effective are recognised in a separate item in other comprehensive income until the planned transaction is effected,
- 3) the planned transaction is no longer considered probable, therefore, all the accumulated gains or losses related to the hedging instrument which were recognised directly in other comprehensive income over the period in which the hedge was effective, are recognised in the income statement,
- 4) the Bank invalidates a hedge relationship.

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### **2.5.6.3 Fair value hedge**

As at 31 December 2013 and 31 December 2012 respectively, the Bank did not apply fair value hedge accounting.

### **2.5.6.4 Cash flow hedges**

A cash flow hedge is a hedge against the threat of cash flow volatility which can be attributed to a specific type of risk related to a recorded asset or a liability (such as the whole or a portion of future interest payments on variable interest rate debt) or a highly probable planned transaction, and which could affect the income statement.

Changes in the fair value of a derivative financial instrument designated as a cash flow hedge are recognised directly in other comprehensive income in respect of the portion constituting the effective portion of the hedge. The ineffective portion of a hedge is recognised in the income statement in 'Net income from financial instruments designated at fair value'.

Amounts transferred directly to other comprehensive income are transferred to the income statement in the same period or periods in which the hedged planned transaction affects the income statement.

The effectiveness tests comprise the valuation of hedging transactions, net of interest accrued and currency translation differences on the nominal value of the hedging transactions (in case of CIRS transactions). They are recognised in the income statement in 'Net interest income' and 'Net foreign exchange gains' respectively.

## **2.6. Offsetting of financial instruments**

Financial assets and liabilities may only be offset when the Bank has a valid legal title to offset them and the settlement needs to be performed on a net basis, or the asset and liability are realised at the same time. The Bank has ISDA agreements which allow offsetting financial assets and liabilities (excluding securities), if certain conditions are met (date and settlement currency are the same). In 2013 and 2012 respectively, there were no such cases enabling the offsetting. Moreover, offsetting of financial assets and liabilities applies to financial instruments acquired as part of issuance stabilising actions for the selling shareholder, conducted by the Brokerage House of PKO Bank Polski SA. Described in details in Note 20 'Loans and advances to customers'.

## **2.7. Transactions with a commitment to sell or buy back**

Sell-buy back and buy-sell back transactions are sale or purchase operations of a securities with a commitment to buy or sell back the securities at an agreed date and price.

Sell-buy back securities transactions are recognised at the date of the transaction under amounts due to other banks or amounts due to customers in respect of deposits, depending on the counterparty of transaction.

Buy-sell back securities are recognised under amounts due from banks or loans and advances to customers, depending on the counterparty of transaction.

Sell-buy back, buy-sell back transactions are measured at amortised cost, whereas securities which are an element of a sell-buy back transaction are not derecognised from the statement of financial position and are measured at the terms and conditions specified for particular securities portfolios. The difference between the sale price and the repurchase price is recognised as interest expense/income, as appropriate, and it is settled over the term of the contract using the effective interest rate.

## **2.8. Investments in subsidiaries, jointly controlled entities and associates**

Investments in subsidiaries, jointly controlled entities and associates are measured at cost less impairment losses. In case of sale of investments in subsidiaries, which results in a loss of control, the Bank makes a valuation at fair value of the remaining investment and accepts this value as a new cost for the subsequent valuation. The excess of the fair value of the investment over the carrying amount is recognised by the Bank in other operating income.

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

The projection for the value in use requires making assumptions, e.g. about future cash flows that the Bank may receive from dividends or the cash inflows from a potential disposal of the investment, less costs of the disposal. The adoption of different assumptions with reference to the projected cash flows could affect the carrying amount of certain investments.

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## **2.9. Impairment of financial assets**

### **2.9.1 Assets measured at amortised cost**

At each balance date, for credit and loan, the Bank assesses whether there is objective evidence that a given financial asset or a group of financial assets is impaired. If such evidence exists, the Bank determines the amounts of impairment losses. An impairment loss is incurred when there is objective evidence of impairment due to one or more events that occurred after the initial recognition of the asset ('a loss event'), and the event has a reliably measurable impact on the expected future cash flows from the financial asset or group of financial assets.

Objective evidence that a financial asset or group of assets is impaired includes information that comes to the attention of the Bank particularly about the following events:

- 1) significant financial difficulties of the issuer or the debtor,
- 2) breach of a contract by the issuer or the debtor, such as a default or a delinquency in contracted payments of interest or principal,
- 3) granting of a concession by the lender to the issuer or the borrower, for economic or legal reasons relating to the borrower's financial difficulty, that the lender would not otherwise consider (a detailed description for 'forbearance' practices is presented in Note 45.4),
- 4) high probability of bankruptcy or reorganisation of the issuer or the debtor,
- 5) evidence that there is a measurable reduction in the estimated future cash flows from a group of financial assets, including collectability of these cash flows.

Credit exposures, in respect of which no objective evidence of individual impairment was identified, or in spite of their occurrence no impairment loss was recognised, are assessed for impairment as a group of exposures with the same characteristics.

Loan receivables are classified by the Bank on the basis of the amount of exposure.

In individually significant credit exposures portfolio, each individual credit exposure is subjected to individual assessment of the evidence of impairment and the level of recognised loss. For individually insignificant exposures recognition and measurement of loss are made using portfolio risk parameters estimated with statistical methods. If loss is recognised for individual credit exposure, the adequate impairment allowance is made. If for individual credit exposure loss is not recognised, the exposure is classified to a portfolio of assets with similar characteristics which is assessed on a group basis and is a subject of impairment allowance set up for the certain group for incurred but not reported loss (IBNR allowance).

IBNR allowance is estimated using the portfolio parameters. These parameters are estimated for the group of exposures with the same characteristics, considered as evidence of loss at the group level (not reported at the individual level) – IBNR evidence.

IBNR evidence are in particular:

- 1) increase during the lending period, the risk of industry in which debtor (group of debtors) operates, reflected by the industry being qualified by the Bank as a high-risk industry,
- 2) delay in payment of principal or interests no longer than 90 days,
- 3) unrecognised deterioration of the economic and financial situation of the debtor in the assessment of risk associated with its financing (in spite of keeping the existing procedures for monitoring the situation and updating the assessment),
- 4) receiving information about potential credit extortion.

The amount of the impairment allowance and IBNR allowance is the difference between the carrying amount of the asset and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred), discounted using the original effective interest rate as of the date when objective evidence of the of impairment was identified.

The calculation of the present value of estimated cash flows relating to financial assets for which collateral is held takes into account cash flows arising from the realisation of the collateral, less costs to acquire and sell.

When determining the impairment allowance on an individual basis, future cash flows are estimated taking into account the nature of the case and possible scenarios for exposure management.

In determining impairment allowances for exposures not covered by the individualised method, portfolio parameters are used:

- 1) recovery rates assessed for the group of exposures with certain characteristics,
- 2) probability of reporting loss on the individual level (in relation to exposures from IBNR portfolio).

Future cash flows on a group of financial assets assessed for impairment on a collective basis are estimated on the basis of cash flows generated from contracts and historical recovery parameters generated from assets with similar risk characteristics.

Historical recovery parameters are adjusted on the basis of data from current observations, so as to take into account the impact of current conditions and exclude factors that were relevant in the past but which currently do not occur. In subsequent period, if the amount of impairment loss is reduced because of an event subsequent to the impairment being recognised (e.g. improvement in debtor's credit rating) the impairment loss that was previously recognised is reversed by making an appropriate adjustment to impairment allowances. The amount of the reversal is recorded in the income statement.

The Bank plans that the adopted methodology used for estimating impairment allowances will be developed in line with the further accumulations of acquiring impairment data from the existing and implemented applications and information systems. As a consequence, new data obtained could influence the level of impairment allowances in the future.

The methodology and assumptions used in the estimates are reviewed on a regular basis to minimise the differences between the estimated and actual loss amounts.

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## **2.9.2 Assets available for sale**

At each balance date, the Bank makes an assessment, whether there is objective evidence that a given financial asset classified to financial assets available for sale is impaired. If such evidence exists, the Bank determines the amounts of impairment allowances.

Objective evidence that a financial asset or group of assets available for sale is impaired includes the following events:

- 1) significant financial difficulties of the issuer,
- 2) breach of a contract by the issuer, such as lack of contracted payments of interest or principal or late payments,
- 3) granting of a concession by the lender to the issuer, for economic or legal reasons relating to the borrower's financial difficulty, that the lender would not otherwise consider,
- 4) deterioration of the issuer's financial condition in the period of maintaining the exposure,
- 5) high probability of bankruptcy or other financial reorganisation of the issuer,
- 6) an increase in risk of a certain industry in the period of maintaining a significant exposure, in which the borrower operates, reflected by the industry being qualified by the Bank as elevated risk industry.

The Bank firstly assesses if impairment on an individual basis for significant receivables exists.

If there is objective evidence of impairment on financial assets classified as debt securities available for sale not issued by the State Treasury, an impairment allowance is calculated as the difference between the asset's carrying amount and the present fair value estimated as value of future cash flows discounted using the zero coupon curve based on yield curves for Treasury bonds.

Impairment of a financial asset classified as available for sale, is recognised in the income statement, which results in the necessity to transfer the effects of accumulated losses from other comprehensive income to the income statement.

In subsequent periods, if the fair value of debt securities increases, and the increase may be objectively related to an event subsequent to the impairment being recognised in the income statement, the impairment loss is reversed and the amount of the reversal is recorded in the income statement.

Impairment losses recognised against equity instruments are not reversed through profit and loss.

## **2.10. Leasing**

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

Lease payments under an operating lease and subsequent instalments are recognised as an expense in the income statement and are recognised on a straight-line basis over the lease term.

## **2.11. Tangible fixed assets and intangible assets**

### **2.11.1 Intangible assets**

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

#### **2.11.1.1 Software**

Acquired computer software licenses are capitalised in the amount of costs incurred on the purchase and preparing the software for use, taking into consideration accumulated amortisation and impairment allowances.

Further expenditure related to the maintenance of the computer software is recognised in costs when incurred.

#### **2.11.1.2 Other intangible assets**

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

#### **2.11.1.3 Development costs**

Research and development costs are included in intangible assets in connection with future economic benefits and meeting specific terms and conditions, i.e. if there is a possibility and intention to complete and use the internally generated intangible asset, there are appropriate technical and financial resources to finish the development and to use the asset and it is possible to measure reliably the expenditure attributable to the intangible asset during its development which can be directly associated to the creation of the intangible asset.

### **2.11.2 Tangible fixed assets**

Tangible fixed assets are stated at the end of the reporting period at acquisition cost or cost of production, less accumulated depreciation and impairment allowances.

Properties accounted for investment properties are valued according to accounting principles applied to tangible fixed assets.

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### 2.11.3 Capital expenditure accrued

Carrying amount of tangible fixed assets and intangible assets is increased by additional expenditures incurred during their maintenance, when:

- 1) probability exists that the Bank will achieve future economic benefits which can be assigned to the particular tangible fixed asset or intangible asset (higher than initially assessed, measured at e.g. by useful life, improvement of service quality, maintenance costs),
- 2) acquisition price or production cost of tangible fixed assets and intangible assets can be reliably estimated.

### 2.11.4 Depreciation/amortisation

Depreciation/amortisation is charged on all non-current assets, whose value decreases due to usage or passage of time, using the straight-line method over the estimated useful life of the given asset. The adopted depreciation/amortisation method and useful life are reviewed on an annual basis.

Depreciation of tangible fixed assets and investment properties and amortisation of intangible assets begins on the first day of the month following the month in which the asset has been brought into use, and ends no later than at the time when:

- 1) the amount of depreciation or amortisation charges becomes equal to the initial cost of the asset, or
- 2) the asset is designated for liquidation, or
- 3) the asset is sold, or
- 4) the asset is found to be missing, or
- 5) it is found - as a result of verification - that the expected residual value of the asset exceeds its (net) carrying amount.

For non-financial fixed assets it is assumed that the residual value is nil, unless there is an obligation of a third party to buy back the asset, or if there is an active market which will continue to exist at the end of the asset's period of use and when it is possible to determine the value of the asset on this market.

Depreciation/amortisation periods for basic groups of tangible fixed assets, investment properties and intangible assets applied by PKO Bank Polski SA:

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

Costs related to acquisition or construction of buildings are allocated to significant parts of the building (components), when such components have different useful lives or when each of the components generates benefits for the Bank in a different manner. Each component of the building is depreciated separately.

Intangible assets with indefinite useful lives, which are subject to an annual impairment test in accordance with Note 2.11.5, are not amortised.

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

At each balance date, the Bank makes an assessment of whether there are any indicators of impairment of any of non-financial non-current assets (or cash-generating units). If any such indicators exist and annually in case of intangible assets which are not amortised the Bank estimates the recoverable amount being the higher of the fair value less costs to sell and the value in use of a non-current asset (or a cash generating unit), if the carrying amount of an asset exceeds its recoverable amount, the Bank recognises an impairment loss in the income statement. The projection for the value in use requires making assumptions, e.g. about future expected cash flows that the Bank may receive from the continued use or disposal of the non-current asset (or a cash-generating unit). The adoption of different assumptions with reference to the projected cash flows could affect the carrying amount of certain non-current assets.

If there are indications for impairment for group of assets, which do not generate cash flows irrespective of other assets or asset groups, and the recoverable amount of a single asset included in common assets cannot be determined, the Bank determines the recoverable amount at the level of the cash generating unit to which the asset belongs.

An impairment allowance is recognised if the book value of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment allowances in respect of cash generating units first and foremost reduce the goodwill relating to those cash generating units (groups of units), and then they reduce proportionally the book value of other assets in the unit (group of units).

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In respect of other assets, the impairment allowance may be reversed if there was a change in the estimates used to determine the recoverable amounts. An impairment allowance may be reversed only to the level at which the book value of an asset does not exceed the book value – less depreciation – which would be determined should the impairment allowances have not been recorded.

## **2.12. Other items in the statement of financial position**

### **2.12.1 Non-current assets held for sale and discontinued operations**

Non-current assets held for sale include assets which carrying amount is to be recovered as a result of sale and not due to continued use. Such assets only include assets available for immediate sale in the current condition, when such sale is highly probable, i.e. the entity has determined to sell the asset, started to seek actively for a buyer and finish the sale process. In addition, such assets are offered for sale at a price which is reasonable with respect to their current fair value and it is expected that the sale will be recognised as completed within one year from the date of classification of the asset into this category.

Non-current assets held for sale are stated at the lower of their carrying amount or fair value less costs to sell. Impairment allowances for non-current assets held for sale are recognised in the income statement for the period, in which these allowances are made. These assets are not depreciated.

Discontinued operations are an element of the Bank's business which has been sold or which is qualified as held for sale, and which also constitutes an important separate area of the operations or its geographical area, or is a subsidiary acquired solely with the intention of resale.

Operations may be classified as discontinued only when the operations are sold or when they meet the criteria of operations held for sale, whichever occurs earlier. A group of assets held for sale which is to be retired may also qualify as discontinued operations.

In case of non-current assets, for whose qualification criteria for the group of non-current assets held for sale are no longer fulfilled, the Bank makes reclassification from non-current assets held for sale to the proper category of assets. Non-current assets withdrawn from assets held for sale are valued at lower of two values:

- 1) carrying amount before the moment of qualification to assets held for sale, less depreciation, which would have been included if the asset (or group of assets to be sold) would not have been qualified as held for sale,
- 2) recovery amount for the day of decision of sales abandonment.

### **2.12.2 Accruals and deferred income**

Accruals and deferred income mainly comprise fee and commission income recognised using the straight-line method and other income received in advance, which will be recognised in the income statement in future reporting periods. Accruals and deferred income are shown in the statement of financial position under 'Other liabilities'.

Prepayments and deferred costs include particular kinds of expenses which will be recognised in the income statement in future reporting periods. Prepayments and deferred costs are shown in the statement of financial position under 'Other assets'.

## **2.13. Provisions**

Provisions are liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

If the effect of the time value of money is material, the amount of the provision is determined by discounting the forecast future cash flows to their present value, using the discount rate before tax which reflects the current market assessments of the time value of money and the potential risk related to a given obligation.

The Bank creates provisions for legal claims with counterparties, customers and external institutions (eg. UOKiK), after obtaining from legal adviser an information on a high probability of losing a court case, provisions for retirement benefits, provisions for liabilities and guarantees granted and other provisions, in particular restructuring provision and provision for potential claims on impaired loans portfolios sold. A detailed description of the changes is described in Note 33 'Provisions' and Note 45.7.2. 'Off-balance sheet provisions'.

### **2.14. Restructuring provision**

A restructuring provision is set up when general criteria for recognising provisions are met as well as the detailed criteria related to the legal or constructive obligation to set up provisions for restructuring costs specified in IAS 37 are met. Precisely, the constructive obligation of restructuring and recognising provisions arises only when the Bank has a detailed, official restructuring plan and has raised justified expectations of the parties to which the plan relates that it will carry out restructuring by starting to implement the plan or by announcing the key elements of the plan to the above mentioned parties. A detailed restructuring plan specifies at least activities or part of the activities to which the plan relates, the basic locations covered by the plan, the place of employment, functions and estimated number of employees who are to be compensated due to their contract termination, the amount of expenditure which is to be incurred and the date when the plan will be implemented.

The restructuring provision covers only such direct expenditures arising as a result of the restructuring which at the same time:

- 1) necessarily result from the restructuring,
- 2) are not related to the Bank's on-going business operations.

The restructuring provision does not cover future operating losses.

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## **2.15. Employee benefits**

According to the Labour Code (Kodeks Pracy), employees of PKO Bank Polski SA are entitled to retirement or pension benefits upon retirement or pension. The Bank periodically performs an actuarial valuation of provisions for future liabilities to employees.

The provision for retirement and pension benefits resulting from the Labour Code is created individually for each employee on the basis of an actuarial valuation performed periodically by an independent actuary. The basis for calculation of these provisions are internal regulations, and especially the Collective Labour Agreement being in force at the Bank. Valuation of the employee benefit provisions is performed using actuarial techniques and assumptions. The calculation of the provision includes all retirement and pension benefits expected to be paid in the future. The provision was created on the basis of a list including all the necessary details of employees, in particular the length of their service, age and gender. The provisions calculated equate to discounted future payments, taking into account staff turnover, and relate to the period ending on the balance date. Gains or losses resulting from actuarial calculations are recognised in other comprehensive income.

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

Employee benefits include also employee pension program being a defined contribution plan recognised as an expense in position 'Wages and Salaries' as well as variable remuneration components programme for persons holding managerial positions, part of which is recognised as a liability due to cash-settled share-based payments pursuant to IFRS 2 'Share-based payments'.

## **2.16. Borrowing costs**

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

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

## **2.17. Off-balance sheet liabilities granted**

As regards operating activities, the Bank concludes transactions, which, at the time of their inception, are not recognised in the statement of financial position as assets or liabilities, however they give rise to contingent liabilities. A contingent liability is:

- 1) a possible obligation that arises from past events and whose existence will be confirmed only at the time of occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank,
- 2) a present obligation resulting from past events, but not recognised in the statement of financial position, because it is not probable that an outflow of cash or other assets will be required to fulfil the obligation, or the amount of the obligation cannot be estimated reliably.

For off-balance sheet liabilities granted which carry the risk of default by the commissioning party, provisions are recognised in accordance with IAS 37. Credit lines and guarantees are the most significant items of off-balance sheet liabilities granted.

Upon initial recognition, a financial guarantee is stated at fair value. Following the initial recognition, the financial guarantee is measured at the higher of:

- 1) the amount determined in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', and
- 2) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 'Revenue'.

## **2.18. Shareholders' equity**

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

### **2.18.1 Share capital**

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

### **2.18.2 Reserve capital**

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

### **2.18.3 Other comprehensive income**

Other comprehensive income comprises the effects of valuation of financial assets available for sale and the amount of the related deferred tax, the effective part of cash flow hedging resulting from hedge accounting and the related deferred tax as well as actuarial gains and losses and the amount of the related deferred tax.

### **2.18.4 General risk fund**

General risk fund in PKO Bank Polski SA is created from profit after tax according to 'The Banking Law' dated 29 of August 1997 (Journal of Laws 2012, item 1376 with subsequent amendments) hereinafter referred to as 'The Banking Law', and it is to cover unidentified risks of the Bank.





### **2.18.5 Other reserves**

Other reserves are created from the appropriation of net profits. It is uniquely to cover the potential losses in the statement of financial position.

### **2.19. Determination of a financial result**

The Bank recognises all significant expenses and income in accordance with the following policies: accrual basis, matching principle, policies for recognition and valuation of assets and liabilities, policies for recognition of impairment losses.

#### **2.19.1 Interest income and expense**

Interest income and expense comprise interest, including premiums and discounts in respect of financial instruments measured at amortised cost and instruments at fair value, with the exception of derivative financial instruments classified as held for trading. Interest income and interest expense are recognised on an accrual basis using the effective interest rate method. Interest income in case of financial assets or group of similar financial assets for which an impairment allowance values are calculated from present values of receivable (that is net of impairment allowance) by using current interest rate used for discounting future cash flows for the purposes of estimating losses due to impairment.

Interest income/expense in respect of derivative financial instruments classified as held for trading are recognised in 'Net income from financial instruments at fair value through profit and loss' or 'Net foreign exchange gains' (applied to CIRS), with the exception of derivative instruments classified as hedging instruments into hedge accounting, which have been presented in interest income. Interest income also includes fee and commission received and paid, which are part of the effective interest rate of the financial instrument.

#### **2.19.2 Fee and commission income and expense**

Fee and commission income is generally recognised on an accrual basis at the time when the related service is performed. Fee and commission income includes one-off amounts charged by the Bank for services not related directly to creation of loans, advances and other receivables, as well as amounts charged by the Bank for services performed over a period exceeding 3 months, which are recognised on a straight-line basis. Fee and commission income also includes fee and commission recognised on a straight-line basis, received on loans granted with unspecified schedule of cash flows for which the effective interest rate cannot be determined.

#### **2.19.3 Dividend income**

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

#### **2.19.4 Net income from financial instruments designated at fair value**

The result on financial instruments at fair value through profit and loss includes gains and losses arising from the disposal of financial instruments classified as financial assets/liabilities at fair value through profit and loss as well as the effect of their fair value measurement. This position includes also an ineffective portion related to cash flow hedges, as described in Note 2.5.6.4.

#### **2.19.5 Gains less losses from investment securities**

Gains less losses from investment securities include gains and losses arising from disposal of financial instruments classified as available for sale and held to maturity.

#### **2.19.6 Foreign exchange gains**

Foreign exchange gains comprise foreign exchange gains and losses, both realised and unrealised, resulting from daily revaluation of assets and liabilities denominated in foreign currency using the National Bank of Poland average exchange rates at the balance date, and from the fair value valuation of outstanding derivatives (FX forward, FX swap, CIRS and currency options).

The Bank recognises in net foreign exchange gains both realised and unrealised foreign exchange gains and losses on fair value measurement of unrealised currency options. From an economic point of view, the method of presentation of net gains/losses on currency options applied allows the symmetrical recognition of net gains/losses on currency options and on spot and forward transactions concluded to hedge such options (transactions hedging the currency position generated as a result of changes in the market parameters affecting the currency option position).

The effects of changes in fair value and the result realised on the Gold Index option are also included in the foreign exchange gains due to the fact that the Bank treats gold as one of the currencies, in line with the provisions of the Resolution No. 76/2010 of the Polish Financial Supervision Authority dated 10 March 2010 on the scope and detailed principles for setting capital requirements in relation to the individual risk types (Official Journal of Polish Financial Supervision Authority of 2010, No. 2, item 11 with subsequent amendments) hereinafter referred to as "Resolution No. 76/2010".

Monetary assets and liabilities presented in the statement of financial position and off-balance sheet items denominated in foreign currency are translated into Polish zloty using the average National Bank of Poland rate prevailing for a given currency as at the balance date.

Impairment allowances for loan exposures and other receivables denominated in foreign currencies, which are created in Polish zloty, are updated in line with a change in the valuation of the foreign currency assets for which these impairment allowances are created. Realised and unrealised currency translation differences are recorded in the income statement.



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## **2.19.7 Other operating income and expense**

Other operating income and expense include income and expense not related directly to banking activity. Other operating income mainly includes gains from sale or liquidation of non-current assets and assets possessed in exchange for debts, sale of shares in subsidiaries, recovered bad debts, legal damages, fines and penalties, income from lease/rental of properties. Other operating expense mainly includes losses from sale or liquidation of non-current assets, including assets possessed in exchange for debts, costs of debt collection and donations.

## **2.20. Income tax**

The income tax expense is classified into current and deferred income tax. The current income tax is recognised in the income statement. Deferred income tax, depending on the source of the temporary differences, is recorded in the income statement or in the item 'Other comprehensive income' in the statement of comprehensive income.

### **2.20.1 Income and expense from sale of insurance products related to loans and advances**

Due to the fact that the Bank offers insurance products along with loans and advances and there is no possibility of purchasing in the Bank the identical insurance product as to the legal form, conditions and economic content without purchasing a loan or an advance, fees received by the Bank from sale of insurance products are treated as an integral part of the remuneration from the offered financial instruments.

Remuneration received and due to the Bank from offering insurance products for the products directly associated with the financial instruments is settled using the effective interest rate method and recognised in interest income.

Remuneration received and due to the Bank for performing intermediary services is recognised in commission income upon the sale of an insurance product or its renewal.

Distribution of remuneration for a commission and an interest part is made in the proportion of the fair value of a financial instrument and the fair value of intermediary service in relation to the sum of these two values.

Costs directly related to the sale of insurance products are settled in a similar manner to the settlement of revenues, according to the principle of matching revenues and expenses, i.e. as part of the amortised cost of a financial instrument, on a one-off basis or are subject to the deferred settlement, during the term of an insurance agreement.

The Bank makes a periodically estimation of the compensation amount that will be recoverable in the future due to the early termination of the insurance agreement and accordingly reduces the recognised interest or commission income.

### **2.20.2 Current income tax**

Current income tax is calculated on the basis of gross accounting profit adjusted by non-taxable income, taxable income that does not constitute accounting income, non-tax deductible expenses and tax costs which are not accounting costs, in accordance with tax regulations. These items mainly include income and expenses relating to accrued interest receivable and payable, allowances on receivables and provisions for off-balance sheet liabilities.

While calculating corporate income tax, regulations resulting from the Act on corporate income tax dated 15 February 1992 have been taken into consideration (Journal of Laws, No. 54, item 654 with subsequent amendments). Simultaneously, the regulations of Decree of the Minister of Finance dated 7 May 2001 on extending the deadlines for paying corporate income tax prepayments for banks granting housing loans (Journal of Laws No. 43, item 482) are taken into consideration. Capitalised interest not paid by the borrower and not subject to temporary redemption by the State budget is deferred to the date of actual repayment or redemption of such interest in the deferred tax as a positive temporary difference.

### **2.20.3 Deferred income tax**

The amount of deferred tax is calculated as the difference between the tax base and book value of assets and liabilities for financial reporting purposes. The Bank recognises deferred income tax assets and liabilities. An amount of deferred tax recognised in profit and loss is determined using the balance method – as a change in deferred income tax assets and liabilities. Deferred tax assets and deferred tax liabilities are presented in the statement of financial position respectively as assets or liabilities. The change in the balance of a deferred tax liability or a deferred tax asset is included in obligatory net profit expense (position: 'income tax expense' in 'income statement'), except for the effects of valuation of financial assets and actuarial gains and losses recognised in other comprehensive income, where changes in the balance of a deferred tax liability or deferred tax asset are accounted for in correspondence with other comprehensive income. The calculation of deferred tax takes into account the balance of the deferred tax asset and deferred tax liability at the beginning and at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or a part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured using tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Deferred tax assets are offset with deferred tax liabilities only when the enforceable legal entitlement to offset current tax receivables with current tax liabilities exists and deferred tax is related to the same taxpayer and the same tax authority.

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## 2.21. Critical estimates and judgements

While preparing financial statements, the Bank makes certain estimates and assumptions, which have a direct influence on both the financial statements presented and the notes to the financial statements. The estimates and assumptions that are used by the Bank in determining the value of its assets and liabilities as well as revenues and costs, are made based on historical data and other factors which are available and are considered to be proper in the given circumstances.

Assumptions regarding the future and the data available are used for assessing carrying amounts of assets and liabilities which cannot be determined interchangeably using other sources. In making assessments the Bank takes into consideration the reasons and sources of the uncertainties that are anticipated at the balance date. Actual results may differ from estimates.

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

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

### 2.21.1 Impairment of loans and advances

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

The adopted methodology used for estimating impairment allowances will be developed in line with the further possibilities of accumulations of historic impairment data from the existing information systems and applications. As a consequence, acquiring new data by the Bank could affect the level of impairment allowances in the future. The methodology and assumptions used in the estimates are reviewed on a regular basis to minimise the differences between the estimated and actual loss amounts.

The impact of an increase/decrease of cash flows for the Bank's loan portfolio individually determined to be impaired is presented in the table below (in million):

Estimated change in impairment of loans and advances resulting from:	31.12.2013		31.12.2012	
	+10% scenario	-10% scenario	+10% scenario	-10% scenario
change in the present value of estimated cash flows for the Bank's loan portfolio individually determined to be impaired	(287)	462	(301)	484
change in probability of default	73	(73)	114	(116)
change in recovery rates	(545)	545	(344)	344

This estimate was made for the loan portfolio assessed for impairment on an individual basis, i.e. on the basis of individual analysis of future cash flows arising both from own payments and realisation of the collateral, i.e. the positions for which an individual method is applied.

### 2.21.2 Valuation of derivatives and non-listed debt securities available for sale

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

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

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

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

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

Estimated change in valuation due to parallel movement of yield curve by:	31.12.2013		31.12.2012	
	+50 b.p. scenario	-50 b.p. scenario	+50 b.p. scenario	-50 b.p. scenario
IRS	(64 909)	65 893	(45 124)	45 852
CIRS	(77 102)	80 805	(93 837)	98 908
other derivatives	4 139	(4 135)	1 679	(1 698)
<b>Total</b>	<b>(137 872)</b>	<b>142 563</b>	<b>(137 282)</b>	<b>143 062</b>

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

Estimated change in valuation due to parallel movement of yield curve by:	31.12.2013		31.12.2012	
	+50 b.p. scenario	-50 b.p. scenario	+50 b.p. scenario	-50 b.p. scenario
IRS	(72 994)	74 072	(49 664)	50 656
CIRS	(77 400)	81 118	(94 439)	99 543
<b>Total</b>	<b>(150 394)</b>	<b>155 190</b>	<b>(144 103)</b>	<b>150 199</b>

### 2.21.3 Calculation of provision for employee benefits

The provision for retirement and pension benefits is created individually for each employee on the basis of an actuarial valuation performed at the balance date by an external independent actuary. Valuation of the employee benefit provisions is performed using actuarial techniques and assumptions.

The calculation of the provision includes all retirement and pension benefits expected to be paid in the future. The Bank performed a reassessment of its estimates as at 31 December 2013, on the basis of calculation conducted by an independent external actuary. The provisions calculated equate to discounted future payments, taking into account staff turnover, and relate to the period ending on the balance date. An important factor affecting the amount of the provision is the adopted financial discount rate which was adopted by Bank at the level of 4%.

A contribution of an increase/decrease in the financial discount rate and basic actuarial assumptions by 1 pp. to a decrease/increase in the amount of the provision for retirement and pension benefits as at 31 December 2013 is presented in the table below (in PLN million):

Estimated change in provision as at 31.12.2013	Financial discount rate		The planned an increase of the basis	
	+1 pp. scenario	-1 pp. scenario	+1 pp. scenario	-1 pp. scenario
Provision for retirement and pension benefits	(4)	4	5	(4)

An important factor affecting the amount of the provision in 2012 was the adopted financial discount rate, adopted by the Bank at the level of 3.75%.

Gains and losses of the calculations conducted by an actuary are recognised in other comprehensive income.

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

### 2.21.4 Useful economic lives of tangible fixed assets, intangible assets and investment properties

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

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

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

The effect of changes of the useful life of assets being subject to depreciation and classified as land and buildings, influencing the financial result is presented in the table below (in PLN million):

Change in useful economic life of assets being subject to depreciation and classified as land and buildings	31.12.2013		31.12.2012	
	+10 years scenario	-10 years scenario	+10 years scenario	-10 years scenario
Depreciation costs	(27)	190	(27)	153

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## 2.22. Changes in Accounting Policies

The Bank prepares its financial statements in accordance with International Financial Reporting Standards as adopted by the European Union in the form of a Decree of the European Union Committee ('the EU Committee').

### Amendments to published standards and interpretations which have come into force and have been applied by the Bank since 1 January 2013

Standard/ interpretation	Introduction/ publication date	Application date	Description of potential changes
Decree of the EU Committee No. 475/2012 of 5.06.2012			
Presentation of items of Other Comprehensive Income -amendments to IAS 1	06.2011	Financial year starting on or after 1.07.2012	The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. Changes in presentation. Appropriate division has been introduced in the statement of comprehensive income, while the Bank has not changed the names of the titles.
Decree of the EU Committee No. 1255/2012 of 11.12.2012			
Amendments to IAS 19 'Employee Benefits'	06.2011	Financial year starting on or after 1.01.2013 (retrospective changes)	The amendments introduce new requirements for the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. A detailed description of changes is presented in Note 2.23. 'Explanation of differences between the previously published financial statements and these financial statements'.
IFRS 13 'Fair Value Measurement'	05.2011	Financial year starting on or after 1.01.2013	The new standard aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure of relevant requirements. The new definition of fair value is included in the applicable accounting policies. Disclosures required by the Standard are presented in note 'Fair value of financial assets and financial liabilities' and in 'Summary of significant accounting policies and estimates and judgements', 'Method of establishing fair value and categories of valuation at fair value of financial assets and liabilities designated at fair value in the statement of financial position'.
Decree of the EU Committee No. 1256/2012 of 13.12.2012			
'Disclosures – Offsetting financial assets and financial liabilities' -amendments to IFRS 7	12.2011	Financial year starting on or after 1.01.2013	The amendments introduce requirement of new disclosures, that will enable users of financial statements to evaluate effects or the potential effects of netting arrangements, including rights of set-off. These changes have a presentation character, which is included in 'Summary of significant accounting policies and estimates and judgements'.
Decree of the EU Committee No. 301/2013 of 27.03. 2013			
Improvements to IFRSs 2009-2011	05.2012	Financial year starting on or after 1.01.2013	'Improvements to IFRSs 2009-2011', which change i.a. IAS 1 'Presentation of financial statements', IAS 16 'Property, plant and equipment', IAS 32 'Financial instruments: presentation' and IAS 34 'Interim financial reporting'. The improvements include changes in presentation, recognition and measurement as well as terminology and editorial changes. The amendments did not have a material impact on the Bank, only provisions of IAS 1 relating to this retrospective adjustment of comparative data, where it is required to present the statement of financial position for periods but there is no requirement to prepare notes to the statement of financial position at the beginning of the previous reporting period (i.e. third period), were applicable.

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New standards and interpretations and amendments to above standards and interpretations, which have been published and also have been approved by the European Union, but are not yet effective nor applied by the Bank

**1) Applying for the first time to the financial statements of the Bank for the year 2014**

Standard/ interpretation	Introduction/ publication date	Application date	Description of potential changes
Decree of the EU Committee No. 1254/2012 of 11.12.2012			
IFRS 10 'Consolidated Financial Statements'	05.2011	Financial year starting on or after 1.01.2013 (in the European Union mandatory application from 1.01.2014)	The new standard replaces all of the guidance on control and consolidation in IAS 27 'Consolidated and separate financial statements' and in the interpretation SIC-12 'Consolidation - special purpose entities'. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. Based on of analysis performed by the Bank, the new standard does not seem to have an effect on the current structure of the PKO Bank Polski SA Group, for which the Bank is a parent company. Entities identified as of 31 December 2013, in accordance with the existing definition of control, as subsidiaries of the Bank, meet the definition of a subsidiary also under new IFRS. With regard to pension funds or investment funds existing in the Group, by having fund managers the Bank has the ability to decision-making, however benefits being a result of the above mentioned scope of decision-making accrue to investors holding participation units in funds. Due to regulatory requirements and market conditions, the remuneration received by the managing entities due to the funds asset management is market remuneration. Therefore, the change of the standard should not affect the scope of the consolidation of funds.
IFRS 11 'Joint Arrangements'	05.2011	Financial year starting on or after 1.01.2013 (in the European Union mandatory application from 1.01.2014)	The new standard replaces IAS 31 'Interests in Joint Ventures' and the interpretation SIC-13 'Jointly Controlled Entities – Non-Monetary Contributions by Ventures'. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. At the same time, the existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity method is mandatory for all participants in joint ventures. In case of the Bank, the scope of changes will not be material.
IFRS 12 'Disclosure of Interest In Other Entities'	05.2011	Financial year starting on or after 1 January 2013 (in the European Union mandatory application from 1.01.2014)	The new standard applies to entities that have an interest in a subsidiary, a joint ventures, an associate or an unconsolidated structured entity. The standard replaces the disclosure requirements currently found in IAS 27 'Consolidated and separate financial statements,' IAS 28 'Investments in associates' and IAS 31 'Interests in Joint Ventures'. IFRS 12 requires entities to disclose information that helps financial statement users to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint ventures and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.  The changes will require additional disclosures to the Bank's financial statements, but it is estimated that, due to the current extensive range of disclosures about the Group entities, the additional scope of disclosures will not be material.
Revised IAS 27 'Separate Financial Statements'	05.2011	Financial year starting on or after 1.01.2013 (in the European Union mandatory application from 1.01.2014)	IAS 27 was changed in connection with the publication of IFRS 10 'Consolidated Financial Statements'. The objective of revised IAS 27 is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.  The guidance on control and consolidated financial statements was replaced by IFRS 10. It is estimated that the scope of changes will not be material.

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Standard/ interpretation	Introduction/ publication date	Application date	Description of potential changes
Revised IAS 28 'Investments in Associates and Joint Ventures'	05.2011	Financial year starting on or after 1.01.2013 (in the European Union mandatory application from 1.01.2014)	<p>The amendment of IAS 28 resulted from the IASB's project on joint ventures. The Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.</p> <p>According to the Bank's accounting policies, jointly-controlled entities and associates are recognised using equity method. In the case of the Bank, taking into account the jointly controlled entities are consolidated using the equity method, the above changes will not have an impact on the standalone financial statement.</p>
Decree of the EU Committee No. 1256/2012 of 13.12.2012			
'Offsetting Financial Assets and Financial Liabilities' - amendments to IAS 32	12.2011	Financial year starting on or after 1.01.2014	<p>The amendments introduce application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes i.a. clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement, if certain conditions are met.</p> <p>The above additional explanations do not seem to have material impact on disclosures in the financial statements of the Bank.</p>
Decree of the EU Committee No. 1174/2013 of 20.11. 2013			
Investment entities - amendments to IFRS 10, IFRS 12 and IAS 27	10.2012	Financial year starting on or after 1.01.2014	<p>The amendments introduce to IFRS 10 a definition of an investment entity. Such entities will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was also amended so as to impose requirement of detailed disclosures on subsidiaries introducing new disclosures on investment entities and their subsidiaries. As a result of amendments to IAS 27, investment entities are no longer permitted to choose for its investments in certain subsidiaries between valuation at cost or at fair value in their separate financial statements.</p> <p>The above changes will not have an impact on the standalone financial statement.</p>
Decree of the EU Committee No. 1374/2013 of 19.12.2013			
Amendments to IAS 36 'Impairment of assets' - recoverable amount disclosures for non-financial assets	05.2013	Financial year starting on or after 1.01.2014 (retrospective changes), possibility of early adoption	<p>Introduction of the requirement to disclose certain non-financial assets recoverable amount only when impairment losses were recognised or reversed. Additional requirements for disclosure of fair value when the recoverable amount is determined at fair value less costs to sell were also introduced, including i.a. level of the hierarchy defined in IFRS 13, in case of valuations at level 2 or 3 of fair value hierarchy defined in IFRS 13 of the key valuation assumption.</p> <p>The above changes will possibly apply for the first time for financial statements for the year 2014 and will concern presentation, requiring the extension of disclosures, if specific cases occur.</p>
Decree of the EU Committee No. 1375/2013 of 19.12.2013			
Amendment to IAS 39 'Financial Instruments: recognition and measurement' - novation of derivatives and hedge accounting continuation.	06.2013	Financial year starting on or after 1.01.2014 (retrospective changes), possibility of early adoption	<p>Amendment involves easing of certain requirements for hedge accounting when the derivative must be novated in such a way that its party becomes the central counterparty (CCP), which is an entity that holds position between the original parties to the transaction, becoming the buyer to the seller and the seller to the buyer.</p> <p>At present day no such cases of novation are identified in the Bank.</p>

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**2) Not yet adopted by the European Union**

Standard/ interpretation	Introduction/ publication date	Application date	Description of potential changes
IFRS 9, 'Financial Instruments Part 1: Classification and Measurement'	11.2009 with subsequent amendments	International Accounting Standards Board has set year 2018 as the application date of IFRS 9.  The European Union determines commencing of work on the adaptation by the IASB issuing a version of IFRS 9 which includes Part 2 'Impairment'.	<p>IFRS 9 replaces parts of IAS 39 regarding the classification and measurement of financial assets, and is updated with the issue of classification and measurement of financial liabilities.</p> <p>The standard introduces the model allowing only two categories of the financial assets classification: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The classification is to be made at initial recognition and it depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.</p> <p>Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.</p> <p>Due to lack of a final version of the Standard, the effect of IFRS 9 on the adopted accounting policies has not yet been fully evaluated.</p>
IFRS 9, 'Financial Instruments': Part 3 Hedge Accounting	2013		<p>The New Standard applies only to the so-called micro hedging and increases the range of items that can be designated as hedged items, as well as allows designating as a hedging instrument financial assets or liabilities measured at fair value through profit or loss. The obligation of retrospective measurement of hedge effectiveness together with previously applicable range of 80%-125% were eliminated (the condition to the application of hedge accounting is the occurrence of the economic relationship between the hedging instrument and the hedged item). In addition, the scope of required disclosures regarding risk management strategies, cash flows arising from hedging transactions and the impact of hedge accounting on the financial statements was extended.</p> <p>Due to lack of a final version of the Standard, the effect of IFRS 9 on the adopted accounting policies has not yet been fully evaluated.</p>
IFRIC 21 'Levies' (interpretation of IAS 37 'Provisions, contingent liabilities and contingent assets')	05.2013	Financial year starting on or after 1 January 2014 (retrospective application)	<p>IFRIC 21 determines how an entity should account for, in its financial statements, the obligation to pay the levies imposed by governments (other than income tax liabilities). The main issue is when an entity should recognise a liability to pay the levy. IFRIC 21 sets out the criteria for the recognition of the liability. One of these criteria is the requirement of an obligation arising from a past event (the obligating event). The interpretation explains that an obligating event that give a rise to the obligation to pay a levy, are relevant legislations that triggers the payment of the levy. The interpretation does not apply to payments under the scope of IAS 12 'Income Taxes', as well as fines and penalties. Its scope also does not include payments to the government in respect of services or acquisition of assets under the contract.</p> <p>IFRIC 21 applies to fees primarily to the Bank Guarantee Fund (mandatory fee and prudential fee), which according to previous accounting policies are accounted for as deferred. At the present day, due to the lack of adoption by the European Union, these levies are still settled on this method instead being recognised at once.</p>



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Standard/ interpretation	Introduction/ publication date	Application date	Description of potential changes
Defined benefit plans: Employee contributions – amendments to IAS 19	11.2013	Financial year starting on or after 1.07.2014	The amendments allow for the recognition of contributions paid by employees as a reduction of staff costs in the period in which the work is performed by the employee, rather than assign contributions to the work periods, if the amount of employee contributions is independent from the length of work.  The above changes will possibly apply for the first time for the financial statements for the year 2015 and it will have a presentation character, requiring a possible extension of disclosures.
Improvements to IFRSs 2010-2012	12.2013	Financial year starting on or after 1.07.2014	'Improvements to IFRSs 2010-2012', changed 7 standards. The improvements include changes in presentation, recognition and measurement, as well as terminology and editorial changes.  The above changes will possibly apply for the first time for the financial statements for the year 2015 and it will have a presentation character, requiring a possible extension of disclosures.
Improvements to IFRS s 2011-2013	12.2013	Financial year starting on or after 1.07.2014	The improvements include changes in presentation, recognition and measurement, as well as terminology and editorial changes.  The above changes will possibly apply for the first time for the financial statements for the year 2015 and it will have a presentation character, requiring a possible extension of disclosures.

The Management Board does not expect the introduction of the above-mentioned standards and interpretations to have a significant influence on the accounting policies applied by the Bank with the exception of IFRS 9 (an influence of IFRS 9 on accounting principles applied by the Bank have not been assessed yet). The Bank intends to apply them in the periods indicated in the relevant standards and interpretations (without early adoption), provided that they are adopted by the EU.



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## **2.23. Explanation of differences between the previously published financial statements and these financial statements**

In this financial statement the following changes were made with respect to the previously published financial statements:

### **1. Actuarial gains and losses**

Due to the amendment to IAS 19 'Employee Benefits', adopted by the European Union by the Regulation of the UE Committee No 1255/2012 dated 11 December 2012, which is effective for periods beginning on or after 1 January 2013 and has a retrospective character, in the second half of 2013 the Bank introduced a change in accounting policy on the principle of recognising actuarial gains and losses from the valuation of defined benefit plans.

Actuarial gains and losses arising from changes in the present value of the Bank's liability due to defined benefit plans, resulting from changes in actuarial assumptions were recognised at the end of 2013, as a component of the other comprehensive income, instead of an item of the income statement. In connection with the restatement of comparative data for 2012, there was a transfer of the amount of PLN 64.1 million from the position 'administrative expenses' in the income statement to the position 'actuarial gains and losses' in the other comprehensive income.

Additionally, deferred tax related to this item was recognised in other comprehensive income in the amount of PLN 12.2 million (the amount was previously recognised in the income tax in the income statement).

At the same time, the Bank applied the provisions of the clause 122 of the amended standard IAS 19, which states that the re-valuation of net liabilities due to defined benefits, recognised in the other comprehensive income, is not transferred to profit or loss in a subsequent period, however, the entity can transfer amounts recognised in the other comprehensive income within the equity.

Based on the provisions of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' the Bank did not make the restatement of the opening balance as at 1 January 2012, as determining the impact of the change on previous periods is impracticable.

### **2. Recognition of income and expenses from sale of insurance products attached to loans**

The Bank introduced changes in accounting policies on recognition of income and expenses from fees collected/paid by the Bank in respect of accession customers to insurance agreements associated with banking products offered by the Bank.

Policy applied by the Bank in this regard was so far as follows:

- the Bank recognised on a one-off basis the above mentioned income/expense at the date of fees collection from the client or at the date of incurring the expense associated with the value of the insurance premium transferred to the Insurance Company on the date specified in the agreement with this Insurance Company (as a result of net fee and commission income),
- starting from the first quarter of 2012, the Bank additionally restricted a part of the above mentioned income and expense in connection with future returns of a part of the insurance premium due to the early termination of an agreement. Due to the marginal level of returns realised on most insurance products, a provision for future returns was recognised only in case of insurance of a cash loan borrowers. A provision ratio amounted approx. to 40%.

At the same time, the external costs associated with the remuneration of intermediaries and agents, as regards distribution of mortgage loans with insurance from job loss and hospitalisation, and cash loan with insurance were recognised over the life of the loan as part of net interest income.

In the fourth quarter of 2013, the Bank verified the approach in the recognition of remuneration from bancassurance products distribution, i.e. as a result of a letter to banks submitted by the Office of PFSA, containing a recommendation with regard to the approach to bancassurance products. Bank applied to the PFSA guidance in respect of the definition of the related product and recognition of income from the sale of insurance products offered in the sale of loan products, including interest income and commission income, based on an analysis of the relative fair values of the financial instrument and the fair value of agency services in relation to the sum of these values.

As a results of the above mentioned change, the Bank adopted the following approach:

#### **a) cash loan with insurance**

Part of remuneration is deferred due to the provision for future by returns applying a ratio of 42%. 12% of remuneration is recognised in commission income on a one-off basis and a remained part, i.e. 46% of remuneration is settled in interest income in the period of economic life of the loan. Change in commission income is recognised as being divided into commission income and commission expense. Part of the provision for future cash returns was assigned to a loan value adjustment in the proportion of the fair value of a financial instrument to the sum of the fair value of a financial instrument and agency services.

#### **b) mortgage loans with insurance from job loss and hospitalisation**

32% of remuneration is recognised on a one-off basis for distribution services of insurance products in commission income. 40% of the remuneration is settled over the term of the loan and recognised using the effective interest rate on interest income. 28% of remuneration is settled during the term of the insurance policy - 48 months - and is recognised in interest income using the effective interest rate method.

At the same time, recognition of the external costs associated with the remuneration of intermediaries and agents was changed, applying principles of their settlement consistent with the principles of remuneration recognition.

The above mentioned changes in accounting policies were implemented retrospectively.

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**3. Reclassification of legal claims with UOKiK from other liabilities to provisions**

The Bank decided to reclassify provisions created for the unfair competition proceedings conducted by UOKiK, from the position 'Other liabilities' to the position 'Provisions' due to the uncertain date of penalties payment and their final amount. Comparable data were accordingly adjusted.

**Restatements in the statement of financial position  
as at 1 January 2012**

	01.01.2012 before restatement	changes due to bancassurance	reclassification of liabilities due to UOKiK	01.01.2012 restated
<b>Assets</b>			-	
Loans and advances to customers	140 058 649	(380 005)	-	139 678 644
Deferred income tax asset	384 134	73 470	-	457 604
Other items of assets	47 929 907	-	-	47 929 907
<b>TOTAL ASSETS</b>	<b>188 372 690</b>	<b>(306 535)</b>		<b>188 066 155</b>
<b>Liabilities</b>			-	
Other liabilities	2 156 523	6 679	(16 597)	2 146 605
Provisions	615 489	-	16 597	632 086
Other items of liabilities	162 798 303	-	-	162 798 303
<b>TOTAL LIABILITIES</b>	<b>165 570 315</b>	<b>6 679</b>	-	<b>165 576 994</b>
<b>Equity</b>			-	
Share capital	1 250 000	-	-	1 250 000
Other capital	17 598 753	-	-	17 598 753
Unappropriated profits	3 953 622	(313 214)	-	3 640 408
<b>TOTAL EQUITY</b>	<b>22 802 375</b>	<b>(313 214)</b>	-	<b>22 489 161</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>188 372 690</b>	<b>(306 535)</b>	-	<b>188 066 155</b>

**as at 31 December 2012**

	31.12.2012 before restatement	change of IAS 19 (actuarial gains and losses)	changes due to bancassurance	reclassification of liabilities due to UOKiK	31.12.2012 restated
<b>Assets</b>					
Loans and advances to customers	142 084 858	-	(392 578)		141 692 280
Deferred income tax asset	369 007	-	63 625		432 632
Other items of assets	48 563 847	-	-		48 563 847
<b>TOTAL ASSETS</b>	<b>191 017 712</b>	-	<b>(328 953)</b>		<b>190 688 759</b>
<b>Liabilities</b>					
Other liabilities	1 799 363	-	(57 711)	(16 597)	1 725 055
Provisions	719 095	-	-	16 597	735 692
Other items of liabilities	163 853 195	-	-	-	163 853 195
<b>TOTAL LIABILITIES</b>	<b>166 371 653</b>	-	<b>(57 711)</b>	-	<b>166 313 942</b>
<b>Equity</b>					
Share capital	1 250 000	-	-		1 250 000
Other capital	19 714 909	51 953	-		19 766 862
Unappropriated profits	88 533	-	(313 214)		(224 681)
Net profit for the year	3 592 617	(51 953)	41 972		3 582 636
<b>TOTAL EQUITY</b>	<b>24 646 059</b>	-	<b>(271 242)</b>		<b>24 374 817</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>191 017 712</b>	-	<b>(328 953)</b>		<b>190 688 759</b>

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**Restatements in the income statement**

	2012 before restatements	change of IAS 19 (actuarial gains and losses)	changes due to bancassurance	2012 restated
Interest and similar income	12 753 964	-	206 482	12 960 446
Interest expense and similar charges	(4 981 528)	-	-	(4 981 528)
<b>Net interest income</b>	<b>7 772 436</b>	<b>-</b>	<b>206 482</b>	<b>7 978 918</b>
Fee and commission income	3 619 650	-	(189 089)	3 430 561
Fee and commission expense	(815 066)	-	34 424	(780 642)
<b>Net fee and commission income</b>	<b>2 804 584</b>	<b>-</b>	<b>(154 665)</b>	<b>2 649 919</b>
Dividend income	93 200	-	-	93 200
Net income from financial instruments designated at fair value	95 092	-	-	95 092
Gains less losses from investment securities	81 605	-	-	81 605
Net foreign exchange gains	254 153	-	-	254 153
Other operating income	67 899	-	-	67 899
Other operating expense	(54 817)	-	-	(54 817)
<b>Net other operating income and expense</b>	<b>13 082</b>	<b>-</b>	<b>-</b>	<b>13 082</b>
Net impairment allowance and write-downs	(2 458 590)	-	-	(2 458 590)
Administrative expenses	(4 192 757)	(64 140)	-	(4 256 897)
<b>Operating profit</b>	<b>4 462 805</b>	<b>(64 140)</b>	<b>51 817</b>	<b>4 450 482</b>
<b>Profit before income tax</b>	<b>4 462 805</b>	<b>(64 140)</b>	<b>51 817</b>	<b>4 450 482</b>
Income tax expense	(870 188)	12 187	(9 845)	(867 846)
<b>Net profit</b>	<b>3 592 617</b>	<b>(51 953)</b>	<b>41 972</b>	<b>3 582 636</b>

**Restatement in the statement of comprehensive income**

	2012 before restatements	change of IAS 19 (actuarial gains and losses)	changes due to bancassurance	2012 restated
<b>Net profit</b>	<b>3 592 617</b>	<b>(51 953)</b>	<b>41 972</b>	<b>3 582 636</b>
<b>Other comprehensive income</b>	<b>(249 966)</b>	<b>51 953</b>	<b>-</b>	<b>(198 013)</b>
<b>Items that may be reclassified to the income statement</b>	<b>(249 966)</b>	<b>-</b>	<b>-</b>	<b>(249 966)</b>
Cash flow hedges (gross)	(383 069)	-	-	(383 069)
Deferred tax on cash flow hedges	72 783	-	-	72 783
Cash flow hedges (net)	(310 286)	-	-	(310 286)
Unrealised net gains on financial assets available for sale (gross)	74 467	-	-	74 467
Deferred tax on unrealised net gains on financial assets available for sale	(14 147)	-	-	(14 147)
Unrealised net gains on financial assets available for sale (net)	60 320	-	-	60 320
<b>Items that may not be reclassified to the income statement</b>	<b>-</b>	<b>51 953</b>	<b>-</b>	<b>51 953</b>
Actuarial gains and losses (net)	-	51 953	-	51 953
Actuarial gains and losses (gross)	-	64 140	-	64 140
Deferred tax on actuarial gains and losses	-	(12 187)	-	(12 187)
<b>Total net comprehensive income</b>	<b>3 342 651</b>	<b>-</b>	<b>41 972</b>	<b>3 384 623</b>

As a result of the introduced changes, comparable financial data disclosed in the notes to the financial statements have changed.

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## NOTES TO THE INCOME STATEMENT

**3. Interest income and expense****Interest and similar income**

	2013	2012 restated
<b>Interest income calculated using the effective interest rate method, with respect to financial assets, which are not measured at fair value through profit and loss, of which:</b>	<b>9 500 655</b>	<b>11 301 160</b>
Income from loans and advances to customers, of which:	8 817 600	10 377 409
from impaired loans	499 865	495 396
Income from investment securities available for sale	514 278	667 074
Income from placements with banks	165 082	249 826
Other	3 695	6 851
<b>Other income, of which:</b>	<b>986 624</b>	<b>1 659 286</b>
Income from financial assets designated upon initial recognition at fair value through profit and loss	468 445	729 572
Income from derivative hedging instruments (Note 18)	454 278	870 450
Income from trading assets	63 901	59 264
<b>Total</b>	<b>10 487 279</b>	<b>12 960 446</b>

**Interest expense and similar charges**

	2013	2012
<b>Interest expense calculated using the effective interest rate method, with respect to financial liabilities, which are not measured at fair value through profit and loss, of which:</b>	<b>(3 883 527)</b>	<b>(4 978 412)</b>
Interest expense on amounts due to customers	(3 724 662)	(4 736 087)
Interest expense on debt securities in issue and subordinated liabilities	(103 008)	(205 435)
Premium expense on debt securities available for sale	(38 737)	(9 911)
Interest expense on deposits from banks	(17 120)	(26 979)
<b>Other expense</b>	<b>(23 302)</b>	<b>(3 116)</b>
Expense on financial assets designated upon initial recognition at fair value through profit and loss	(14 375)	(969)
Expense on trading assets	(8 927)	(2 147)
<b>Total</b>	<b>(3 906 829)</b>	<b>(4 981 528)</b>

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**4. Fee and commission income and expense**
**Fee and commission income**

	2013	2012 restated
<b>Income from financial assets, which are not measured at fair value through profit and loss, of which:</b>	<b>573 483</b>	<b>567 904</b>
income from loans and advances granted	573 483	567 904
<b>Other commissions from:</b>	<b>3 072 932</b>	<b>2 858 958</b>
payment cards	1 300 222	1 163 918
maintenance of bank accounts	875 578	865 290
loans insurance	266 199	226 250
maintenance of investment funds (including management fees)	217 323	182 289
cash transactions	113 189	122 841
securities transactions	79 310	82 794
servicing foreign mass transactions	52 290	48 785
providing the services of an agent for the issue of Treasury bonds	29 022	39 295
sale and distribution of court fee stamps	20 927	25 624
Other*	118 872	101 872
<b>Income from fiduciary activities</b>	<b>4 343</b>	<b>3 699</b>
<b>Total</b>	<b>3 650 758</b>	<b>3 430 561</b>

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

**Fee and commission expense on:**

	2013	2012 restated
payment cards	(677 073)	(492 947)
loans insurance	(94 474)	(76 896)
acquisition services	(90 210)	(94 636)
settlement services	(24 380)	(24 053)
fee and commissions for operating services provided by banks	(11 021)	(9 994)
other*	(98 118)	(82 116)
<b>Total</b>	<b>(995 276)</b>	<b>(780 642)</b>

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

**5. Dividend income**

	2013	2012
<b>Dividend income from the issuers of:</b>	<b>5 472</b>	<b>8 081</b>
Investment securities classified as available for sale	4 849	5 943
Trading assets	623	2 138
<b>Dividend income from subsidiaries, jointly controlled entities and associates, of which:</b>	<b>90 577</b>	<b>85 119</b>
PKO Towarzystwo Funduszy Inwestycyjnych SA	24 045	37 884
Inteligo Financial Services SA	20 435	19 898
Centrum Finansowe Puławska Sp. z o.o.	-	16 119
CEUP eService SA	44 428	10 000
PKO BP Finat Sp. z o.o.	1 375	970
Agencja Inwestycyjna CORP-SA SA	294	248
<b>Total</b>	<b>96 049</b>	<b>93 200</b>

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**6. Net income from financial instruments measured at fair value**

	2013	2012
<b>Change in fair value of financial instruments measured at fair value through profit and loss determined using the valuation techniques:</b>	<b>45 601</b>	<b>(7 407)</b>
Derivative instruments, of which:	64 443	3 899
an ineffective portion related to cash flow hedges	24 333	7 938
Structured bank securities measured at fair value through profit and loss	(18 842)	(11 306)
Other	-	-
<b>Debt securities</b>	<b>9 581</b>	<b>103 534</b>
<b>Equity instruments</b>	<b>(793)</b>	<b>(1 035)</b>
<b>Total</b>	<b>54 389</b>	<b>95 092</b>

2013	Gains	Losses	Net result
Trading assets	12 846 431	(12 776 298)	70 133
Financial assets designated upon initial recognition at fair value through profit and loss	74 231	(89 975)	(15 744)
<b>Total</b>	<b>12 920 662</b>	<b>(12 866 273)</b>	<b>54 389</b>

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

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

	2013	2012
<b>Gain/loss due to change in value of assets available for sale recognised directly in other comprehensive income during the period</b>	<b>(143 658)</b>	<b>(7 138)</b>
<b>Gain/loss derecognised from other comprehensive income recognised in income statement in the position 'Gains less losses from investment securities'</b>	<b>66 909</b>	<b>81 605</b>
gain from sale derecognised from other comprehensive income	110 681	86 354
loss on sale derecognised from other comprehensive income	(43 772)	(4 749)
<b>Impact on other comprehensive income (gross), position 'Unrealised net gains on financial assets available for sale (gross)'</b>	<b>(76 749)</b>	<b>74 467</b>

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**8. Other operating income and expense**

	2013	2012
<b>Other operating income</b>		
Gain recognised on sale of majority stake in a subsidiary	346 932	-
Valuation to fair value of the remaining share as a result of sale of an organised part of a subsidiary	178 722	-
Income on sale of non-current assets held for sale	11 569	-
Sundry income	19 537	20 296
Sale and disposal of tangible fixed assets, intangible assets and assets held for sale	39 983	13 182
Recovery of expired and written-off receivables	8 296	2 487
Other	34 576	31 934
<b>Total</b>	<b>639 615</b>	<b>67 899</b>

	2013	2012
<b>Other operating expense</b>		
Cost of sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(22 153)	(9 431)
Donations	(11 019)	(12 584)
Sundry expense	(5 209)	(5 879)
Other	(23 973)	(26 923)
<b>Total</b>	<b>(62 354)</b>	<b>(54 817)</b>

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**9. Net impairment allowance and write-downs**

For the year ended 31 December 2013	Note	Value at the beginning of the period	Increases		Decreases			Value at the end of the period	Net – impact on the income statement
			Recognised during the period	Other	Decrease due to derecognition of assets and settlement	Reversed during the period	Other		
<b>Investment securities available for sale</b>	<b>21</b>	<b>24 592</b>	<b>16 183</b>	<b>-</b>	<b>5 536</b>	<b>-</b>	<b>1 884</b>	<b>33 355</b>	<b>(16 183)</b>
Debt securities available for sale		5 536	3 728	-	5 536	-	432	3 296	(3 728)
Equity securities		19 056	12 455	-	-	-	1 452	30 059	(12 455)
<b>Amounts due from banks</b>	<b>15</b>	<b>30 792</b>	<b>16 746</b>	<b>-</b>	<b>-</b>	<b>6 507</b>	<b>794</b>	<b>40 237</b>	<b>(10 239)</b>
<b>Loans and advances to customers measured at amortised cost</b>	<b>20</b>	<b>6 228 629</b>	<b>6 273 367</b>	<b>5 287</b>	<b>1 674 450</b>	<b>4 450 843</b>	<b>758</b>	<b>6 381 232</b>	<b>(1 822 524)</b>
Non-financial sector		6 161 413	6 210 097	1 651	1 674 450	4 336 062	758	6 361 891	(1 874 035)
corporate loans		3 102 026	3 357 341	1 651	1 068 435	2 162 847	-	3 229 736	(1 194 494)
housing loans		1 639 861	1 273 051	-	181 336	1 026 611	561	1 704 404	(246 440)
consumer loans		1 417 720	1 554 424	-	424 679	1 146 604	197	1 400 664	(407 820)
debt securities		1 806	25 281	-	-	-	-	27 087	(25 281)
Financial sector		45 226	63 270	3 448	-	104 130	-	7 814	40 860
corporate loans		45 226	63 270	3 448	-	104 130	-	7 814	40 860
Public sector		21 990	-	188	-	10 651	-	11 527	10 651
corporate loans		19 640	-	188	-	9 279	-	10 549	9 279
debt securities		2 350	-	-	-	1 372	-	978	1 372
<b>Non-current assets held for sale</b>	<b>23</b>	<b>1 226</b>	<b>143 798</b>	<b>21 165</b>	<b>963</b>	<b>-</b>	<b>-</b>	<b>165 226</b>	<b>(143 798)</b>
<b>Tangible fixed assets</b>	<b>25</b>	<b>34</b>	<b>57</b>	<b>299</b>	<b>32</b>	<b>324</b>	<b>-</b>	<b>34</b>	<b>267</b>
<b>Intangible assets</b>	<b>24</b>	<b>17 154</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17 154</b>	<b>-</b>
<b>Investments in subsidiaries, jointly controlled entities and associates</b>	<b>22</b>	<b>683 817</b>	<b>177 936</b>	<b>1 452</b>	<b>-</b>	<b>-</b>	<b>21 165</b>	<b>842 040</b>	<b>(177 936)</b>
<b>Other receivables</b>		<b>149 549</b>	<b>48 547</b>	<b>-</b>	<b>18 737</b>	<b>35 895</b>	<b>129</b>	<b>143 335</b>	<b>(12 652)</b>
<b>Provisions for legal claims and loan commitments and guarantees granted</b>	<b>33</b>	<b>234 470</b>	<b>261 928</b>	<b>136</b>	<b>-</b>	<b>351 410</b>	<b>-</b>	<b>145 124</b>	<b>89 482</b>
<b>Provisions for future liabilities</b>		<b>11 961</b>	<b>3 713</b>	<b>-</b>	<b>549</b>	<b>9 729</b>	<b>-</b>	<b>5 396</b>	<b>6 016</b>
<b>Total</b>		<b>7 382 224</b>	<b>6 942 275</b>	<b>28 339</b>	<b>1 700 267</b>	<b>4 854 708</b>	<b>24 730</b>	<b>7 773 133</b>	<b>(2 087 567)</b>



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For the year ended 31 December 2012	Note	Value at the beginning of the period	Increases		Decreases			Value at the end of the period	Net – impact on the income statement
			Recognised during the period	Other	Decrease due to derecognition of assets and settlement	Reversed during the period	Other		
<b>Investment securities available for sale</b>	<b>21</b>	<b>15 502</b>	<b>16 552</b>	<b>-</b>	<b>5 898</b>	<b>1 564</b>	<b>-</b>	<b>24 592</b>	<b>(14 988)</b>
Debt securities available for sale		12 998	-	-	5 898	1 564	-	5 536	1 564
Equity securities		2 504	16 552	-	-	-	-	19 056	(16 552)
<b>Amounts due from banks</b>	<b>15</b>	<b>33 710</b>	<b>518</b>	<b>-</b>	<b>-</b>	<b>344</b>	<b>3 092</b>	<b>30 792</b>	<b>(174)</b>
<b>Loans and advances to customers measured at amortised cost</b>	<b>20</b>	<b>4 982 790</b>	<b>5 746 309</b>	<b>33 092</b>	<b>831 129</b>	<b>3 637 512</b>	<b>64 921</b>	<b>6 228 629</b>	<b>(2 108 797)</b>
Non-financial sector		4 958 486	5 695 475	32 123	829 916	3 629 834	64 921	6 161 413	(2 065 641)
corporate loans		2 272 444	2 463 502	10 276	199 240	1 422 492	22 464	3 102 026	(1 041 010)
housing loans		1 234 974	1 194 129	2 400	19 598	736 954	35 090	1 639 861	(457 175)
consumer loans		1 451 068	2 036 038	19 447	611 078	1 470 388	7 367	1 417 720	(565 650)
debt securities		-	1 806	-	-	-	-	1 806	(1 806)
Financial sector		8 525	42 071	391	1 213	4 548	-	45 226	(37 523)
corporate loans		8 525	42 071	391	1 213	4 548	-	45 226	(37 523)
Public sector		15 779	8 763	578	-	3 130	-	21 990	(5 633)
corporate loans		15 779	6 413	578	-	3 130	-	19 640	(3 283)
debt securities		-	2 350	-	-	-	-	2 350	(2 350)
<b>Non-current assets held for sale</b>	<b>23</b>	<b>1 278</b>	<b>-</b>	<b>-</b>	<b>52</b>	<b>-</b>	<b>-</b>	<b>1 226</b>	<b>-</b>
<b>Tangible fixed assets</b>	<b>25</b>	<b>143</b>	<b>3 257</b>	<b>-</b>	<b>3 366</b>	<b>-</b>	<b>-</b>	<b>34</b>	<b>(3 257)</b>
<b>Intangible assets</b>	<b>24</b>	<b>18 017</b>	<b>3 695</b>	<b>-</b>	<b>4 558</b>	<b>-</b>	<b>-</b>	<b>17 154</b>	<b>(3 695)</b>
<b>Investments in subsidiaries, jointly controlled entities and associates</b>	<b>22</b>	<b>475 669</b>	<b>208 148</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>683 817</b>	<b>(208 148)</b>
<b>Other receivables</b>		<b>170 651</b>	<b>29 235</b>	<b>-</b>	<b>31 996</b>	<b>17 894</b>	<b>447</b>	<b>149 549</b>	<b>(11 341)</b>
<b>Provisions for legal claims and loan commitments and guarantees granted</b>	<b>33</b>	<b>130 620</b>	<b>255 040</b>	<b>-</b>	<b>-</b>	<b>150 673</b>	<b>517</b>	<b>234 470</b>	<b>(104 367)</b>
<b>Provisions for future liabilities</b>		<b>8 608</b>	<b>23 249</b>	<b>-</b>	<b>470</b>	<b>19 426</b>	<b>-</b>	<b>11 961</b>	<b>(3 823)</b>
<b>Total</b>		<b>5 836 988</b>	<b>6 286 003</b>	<b>33 092</b>	<b>877 469</b>	<b>3 827 413</b>	<b>68 977</b>	<b>7 382 224</b>	<b>(2 458 590)</b>

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**10. Administrative expenses**

	2013	2012 restated
Employee benefits	(2 304 366)	(2 372 201)
Overheads	(1 160 424)	(1 199 405)
Amortisation and depreciation, of which:	(531 417)	(479 992)
tangible fixed assets	(273 045)	(255 507)
intangible assets	(258 362)	(224 474)
investments properties	(10)	(11)
Taxes and other charges	(56 856)	(61 311)
Contribution and payments to the Bank Guarantee Fund	(167 703)	(143 988)
<b>Total</b>	<b>(4 220 766)</b>	<b>(4 256 897)</b>

**Employee benefits**

	2013	2012 restated
Wages and salaries*, of which:	(1 896 444)	(1 993 086)
expenses on employee pension programme	(25 701)	-
Social Insurance, of which:	(343 622)	(311 712)
contributions for retirement pay and pensions	(274 221)	(252 755)
Other employee benefits	(64 300)	(67 403)
<b>Total</b>	<b>(2 304 366)</b>	<b>(2 372 201)</b>

\* In line "Wages and salaries" the effect of release of provision for anniversary bonuses and retirement benefits in the amount of PLN 179 million was included.

**Finance and operating lease agreements**
**Finance lease**

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

**Operating lease – lessee**

Lease agreements, under which the lessor retains substantially the risk and rewards incidental to the ownership of an asset, are classified as operating lease agreements. Lease payments under operating leases are recognised as expenses in the income statement, on a straight-line basis over the lease term.

Rental and tenancy agreements concluded by the Bank in the course of its normal operating activities meet the criteria of operating leases. All of the above are arm's length agreements.

The table below presents data on operating lease agreements concluded by the Bank.

<b>Total value of future lease payments under irrevocable operating lease</b>	<b>31.12.2013</b>	<b>31.12.2012</b>
For the period:		
up to 1 year	142 704	120 122
from 1 year to 5 years	251 357	231 035
over 5 years	49 476	54 202
<b>Total</b>	<b>443 537</b>	<b>405 359</b>

Lease and sub-lease payments recognised as an expense of a given period, from 1 January 2013 to 31 December 2013 amounted to PLN 151 674 thousand (in the period from 1 January 2012 to 31 December 2012 PLN 145 919 thousand).

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**11. Income tax expense**

	2013	2012 restated
<b>Income statement</b>		
Current income tax expense	(622 628)	(796 425)
Deferred income tax related to creating and reversal of temporary differences	(103 455)	(71 421)
<b>Tax expense in the income statement</b>	<b>(726 083)</b>	<b>(867 846)</b>
Tax expense in other comprehensive income related to creating and reversal of temporary differences	58 015	46 449
<b>Total</b>	<b>(668 068)</b>	<b>(821 397)</b>

	2013	2012 restated
<b>Profit before income tax</b>	<b>3 959 845</b>	<b>4 450 482</b>
Corporate income tax calculated using the enacted tax rate 19% in force in Poland	(752 371)	(845 592)
<b>Permanent differences between profit before income tax and taxable income, of which:</b>	<b>23 700</b>	<b>(75 150)</b>
Impairment allowances not constituting taxable expense (KREDOBANK)	(32 680)	(28 500)
Revaluation of shares in eService	33 957	-
Exposure impairment allowances not constituting taxable expense/income	(2 518)	(42 388)
Other non-tax deductible expenses	(11 215)	(22 029)
Dividend income	18 249	17 708
Other permanent differences	17 907	59
<b>Other differences between profit before income tax and taxable income, including donations</b>	<b>2 588</b>	<b>52 896</b>
<b>Income tax in the income statement</b>	<b>(726 083)</b>	<b>(867 846)</b>
<b>Effective tax rate</b>	<b>18.34%</b>	<b>19.50%</b>
Temporary difference due to the deferred tax presented in the income statement	(103 455)	(71 421)
<b>Total current income tax expense in the income statement</b>	<b>(622 628)</b>	<b>(796 425)</b>

**Current income tax liabilities/receivables**

	31.12.2013	31.12.2012 restated
Current income tax liabilities	-	145 274
Current income tax receivable	201 212	-

According to regulations on considering tax liabilities as past due tax authorities can verify the correctness of income tax settlements within 5 years from the end of the accounting year in which the tax declaration was submitted. Current income tax liability of the Bank for the year 2013 will be settled within regulatory due dates.

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**Deferred tax asset/liability**

	Statement of financial position			Income statement	
	31.12.2013	31.12.2012 restated	01.01.2012 restated	2013	2012 restated
<b>Deferred tax liability</b>					
Interest accrued on receivables (loans)	206 564	193 308	176 076	(13 256)	(17 232)
Capitalised interest on performing housing loans	155 285	169 830	190 844	14 545	21 014
Interest on securities	22 438	14 567	58 187	(7 871)	43 620
Valuation of derivative financial instruments, of which:	-	18 450	94 471	-	-
recognised in income statement	-	6 276	9 514	6 276	3 238
recognised in other comprehensive income	-	12 174	84 957	-	-
Valuation of securities, of which:	-	6 037	16 414	-	-
recognised in income statement	-	3 889	15 443	3 889	11 554
recognised in other comprehensive income	-	2 148	971	-	-
Difference between carrying amount and tax value of tangible fixed assets and intangible fixed assets	336 603	333 554	293 318	(3 049)	(40 236)
<b>Gross deferred tax liability, of which:</b>	<b>720 890</b>	<b>735 746</b>	<b>829 310</b>	<b>-</b>	<b>-</b>
recognised in income statement	720 890	721 424	743 382	534	21 958
recognised in other comprehensive income	-	14 322	85 928	-	-
<b>Deferred tax asset</b>					
Interest accrued on liabilities	159 134	235 244	391 527	(76 110)	(156 283)
Interest on securities	1 212	-	-	1 212	-
Valuation of derivative financial instruments, of which:	9 225	10 661	16 093	-	-
recognised in income statement	(20 235)	10 661	16 093	(30 896)	(5 432)
recognised in other comprehensive income	29 460	-	-	-	-
Valuation of securities, of which:	13 909	-	24 550	-	-
recognised in income statement	1 477	-	11 580	1 477	(11 580)
recognised in other comprehensive income	12 432	-	12 970	-	-
Provision for employee benefits	83 164	131 770	126 714	-	-
recognised in income statement	69 176	119 583	126 714	(50 407)	17 243
recognised in other comprehensive income	13 988	12 187	-	-	-
Impairment allowances on credit exposure	506 795	494 933	414 558	11 862	80 375
Adjustment of straight-line valuation method and ESP	184 089	187 166	211 011	(3 077)	(23 845)
Temporary differences of bancassurance adjustment	62 878	63 625	73 470	(747)	(9 845)
Other temporary negative differences	87 676	44 979	28 991	42 697	15 988
<b>Gross deferred income tax asset, of which:</b>	<b>1 108 082</b>	<b>1 168 378</b>	<b>1 286 914</b>	<b>-</b>	<b>-</b>
recognised in income statement	1 052 202	1 156 191	1 273 944	(103 989)	(93 379)
recognised in other comprehensive income	55 880	12 187	12 970	-	-
<b>Total deferred tax impact, of which:</b>	<b>387 192</b>	<b>432 632</b>	<b>457 604</b>	<b>-</b>	<b>-</b>
recognised in income statement	331 312	434 767	530 562	(103 455)	(71 421)
recognised in other comprehensive income	55 880	(2 135)	(72 958)	-	-
<b>Deferred income tax asset (presented in the statement of financial position)</b>	<b>387 192</b>	<b>432 632</b>	<b>457 604</b>	<b>-</b>	<b>-</b>
<b>Net deferred tax impact on the income statement</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(103 455)</b>	<b>(71 421)</b>

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## 12. Earnings per share

### Basic earnings per share

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

### Earnings per share

	2013	2012 restated
Profit per ordinary shareholder (in PLN thousand)	3 233 762	3 582 636
Weighted average number of ordinary shares during the period (in thousand)	1 250 000	1 250 000
Earnings per share (in PLN per share)	2.59	2.87

### Earnings per share from discontinued operations

In the years ended 31 December 2013 and 31 December 2012 respectively the Bank did not report any discontinued operations.

### Diluted earnings per share

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

There were no dilutive instruments in the Bank in 2013 or 2012.

### Diluted earnings per share from discontinued operations

During the years ended 31 December 2013 and 31 December 2012 the Bank did not report any discontinued operations.

## 13. Dividends paid (in total or per share) on ordinary shares and other shares

Pursuant to the Resolution No. 8/2013 of the Ordinary General Shareholders' Meeting of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna passed on 20 June 2013, the dividend for 2012 amounted to PLN 2 250 000 thousand, i.e. PLN 1.80 per share.

The list of shareholders eligible to receive dividend for 2012 was determined as at 19 September 2013, and the payment was made on 4 October 2013.

As at 31 December 2013 the Bank did not decide whether to pay dividend. In accordance with the Bank's policy on paying dividends, the Management Board of the Bank, while placing proposals on paying dividends, will take into consideration the necessity to ensure an appropriate level of the capital adequacy ratio and the capital which is necessary to the Bank's development.

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## NOTES TO THE STATEMENT OF FINANCIAL POSITION

**14. Cash and balances with the central bank**

	31.12.2013	31.12.2012
Current account in the central bank	4 018 340	7 550 898
Cash	3 169 820	2 678 235
Other funds	246	97
<b>Total</b>	<b>7 188 406</b>	<b>10 229 230</b>

**Obligatory reserve**

During the course of the working day, the Bank may use funds from the obligatory reserve account for ongoing payments, on the basis of an instruction submitted to the Central Bank of Poland (NBP). However, the Bank must ensure that the average monthly balance on this account complies with the requirements set in the obligatory reserve declaration.

Funds on the obligatory reserve account bear interest of 0.9 of the rediscount rate for bills of exchange. As at 31 December 2013, this interest rate was 2.475%.

**Restricted cash:**

Cash in the amount of PLN 17 449 thousand (PLN 6 661 thousand as at 31 December 2012) pledged as collateral for securities' transactions conducted by the Brokerage House of PKO Bank Polski SA are deposited in the National Depository for Securities (KDPW CCP), as part of the Guarantee Fund for the Settlement of Stock Exchange Transactions. Each direct participant who holds the status of settlements-making participant is obliged to make payments to the settlement fund which guarantees a proper settlement of the stock exchange transactions covered by that fund. The amount of the payments depends on the value of transactions made by each participant and is updated by KDPW CCP on a daily basis.

In addition, the Bank had restricted cash as a part of issuance stabilising actions for the selling shareholder in the amount of PLN 14 629 thousand, blocked on the stabilisation manager's account.

In the statement of cash flows, these cash are presented as restricted cash. As at 31 December 2013 and 31 December 2012 their value amounted to PLN 32 078 thousand and PLN 6 661 thousand respectively.

**Cash and cash equivalents**

The amount on the current account in the Central Bank, cash and other are entirely treated as cash and cash equivalents for the purposes of the cash flows statement.

**15. Amounts due from banks**

	31.12.2013	31.12.2012
Deposits with banks	1 425 588	2 445 915
Current accounts	399 057	589 139
Loans and advances granted	289 529	299 516
Receivables due from repurchase agreements	14 033	149 284
Cash in transit	1 117	3 329
<b>Total</b>	<b>2 129 324</b>	<b>3 487 183</b>
Impairment allowances on receivables, of which:	(40 237)	(30 792)
impairment allowances on receivable to a foreign bank	(40 137)	(30 782)
<b>Net total</b>	<b>2 089 087</b>	<b>3 456 391</b>

Details on risk related to amounts due from banks were presented in Note 45 'Credit risk management'.

**Liabilities from negative valuation of derivative instruments**

Cash deposits in banks include assets held as collateral for own liabilities, in this case settlements due to negative valuation of derivative instruments. The amount of these assets as at 31 December 2013 amounted to PLN 727 766 thousand (as at 31 December 2012 PLN 543 260 thousand).

**Cash and cash equivalents**

Current amounts due from banks as well as other cash equivalents with maturities up to 3 months from the date of acquisition, amounting to PLN 1 456 276 thousand are entirely treated as cash and cash equivalents for the purposes of the cash flows statement (as at 31 December 2012 amounted to PLN 2 006 184 thousand).

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**16. Trading assets**

By carrying amount	31.12.2013	31.12.2012
<b>Debt securities</b>	<b>472 535</b>	<b>278 240</b>
issued by the State Treasury, of which:	395 202	216 521
Treasury bonds PLN	390 660	216 521
Treasury bonds EUR	4 542	-
issued by local government bodies, municipal bonds PLN	41 907	26 673
issued by non-financial institutions, corporate bonds PLN	23 892	15 064
issued by other financial institutions, of which:	11 366	18 611
bonds issued by WSE PLN	6 628	13 880
bonds issued by PKO Finance AB EUR	4 604	4 664
corporate bonds PLN	134	67
issued by banks, of which:	168	1 371
BGK bonds PLN	158	1 361
<b>Shares in other entities - listed on stock exchange</b>	<b>10 799</b>	<b>3 237</b>
<b>Investment certificates</b>	<b>1 151</b>	<b>713</b>
<b>Rights issues</b>	<b>-</b>	<b>40</b>
<b>Total</b>	<b>484 485</b>	<b>282 230</b>

Debt securities by nominal value	31.12.2013	31.12.2012
Treasury bonds PLN	389 455	213 650
Treasury bonds EUR	4 174	-
corporate bonds PLN	30 470	28 660
corporate bonds EUR	4 355	4 497
municipal bonds PLN	39 158	25 678
BGK bonds PLN	148	1 308
The average yield on debt securities issued by the State Treasury	3.79%	3.26%

Change in trading assets	2013	2012
<b>Balance at the beginning of the period</b>	<b>282 230</b>	<b>1 311 089</b>
Currency translation differences	(71)	(47)
Increases	378 331 885	324 873 038
Decreases	(378 130 581)	(325 903 937)
Changes in fair value	1 022	2 087
<b>Balance at the end of the period</b>	<b>484 485</b>	<b>282 230</b>

As at 31 December 2013 and as at 31 December 2012 the Bank did not have transferred financial assets, which are derecognised from the financial statements in their entirety, for which the Bank continues involvement in those assets.

**Transferred trading assets, which are not derecognised from the statement of financial position**

Financial assets which the Bank does not derecognise from the financial statements include the assets pledged as collateral for liabilities due to sell-buy-back transactions (treasury bonds). The carrying amounts of transferred trading assets and related liabilities as at 31 December 2013 and 31 December 2012, were as follows:

Carrying amount	31.12.2013	31.12.2012
Trading assets	1 682 616	-
Liabilities due to sell-buy-back transactions	1 684 506	-
Net value	(1 890)	-

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**Preliminary Settlement Deposit of the National Depository for Securities (KDPW)**

The Brokerage House of PKO Bank Polski SA holds bonds in the National Depository for Securities as collateral for settlement of transactions with the Clearing House.

Carrying amount	31.12.2013	31.12.2012
Value of the deposit	7 589	7 359
Nominal value of the pledge	8 000	8 000
Type of the pledge	Treasury bonds	Treasury bonds
Carrying amount of the pledge	7 990	7 744

**Trading assets by carrying amount - maturity**

As at 31 December 2013	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
<b>Debt securities</b>						
issued by the State Treasury	50 070	1 082	141 700	175 947	26 403	<b>395 202</b>
issued by local government bodies	-	20	47	7 901	33 939	<b>41 907</b>
issued by other financial institutions	-	72	-	11 262	32	<b>11 366</b>
issued by non-financial institutions	-	-	29	21 096	2 767	<b>23 892</b>
issued by banks	-	-	114	54	-	<b>168</b>
<b>Total</b>	<b>50 070</b>	<b>1 174</b>	<b>141 890</b>	<b>216 260</b>	<b>63 141</b>	<b>472 535</b>

As at 31 December 2012	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
<b>Debt securities</b>						
issued by the State Treasury	10 565	372	4 234	150 491	50 859	<b>216 521</b>
issued by local government bodies	-	9	8	9 055	17 601	<b>26 673</b>
issued by other financial institutions	-	-	-	18 611	-	<b>18 611</b>
issued by non-financial institutions	-	24	1 129	13 911	-	<b>15 064</b>
issued by banks	-	-	-	1 371	-	<b>1 371</b>
<b>Total</b>	<b>10 565</b>	<b>405</b>	<b>5 371</b>	<b>193 439</b>	<b>68 460</b>	<b>278 240</b>

**17. Derivative financial instruments**
**Derivative instruments used by the Bank**

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

As at 31 December 2013 and as at 31 December 2012, the Bank held the following types of derivative instruments:

	31.12.2013		31.12.2012	
	Assets	Liabilities	Assets	Liabilities
Hedging instruments (Note 18)	361 639	414 804	498 130	224 373
Other derivative instruments	2 640 581	2 913 345	3 363 326	3 739 797
<b>Total</b>	<b>3 002 220</b>	<b>3 328 149</b>	<b>3 861 456</b>	<b>3 964 170</b>

**Fair value of derivative financial instruments**

Type of contract	31.12.2013		31.12.2012	
	Assets	Liabilities	Assets	Liabilities
IRS	2 592 081	2 490 832	3 222 693	3 183 816
CIRS	252 941	545 073	357 675	370 043
FX Swap	39 908	156 320	109 819	207 538
Options	75 443	61 961	63 301	61 932
Forward	24 552	60 112	33 190	60 742
FRA	13 652	11 454	74 608	78 693
Other	3 643	2 397	170	1 406
<b>Total</b>	<b>3 002 220</b>	<b>3 328 149</b>	<b>3 861 456</b>	<b>3 964 170</b>



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**Nominal amounts of underlying instruments****31 December 2013**

Nominal amounts of underlying instruments						
	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
<b>Currency transactions</b>						
FX swap	9 064 267	621 348	2 413 223	-	-	12 098 838
Purchase of currency	4 514 720	299 874	1 170 424	-	-	5 985 018
Sale of currency	4 549 547	321 474	1 242 799	-	-	6 113 820
FX forward	2 020 788	2 202 576	3 397 762	479 550	-	8 100 676
Purchase of currency	1 008 082	1 099 414	1 682 174	233 773	-	4 023 443
Sale of currency	1 012 706	1 103 162	1 715 588	245 777	-	4 077 233
Options	1 454 808	1 201 679	4 126 364	1 024 474	-	7 807 325
Purchase	730 276	589 870	2 023 539	508 731	-	3 852 416
Sale	724 532	611 809	2 102 825	515 743	-	3 954 909
Cross Currency (CIRS)	1 490 674	1 354 330	2 462 933	25 246 228	9 914 523	40 468 688
Purchase	745 837	678 010	1 236 520	12 567 095	4 924 105	20 151 567
Sale	744 837	676 320	1 226 413	12 679 133	4 990 418	20 317 121
<b>Interest rate transactions</b>						
Interest Rate Swap (IRS)	19 507 842	28 971 362	74 714 510	214 022 130	23 798 504	361 014 348
Purchase	9 753 921	14 485 681	37 357 255	107 011 065	11 899 252	180 507 174
Sale	9 753 921	14 485 681	37 357 255	107 011 065	11 899 252	180 507 174
Forward Rate Agreement (FRA)	-	-	49 114 000	3 100 000	-	52 214 000
Purchase	-	-	26 063 000	1 100 000	-	27 163 000
Sale	-	-	23 051 000	2 000 000	-	25 051 000
<b>Other transactions</b>						
Other (including stock market index derivatives)	5 456 692	111 580	489 039	1 424 298	-	7 481 609
Purchase	2 497 383	87 915	259 177	769 506	-	3 613 981
Sale	2 959 309	23 665	229 862	654 792	-	3 867 628
<b>Total derivative instruments</b>	<b>38 995 071</b>	<b>34 462 875</b>	<b>136 717 831</b>	<b>245 296 680</b>	<b>33 713 027</b>	<b>489 185 484</b>

**31 December 2012**

Nominal amounts of underlying instruments						
	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
<b>Currency transactions</b>						
FX swap	8 783 322	2 447 344	4 563 639	-	-	15 794 305
Purchase of currency	4 406 267	1 191 556	2 237 520	-	-	7 835 343
Sale of currency	4 377 055	1 255 788	2 326 119	-	-	7 958 962
FX forward	1 503 932	1 334 616	2 385 440	241 121	-	5 465 109
Purchase of currency	753 066	668 651	1 177 926	113 992	-	2 713 635
Sale of currency	750 866	665 965	1 207 514	127 129	-	2 751 474
Options	1 213 084	1 135 958	3 953 374	2 214 471	-	8 516 887
Purchase	614 103	561 159	2 038 053	1 159 517	-	4 372 832
Sale	598 981	574 799	1 915 321	1 054 954	-	4 144 055
Cross Currency (CIRS)	-	3 523 260	16 135 171	25 748 631	17 277 544	62 684 606
Purchase	-	1 769 032	8 059 566	12 810 823	8 670 250	31 309 671
Sale	-	1 754 228	8 075 605	12 937 808	8 607 294	31 374 935
<b>Interest rate transactions</b>						
Interest Rate Swap (IRS)	22 671 124	37 260 646	102 997 154	153 824 640	20 043 360	336 796 924
Purchase	11 335 562	18 630 323	51 498 577	76 912 320	10 021 680	168 398 462
Sale	11 335 562	18 630 323	51 498 577	76 912 320	10 021 680	168 398 462
Forward Rate Agreement (FRA)	21 700 000	22 550 000	37 975 000	-	-	82 225 000
Purchase	10 400 000	11 000 000	19 775 000	-	-	41 175 000
Sale	11 300 000	11 550 000	18 200 000	-	-	41 050 000
<b>Other transactions</b>						
Other (including stock market index derivatives)	1 226 253	13 088	5 175	-	-	1 244 516
Purchase	1 016 506	9 316	4 237	-	-	1 030 059
Sale	209 747	3 772	938	-	-	214 457
<b>Total derivative instruments</b>	<b>57 097 715</b>	<b>68 264 912</b>	<b>168 014 953</b>	<b>182 028 863</b>	<b>37 320 904</b>	<b>512 727 347</b>

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## **18. Derivative hedging instruments**

As at 31 December 2013 the Bank applies the following hedging strategies:

### **18.1. Hedges against fluctuations in cash flows from mortgage loans in CHF and negotiated term deposits in PLN, resulting from the risk of fluctuations in interest rates and in foreign exchange rates, using CIRS transactions**

**Description of hedge relationship** - elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in CHF and negotiated term deposits in PLN, resulting from fluctuations in reference interest rates in CHF and PLN, and changes in foreign exchange rates CHF/PLN during the hedged period.

**Hedged risk** - currency risk and interest rate risk

**Hedging instrument** - CIRS transactions where the Bank pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal value defined in CHF and PLN respectively.

**Hedged position** - the portfolio of floating interest rate mortgage loans denominated in CHF and the portfolio of short-term negotiated term deposits, including renewals in the future (high probability of occurrence). The Bank designated the hedged position according to the regulations of IAS 39.AG.99C as adopted by the European Union.

**Periods in which cash flows are expected and in which they should have an impact on the financial result** - January 2014 to October 2026.

### **18.2. Hedges against fluctuations in cash flows from floating interest rate loans in PLN, resulting from the risk of fluctuations in interest rates, using IRS transactions**

**Description of hedge relationship** - elimination of the risk of cash flow fluctuations generated by floating interest rate PLN loan portfolio resulting from the interest rate risk in the period covered by the hedge.

**Hedged risk** - interest rate risk.

**Hedging instrument** - IRS transactions where the Bank pays coupons based on floating 3M WIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded.

**Hedged position** - the portfolio of loans in PLN indexed to the floating 3M WIBOR rate.

**Periods in which cash flows are expected and in which they should have an impact on the financial result** - January 2014 to March 2016.

### **18.3. Hedges against fluctuations in cash flows from floating interest rate loans in EUR, resulting from the risk of fluctuations in interest rates, using IRS transactions**

**Description of hedge relationship:** Elimination of the risk of cash flow fluctuations generated by floating interest rate EUR loan portfolio resulting from the interest rate risk in the period covered by the hedge.

**Hedged risk** - interest rate risk.

**Hedging instrument** - IRS transactions, where the Bank pays coupons based on floating 3M EURIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded.

**Hedged position** - the portfolio of loans in EUR indexed to the floating EURIBOR rate.

**Periods in which cash flows are expected and in which they should have an impact on the financial result** - January 2014 to June 2016.

### **18.4. Hedges against fluctuations in cash flows from floating interest rate loans in CHF, resulting from the risk of fluctuations in interest rates, using IRS transactions**

**Description of hedge relationship** - elimination of the risk of cash flow fluctuations generated by floating interest rate CHF loan portfolio resulting from the interest rate risk in the period covered by the hedge.

**Hedged risk** - interest rate risk.

**Hedging instrument** - IRS transactions where the Bank pays coupons based on floating 3M CHF LIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded.

**Hedged position** - the portfolio of loans in CHF indexed to the floating 3M CHF LIBOR rate.

**Periods in which cash flows are expected and in which they should have an impact on the financial result** - January 2014 to July 2016.

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

**Description of hedge relationship** - elimination of the risk of cash flow fluctuations of floating interest rate loans in foreign currencies, resulting from the risk of fluctuations in interest rates and from foreign exchange rate risk, and elimination of the risk of cash flow fluctuations of fixed interest rate financial liability in foreign currency, resulting from foreign exchange rate risk, using CIRS transactions.

**Hedged risk** - currency risk and interest rate risk

**Hedging instrument** - CIRS transactions, where the Bank pays coupons based on floating 3M CHF LIBOR rate, and receives coupons based on a fixed USD rate on the nominal value for which they were concluded.

**Hedged position** - the portfolio of floating interest rate mortgage loans denominated in CHF and fixed interest rate financial liability denominated in USD.

**Periods in which cash flows are expected and in which they should have an impact on the financial result** - January 2014 to September 2022.

As at 31 December 2013 and as at 31 December 2012, the Bank did not use the fair value hedge.

All types of hedging relationships applied by the Bank are cash flow hedge accounting (macro cash flow hedge).

Hedge effectiveness is verified through the use of prospective and retrospective effectiveness tests. Tests are performed monthly. In the third quarter of 2013, due to the lack of fulfillment of the retrospective effectiveness test, the Bank ceased to apply hedge accounting for one of hedging relationships within strategy 'Hedges against fluctuations in cash flows from mortgage loans in CHF and negotiated term deposits in PLN, resulting from the risk of fluctuations in interest rates and in foreign exchange rates, using CIRS transactions'.

**Cash flow hedges**

The fair value of derivative instruments constituting cash flow hedges related to the interest rate and/or foreign exchange rate as at 31 December 2013 and as at 31 December 2012, amounts to respectively:

Type of instrument:	Carrying amount/fair value			
	31.12.2013		31.12.2012	
	Assets	Liabilities	Assets	Liabilities
IRS	229 630	630	256 223	54
CIRS	132 009	414 174	241 907	224 319
<b>Total</b>	<b>361 639</b>	<b>414 804</b>	<b>498 130</b>	<b>224 373</b>

The nominal value of hedging instruments by maturity.

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

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Type of instrument:	Nominal value as at 31 December 2012					
	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
IRS PLN fixed - float	1 150 000	60 000	1 816 000	360 000	-	3 386 000
IRS EUR fixed - float:						
translated into PLN	-	-	-	1 929 630	-	1 929 630
EUR (original currency)	-	-	-	472 000	-	472 000
IRS CHF fixed - float:						
translated into PLN	-	-	-	846 700	-	846 700
CHF (original currency)	-	-	-	250 000	-	250 000
CIRS float CHF/float PLN						
float PLN	-	1 196 440	5 095 105	8 084 755	2 010 240	16 386 540
float CHF	-	350 000	1 500 000	2 425 000	575 000	4 850 000

The nominal values were translated using the average NBP rate as at 31 December 2013 and as at 31 December 2012 respectively.

Other comprehensive income as regards cash flow hedges	31.12.2013	31.12.2012
Other comprehensive income at the beginning of the period, gross	64 073	447 142
Gains transferred to other comprehensive income in the period	122 138	913 761
Amount transferred from other comprehensive income to income statement	(341 264)	(1 296 830)
- interest income	(454 278)	(870 450)
- net foreign exchange gains (losses)	113 014	(426 380)
<b>Accumulated other comprehensive income at the end of the period, gross</b>	<b>(155 053)</b>	<b>64 073</b>
<b>Tax effect</b>	<b>29 460</b>	<b>(12 174)</b>
<b>Accumulated other comprehensive income at the end of the period, net</b>	<b>(125 593)</b>	<b>51 899</b>
<b>Ineffective part of cash flow hedges recognised through profit and loss</b>	<b>24 333</b>	<b>7 938</b>
<b>Effect on other comprehensive income in the period, gross</b>	<b>(219 126)</b>	<b>(383 069)</b>
<b>Deferred tax on cash flow hedges</b>	<b>41 634</b>	<b>72 783</b>
<b>Effect on other comprehensive income in the period, net</b>	<b>(177 492)</b>	<b>(310 286)</b>

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

At carrying amount	31.12.2013	31.12.2012
<b>Debt securities</b>	<b>15 179 188</b>	<b>12 614 917</b>
issued by central banks, NBP money market bills	13 997 228	9 995 300
issued by the State Treasury, of which:	931 325	2 363 089
Treasury bonds PLN	931 325	1 322 226
Treasury bills PLN	-	1 040 863
issued by local government bodies, of which:	250 635	256 528
municipal bonds EUR	136 700	145 343
municipal bonds PLN	113 935	111 185
<b>Total</b>	<b>15 179 188</b>	<b>12 614 917</b>
<b>Debt securities by nominal value</b>	<b>31.12.2013</b>	<b>31.12.2012</b>
NBP money market bills PLN	14 000 000	10 000 000
Treasury bills PLN	-	1 047 510
Treasury bonds PLN	899 531	1 347 927
municipal bonds EUR	103 680	102 205
municipal bonds PLN	100 000	100 000
<b>The average yield on debt securities issued by the State Treasury</b>	<b>3.09%</b>	<b>3.81%</b>

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Change in financial assets designated upon initial recognition at fair value through profit and loss	2013	2012
Balance at the beginning of the period	12 614 917	12 467 201
Currency translation differences	6 050	(11 554)
Increases	682 824 839	722 127 699
Decreases	(680 260 178)	(721 984 581)
Changes in fair value	(6 440)	16 152
Balance at the end of the period	15 179 188	12 614 917

As at 31 December 2013 and as at 31 December 2012 the Bank did not have financial assets, which are derecognised from the statement of financial position in their entirety, but the Bank continues involvement in those assets.

Transferred financial instruments designated upon initial recognition at fair value through profit and loss, which are not derecognised from the statement of financial position

Financial assets which the Bank does not derecognise from the financial statements include the assets pledged as collateral for liabilities due to sell-buy-back transactions (Treasury bonds). The carrying amounts of transferred financial assets designated upon initial recognition at fair value through profit and loss and related liabilities as at 31 December 2013 and as at 31 December 2012, were as follows:

Carrying amount	31.12.2013	31.12.2012
Financial instruments designated upon initial recognition at fair value through profit and loss	2 068	850 231
Liabilities due to sell-buy-back transactions	2 071	851 416
Net value	(3)	(1 185)

Financial assets designated upon initial recognition at fair value through profit and loss at carrying amount – by maturity

As at 31 December 2013	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
Debt securities						
issued by central banks	13 997 228	-	-	-	-	13 997 228
issued by the State Treasury	-	-	188 349	742 976	-	931 325
issued by local government bodies	-	-	-	113 935	136 700	250 635
<b>Total</b>	<b>13 997 228</b>	<b>-</b>	<b>188 349</b>	<b>856 911</b>	<b>136 700</b>	<b>15 179 188</b>
As at 31 December 2012	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
Debt securities						
issued by central banks	9 995 300	-	-	-	-	<b>9 995 300</b>
issued by the State Treasury	157 454	883 409	-	1 322 226	-	<b>2 363 089</b>
issued by local government bodies	-	-	-	-	256 528	<b>256 528</b>
<b>Total</b>	<b>10 152 754</b>	<b>883 409</b>	<b>-</b>	<b>1 322 226</b>	<b>256 528</b>	<b>12 614 917</b>

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**20. Loans and advances to customers**

	31.12.2013	31.12.2012 restated	01.12.2012 restated
<b>Loans and advances to customers, gross, of which:</b>	<b>153 753 558</b>	<b>147 920 909</b>	<b>144 661 434</b>
<b>financial sector</b>	<b>5 719 004</b>	<b>3 177 999</b>	<b>3 220 155</b>
corporate, of which:	3 680 581	3 177 999	3 127 319
deposits of the Brokerage House of PKO Bank Polski SA in the Stock Exchange Guarantee Fund and initial deposit	19 339	8 779	6 891
receivables due from repurchase agreement	2 038 423	-	92 836
<b>non-financial sector</b>	<b>140 893 713</b>	<b>137 137 910</b>	<b>136 374 850</b>
Housing	76 482 811	71 914 309	70 734 121
corporate, of which:	43 172 563	42 719 131	41 625 770
contributions to equity of subsidiaries	-	214 209	186 943
Consumer	20 399 493	21 601 402	24 014 59
debt securities (corporate)*	838 846	903 068	-
<b>public sector</b>	<b>7 140 841</b>	<b>7 605 000</b>	<b>5 066 429</b>
Corporate	6 057 017	6 429 961	5 066 429
debt securities (municipal)*	978 159	1 175 039	-
receivables due from repurchase agreements	105 665	-	-
<b>Impairment allowances on loans and advances to customers</b>	<b>(6 381 232)</b>	<b>(6 228 629)</b>	<b>(4 982 790)</b>
<b>Loans and advances to customers, net</b>	<b>147 372 326</b>	<b>141 692 280</b>	<b>139 678 644</b>

\* Information about the debt securities portfolio reclassified to the loans and advances to customers portfolio or directly classified to this portfolio is provided in Note 21 'Investment securities available for sale'.

As at 31 December 2013, as a part of issuance stabilising actions for the selling shareholder the Brokerage House of PKO Bank Polski SA had the company's shares valued using the purchase price, presented in the position 'receivables due from repurchase agreements' in the amount of PLN 105 665 thousand and cash in the amount of PLN 14 629 thousand, blocked on the stabilisation manager's account and a liability in the same amount to the selling shareholder. Settlement of this transaction will take place according to the stabilisation agreement, under mutual offsetting of assets and liabilities in the same amount after 30 days from the beginning of the stabilisation, or when the number of shares acquired from the market as a part of issuance stabilising actions will equal the number of shares received from the selling shareholder.

By client segment	31.12.2013	31.12.2012 restated	01.01.2012 restated
<b>Loans and advances granted, gross, of which:</b>	<b>153 753 558</b>	<b>147 920 909</b>	<b>144 661 434</b>
mortgage banking	68 794 958	63 815 404	63 008 434
Corporate	40 763 620	41 351 050	33 853 463
retail and private banking	20 399 493	21 601 402	24 014 959
small and medium enterprises	14 825 125	14 309 022	15 524 608
housing market clients	6 806 935	6 621 043	7 973 417
contributions to equity of subsidiaries	-	214 209	186 943
receivables due from repurchase agreement	2 144 088	-	92 836
deposits of the Brokerage House of PKO Bank Polski SA in the stock Exchange Guarantee Fund	19 339	8 779	6 774
<b>Impairment allowances on loans and advances</b>	<b>(6 381 232)</b>	<b>(6 228 629)</b>	<b>(4 982 790)</b>
<b>Loans and advances granted, net</b>	<b>147 372 326</b>	<b>141 692 280</b>	<b>139 678 644</b>

The structure of loans and advances presented in Note 20 'Loans and advances to customers' includes the following segmentation:

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

**Debt securities in the loans and advances to customers portfolio**

	31.12.2013	31.12.2012
Debt securities reclassified to the loans and advances to customers portfolio, gross	1 756 938	2 078 107
Debt securities directly classified to the loans and advances to customers portfolio, gross	60 067	-
Impairment allowances	(28 065)	(4 156)
<b>Total debt securities, net</b>	<b>1 788 940</b>	<b>2 073 951</b>

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**Securities reclassification**

In 2013 there was no reclassification of securities to the loan and advances to customers' portfolio. In 2012 due to the change of intention as regards holding of the selected portfolio of non-Treasury securities classified upon initial recognition as available for sale, the Bank reclassified them to loans and advances to customers category. As a result of the reclassification of the portfolio, the valuation methods for the portfolio have changed, i.e. from measured at fair value to measured at amortised cost.

**Debt securities reclassified from financial assets available for sale to loans and advances to customers, as at the date of reclassification:**

Portfolio reclassified in the 3 <sup>rd</sup> quarter of 2012	nominal value	fair value	carrying amount
Municipal bonds	778 233	807 275	807 275
Corporate bonds	632 160	632 013	632 013
<b>Total</b>	<b>1 410 393</b>	<b>1 439 288</b>	<b>1 439 288</b>

Portfolio reclassified in the 4 <sup>th</sup> quarter of 2012	nominal value	fair value	carrying amount
Municipal bonds	440 950	430 124	430 124
Corporate bonds	656 630	661 546	661 546
<b>Total</b>	<b>1 097 580</b>	<b>1 091 670</b>	<b>1 091 670</b>

**Debt securities (municipal bonds and corporate bonds) reclassified from financial assets available for sale to loans and advances to customers as at:**

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

31 December 2012	nominal value	fair value	carrying amount
Municipal bonds	1 163 420	1 169 843	1 172 689
Corporate bonds	897 040	904 996	901 262
<b>Total</b>	<b>2 060 460</b>	<b>2 074 839</b>	<b>2 073 951</b>

Change in fair value which would have been recognised in the income statement and/or in other comprehensive income if there was no reclassification, would amount to PLN (5 948) thousand for the period from the date of reclassification until 31 December 2013 (31 December 2012 PLN 10 850 thousand).

As at 31 December 2013, the average effective interest rate for the debt securities portfolio was 4.139% (as at 31 December 2012 was 5.758%).

Loans and advances to customers by method of calculating allowances	31.12.2013	31.12.2012 restated	01.12.2012 restated
Assessed on an individual basis, of which:	6 830 053	7 098 903	5 144 455
impaired	5 091 377	5 550 954	4 458 618
not impaired	1 738 676	1 547 949	685 837
Assessed on a portfolio basis, impaired	7 173 761	6 736 982	5 913 729
Assessed on a group basis (IBNR)	139 749 744	134 085 024	133 603 250
<b>Loans and advances to customers, gross</b>	<b>153 753 558</b>	<b>147 920 909</b>	<b>144 661 434</b>
Allowances on exposures assessed on an individual basis, of which:	(2 133 217)	(2 261 663)	(1 498 059)
impaired	(2 116 083)	(2 165 236)	(1 498 059)
Allowances on exposures assessed on a portfolio basis	(3 677 518)	(3 424 393)	(2 832 217)
Allowances on exposures assessed on a group basis (IBNR)	(570 497)	(542 573)	(652 514)
<b>Allowances - total</b>	<b>(6 381 232)</b>	<b>(6 228 629)</b>	<b>(4 982 790)</b>
<b>Loans and advances to customers, net</b>	<b>147 372 326</b>	<b>141 692 280</b>	<b>139 678 644</b>

A detailed description of changes in allowances has been presented in the Note 9 'Net impairment allowance and write-downs'.

As at 31 December 2013, the share of impaired loans amounted to 8.0% (as at 31 December 2012: 8.3%), whereas the coverage ratio for impaired loans (calculated as total impairment allowances on loans and advances to customers divided by gross carrying amount of impaired loans) amounted to 52.0% (as at 31 December 2012: 50.7%).

As at 31 December 2013, the share of loans overdue by more than 90 days in the gross amount of loans and advances was 5.4% (as at 31 December 2012: 5.6%).

As at 31 December 2013 and as at 31 December 2012 the Bank did not have transferred financial assets, which are derecognised from the statement of financial position in their entirety, and for which the Bank's would continue involvement in those assets.



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**21. Investment securities available for sale**

	31.12.2013	31.12.2012
Debt securities available for sale, gross	13 551 967	11 922 509
issued by the State Treasury	8 518 450	7 619 522
Treasury bonds PLN	8 518 450	7 619 522
issued by local government bodies, municipal bonds PLN	3 440 753	2 780 212
issued by non-financial institutions	1 000 549	1 315 490
corporate bonds PLN	1 000 549	1 315 490
issued by other financial institutions, corporate bonds PLN	33 401	156 393
issued by banks, corporate bonds PLN	558 814	50 892
Impairment allowances of debt securities available for sale	(3 296)	(5 536)
corporate bonds	(3 296)	(5 536)
<b>Total net debt securities available for sale</b>	<b>13 548 671</b>	<b>11 916 973</b>
Equity securities available for sale, gross	218 086	163 489
Equity securities not admitted to public trading	161 403	130 991
Equity securities admitted to public trading	56 683	32 498
Impairment allowances of equity securities available for sale	(30 059)	(19 056)
<b>Total net equity securities available for sale</b>	<b>188 027</b>	<b>144 433</b>
<b>Total net investment securities available for sale</b>	<b>13 736 698</b>	<b>12 061 406</b>

	31.12.2013	31.12.2012
Debt securities by nominal value		
Treasury bonds PLN	8 406 366	7 383 466
municipal bonds PLN	3 361 853	2 740 590
corporate bonds PLN	1 579 343	1 514 084
The average yield on debt securities	3.35%	3.24%

	2013	31.12.2012
Change in investment securities available for sale		
Balance at the beginning of the period	12 061 406	14 168 933
Currency translation differences	1 497	2 856
Increases	46 880 663	39 853 546
Decreases	(45 130 119)	(42 038 396)
of which change in impairment allowance (Note 9)	(8 763)	(9 090)
Change in fair value in relation to other comprehensive income (Note 6)	(76 749)	74 467
<b>Balance at the end of the period</b>	<b>13 736 698</b>	<b>12 061 406</b>

Risk related to investment securities available for sale has been described in details in Note 45 'Credit risk management'.

Investment debt securities available for sale by carrying amount - by the maturity

As at 31 December 2013	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Overdue	Total
Debt securities available for sale							
issued by the State Treasury	1 498	-	308 598	6 701 631	1 506 723	-	<b>8 518 450</b>
issued by local government bodies	-	4 523	127 574	999 750	2 308 656	250	<b>3 440 753</b>
issued by non-financial institutions	68 085	16 566	62 536	685 456	164 610	-	<b>997 253</b>
issued by other financial institutions	-	33 401	-	-	-	-	<b>33 401</b>
issued by banks	-	-	-	509 284	49 530	-	<b>558 814</b>
<b>Total</b>	<b>69 583</b>	<b>54 490</b>	<b>498 708</b>	<b>8 896 121</b>	<b>4 029 519</b>	<b>250</b>	<b>13 548 671</b>



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As at 31 December 2012	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
Debt securities available for sale						
issued by the State Treasury	-	-	104 142	5 488 942	2 026 438	7 619 522
issued by local government bodies	15 057	1 207	179 792	916 763	1 667 393	2 780 212
issued by non-financial institutions	313 758	32 310	108 514	669 685	185 687	1 309 954
issued by other financial institutions	-	156 393	-	-	-	156 393
issued by banks	-	-	-	-	50 892	50 892
<b>Total</b>	<b>328 815</b>	<b>189 910</b>	<b>392 448</b>	<b>7 075 390</b>	<b>3 930 410</b>	<b>11 916 973</b>

**Bank Deposit Guarantee Fund**

The Bank contributes to the Bank Deposit Guarantee Fund in accordance with Article 25 of the Act on the Bank Guarantee Fund (Bankowy Fundusz Gwarancyjny) dated 14 December 1994 (unified text Journal of Laws 2009, No. 84, item 711 with subsequent amendments).

	31.12.2013	31.12.2012
Value of the fund	800 545	798 974
Nominal value of the pledge	830 000	850 000
Type of the pledge	Treasury bonds	Treasury bonds
Maturity of the pledge	25.01.2015	25.01.2015
Carrying amount of the pledge	839 777	873 707

The Bank's contribution to the Bank Guarantee Fund is secured by Treasury bonds with maturities sufficient to secure their carrying amount over the period defined by the act. The Fund is increased or decreased on 1 July of each year, in proportion to the amount providing the basis for calculation of mandatory reserve deposits. Those funds are treated as assets held as collateral for own liabilities.

**22. Investments in subsidiaries, jointly controlled entities and associates and description of changes to the entities of the Group**

As at 31 December 2013, the Bank's investments in subsidiaries, jointly controlled entities and associates have been recognised at acquisition cost adjusted by impairment allowances.

**22.1. Investments in subsidiaries, jointly controlled entities and associates**

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

As at 31 December 2013	Gross value	Impairment	Carrying amount
<b>Subsidiaries</b>			
KREDOBANK SA	999 412	(745 723)	253 689
- shares	935 619	(681 930)	253 689
- other contributions increasing the acquisition cost	63 793	(63 793)	-
Qualia Development Sp. z o.o.1	317 785	-	317 785
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	205 786	-	205 786
PKO Towarzystwo Funduszy Inwestycyjnych SA	186 989	-	186 989
MERKURY - fiz az2	120 000	-	120 000
PKO Leasing SA3	90 000	-	90 000
Inteligo Financial Services SA	59 602	-	59 602
Bankowe Towarzystwo Kapitałowe SA	22 066	(10 666)	11 400
PKO BP Finat Sp. z o.o.	11 693	-	11 693
PKO Finance AB	172	-	172
<b>Jointly controlled entities</b>			
CENTRUM HAFFNERA Sp. z o.o.	44 371	(44 371)	-
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.4	197 592	-	197 592
Centrum Obsługi Biznesu Sp. z o.o.	17 498	-	17 498
<b>Associates</b>			
Bank Poczty SA	146 500	(39 780)	106 720
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	(1 500)	-
<b>Total</b>	<b>2 420 966</b>	<b>(842 040)</b>	<b>1 578 926</b>

- 1) The value of acquired shares in the increased share capital of the Company in the amount of PLN 77 474 thousand covered by contribution in kind in the form of shares of Fort Mokotów Inwestycje Sp. z o.o is presented in the position; as at 31 December 2013 the above-mentioned increase was not registered with the National Court Register. Additionally, the position includes capital contributions made by PKO Bank Polski SA which were converted to the capital, previously presented under loans and advances to customers.
- 2) PKO Bank Polski SA has investment certificates of the Fund, which, according to IFRS, allow to control the Fund.
- 3) Formerly Bankowy Fundusz Leasingowy S.A.; change in name was registered with National Court Register on 27 March 2013.
- 4) Until 30 December 2013 the Company was a direct subsidiary of PKO Bank Polski SA; the Company's shares are recognised at fair value determined at the date of loss of control.

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In 2013, based on the valuation conducted, the Bank increased impairment allowances of shares of KREDOBANK SA by PLN 172 million and increased impairment allowance of shares of CENTRUM HAFNERA Sp. z o.o. by PLN 5 936 thousand.

Due to events in the Ukrainian market in 2013, in accordance with IAS 36 'Impairment of assets', the recoverable value of shares in subsidiary KREDOBANK SA was assessed. The recoverable value was determined based on value in use, calculated on the basis of the present value of estimated future cash flows. As a result of the analysis of macroeconomic events that took place in Ukraine in 2013 (i.a. economic stagnation with an annual change of GDP of 0.0% was recorded, inflation rate amounted to 0.5%, a current account deficit amounted to 8.9% of GDP according to official data), the KREDOBANK SA's rating by Standard&Poor's on the B-/stable/C level (and downgraded in February 2014 to the CCC-/negative/C level) and due to the continuing uncertain social and economic situation of Ukraine, including increased risk of destabilisation of the Ukrainian financial market, the Bank adjusted financial plans of KREDOBANK SA, inter alia, in respect of possible execution of loan and deposit volumes.

As a result of this analysis, in 2013 impairment allowance on KREDOBANK SA was recognised.

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

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

At the same time in 2013, in accordance with IFRS 5, shares in Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. and 'Inter-Risk Ukraina' Sp. z o.o. were reclassified to assets held for sale. The Bank intends to recover the value of the above mentioned shares through a sale transaction.

The share in Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. was reclassified at fair value in the amount of PLN 48 532 thousand – the valuation difference in the amount of PLN 142 164 thousand was recognised in allowances for impairment losses.

The share in 'Inter-Risk Ukraina' Sp. z o.o. was reclassified at carrying amount.

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

1) Value does not include capital contributions of PKO Bank Polski SA for taking up shares in the increased share capital of the Company in the amount of PLN 20 000 thousand presented in the item 'Other assets'

2) Value does not include capital contribution of PKO Bank Polski SA, presented in the item 'Loans and advances to customers' in the total amount of PLN 214 209 thousand.

**Selected information on associates**

	Total assets	Total liabilities	Total revenue	Net profit	% share
<b>31.12.2013</b>					
The Bank Pocztowy SA Group	7 409 080	7 005 931	562 468	35 744	25.0001
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	20 465	4 049	257	1	33.33
<b>Total</b>	<b>7 429 545</b>	<b>7 009 980</b>	<b>562 725</b>	<b>35 745</b>	<b>X</b>
<b>31.12.2012</b>					
The Bank Pocztowy SA Group	7 132 308	6 759 184	588 787	45 386	25.0001
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	19 770	3 356	402	1 492	33.33
Agencja Inwestycyjna CORP-SA SA	3 976	1 990	12 587	1 180	22.31
<b>Total</b>	<b>7 156 054</b>	<b>6 764 530</b>	<b>601 776</b>	<b>48 058</b>	<b>X</b>

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Financial data concerning Bank Pocztowy SA, presented in the table above are derived from consolidated financial statements prepared in accordance with the IFRS/IAS. Data about other companies are derived from financial statements prepared in accordance with the Polish Accounting Standards. According to the Bank's estimates, differences between the above mentioned statements and the financial statements prepared in accordance with IFRS/IAS are not significant from the perspective of the financial statements of the Bank. Data for the year 2012 are derived from audited financial statements.

As at 31 December 2013 and as at 31 December 2012 the Bank had no share in contingent liabilities of associates acquired jointly with other investors.

## **22.2. Changes to the entities of the Group**

In 2013 the following events affecting the structure of the PKO Bank Polski SA Group took place:

### **1. Changes in PKO Leasing SA Group**

Bankowy Fundusz Leasingowy SA (a subsidiary of the Bank) changed its name to PKO Leasing SA - the change was registered with the National Court Register on 27 March 2013.

Bankowy Leasing Sp. z o.o. (a subsidiary of PKO Leasing SA) changed its name to PKO Bankowy Leasing Sp. z o.o. - the change was registered with the National Court Register on 28 March 2013.

On 19 March 2013 an increase in the share capital of PKO Leasing SA of PLN 20 000 thousand was registered with the National Court Register. As a result of the above mentioned increase, the Company's share capital amounts to PLN 90 000 thousand and consists of 9 000 000 shares, each of PLN 10 nominal value. All the shares in the increased Company's share capital were acquired by PKO Bank Polski SA for a price equal to the nominal value of the shares taken up. As a result of the above mentioned transaction PKO Bank Polski SA still remains the sole shareholder of PKO Leasing SA.

PKO Leasing Sverige AB with registered office in Stockholm was registered with the Swedish Register of Businesses on 18 September 2013. Share capital of the Company amounts to EUR 6 thousand and is divided into 600 shares at nominal value of EUR 10 each. All shares of the above mentioned Company were taken up by PKO Leasing SA. The Company's activity is provision of leasing services.

On 19 December 2013 PKO Leasing SA made an additional contribution to PKO Leasing Sverige AB in the amount of EUR 994 thousand (i.e. PLN 4 145 thousand at the average NBP exchange rate as at the date of contribution).

### **2. Acquisition of a share in the increased share capital of Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. by PKO Bank Polski SA**

An increase in the share capital of Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. of UAH 484 000 thousand, carried out by increasing the nominal value of the Company's share and acquired by PKO Bank Polski SA, was registered with the Ukrainian Register of Businesses on 11 September 2013. As a result of the above mentioned increase, share capital of the Company amounts to UAH 530 101 thousand and comprises 1 share with the above mentioned value.

### **3. Sale of the package of shares in Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.**

On 7 November 2013 PKO Bank Polski SA entered into an agreement with EVO Payments International Acquisition, GmbH with its seat in Germany (the 'Investor') a subsidiary of EVO Payments International, LLC with its seat in the United States of America ('EVO') and with EVO, relating to the purchase by the Investor from the Bank of shares in the limited liability company which will be incorporated as a result of the transformation of the joint stock Centrum Elektronicznych Usług Płatniczych eService Spółka Akcyjna into a limited liability company ('the Company').

In December 2013 the Bank received a decision of the European Commission in which the EC decided not to oppose to the exercise of the joint control over the Company by the Bank and by EVO and the Company was transformed into limited liability company.

On 31 December 2013 shares representing 66% of the share capital of the Company and giving right to 66% of the votes at the Shareholders Meeting of the Company, were transferred to the Investor.

At the same time the following agreements were executed and entered in force as of 31 December 2013:

- a shareholders' agreement governing the rules of cooperation, including decision making, by the Bank, the Investor and the Company in connection with the equity interests held by the shareholders,
- an alliance agreement setting forth the rules for business cooperation, between the Bank and the Company.

As at 31 December 2013 PKO Bank Polski SA holds shares of the above mentioned Company constituting 34% of the Company's share capital which entitles to 34% of the votes at General Shareholders' Meeting. The Company became jointly controlled entity of the PKO Bank Polski SA.

Net income from sale transaction was presented in Note 8 'Other operating income and expense'.

### **4. Capital contribution to KREDOBANK SA by providing financial donation**

On 29 November 2013 Bank has made a capital contribution to KREDOBANK SA by providing financial donation in the amount of USD 20 681 thousand (i.e. PLN 63 793 thousand according to the average NBP exchange rate as of the date of funds transfer).

Above mentioned donation increases the purchase price of the Company's shares in the statement of financial position of the PKO Bank Polski SA.

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**5. Acquisition of the investment certificates**

In October 2013 Bank acquired 12 000 000 units of investment certificates in the Mercury Fund – the non-public assets closed investment fund with the total value of PLN 120 000 thousand. The above mentioned Fund is managed by PKO TFI SA.

The principal activity of the Fund is to invest funds collected through non-public offering of investment certificates in securities, money market instruments and other property rights set out in the Memorandum of Association and the Investment Funds Act. The Fund conducts investment activity through 8 commercial companies.

As at 31 December 2013, the Fund and 8 companies of the Fund, as entities controlled by PKO Bank Polski SA are fully consolidated in the financial statements of the PKO Bank Polski SA Group.

**6. Changes to the Qualia Development Sp. z o.o. Group**

➤ **Concerning Qualia Development Sp. z o.o.**

- a) An increase in the share capital of Qualia Development Sp. z o.o. of PLN 20 348 thousand was registered with the National Court Register on 24 September 2013. Shares in the increased capital of the Company were taken up by PKO Bank Polski SA and paid for in cash.
- b) An increase in the share capital of Qualia Development Sp. z o.o. of PLN 215 460 thousand was registered with the National Court Register on 20 December 2013. Shares in the increased capital were fully paid in cash contributed by offsetting amounts due from PKO Bank Polski SA to Qualia Development Sp. z o.o. for the reimbursement of capital contribution made in the company by the Bank in the total amount of PLN 215 460 thousand.
- c) On 20 December 2013, the Extraordinary General Shareholders' Meeting of Qualia Development Sp. z o.o. passed a resolution on share capital increase of Qualia Development Sp. z o.o. of PLN 106 800 thousand by issuing new shares. Shares in the increased capital were fully covered by contribution in kind in the form of 77 474 shares of Fort Mokotów Inwestycje Sp. z o.o. owned by PKO Bank Polski SA. The above-mentioned increase requires registration with the National Court Register.

According to resolution on share capital increase from 20 December 2013, the share capital of Qualia Development Sp. z o.o. amounts to PLN 347 108 thousand and consists of 694 215 shares, each of PLN 500 nominal value.

As at 31 December 2013 PKO Bank Polski SA is the sole shareholder of the Company.

➤ **concerning Fort Mokotów Inwestycje Sp. z o.o.**

- d) On 19 April 2013 an increase in the share capital of Fort Mokotów Inwestycje Sp. z o.o. of PLN 4 194 thousand was registered with the National Court Register. As a result of the above mentioned increase, the share capital of the Company amounts to PLN 77 483 thousand and consists of 77 483 shares, each of PLN 1 thousand nominal value.

Bank acquired 4 193 shares with the total nominal value of PLN 4 193 thousand, and Qualia Development Sp. z o.o. acquired 1 share in the increased share capital.

- e) On 20 December 2013 Qualia Development Sp. z o.o. concluded an agreement with PKO Bank Polski SA, according to which all shares of Fort Mokotów Inwestycje Sp. z o.o. held by the Bank were transferred to the Qualia Development Sp. z o.o. in exchange for taking up shares in the increased share capital of Qualia Development Sp. z o.o. The transfer of shares ownership was effective on 31 December 2013.

As a result of the above-mentioned transaction, since 31 December 2013 Qualia Development Sp. z o.o. is the sole shareholder of Fort Mokotów Inwestycje Sp. z o.o. (the change was registered with the National Court Register on 3 February 2014).

➤ **concerning Qualia spółka z ograniczoną odpowiedzialnością – Zakopane Sp. k.**

- f) By the Partners' Resolution of Qualia spółka z ograniczoną odpowiedzialnością - Zakopane Sp. k. the amount of limited partner's (Qualia Development Sp. z o.o.) contribution and the limited partnership amount was increased from PLN 1 thousand to PLN 1 139 thousand (including the increase to the amount of PLN 441 thousand by the resolution of 17 January 2013 and to the amount of PLN 1 139 thousand by the resolution of 17 October 2013). The above mentioned changes were registered with the National Court Register on 13 February and on 29 November 2013.

➤ **concerning Qualia spółka z ograniczoną odpowiedzialnością – Jurata Sp. k.**

- g) On 17 January 2013 by the Partners' Resolution of Qualia spółka z ograniczoną odpowiedzialnością - Jurata Sp. k. the amount of limited partner's (Qualia Development Sp. z o.o.) contribution and the limited partnership amount was increased from PLN 1 thousand to PLN 2 551 thousand. The above mentioned changes were registered with the National Court Register on 13 February 2013.

➤ **concerning Sarnia Dolina Sp. z o.o.**

- h) On 12 April 2013 all the terms and conditions of the agreement relating to the purchase of 44% of shares in the share capital of Sarnia Dolina Sp. z o.o. by Qualia Development Sp. z o.o. from Przedsiębiorstwo Robót Inżynieryjnych 'Pol-Aqua' SA were met; thus Qualia Development Sp. z o.o. became the sole shareholder of Sarnia Dolina Sp. z o.o. The above mentioned change was registered with the National Court Register on 16 May 2013.
- i) On 16 May 2013 an increase in the share capital of Sarnia Dolina Sp. z o.o. of PLN 6 924 thousand was registered with the National Court Register. As a result of the above mentioned increase, the share capital of the Company amounts to PLN 6 974 thousand and consists of 13 948 shares, each of PLN 500 nominal value. The shares in the increased Company's share capital were acquired by Qualia Development Sp. z o.o.

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➤ **concerning Giełda Nieruchomości Wartościowych Sp. z o.o.**

- j) On 17 April 2013 Giełda Nieruchomości Wartościowych Sp. z o.o. was registered with the National Court Register. The Company's share capital amounts to PLN 5 thousand and consists of 100 shares each of PLN 50 nominal value. On the day of creation shares in the Company with a nominal value of PLN 4 950 were taken up by Qualia Development Sp. z o.o., and 1 share with a nominal value of PLN 50 was taken up by Qualia Sp. z o.o. As of 17 October 2013 the sole shareholder of the Company is Qualia Development Sp. z o.o., which bought 1 share with a price equal to the nominal value of the share.

➤ **concerning Qualia – Rezydencja Flotyła Sp. z o.o.**

- k) An increase in the share capital of Qualia – Rezydencja Flotyła Sp. z o.o. of PLN 9 026 thousand was registered with the National Court Register on 24 September 2013. As a result of the above mentioned increase, the share capital of the Company amounts to PLN 11 526 thousand and is divided into 11 526 shares at nominal value of PLN 1 thousand each.

In 2013 Qualia Development Sp. z o.o. made an additional contribution to Qualia – Residence Sp. z o.o. in the total amount of PLN 3 127 thousand and made an additional contribution to Sarnia Dolina Sp. z o.o. in the total amount of PLN 18 750 thousand.

**7. Reclassification of shares to non-current assets held for sale**

In December 2013, PKO Bank Polski SA reclassified, in accordance with IFRS 5, shares in Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. and in 'Inter-Risk Ukraina' Sp. z d.o. to item 'Non-current assets held for sale' - the Bank intends to recover the value of the above mentioned shares through a sale transaction.

**8. Events, which will result in changes in the PKO Bank Polski SA Group in the following quarters**

- a) On 12 June 2013 PKO Bank Polski SA and Nordea Bank AB (publ) signed an agreement setting out the terms of an acquisition from Nordea Bank AB (publ) and other entities from the Nordea Group of:
- shares of Nordea Bank Polska SA representing 99.21% of the share capital of the Company together with a portfolio of corporate loans to customers of Nordea Bank AB (publ),
  - shares of Nordea Polska Towarzystwo Ubezpieczeń na Życie SA representing 100% of the share capital of the Company,
  - shares of Nordea Finance Polska SA representing 100% of the share capital of the Company.

Detailed informations considering above agreement are presented in Note 22.3.

- b) On 9 October 2013 the National Court Register received a request to amend the Articles of Association of CENTRUM HAFNERA Sp. z o.o. (the entity jointly controlled by the Bank) in terms of reduction of the share capital through redemption of shares owned by the Shareholder – the City of Sopot. On 20 January 2014 the National Court Register registered the above mentioned reduction of the share capital and since 20 January 2014 CENTRUM HAFNERA Sp. z o.o. became a subsidiary of Bank

In 2013, the following events concerning jointly controlled entities and associates took place.

**9. Changes to CENTRUM HAFNERA Sp. z o.o. Group**

On 1 June 2013 the liquidation of Kamienica Morska Sp. z o.o. (a subsidiary of CENTRUM HAFNERA Sp. z o.o.) in connection with the completion of the project was commenced. On 24 January 2014 the Company was removed from the National Court Register.

On 1 December 2013 the liquidation of Centrum Majkowskiego Sp. z o.o. (a subsidiary of CENTRUM HAFNERA Sp. z o.o.) in connection with the completion of the project was commenced.

**10. The sale of shares of Kolej Gondolowa Jaworzyna Krynicka SA**

On 24 September 2013, PKO Bank Polski SA sold the entire block of shares of Kolej Gondolowa Jaworzyna Krynicka SA (an associate of the Bank) to Polskie Koleje Górskie SA. These shares were recognised as non-current assets held for sale.

**11. The sale of shares of Agencja Inwestycyjna CORP-SA SA**

On 31 October 2013 PKO Bank Polski SA sold its entire package of shares in the entity Agencja Inwestycyjna CORP-SA SA, (an associate of the Bank). The shares were recognised as non-current assets held for sale.

**22.3 Acquisition of Nordea Bank AB (publ) Group entities by PKO Bank Polski SA**

On 12 June 2013 PKO Bank Polski SA concluded an agreement with Nordea Bank AB (publ) ('Agreement'), a company registered in Sweden, which determines the terms and conditions of the acquisition from Nordea Bank AB (publ) and other Nordea Group entities:

**1. Nordea Bank Polska SA**

The subject of the transaction is the acquisition of 55 061 403 shares of the Company, with a nominal value of PLN 5 each, constituting 99.21% of the share capital of the Company, through a public tender offer for a sale of shares. The price of shares determined in the agreement is PLN 2 642 million and will be adjusted with respect to the results of Nordea Bank Polska SA.

**2. Nordea Polska Towarzystwo Ubezpieczeń na Życie SA**

The subject of the transaction is the acquisition of 1 725 329 shares of the Company, with a nominal value of PLN 111.59 each, constituting 100% of the share capital of the Company. The price determined in the Agreement is PLN 180 million and will be adjusted with respect to the financial results of Nordea Polska Towarzystwo Ubezpieczeń na Życie SA.



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### 3. Nordea Finance Polska SA

The subject of the transaction is the acquisition of 4 100 000 shares of the Company, with a nominal value of PLN 1 each, constituting 100% of the share capital of the Company. The price of shares determined in the Agreement is PLN 8 million and will not be adjusted.

The Agreement also concerns the acquisition of the portfolio of dues to corporate clients of Nordea Bank AB (publ) with a nominal value of PLN 3 604 million as at 31 December 2012.

One of the elements of the above transaction ('the Transaction') is continued financing of mortgage loan portfolios granted by Nordea Bank Polska SA ('the Mortgage Loan Portfolios') by the Nordea Group. The financing will be ensured by Nordea Bank AB (publ) granting PKO Bank Polski SA a credit facility up to: CHF 3 869.4 million, EUR 501 million and USD 4.5 million for a period not exceeding 7 years, with a three-year grace period ('the Credit Facility'). The Credit Facility agreement is to be concluded by Nordea Bank AB (publ) and PKO Bank Polski SA as at the date of closing the Transaction. The Credit Facility is to be secured by a transfer to secure the dues in respect of the Mortgage Loan Portfolio on behalf of Nordea Bank AB (publ) by Nordea Bank Polska SA. The average effective margin in the maximum financing period under the Credit Facility is 63 b.p. above the relevant reference rate. The Credit Facility does not provide for commission on granting the financing.

PKO Bank Polski SA will re-lend the funds acquired under the Credit Facility to Nordea Bank Polska SA in the form of a push-down credit facility up to the amount of: CHF 3 869.4 million, EUR 501 million and USD 4.5 million for a period not exceeding 7 years, with a three-year grace period. The push-down credit facility will not be secured. Financial terms and conditions of the above mentioned credit facility (lending margin, commission) are determined at market conditions.

Moreover, under the Transaction the Nordea Group committed to participate in the risk of impairment of the Mortgage Loan Portfolio on the terms and conditions specified in the agreement relating to dividing the credit risk which will be signed by Nordea Bank AB (publ) and PKO Bank Polski SA as at the transaction closing date ('the Risk-Sharing Agreement'). In accordance with the Risk-Sharing Agreement, Nordea Bank AB (publ) will incur 50% of excess costs of risk of the Mortgage Loan Portfolio over the annual level of risk costs determined at 40 b.p. per each year of the four years of the term of the Risk-Sharing Agreement for a period of 4 years after the closing of the Transaction.

Nordea Bank AB (publ) also commits to maintaining the subordinated loans granted to Nordea Bank Polska SA of CHF 68 million and CHF 224 million, which mature in 2019 and 2022 respectively ('the Subordinated Loans'). In accordance with the Agreement both the Subordinated Loans are to be repaid 5 years before the maturity specified in respective Subordinated Loans Agreements, on condition that appropriate regulatory consents required for each repayment are obtained.

Moreover, under the Transaction, Nordea Bank AB (publ) committed to cause that Nordea Bank Polska SA will offer to PKO Bank Polski SA, as at the date of closing the Transaction, subscription warrants authorising PKO Bank Polski SA to take up the new issue shares of Nordea Bank Polska SA ('the New Shares') at the issue price reflecting the price offered in the tender offer for Nordea Bank Polska SA shares. The objective of taking up the New Shares by PKO Bank Polski SA is to ensure the Bank's appropriate capital adequacy ratio in connection with the Transaction.

Closing of the Transaction is dependent on the closing terms and conditions specified in the Agreement (conditions precedent), which include specifically:

- obtaining the consent of the President of the Office of Competition and Consumer Protection by PKO Bank Polski SA to take control over Nordea Bank Polska SA, Nordea Polska Towarzystwo Ubezpieczeń na Życie SA and Nordea Finance Polska SA,
- obtaining the consent of the Ukrainian Antimonopoly Committee (Antymonopolnyj Komitet Ukrainy) by PKO Bank Polski SA to take control over Nordea Bank Polska SA, Nordea Polska Towarzystwo Ubezpieczeń na Życie SA and Nordea Finance Polska SA,
- the Polish Financial Supervision Authority issuing a decision on determining no grounds for vetoing the acquisition by PKO Bank Polski SA of Nordea Bank Polska SA's shares and Nordea Polska Towarzystwo Ubezpieczeń na Życie SA's shares in amounts ensuring share exceeding 50% in the share capital and total number of votes at General Shareholders' Meetings of those companies,
- providing IT services by the Nordea Group under an outsourcing agreement so as to ensure the safe operation of Nordea Bank Polska SA in the period preceding migration to IT systems of PKO Bank Polski SA,
- registering the conditional capital increase of Nordea Bank Polska SA by the relevant registration court so as to enable PKO Bank Polski SA to take up the New Shares.

PKO Bank Polski SA intends – after closing the Transaction – to repurchase shares from other minority shareholders of Nordea Bank Polska SA to acquire the remaining shares of Nordea Bank Polska SA and to undertake the necessary actions to abolish the dematerialisation of the shares and to withdraw the shares of Nordea Bank Polska SA from trading in the regulated market maintained by the Warsaw Stock Exchange, and to merge Nordea Bank Polska SA with PKO Bank Polski SA by transferring all the assets of Nordea Bank Polska SA to PKO Bank Polski SA (merger by acquisition).

As part of the work related to implementation of the agreement of the share purchase of entities: Nordea Bank Polska SA, Nordea Polska Towarzystwo Ubezpieczeń na Życie SA and Nordea Finance Polska SA:

- ✓ PKO Bank Polski SA submitted applications to the Competition and Consumer Protection Office (11 July 2013), the Polish Financial Supervision Authority (11 July 2013) and the Ukrainian Antimonopoly Committee (12 July 2013),
- ✓ on 8 August 2013, the Extraordinary General Shareholders' Meeting of Nordea Bank Polska SA passed resolution i.a.:
  - on the single issue of 20 million registered subscription warrants of A series entitling its holder to take up, on terms specified in the resolution, a total of not more than 20 million registered ordinary shares of N series of this Bank at total nominal value of PLN 100 million and a conditional increase of share capital of Nordea Bank Polska SA by an amount not higher than PLN 100 million through the issue of N series shares to grant rights to take up shares of this series for holders of subscription warrants that will be issued pursuant to this Resolution: entitled to take up subscription warrants of A series will be only the entity on whose demand to subscribe for sale of Nordea Bank Polska SA shares, shareholders of this Bank, holding not less than 99% of votes at the General Shareholders' Meeting (Resolution No. 3) will answer,
  - on the conditional appointment to the Supervisory Board of Nordea Bank Polska SA of representatives of PKO Bank Polski SA: Misters: Zbigniew Jagiełło, Jakub Papierski, Bartosz Drabikowski, Piotr Alicki, Paweł Borys and Jarosław Orlikowski, with effect

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at 12.00 AM on the last day call for subscribe for sale of shares of the above mentioned Bank, announced by PKO Bank Polski SA (Resolution No. 2),

- ✓ on 6 September 2013, PKO Bank Polski SA obtained a clearance from the Ukrainian Antimonopoly Committee (Antymonopolnyj Komitet Ukrainy) to take control over above mentioned Companies,
- ✓ on 15 October 2013, PKO Bank Polski SA obtained a clearance from the President of the Office of Competition and Consumer Protection to carry out a concentration involving the PKO Bank Polski SA's taking control over above mentioned Companies.
- ✓ On 21 November 2013, nominal value of a conditional increase of share capital of Nordea Bank Polska SA in the amount of PLN 100 million, in accordance with Resolution No. 3 of the Extraordinary General Shareholders' Meeting of the Company dated 8 August 2013 was registered with the National Court Register.

Moreover, PKO Bank Polski SA submitted twice - through the Brokerage House of PKO Bank Polski SA, to Polish Financial Supervision Authority, Warsaw Stock Exchange and Polish Press Agency, the content of the public tender offer for the sale of 55 498 700 shares in Nordea Bank Polska SA with a registered office in Gdynia, representing 100% votes at the General Shareholders' Meeting of this entity. The first Public Tender Offer was submitted on 19 June 2013, and the repeated public tender offer - on 3 December 2013.

Public Tender Offers were announced pursuant to Art. 74.1 of the Act on Public Offering in connection with the agreement relating to the acquisition by the Bank of 99.21% of the shares in Nordea Bank Polska SA from Nordea Bank AB (publ).

Information regarding the Transaction and the first and repeated announcement of a public tender offer were communicated in current reports (respectively No. 37/2013 of 12 June 2013, No. 40/2013 of 19 June 2013 and No. 84/2013 of 3 December 2013).

The Transaction is in line with the strategy of PKO Bank Polski SA for the years 2013 - 2015 and is aimed at strengthening the position of PKO Bank Polski SA as the leader of the Polish banking sector, extending the distribution channels and improving service quality. As a result of executing this Transaction, PKO Bank Polski SA will significantly improve its position in the private banking segment, enhance its competences in the corporate banking segment and ensure growth in the area of bancassurance.

**23. Non-current assets held for sale**

	2013	2012
<b>Gross value of non-current assets held for sale at the beginning of the period</b>	<b>21 636</b>	<b>21 688</b>
<b>Increases, of which:</b>	<b>312 996</b>	<b>1 512</b>
reclassification from non-current assets to non-current assets held for sale, of which:	101 135	1 512
land and buildings	101 022	1 512
reclassification from subordinated entities to non-current assets held for sale, of which:	211 861	-
share in Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	192 148	-
share in 'Inter-Risk Ukraina' Sp. z d.o.	19 713	-
<b>Decreases, of which:</b>	<b>(23 749)</b>	<b>(1 564)</b>
sales	(20 165)	(946)
reclassification from non-current assets held for sale to non-current assets	(3 584)	(618)
<b>Gross value of non-current assets held for sale at the end of the period</b>	<b>310 883</b>	<b>21 636</b>
<b>Impairment allowances at the beginning of the period</b>	<b>(1 226)</b>	<b>(1 278)</b>
<b>Increases, of which:</b>	<b>(164 963)</b>	<b>-</b>
recognised during the period	(143 798)	-
reclassification from subordinated entities to non-current assets held for sale	(21 165)	-
<b>Decreases, of which:</b>	<b>963</b>	<b>52</b>
released during the period	-	-
decreases due to write-downs of assets	963	52
<b>Impairment allowances at the end of the period</b>	<b>(165 226)</b>	<b>(1 226)</b>
<b>Net carrying amount at the beginning of the period</b>	<b>20 410</b>	<b>20 410</b>
<b>Net carrying amount at the end of the period</b>	<b>145 657</b>	<b>20 410</b>

Details on assets held for sale are described in Note 22 'Investments in subsidiaries, jointly controlled entities and associates, and a description of changes to the entities of the Group'.

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**24. Intangible assets**

For the year ended 31 December 2013	Software	Other*, including capital expenditure	Total
Gross carrying amount at the beginning of the period	2 731 205	280 821	3 012 026
Accumulated amortisation and impairment allowances at the beginning of the period	(1 312 332)	(18 574)	(1 330 906)
<b>Net carrying amount at the beginning of the period</b>	<b>1 418 873</b>	<b>262 247</b>	<b>1 681 120</b>
Purchase	-	500 019	500 019
Impairment allowances	-	-	-
Classification to assets held for sale	-	(384)	(384)
Transfers	572 318	(572 318)	-
Amortisation	(255 433)	(2 929)	(258 362)
Other changes in value	19 436	2 303	21 739
<b>Net carrying amount at the end of the period</b>	<b>1 755 194</b>	<b>188 938</b>	<b>1 944 132</b>
Gross carrying amount at the end of the period	3 320 724	210 264	3 530 988
Accumulated amortisation and impairment allowances at the end of the period	(1 565 530)	(21 326)	(1 586 856)

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

To the Bank the most significant item of intangible assets relates to expenditures on the Integrated Information System (ZSI). The cumulative capital expenditures incurred for the ZSI system during the years 2003–2013 amounted to PLN 1 265 973 thousand (during the years 2003 – 2012, they amounted to PLN 1 198 341 thousand).

Net carrying amount of the ZSI amounted to PLN 731 882 thousand as at 31 December 2013 (PLN 709 428 thousand as at 31 December 2012). The expected useful life of the ZSI system is 17 years. As at 31 December 2013, the remaining useful life is 10 years.

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

Bank does not produce any software internally. In the period from 1 January 2013 to 31 December 2013, PKO Bank Polski SA incurred capital expenditures for the purchase of fixed assets and intangible assets in the amount of PLN 804 531 thousand (in the period from 1 January 2012 to 31 December 2012: PLN 763 573 thousand).

In the years ended 31 December 2013 and 31 December 2012 respectively, there were no intangible assets to which the Bank's right to use is restricted and pledged as security for liabilities.



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## 25. Tangible fixed assets

For the year ended 31 December 2013	Land and buildings	Machinery and equipment	Means of transport	Assets under construction	Investment properties	Other	Total
Gross value of tangible fixed assets at the beginning of the period	2 488 526	1 952 522	862	251 065	793	438 422	5 132 190
Increases, of which:	6 955	1 644	-	304 512	-	545	313 656
purchase and other changes	6 955	1 644	-	304 512	-	545	313 656
Decreases, of which:	(164 800)	(270 152)	(39)	(4 708)	(590)	(18 249)	(458 538)
disposals and sales	(31 295)	(269 128)	(39)	-	(39)	(17 578)	(318 079)
classification to assets held for sale	(101 022)	(28)	-	-	(2)	(81)	(101 133)
other	(32 483)	(996)	-	(4 708)	(549)	(590)	(39 326)
Transfers from capital expenditure on fixed assets	144 488	210 496	-	(425 239)	-	70 255	-
Gross value of tangible fixed assets at the end of the period	2 475 169	1 894 510	823	125 630	203	490 973	4 987 308
Accumulated depreciation at the beginning of the period	(859 124)	(1 562 191)	(609)	-	(555)	(327 019)	(2 749 498)
Increases, of which:	(74 640)	(162 433)	(20)	-	(10)	(39 368)	(276 471)
depreciation for the period	(72 965)	(161 237)	(20)	-	(10)	(38 823)	(273 055)
other	(1 675)	(1 196)	-	-	-	(545)	(3 416)
Decreases, of which:	53 763	264 014	39	-	549	17 311	335 676
disposal and sales	17 474	263 008	39	-	-	16 967	297 488
classification to assets held for sale	-	-	-	-	-	-	-
other	36 289	1 006	-	-	549	344	38 188
Accumulated depreciation at the end of the period	(880 001)	(1 460 610)	(590)	-	(16)	(349 076)	(2 690 293)
Impairment allowances at the beginning of the period	(34)	-	-	-	-	-	(34)
Increases, of which:	(331)	(25)	-	-	-	-	(356)
classification from assets held for sale	(299)	-	-	-	-	-	(299)
recognised during the period	(32)	(25)	-	-	-	-	(57)
Decreases, of which:	331	25	-	-	-	-	356
released during the period	299	25	-	-	-	-	324
decreases due to write-downs of assets	32	-	-	-	-	-	32
Impairment allowances at the end of the period	(34)	-	-	-	-	-	(34)
Net carrying amount at the beginning of the period	1 629 368	390 331	253	251 065	238	111 403	2 382 658
Net carrying amount at the end of the period	1 595 134	433 900	233	125 630	187	141 897	2 296 981

As at 31 December 2013 the off-balance sheet value of machinery and equipment used under operating lease agreements and operating leases with purchase options contracts amounted to PLN 59 032 thousand (as at 31 December 2012: PLN 56 155 thousand). In the years ended 31 December 2013 and 31 December 2012, respectively, there were no restrictions on the Bank's right to use its tangible fixed assets as a result of pledges.

In 2013, the Bank received compensation from third parties for the impairment or loss of tangible fixed assets, recognised in the income statement in the amount of PLN 167 thousand.

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For the year ended 31 December 2012	Land and buildings	Machinery and equipment	Means of transport	Assets under construction	Investment properties	Other	Total
Gross value of tangible fixed assets at the beginning of the period	2 081 141	1 887 837	1 373	133 508	793	385 401	4 490 053
Increases, of which:	334 010	111 448	-	399 457	-	4 944	849 859
purchase and other changes	334 010	111 448	-	399 457	-	4 944	849 859
Decreases, of which:	(28 970)	(147 794)	(511)	(3 220)	-	(27 227)	(207 722)
disposals and sales	(25 612)	(147 047)	(511)	-	-	(27 070)	(200 240)
classification to fixed assets held for sale	(2 816)	-	-	-	-	(26)	(2 842)
other	(542)	(747)	-	(3 220)	-	(131)	(4 640)
Transfers from capital expenditure on fixed assets	102 345	101 031	-	(278 680)	-	75 304	-
Gross value of tangible fixed assets at the end of the period	2 488 526	1 952 522	862	251 065	793	438 422	5 132 190
Accumulated depreciation at the beginning of the period	(705 764)	(1 445 379)	(909)	-	(545)	(323 999)	(2 476 596)
Increases, of which:	(172 438)	(260 450)	(140)	-	(11)	(29 067)	(462 106)
depreciation for the period	(68 416)	(160 711)	(140)	-	(11)	(26 240)	(255 518)
other	(104 022)	(99 739)	-	-	-	(2 827)	(206 588)
Decreases, of which:	19 078	143 638	440	-	1	26 047	189 204
disposal and sales	16 426	142 922	440	-	-	25 863	185 651
classification to fixed assets held for sale	1 922	-	-	-	-	25	1 947
other	730	716	-	-	1	159	1 606
Accumulated depreciation at the end of the period	(859 124)	(1 562 191)	(609)	-	(555)	(327 019)	(2 749 498)
Impairment allowances at the beginning of the period	(143)	-	-	-	-	-	(143)
Increases, of which:	(3 223)	-	-	-	-	(34)	(3 257)
recognised during the period	(3 223)	-	-	-	-	(34)	(3 257)
Decreases, of which:	3 332	-	-	-	-	34	3 366
released during the period	-	-	-	-	-	-	-
decreases due to-downs of assets	3 332	-	-	-	-	34	3 366
Impairment allowances at the end of the period	(34)	-	-	-	-	-	(34)
Net carrying amount at the beginning of the period	1 375 234	442 458	464	133 508	248	61 402	2 013 314
Net carrying amount at the end of the period	1 629 368	390 331	253	251 065	238	111 403	2 382 658

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

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

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**26. Other assets**

	31.12.2013	31.12.2012
Settlements of payment cards transactions	225 265	426 725
Settlements of financial instruments	149 379	123 077
Trade receivables	121 486	44 736
Receivables from other transactions with financial and non-financial institutions	55 484	59 282
Accruals and prepayments	52 985	36 582
Inventory related to utilisation, auxiliary operations and investment	17 043	16 218
Receivables from unsettled transactions related to derivatives	7 358	8 451
Receivables from the State budget due to court fee stamps' distribution carried out by the Bank	6 632	8 412
Receivables and settlements of securities turnover	2 950	25 453
Unregistered capital of a subsidiary	-	20 000
Other*	34 840	34 088
<b>Total</b>	<b>673 422</b>	<b>803 024</b>
of which financial assets**	568 554	716 136

\*Item 'Other' includes mainly i.a. 'Receivables from internal operations' and 'Receivables from bails and guarantees'.

\*\* Financial assets include all items of 'Other assets', with the exception of 'Accruals and prepayments', 'Inventory related to utilisation, auxiliary operations and investment' and 'Other'.

**27. Amounts due to the central bank**

	31.12.2013	31.12.2012
Up to 1 month	4 065	3 128
<b>Total</b>	<b>4 065</b>	<b>3 128</b>

**28. Amounts due to banks**

	31.12.2013	31.12.2012
Loans and advances received	1 389 847	1 393 048
Bank deposits	959 712	1 006 347
Amounts due from repurchase agreements	38 628	-
Current accounts	115 066	71 539
Other money market deposits	26 370	31 954
<b>Total</b>	<b>2 529 623</b>	<b>2 502 888</b>

**29. Amounts due to customers**

	31.12.2013	31.12.2012
<b>Amounts due to retail clients</b>	<b>115 781 467</b>	<b>110 127 352</b>
Term deposits	62 907 642	62 895 895
Current accounts and overnight deposits	52 653 562	47 026 306
Other liabilities	220 263	205 151
<b>Amounts due to corporate entities</b>	<b>40 702 728</b>	<b>41 154 325</b>
Term deposits	13 590 035	17 381 502
Current accounts and overnight deposits	12 904 415	11 545 398
Loans and advances received, of which:	11 609 183	10 709 239
- received from PKO Finance AB	9 129 100	9 171 845
Other liabilities	951 145	666 770
Amounts due from repurchase agreements	1 647 950	851 416
<b>Amounts due to State budget entities</b>	<b>3 473 476</b>	<b>3 458 897</b>
Current accounts and overnight deposits	3 018 628	2 870 735
Term deposits	430 639	562 397
Other liabilities	24 209	25 765
<b>Total</b>	<b>159 957 671</b>	<b>154 740 574</b>

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By client segment	31.12.2013	31.12.2012
<b>Amounts due to customers, of which:</b>		
retail and private banking	110 607 650	105 799 406
corporate	21 335 738	23 967 961
loans and advances received	11 609 183	10 709 239
small and medium enterprises	9 516 333	8 766 193
housing market clients	5 240 817	4 646 359
amounts due from repurchase agreements	1 647 950	851 416
<b>Total</b>	<b>159 957 671</b>	<b>154 740 574</b>

Structure of liabilities presented in Note 29 'Amounts due to customers' involves following segmentation:

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

**Loans received from PKO Finance AB**

Date of receiving loan by Bank	Nominal amount	Currency	Maturity date	Carrying value as at 31.12.2013	Carrying value as at 31.12.2012
21.10.2010	800 000	EUR	21.10.2015	3 337 380	3 290 753
07.07.2011	250 000	CHF	07.07.2016	853 657	853 409
25.07.2012	50 000	EUR	25.07.2022	206 677	203 359
21.09.2012	500 000	CHF	21.12.2015	1 690 110	1 694 593
26.09.2012	1 000 000	USD	26.09.2022	3 041 276	3 129 731
<b>Total</b>				<b>9 129 100</b>	<b>9 171 845</b>

**30. Debt securities in issue**

	31.12.2013	31.12.2012
<b>Debt securities in issue</b>		
Financial instruments designated at fair value through profit and loss - bank securities issued by PKO Bank Polski SA	290 509	368 622
Financial instruments measured at amortised cost – bank bonds issued by PKO Bank Polski SA	692 614	497 283
<b>Total</b>	<b>983 123</b>	<b>865 905</b>

	31.12.2013	31.12.2012
<b>Debt securities in issue by maturity:</b>		
from 1 month to 3 months	76 442	497 283
from 3 months to 1 year	788 596	182 150
from 1 year to 5 years	118 085	186 472
<b>Total</b>	<b>983 123</b>	<b>865 905</b>

In 2013 the Bank issued bank securities and bank bonds at nominal value of PLN 2 144 258 thousand classified respectively as liabilities designated at fair value through profit and loss, in accordance with IAS 39.11A.a and measured at amortised cost. In 2013, bank securities and bank bonds in nominal value of PLN 2 032 020 thousand were redeemed.

Change in fair value of credit risk on bank securities issued amounted to PLN 1 479 thousand as at 31 December 2013.

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**31. Subordinated liabilities**

As at 31 December 2013

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

As at 31 December 2012

Subordinated liabilities	Nominal value	Currency	Interest rate (%)	Maturity date	Balance
Subordinated bonds	1 600 700	PLN	6.60%	14.09.2022	1 631 256

On 14 September 2012, the Bank issued subordinated bonds with ten-year maturity, with the Bank's right to a premature redemption of all debt securities from this programme, during 5 years from the issue date. A nominal value of the bonds is PLN 1 600 700 thousand. The proceeds obtained from new issue were, with the approval of the Polish Financial Supervision Authority, used for increasing the Bank's supplementary funds.

On 18 September 2012, the Polish Financial Supervision Authority gave its consent for the PKO Bank Polski SA to effect a call option concerning the premature redemption of all subordinated bonds, with a total nominal value of PLN 1 600 700 thousand, issued by the Bank on 30 October 2007 with primary maturity on 30 October 2017. On 30 October 2012, PKO Bank Polski SA performed a premature redemption of all subordinated bonds with a total nominal value of PLN 1 600 700 thousand, issued by PKO Bank Polski SA as a part of 2007 issue.

**Change in subordinated liabilities**

Change in subordinated liabilities	31.12.2013	31.12.2012
As at the beginning of the period	1 631 256	1 614 377
<b>Increases (of which):</b>	<b>83 305</b>	<b>1 713 482</b>
issue	-	1 600 700
accrued interest	83 131	112 782
other	174	-
<b>Decreases (of which):</b>	<b>(93 704)</b>	<b>(1 696 603)</b>
redemption	-	(1 600 700)
repayment of interest	(93 704)	(95 342)
other	-	(561)
<b>Subordinated liabilities as at the end of the period</b>	<b>1 620 857</b>	<b>1 631 256</b>

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**32. Other liabilities**

	31.12.2013	31.12.2012 restated	01.01.2012 restated
Accounts payable	423 175	318 690	241 918
Deferred income	321 376	285 655	283 829
<b>Other liabilities (of which):</b>	<b>1 690 170</b>	<b>1 120 710</b>	<b>1 620 858</b>
liabilities and settlements of security transactions	379 391	148 572	279 204
liabilities relating to investment activities and internal operations	376 362	197 663	182 955
interbank settlements	280 070	280 633	580 998
liabilities due to taking up shares in the increased share capital of Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. by Bank	179 370	-	-
liabilities arising from foreign currency activities	106 138	81 306	140 546
social and legal settlements	87 161	95 687	141 261
financial instruments settlements	73 868	59 547	82 861
liabilities due to suppliers	58 683	45 222	54 794
liabilities due to insurance companies	24 072	19 547	24 821
liabilities from interest rates temporarily redeemed from the State budget	18 987	26 599	21 764
liabilities arising from transactions with financial and non-financial institutions	17 609	8 686	10 102
liabilities due to distribution of court fee stamps	11 483	11 816	12 626
liabilities related to payment cards	10 396	78 248	32 972
settlement of acquisition of machines, materials, works and services regarding construction of tangible assets and their usage	10 236	19 236	10 265
other*	56 344	47 948	45 689
<b>Total</b>	<b>2 434 721</b>	<b>1 725 055</b>	<b>2 146 605</b>
<b>of which financial liabilities**</b>	<b>1 969 840</b>	<b>1 295 765</b>	<b>1 675 826</b>

\* Item 'other' includes i.a. liabilities related to bail and guarantees.

\*\* Financial liabilities include all items of 'Other liabilities' with the exception of 'Deferred income', 'Social and legal settlements' and 'Other'.

As at 31 December 2013 and as at 31 December 2012, PKO Bank Polski SA had no overdue contractual liabilities.

**33. Provisions**
**Provisions for retirement benefits and anniversary bonuses**

In May 2013 the Bank introduced changes in the Collective Labour Agreement by removing the provisions on the entitlement to anniversary bonuses and on retirement bonuses not arising from the Labour Code. A one-time policy on payment of awards and retirement bonuses providing rules for payment of certain awards and retirement bonuses to be implemented in July 2013 was launched. Funds in the amount of PLN 193 million were paid out and the provision in the amount of PLN 179 million was released under the policy on payment of awards and retirement bonuses.

At the same time, the Employee Pension Programme was launched. Entry into the register EPP kept by the PFSA was completed on 5 July 2013. According to the provisions of the Company Pension Agreement, employees got an opportunity to join the Programme from 15 July 2013. Principles of the EPP operations in PKO Bank Polski SA were specified in the Company Pension Agreement signed by the Employer with the company trade unions.

Within the EPP (for employees who joined the Programme), the Bank charges a basic fee of 3% of salary components from which social security contributions are calculated. Employees have the right to declare additional contributions that are paid to the Programme through the Employer and deducted from the salary of an Employee. EPP is managed by PKO TFI SA.

A detailed description has been presented in Note 2.15 'Employee benefits'.

**Provisions for loan commitments and guarantees granted**

More information on the provisions for off-balance sheet loan commitments granted are described in Note 45.7.2 'Off-balance sheet provisions' and in Note 2.17 'Off-balance sheet liabilities granted'.

**Other provisions**

Other provisions mainly include restructuring provision, which description of creation is presented in detail in Note 2.14 'Restructuring provision' and provisions for potential claims on impaired loans portfolios sold details on which has been presented in Note 61 'Sale of impaired loan portfolios'.

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For the year ended 31 December 2013	Provision for legal claims	Provisions for retirement benefits and anniversary bonuses	Provisions for loan commitments and guarantees granted	Other provisions*	Total
<b>As at 1 January 2013 (restated), of which:</b>	<b>18 851</b>	<b>429 728</b>	<b>215 619</b>	<b>71 494</b>	<b>735 692</b>
Short term provision	18 851	36 068	149 681	71 494	276 094
Long term provision	-	393 660	65 938	-	459 598
Increase/reassessment of provision	10 606	3 609	251 322	45 409	310 946
Use of provision	-	(193 142)	-	(12 312)	(205 454)
Release of provision	-	(179 429)	(351 410)	-	(530 839)
Other changes and reclassifications	-	(25 380)	136	25 380	136
<b>As at 31 December 2013, of which:</b>	<b>29 457</b>	<b>35 386</b>	<b>115 667</b>	<b>129 971</b>	<b>310 481</b>
Short term provision	29 457	2 441	88 817	129 971	250 686
Long term provision	-	32 945	26 850	-	59 795

\* Included in 'Other provisions' are i.a.: restructuring provision of PLN 91 842 thousand and provision of PLN 2 087 thousand for potential claims on impaired loans portfolios sold.

For the year ended 31 December 2012	Provision for legal claims	Provisions for retirement benefits and anniversary bonuses	Provisions for loan commitments and guarantees granted	Other provisions*	Total
<b>As at 1 January 2012 (restated), of which:</b>	<b>18 851</b>	<b>426 973</b>	<b>111 769</b>	<b>74 493</b>	<b>632 086</b>
Short term provision	18 851	38 069	111 769	74 493	243 182
Long term provision	-	388 904	-	-	388 904
Increase/reassessment of provision	-	51 253	255 040	25 167	331 460
Use of provision	-	-	-	(2 365)	(2 365)
Release of provision	-	(48 498)	(150 673)	(25 801)	(224 972)
Other changes and reclassifications	-	-	(517)	-	(517)
<b>As at 31 December 2012 (restated), of which:</b>	<b>18 851</b>	<b>429 728</b>	<b>215 619</b>	<b>71 494</b>	<b>735 692</b>
Short term provision	18 851	36 068	149 681	71 494	276 094
Long term provision	-	393 660	65 938	-	459 598

\* Included in 'Other provisions' are i.a.: restructuring provision of PLN 57 655 thousand and provision of PLN 5 502 thousand for potential claims on impaired loans portfolios sold.

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

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## OTHER NOTES

**34. Contingent liabilities and off-balance sheet liabilities received****34.1. Securities covered with underwriting agreements (maximum liability of the Bank to acquire securities):**

Issuer of securities underwritten	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreement	Contract period	Sub-issue type
<b>As at 31 December 2013</b>				
Company A	corporate bonds	1 633 000	15.06.2022	Bonds Issue Agreement*
Company B	corporate bonds	800 000	31.07.2015	Bonds Issue Agreement*
Company C	corporate bonds	50 000	19.12.2022	Bonds Issue Agreement*
Company D	corporate bonds	34 000	31.12.2022	Bonds Issue Agreement*
Company E	corporate bonds	24 238	29.06.2018	Bonds Issue Agreement*
Company F	corporate bonds	13 410	31.10.2017	Bonds Issue Agreement*
<b>Total</b>		<b>2 554 648</b>		
<b>As at 31 December 2012</b>				
Company A	corporate bonds	1 633 000	15.06.2017	Bonds Issue Agreement*
Company B	corporate bonds	537 000	31.07.2013	Bonds Issue Agreement*
Company G	corporate bonds	102 700	31.10.2013	Bonds Issue Agreement*
Company H	corporate bonds	89 749	31.12.2024	Bonds Issue Agreement*
Company F	corporate bonds	67 070	31.10.2017	Bonds Issue Agreement*
Company C	corporate bonds	50 000	19.12.2022	Bonds Issue Agreement*
Company D	corporate bonds	34 000	31.12.2022	Bonds Issue Agreement*
<b>Total</b>		<b>2 513 519</b>		

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

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

**34.2. Contractual commitments**

As at 31 December 2013 the value of contractual commitments concerning intangible assets amounted to PLN 346 785 thousand (as at 31 December 2012 it amounted to PLN 155 452 thousand).

As at 31 December 2013 the value of contractual commitments concerning tangible fixed assets amounted to PLN 45 722 thousand (as at 31 December 2012 it amounted to PLN 71 580 thousand).

**34.3. Loan commitments granted**

by nominal value	31.12.2013	31.12.2012
<b>Credit lines and limits</b>		
to financial entities	1 160 599	1 401 646
to non-financial entities	29 767 288	28 612 603
to State budget entities	3 269 584	2 462 680
<b>Total</b>	<b>34 197 471</b>	<b>32 476 929</b>
<b>of which: irrevocable loan commitments</b>	<b>8 157 608</b>	<b>8 397 676</b>



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**34.4. Guarantees issued**

	31.12.2013	31.12.2012
<b>Guarantees in domestic and international trade</b>	<b>7 029 700</b>	<b>7 500 447</b>
to financial entities	875 317	1 012 723
to non-financial entities	6 142 512	6 475 037
to State budget entities	11 871	12 687
<b>Guarantees and pledge granted – domestic corporates bonds</b>	<b>3 591 294</b>	<b>3 550 329</b>
to financial entities	124 646	204 120
to non-financial entities	3 466 648	3 346 209
<b>Letters of credit granted</b>	<b>494 586</b>	<b>377 643</b>
to financial entities	2 818	5 028
to non-financial entities	491 669	372 615
to State budget entities	99	-
<b>Guarantees and pledge granted – payment guarantee</b>	<b>117 420</b>	<b>881</b>
to financial entities	117 420	881
<b>Guarantees and pledge granted – domestic municipal bonds</b>	<b>83 773</b>	<b>123 256</b>
to State budget entities	83 773	123 256
<b>Total</b>	<b>11 316 773</b>	<b>11 552 556</b>

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

Information on provisions for off-balance sheet financial liabilities and guarantees is included in Note 33 'Provisions'.

**Liabilities granted by maturity**
**31 December 2013**

	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total
Loan commitments granted	20 679 642	843 027	3 626 376	3 191 009	5 857 417	34 197 471
Guarantee liabilities granted	195 179	321 019	2 347 372	7 179 190	1 274 013	11 316 773
<b>Total</b>	<b>20 874 821</b>	<b>1 164 046</b>	<b>5 973 748</b>	<b>10 370 199</b>	<b>7 131 430</b>	<b>45 514 244</b>

**31 December 2012**

	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total
Loan commitments granted	18 171 428	816 755	3 765 160	3 656 343	6 067 243	32 476 929
Guarantee liabilities granted	140 914	539 558	3 036 879	6 862 806	972 399	11 552 556
<b>Total</b>	<b>18 312 342</b>	<b>1 356 313</b>	<b>6 802 039</b>	<b>10 519 149</b>	<b>7 039 642</b>	<b>44 029 485</b>

**34.5 Off-balance sheet liabilities received**

By nominal value	31.12.2013	31.12.2012
financial	44 472	1 256 389
guarantees	2 490 472	1 707 143
<b>Total liabilities received</b>	<b>2 534 944</b>	<b>2 963 532</b>

**Right to sell or pledge collateral established for the Bank**

As at 31 December 2013 and as at 31 December 2012, there was no collateral established for the Bank which the Bank was entitled to sell or encumber with another pledge in the event of fulfillment of all obligations by the owner of the collateral.

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### 35. Legal claims

As at 31 December 2013, the total value of court proceedings in which the Bank is a defendant was PLN 308 677 thousand (as at 31 December 2012 amounted to PLN 387 046 thousand), while the total value of court proceedings in which the Bank is the plaintiff as at 31 December 2013 was PLN 266 595 thousand (as at 31 December 2012 amounted to PLN 143 051 thousand).

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

#### a) Unfair competition proceeding

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

The Bank appealed against the decision of the President of UOKiK to SOKiK. On 20 December 2011 a hearing was held during which no factual resolution of the appeals was reached. The Court obligated MasterCard to submit explanations concerning the issue and set the date for another sitting of the Court for 9 February 2012, which upon the application of the plaintiffs' attorney, was postponed for 24 April 2012, and then the Court postponed announcing the resolution on the request for suspension of the case until 8 May 2012. On 8 May 2012, SOKiK suspended proceedings until the final conclusion of proceedings before the European Union Court in the case MasterCard against the European Commission. On 24 May 2012, the European Union Court upheld the decision of the European Commission banning multilaterally agreed interchange fees applied by MasterCard. On 28 May 2012 the participant to the proceedings, Visa Europe Ltd, and on 29 May 2012 the plaintiffs' attorney, including PKO Bank Polski SA, filed a complaint against the decision of the SOKiK dated 8 May 2012. In August 2012, the European Court of Justice received the appeal of MasterCard against the verdict of the EU Court of 24 May 2012 rejecting the appeal of MasterCard. On 25 October 2012, the Court of Appeal in Warsaw changed the decision of 8 May 2012 and dismissed the motion of MasterCard for suspending the proceedings. The court's decision in this case the Bank's attorney received in January 2013 and in February 2013, court files were transferred to the court of first instance. Currently, the case is subject to re-proceeding by SOKiK. The hearing was on 29 October 2013 and on 21 November 2013 the judgement was announced, by which SOKiK reduced the penalty imposed on the Bank to the amount of PLN 10 085 thousand. The judgement is invalid. On 7 February 2014 the judgement was appealed. As at 31 December 2013 the Bank has a provision in the amount of PLN 10 359 thousand (item 'Provisions' in the statement of financial position).

As at 31 December 2013 the Bank is a party to proceedings before the Court for the Competition and Consumer Protection (SOKiK):

#### 1. appeal proceedings against the decision of the President of UOKiK:

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

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

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

Appeal proceedings are pursued on behalf of the Bank by reputable law offices. The Bank appealed against the decision of the President of UOKiK on 2 and 16 January 2013. Proceedings is in progress.

As at 31 December 2013 the Bank had a provision on the above mentioned amounts in the amount of PLN 4 000 thousand (item 'Provisions' in the statement of financial position).

##### 2) in relation with the use of practices violating collective interests of consumers in the presentation in advertising campaigns of consumer loan under the marketing name 'Max pożyczka Mini Ratka', information that might not be clear for the average consumer and mislead as to the availability of loans on promoted conditions.

On 28 December 2012, the President of UOKiK imposed a fine on the Bank in the amount of PLN 2 845 thousand, on which the Bank recognised a provision in the same amount on 30 June 2013 (item 'Provisions' in the statement of financial position).

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

By decision of 31 December 2013, the Bank's activities were considered as practices violating collective interests of consumers and a fine in the amount of PLN 17 236 thousand and PLN 11 828 thousand was imposed on the Bank. The Bank undertaken actions to appeal against this decision. Appeal proceeding is pursued on behalf of the Bank by reputable law offices. The Bank appealed against the decision of the President of UOKiK on 17 January 2014. Proceeding is in progress.

As at 31 December 2013 the Bank have a provision in the amount of PLN 10 000 thousand (item 'Provisions' in the statement of financial position).

#### 2. a proceeding initiated by the President of UOKiK to determine the provisions in the form of consumer loan agreements to be abusive.

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3. four proceedings initiated by an individual

- 1) on recognition of provisions of housing loan agreements concluded with the Bank in 2001 and in 2003 and the Rules of current account of the 1997, modified in 1998 to be abusive. The Bank responded to the lawsuit. The first hearing was held on 2 July 2013. Court judgment of 9 July 2013 dismissed the claim against the Bank in all three cases. The plaintiff filed an appeal against the above mentioned judgment. In these cases there is no risk of imposing financial penalties on the Bank.
- 2) the recognition as abusive the Tariff of fees and charges in sections providing for fees for the monitoring and collection activities in relation with customers delaying the repayment of current debt. The Bank responded to the lawsuit and retorted for another pleading of opponent's attorney. In this case there is no risk of imposing financial penalties on the Bank.

Moreover, the Bank is a party to proceedings before the President of UOKiK:

- 1) concerning practices violating collective interests of consumers, consisting the use in the Tariff of fees and charges of a provision, entered in the register of the agreements form provisions recognised as abusive.
- 2) determining whether the manner of offering mortgage loans by the Bank under the 'Autumn promotion of mortgage loans' ('Jesienna promocja kredytów hipotecznych') may constitute a practice which violates the collective interests of consumers,
- 3) preliminary proceedings concerning providing by banks the information constituting the bank secrecy.

Proceedings are in progress.

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

As at the date of these financial statements, two administrative and court-administrative proceedings are pending to invalidate decisions issued by public administration authorities with respect to properties held by the Bank which in the event of an unfavourable outcome for the Bank, may result in re-privatisation claims being raised against the Bank and one administrative proceeding for the establishment of perpetual usufruct right to a property owned by the Bank. Given the current status of these proceedings as regards stating the invalidity of decisions and verdicts of public administration bodies, it is not possible to assess their potential negative financial effects for the Bank. Moreover, with respect to four properties of the Bank, claims pertaining to release or return the property and regulation of the legal status of the property, were submitted by their former owners (court and administrative proceedings are pending).

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

Due to the liquidation of CFP, and deleting it from the register of companies and then distribution of its assets, including the transfer of the right to perpetual usufruct of said plot, a motion for participation in the proceedings was filed on 23 May 2012 on behalf of the Bank. During the hearing on 18 December 2012, the Regional Administrative Court in Warsaw granted the Bank the right to participate in the proceedings due to the fact that the rights to the property in question had been transferred to the Bank. After the hearing on 7 May 2013, the Court dismissed the complaint. The judgement may be appealed against to the Supreme Administrative Court. A copy of the judgment together with the explanation was served for the Bank on 20 June 2013. A cassation complaint was prepared and made.

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

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**36. Supplementary information to the cash flow statement**
**Cash and cash equivalents**

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

	31.12.2013	31.12.2012
Cash and balances with the central bank	7 188 406	10 229 230
Current receivables from banks	1 456 276	2 006 184
<b>Total</b>	<b>8 644 682</b>	<b>12 235 414</b>

**Cash flow from interests and dividends, both received and paid**

Interest income - received	2013	2012 restated
Interest income from loans and advances granted	6 955 625	8 755 078
Interest income from securities designated upon initial recognition at fair value through profit and loss	477 240	748 833
Interest income from placements	217 417	283 484
Interest income from investment securities	451 854	874 307
Interest income from securities from held for trading portfolio	64 590	59 633
Interest from hedging instruments	506 859	825 870
Other interest received	1 279 416	1 638 693
<b>Total</b>	<b>9 953 001</b>	<b>13 185 898</b>

Dividend income - received	2013	2012
Dividend income from subsidiaries, jointly controlled entities and associates	90 577	85 119
Dividend income from other entities	5 472	8 081
<b>Total</b>	<b>96 049</b>	<b>93 200</b>

Interest expense - paid	2013	2012
Interest expense on deposits - paid	(3 112 896)	(3 439 829)
Interest expense on loans and advances - paid	(398 186)	(185 229)
Interest expense on debt securities in issue - paid	(114 504)	(206 285)
Other interest paid (mainly interest expense on current account, premium from debt securities, interest expense on cash collateral liabilities,)	(714 798)	(1 039 666)
<b>Total</b>	<b>(4 340 384)</b>	<b>(4 871 009)</b>

Dividend expense - paid	2013	2012
Dividend paid to shareholders	(2 250 000)	(1 587 500)
<b>Total</b>	<b>(2 250 000)</b>	<b>(1 587 500)</b>

**Cash flow from operating activities - other adjustments**

Other adjustments	2013	2012 restated
Interest accrued, discount, premium on debt securities	(922 477)	1 179 449
Hedge accounting	(177 492)	(310 286)
Actuarial gains and losses	(9 477)	64 140
Valuation of debt securities in issue	29 304	103 894
Valuation and impairment allowances for investments in subsidiaries, jointly controlled entities and associates and other changes	31 681	375 436
Disposal and impairment allowances for tangible fixed assets and intangible assets	94 733	(156 241)
<b>Total</b>	<b>(953 728)</b>	<b>1 256 392</b>

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

<b>(Gains) losses on sale and disposal of tangible fixed assets and intangible assets under investing activities</b>	<b>2013</b>	<b>2012</b>
Gain on sale of an organised part of a subsidiary	(383 561)	-
Income on measurement at fair value remaining share as a result of transaction of sale of an organised part of a subsidiary	(25 450)	-
Income from sale and disposal of tangible fixed assets and intangible assets	(39 982)	(4 165)
Costs of sale and disposal of tangible fixed assets and intangible assets	16 188	8 497
<b>Total</b>	<b>(432 805)</b>	<b>4 332</b>
<b>Interests and dividends</b>	<b>2013</b>	<b>2012</b>
Interest received from investment securities, presented under investing activities	(558 685)	(874 307)
Dividends received, presented under investing activities	(95 426)	(91 062)
<b>Total</b>	<b>(654 111)</b>	<b>(965 369)</b>
<b>Change in amounts due from banks</b>	<b>2013</b>	<b>2012</b>
Change in the balance of the statement of financial position	1 367 304	(1 136 193)
Change in impairment allowances on amounts due from banks	(9 445)	2 918
Exclusion of a change in the balance of cash and cash equivalents	(549 908)	(94 202)
<b>Total</b>	<b>807 951</b>	<b>(1 227 477)</b>
<b>Change in loans and advances to customers</b>	<b>2013</b>	<b>2012 restated</b>
Change in the balance of the statement of financial position	(5 894 255)	(2 013 636)
Change in the impairment allowances on amounts due from customers	(152 603)	(1 245 839)
<b>Total</b>	<b>(6 046 858)</b>	<b>(3 259 475)</b>
<b>Change in amounts due to customers</b>	<b>2013</b>	<b>2012</b>
Change in the balance of the statement of financial position	5 217 097	4 709 893
Recognition of taking/repayment of long-term loans and advances received from financial entities other than banks in financing activities	(942 751)	(4 612 917)
<b>Total</b>	<b>4 274 346</b>	<b>96 976</b>
<b>Change in impairment allowances and provisions</b>	<b>2013</b>	<b>2012 restated</b>
Change in the balance of the statement of financial position	(425 211)	103 606
Change in impairment allowances on amounts due from banks	9 445	(2 918)
Change in impairment allowances on amount due from customers	152 603	1 245 839
Change in the balance of deferred tax provisions related to valuation of an available-for-sale portfolio included in deferred income tax	(56 214)	(58 635)
<b>Total</b>	<b>(319 377)</b>	<b>1 287 892</b>
<b>Change in other liabilities and subordinated liabilities</b>	<b>2013</b>	<b>2012 restated</b>
Change in the balance of the statement of financial position	699 267	(404 671)
Transfer of interests payments on advances received from financial entities other than banks in financing activities	398 186	185 229
Transfer of own issue and interest paid on own issue	123 748	301 706
<b>Total</b>	<b>1 221 201</b>	<b>82 264</b>

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### 37. Transactions with the State Treasury and related parties

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

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

In accordance with the 30 November 1995 Act in relation to State support in the repayment of certain housing loans, reimbursement of guarantee premium paid and amendments of several acts (Journal of Laws, 2013, No. 763) PKO Bank Polski SA receives payments from the State budget in respect of redemption interest receivable on housing loans.

	2013	2012 restated
Income due to temporary redemption by the State budget of interest on housing loans from the 'old' portfolio recognised for this period	109 478	154 417
Income due to temporary redemption by the State budget of interest on housing loans from the 'old' portfolio received in cash	64 701	108 137
Difference between income recognised for this period and income received in cash – 'Loans and advances to customers'	44 777	46 280

The Act on the coverage of repayment of certain housing loans by State Treasury (Journal of Laws, 2000, No. 122 item 1310 with subsequent amendments) guarantees was passed on 29 November 2000 and came into force on 1 January 2001. In execution of the provisions of the Act, on 3 August 2001 PKO Bank Polski SA signed an agreement with the Minister of Finance acting on behalf of the State Treasury under which the Bank was granted a pledge of repayment of debt arising from housing loans in the so-called 'old' portfolio.

On 29 December 2011, the validity period of the agreement (originally until 31 December 2011) was extended until 31 December 2017. The coverage of the so-called 'old' portfolio housing loan receivables by the guarantees of the State Treasury results in the neutralisation of the default risk on these loans.

The State Treasury guarantees are realised when a borrower fails to repay the loan on the dates specified in the loan agreement. The responsibility of the State Treasury is of an auxiliary nature and is effective if the recovery of the unpaid part of principal and interest which the Bank is obliged to commence, before the Bank lays claims to the State Treasury, becomes ineffective. The above mentioned law covers 90% of unpaid loans taken out by housing cooperatives. As a consequence of the realisation of the State Treasury's responsibilities as guarantor, the State Treasury itself enters into the rights of the satisfied creditor (the Bank) and thus becomes a creditor towards the borrower, in line with the concept of guarantee.

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

	2013	2012
Fee and commission income	4 103	4 536

As of 1 January 1996 the Bank became the general distributor of court fee stamps. The Bank receives commissions in this respect from the State Treasury.

	2013	2012
Fee and commission income	20 927	25 624

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

	2013	2012
Fee and commission income	29 022	39 295

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

The transactions were concluded at arm's length.

Entity	31.12.2013			2013		
	Total receivables	Total liabilities	Off-balance sheet liabilities granted – guarantee and financial	Interest income	Fee and commission income	Interest expenses
Entity 1	-	-	2 080 000	-	-	-
Entity 2	-	1 749	1 198 324	-	33	(623)
Entity 3	211 048	242 088	333 258	3 139	507	(1 242)
Entity 4	223 340	126 268	176 660	10 543	429	(527)
Entity 5	446 352	65	71 214	12 387	1 161	(573)
Entity 6	-	-	600 000	-	-	0
Entity 7	-	19 299	500 000	-	3	(10 651)
Entity 8	-	14 093	500 000	1	2	(247)
Entity 9	-	574	500 000	5 327	270	(5 681)
Entity 10	16 683	2 178	474 003	45	3	(171)
Entity 11	10 130	84 104	359 382	2 390	15	(1 581)
Entity 12	241 279	17 556	175 722	9 187	131	(1 055)
Entity 13	-	36 096	401 786	-	329	(408)
Entity 14	145 798	46 904	117 590	4 891	235	(126)
Entity 15	109 174	50 249	143 331	7 570	1 510	(1 445)
Other entities	346 488	536 068	511 244	17 099	4 549	(14 907)
<b>Total</b>	<b>1 750 292</b>	<b>1 177 291</b>	<b>8 142 514</b>	<b>72 579</b>	<b>9 177</b>	<b>(39 237)</b>

Entity	31.12.2012			2012		
	Total receivables	Total liabilities	Off-balance sheet liabilities granted – guarantee and financial	Interest income	Fee and commission income	Interest expenses
Entity 1	-	-	2 080 000	-	-	-
Entity 2	-	160	1 953 687	-	93	(938)
Entity 12	-	70 879	1 933 000	-	334	(7 707)
Entity 8	-	412	792 344	343	235	(24 291)
Entity 6	-	33	400 000	-	246	(3 819)
Entity 3	199 718	40 754	359 487	5 382	426	(1 584)
Entity 13	118 919	9 342	266 864	8 244	283	(131)
Entity 10	174 441	47 445	243 054	4 974	15	(7 396)
Entity 11	240 340	27 642	19 000	13 872	69	(2 479)
Entity 9	11	1 887	222 800	631	34	-
Entity 16	-	194 771	-	50	1 248	(4 031)
Entity 5	78 916	32 554	190 500	2 924	95	(2 985)
Entity 14	150 671	79 299	142 499	9 106	2 188	(2 967)
Entity 17	103 321	5 011	16 712	7 007	393	(13)
Entity 15	38 283	8 986	100 000	4 075	404	(334)
Other entities	464 658	436 083	375 437	90 468	10 062	(152 587)
<b>Total</b>	<b>1 569 278</b>	<b>955 258</b>	<b>9 095 384</b>	<b>147 076</b>	<b>16 125</b>	<b>(211 262)</b>

As at 31 December 2013 and as at 31 December 2012 respectively, no significant impairment allowances were recognised for the above mentioned receivables.

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**38. Related party transactions**

In 2013, PKO Bank Polski SA did not conclude significant transactions with related parties not on arm's length. At the same time, in 2013, PKO Bank Polski SA has made a capital contribution to KREDOBANK SA by a financial donation in the amount of USD 20 681 thousand (i.e. PLN 63 793 thousand according to the average NBP exchange rate as of the date of funds transfer). Above mentioned donation is treated as the other form of capitalisation of the Company and, in the statement of financial position of PKO Bank Polski SA, it increases the purchase price of a share of this Company.

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

**31 December 2013**

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

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



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31 December 2012

Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
<b>Direct subsidiaries</b>				
Bankowe Towarzystwo Kapitałowe SA	-	-	501	-
Bankowy Fundusz Leasingowy SA	176 577	19 547	279 165	1 446 637
Centrum Elektronicznych Usług Płatniczych 'eService' SA	2 411	-	69 842	5 000
Fort Mokotów Inwestycje Sp. z o.o.	-	-	19 793	-
Inteligo Financial Services SA	31 882	-	126 269	-
KREDOBANK SA	352 374	260 544	1 888	5 001
PKO BP BANKOWY PTE SA	8	-	47 248	-
PKO BP Finat Sp. z o.o.	-	-	2 842	593
PKO Finance AB	-	-	9 176 447	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	13 470	-	19 418	-
Qualia Development Sp. z o.o.	214 209	-	12 456	2 411
<b>Indirect subsidiaries</b>				
Bankowy Leasing Sp. z o.o.	2 008 357	1 996 581	2 802	254 186
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	155 285	155 285	-	-
Fort Mokotów Sp. z o.o. - in liquidation	-	-	4 270	-
PKO BP Faktoring SA	243 309	243 309	3 241	255 935
Qualia - Residence Sp. z o.o.	-	-	862	-
Qualia - Rezydencja Flotylla Sp. z o.o.	76 994	76 894	1 974	-
Qualia Hotel Management Sp. z o.o.	-	-	287	-
Qualia Sp. z o.o.	-	-	5	-
Qualia spółka z ograniczoną odpowiedzialnością - Jurata Spółka komandytowa	-	-	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Spółka komandytowa	60 389	60 389	7 244	1 855
Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Spółka komandytowa	83 809	83 809	11 491	-
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Spółka komandytowa	47 502	47 502	65	35 756
Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Spółka komandytowa	-	-	1	-
Qualia spółka z ograniczoną odpowiedzialnością - Sopot Spółka komandytowa	4 069	4 069	2 120	373
Qualia spółka z ograniczoną odpowiedzialnością - Władysławowo Spółka komandytowa	-	-	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Zakopane Spółka komandytowa	-	-	5	-
Sarnia Dolina Sp. z o.o.	15 149	15 149	-	-
<b>TOTAL SUBSIDIARIES</b>	<b>3 485 794</b>	<b>2 963 078</b>	<b>9 790 236</b>	<b>2 007 747</b>
<b>Entity</b>	<b>Receivables</b>	<b>of which loans</b>	<b>Liabilities</b>	<b>Off-balance sheet liabilities granted</b>
<b>Direct jointly controlled entities</b>				
CENTRUM HAFFNERA Sp. z o.o.	-	-	296	-
Centrum Obsługi Biznesu Sp. z o.o.	30 010	30 010	18 975	144
<b>Indirect jointly controlled entities</b>				
Centrum Majkowskiego Sp. z o.o.	-	-	593	-
Kamienica Morska Sp. z o.o.	-	-	11	-
Promenada Sopocka Sp. z o.o.	43 857	43 857	5 225	-
Sopot Zdrój Sp. z o.o.	212 691	212 691	1 816	-
<b>Direct associates</b>				
Agencja Inwestycyjna CORP-SA SA	61	-	-	-
Bank Pocztowy SA	-	-	91	1 409
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	19 402	-
<b>Direct associate held for sale</b>				
Kolej Gondolowa Jaworzyna Krynicka SA	4 235	4 235	343	-
<b>Indirect associate</b>				
Centrum Operacyjne Sp. z o.o.	-	-	21	-
<b>TOTAL JOINTLY-CONTROLLED AND ASSOCIATES</b>	<b>290 854</b>	<b>290 793</b>	<b>46 773</b>	<b>1 553</b>

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12 month period ended 31 December 2013

Entity	Total income	of which interest and fee and commission	Total expense	of which interest and fee and commission
<b>Direct subsidiaries</b>				
Bankowe Towarzystwo Kapitałowe SA	25	3	9	9
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	9 861	9 861	-	-
Merkury - fiz an	23	23	29	29
Inteligo Financial Services SA	4 655	22	73 318	3 628
KREDOBANK SA	4 124	4 124	-	-
PKO BP BANKOWY PTE SA	851	40	648	648
PKO BP Finat Sp. z o.o.	57	22	231	92
PKO Finance AB	-	-	359 129	359 129
PKO Leasing SA	13 804	10 784	22 719	7 477
PKO Towarzystwo Funduszy Inwestycyjnych SA	188 028	184 972	1 103	1 103
Qualia Development Sp. z o.o.	19	19	377	377
<b>Indirect subsidiaries</b>				
Fort Mokotów Sp. z o.o. - in liquidation	2	2	111	111
Fort Mokotów Inwestycje Sp. z o.o.	4	4	329	329
Gielda Nieruchomości Wartościowych Sp. z o.o.	2	2	-	-
PKO BP Faktoring SA	10 155	9 859	1	1
PKO Bankowy Leasing Sp. z o.o.	92 226	91 877	51	1
PKO Leasing Sverige AB	95	95	-	-
Qualia - Residence Sp. z o.o.	12	12	8	8
Qualia - Rezydencja Flotylla Sp. z o.o.	5 458	5 458	29	29
Qualia Hotel Management Sp. z o.o.	19	19	19	19
Qualia Sp. z o.o.	3	3	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Jurata Spółka komandytowa	3	3	52	52
Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Spółka komandytowa	2 682	2 682	114	114
Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Spółka komandytowa	3 977	3 977	195	195
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Spółka komandytowa	4 336	4 336	47	47
Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Spółka komandytowa	3	3	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Sopot Spółka komandytowa	507	507	42	42
Qualia spółka z ograniczoną odpowiedzialnością - Władysławowo Spółka komandytowa	3	3	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Zakopane Spółka komandytowa	3	3	5	5
Sarnia Dolina Sp. z o.o.	500	500	-	-
<b>TOTAL SUBSIDIARIES</b>	<b>341 437</b>	<b>329 215</b>	<b>458 566</b>	<b>373 445</b>
<b>Direct jointly controlled entities</b>				
Centrum Elektronicznych Usług Płatniczych eService SA	33 535	32 798	112 864	105 379
CENTRUM HAFFNERA Sp. z o.o.	7	7	-	-
Centrum Obsługi Biznesu Sp. z o.o.	905	905	352	352
<b>Indirect jointly controlled entities</b>				
Centrum Majkowskiego Sp. z o.o. in liquidation	6	6	-	-
Kamienica Morska Sp. z o.o. in liquidation	6	6	-	-
Promenada Sopocka Sp. z o.o.	1 000	1 000	32	32
Sopot Zdrój Sp. z o.o.	4 847	4 847	84	84
<b>Direct associates</b>				
Bank Pocztowy SA	63	56	1 835	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	2	2	724	724
<b>Indirect associate</b>				
Centrum Operacyjne Sp. z o.o.	3	3	-	-
<b>TOTAL JOINTLY-CONTROLLED AND ASSOCIATES</b>	<b>40 374</b>	<b>39 630</b>	<b>115 891</b>	<b>106 571</b>

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12 month period ended 31 December 2012

Entity	Total income	of which interest and fee and commission	Total expense	of which interest and fee and commission
<b>Direct subsidiaries</b>				
Bankowe Towarzystwo Kapitałowe SA	23	3	11	11
Bankowy Fundusz Leasingowy SA	9 623	6 986	16 041	297
Centrum Elektronicznych Usług Płatniczych 'eService' SA	18 984	18 984	73 724	73 710
Fort Mokotów Inwestycje Sp. z o.o.	4	4	336	336
Inteligo Financial Services SA	2 502	21	54 212	6 199
KREDOBANK SA	5 923	5 923	855	-
PKO BP BANKOWY PTE SA	633	14	725	725
PKO BP Finat Sp. z o.o.	38	20	266	135
PKO Finance AB	-	-	210 978	209 498
PKO Towarzystwo Funduszy Inwestycyjnych SA	150 749	148 991	1 188	1 188
Qualia Development Sp. z o.o.	34	18	801	794
<b>Indirect subsidiaries</b>				
Bankowy Leasing Sp. z o.o.	111 012	110 921	6 874	12
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	10 318	10 318	35 980	-
Fort Mokotów Sp. z o.o. in liquidation	3	3	192	192
PKO BP Faktoring SA	15 931	15 686	1 306	9
Qualia - Residence Sp. z o.o.	35	35	708	15
Qualia - Rezydencja Flotylla Sp. z o.o.	5 100	5 100	276	13
Qualia Hotel Management Sp. z o.o.	7	7	7	7
Qualia Sp. z o.o.	3	3	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Jurata Spółka komandytowa	2	2	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Spółka komandytowa	5 334	5 334	257	257
Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Spółka komandytowa	7 478	324	299	299
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Spółka komandytowa	2 649	2 649	807	-
Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Spółka komandytowa	3	3	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Sopot Spółka komandytowa	145	145	26	13
Qualia spółka z ograniczoną odpowiedzialnością - Władysławowo Spółka komandytowa	2	2	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Zakopane Spółka komandytowa	2	2	-	-
Sarnia Dolina Sp. z o.o.	1 012	1 012	1 982	-
<b>TOTAL SUBSIDIARIES</b>	<b>347 549</b>	<b>332 510</b>	<b>407 851</b>	<b>293 710</b>

Entity	Total income	of which interest and fee and commission	Total expense	of which interest and fee and commission
<b>Direct jointly controlled entities</b>				
CENTRUM HAFNERA Sp. z o.o.	7	7	-	-
Centrum Obsługi Biznesu Sp. z o.o.	1 015	1 015	626	569
<b>Indirect jointly controlled entities</b>				
Centrum Majkowskiego Sp. z o.o.	6	6	-	-
Kamienica Morska Sp. z o.o.	6	6	-	-
Promenada Sopocka Sp. z o.o.	1 205	1 205	721	152
Sopot Zdrój Sp. z o.o.	5 911	5 911	2 785	3
<b>Direct associates</b>				
Agencja Inwestycyjna CORP-SA SA	690	-	86	-
Bank Pocztowy SA	93	78	1 160	285
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	2	2	299	299
<b>Direct associate held for sale</b>				
Kolej Gondolowa Jaworzyna Krynicka SA	291	291	50	43
<b>Indirect associate</b>				
Centrum Operacyjne Sp. z o.o.	3	3	-	-
<b>TOTAL JOINTLY-CONTROLLED AND ASSOCIATES</b>	<b>9 229</b>	<b>8 524</b>	<b>5 727</b>	<b>1 351</b>

### 39. Personal related party transactions

As at 31 December 2013 two entities were related to the Bank through the key management personnel of PKO Bank Polski SA or the close family members of the key management personnel (as at 31 December 2012 – three entities).

In 2013 and 2012, no intercompany transactions were concluded with these entities in the Bank.

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#### 40. Remuneration – PKO Bank Polski SA key management

a) short-term employee benefits

##### Remuneration received from PKO Bank Polski SA

Name	Title	2013	2012
<b>The Management Board of the Bank</b>			
Zbigniew Jagiełło	President of the Management Board	2 119	2 465
Piotr Alicki	Vice-President of the Management Board	1 608	1 675
Bartosz Drabikowski	Vice-President of the Management Board	1 777	1 904
Piotr Mazur	Vice-President of the Management Board	1 351	-
Jarosław Myjak	Vice-President of the Management Board	1 553	1 708
Jacek Obłəkowski	Vice-President of the Management Board	1 577	1 425
Jakub Papierski	Vice-President of the Management Board	1 594	1 639
<b>Remuneration of the Management Board Members who ceased their functions in 2013 or 2012</b>			
Andrzej Kołatkowski	Vice-President of the Management Board	-	876
<b>Total short-term employee benefits of the Bank's Management Board</b>		<b>11 579</b>	<b>11 692</b>
<b>The Supervisory Board of the Bank</b>			
Cezary Banasiński	Chairman of the Supervisory Board	192	192
Tomasz Zganiacz	Deputy-Chairman of the Supervisory Board	168	168
Mirosław Czekaj	Secretary of the Supervisory Board	144	144
Jan Bossak	Member of the Supervisory Board	67	120
Zofia Dzik	Member of the Supervisory Board	120	59
Krzysztof Kilian	Member of the Supervisory Board	117	120
Piotr Marczak	Member of the Supervisory Board	120	120
Ewa Miklaszewska	Member of the Supervisory Board	-	62
Marek Mroczkowski	Member of the Supervisory Board	120	120
Ryszard Wierzbą	Member of the Supervisory Board	120	120
Elżbieta Mączyńska - Ziemacka	Member of the Supervisory Board	54	-
<b>Total short-term employee benefits of the Supervisory Board</b>		<b>1 221</b>	<b>1 225</b>
<b>Total</b>		<b>12 800</b>	<b>12 917</b>

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

Name	Title	2013	2012
<b>The Management Board of the Bank *</b>			
Jakub Papierski	Vice-President of the Management Board	40	39
<b>Total short-term employee benefits</b>		<b>40</b>	<b>39</b>

\* Includes remuneration from associates

Short-term employee benefits are employee benefits, which are settled in full within 12 months from the end of the annual reporting period, in which the employees performed work related to them. As described in Note 41 'The principles for determining the variable salary components policy for key management personnel at the Bank', starting from 2012, the variable salary component for key management personnel at the Bank, including the Management Board, is granted as:

- not deferred (in the first year after the calendar year constituting the assessment period)
- deferred (for the next three years after the first year of the assessment period).

Accordingly, the remuneration for 2013 includes the part of the variable salary component, which was paid out in July 2013.

b) post-employment benefits (in terms of the variable salary component)

In the year ended 31 December 2013 and 31 December 2012 no other long-term benefits were paid. Remuneration presented below include deferred salary component paid in cash in accordance with the principles described in Note 41.

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**Salary (in cash ) potentially payable from PKO Bank Polski SA to Management Board**

Name	Title	2013	2012
<b>potentially payable</b>			
Zbigniew Jagiełło	President of the Management Board	229	-
Piotr Alicki	Vice-President of the Management Board	167	-
Bartosz Drabikowski	Vice-President of the Management Board	185	-
Piotr Mazur	Vice-President of the Management Board	-	-
Jarosław Myjak	Vice-President of the Management Board	157	-
Jacek Obłękowski	Vice-President of the Management Board	152	-
Jakub Papierski	Vice-President of the Management Board	163	-
<b>Total other long-term benefits for Management Board</b>		<b>1 053</b>	<b>-</b>

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

In the year ended 31 December 2013 and 31 December 2012 respectively, no share-based payments which are settled in cash were paid.

Name	Title	2013	2012
<b>Payable</b>			
Zbigniew Jagiełło	President of the Management Board	339	-
Piotr Alicki	Vice-President of the Management Board	266	-
Bartosz Drabikowski	Vice-President of the Management Board	293	-
Piotr Mazur	Vice-President of the Management Board	-	-
Jarosław Myjak	Vice-President of the Management Board	242	-
Jacek Obłękowski	Vice-President of the Management Board	241	-
Jakub Papierski	Vice-President of the Management Board	258	-
<b>Total share-based payments settled in cash to Management Board</b>		<b>1 639</b>	<b>-</b>

<b>potentially payable</b>			
Zbigniew Jagiełło	President of the Management Board	229	-
Piotr Alicki	Vice-President of the Management Board	167	-
Bartosz Drabikowski	Vice-President of the Management Board	185	-
Piotr Mazur	Vice-President of the Management Board	-	-
Jarosław Myjak	Vice-President of the Management Board	157	-
Jacek Obłękowski	Vice-President of the Management Board	152	-
Jakub Papierski	Vice-President of the Management Board	163	-
<b>Total share-based payments settled in cash to Management Board</b>		<b>1 052</b>	<b>-</b>

Above mentioned remuneration include deferred salary component granted in the form of the financial instrument, i.e. the phantom shares (in which conversion into cash is carried out after an additional period of retention) in accordance with the rules described in Note 41. Payment of phantom shares (due part) was made in January 2014.

d) post-employment benefits

In the year ended 31 December 2013 and 31 December 2012 no post-employment benefits were paid.

e) benefits due to termination of employment

In the year ended 31 December 2013 no benefits due to termination of employment were paid, and in the year ended 31 December 2012 respectively benefits paid due to termination of employment amounted to PLN 1 760 thousand.

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

	31.12.2013	31.12.2012
The Management Board	74	149
The Supervisory Board of the Bank	2 241	2 314
<b>Total</b>	<b>2 315</b>	<b>2 463</b>

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

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#### **41. The principles for determining the variable salary components policy for key management personnel at the Bank**

In order to fulfill the requirements of the Resolution No 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 on detailed principles for functioning of risk management system and internal control system and detailed terms of estimating internal capital by banks and reviewing the process of estimating and maintaining internal capital, and the principles for determining the variable salary components policy for key management personnel at the Bank, the Bank implemented by resolutions of:

- the Supervisory Board of the Bank: 'The variable salary components policy for key management personnel at the Bank' (constituting the basis of further regulation issue) and 'The variable salary components policy for the Management Board members',
- the Management Board of the Bank: 'The variable salary components policy for key management personnel',
- Supervisory Boards of selected subsidiaries of the PKO Bank Polski Group (PKO Leasing SA, PKO TFI SA and PKO BANKOWY PTE SA): 'The variable salary components policy for the Management Board members'.

Cited Principles and Regulations issued on their basis, describe the procedure of granting variable salary components associated with the results and effects of work to the above mentioned persons. In accordance with the requirements of the cited resolution of the PFSA and in proportion specified in it, the variable salary components are granted in the form of:

- not deferred (in the first year after the calendar year constituting a period of assessment),
- deferred (for the next three years after the first year of the assessment period),

and both the not deferred and deferred salary, is awarded in equal parts in cash and in the form of a financial instrument, i.e. the phantom shares (in which conversion into cash is carried out after an additional period of retention).

Component of salary in the form of a financial instrument is converted into phantom shares after granting a particular component - including the median of the daily average prices of the Bank's shares (Volume Weighted Average Price) on the Warsaw Stock Exchange, published in the Thomson Reuters or Bloomberg information system - from the fourth quarter of the assessment period. Next, after a period of retention and deferral period, shares are converted into cash - including the median of the daily average prices of the Bank's shares (Volume Weighted Average Price) on the Warsaw Stock Exchange from the period of a third quarter preceding the payment (the Management Board) and a third quarter of a calendar year, in which the payment is made (other persons on managerial positions), published in the Thomson Reuters or Bloomberg information system.

The deferral salary may be reduced in the event of deterioration in the financial performance of the Bank or a Group Entity respectively, the loss of the Bank / Company or deterioration of other variables related to the effects of work during the evaluation of key management personnel and results of the performance of organisational units/cells supervised or managed by these persons, which revealed after a period of evaluation.

As at 31 December 2013 a provision for variable salary components for 2012 and 2013 amounted to PLN 25 million, including PLN 16 million for persons holding managerial positions except the Bank's Management Board, and PLN 9 million for the Bank's Management Board. As at 31 December 2012 a provision for a variable salary components in 2012 amounted to PLN 15.7 million, of which PLN 4.1 million for the Bank's Management Board.

According to current regulations, in 2013, not deferred component was paid out - cash for persons holding managerial positions except for the Bank's Management Board in the amount of PLN 3 million, and for the Bank's Management Board in the amount of PLN 1.6 million.

Payment of phantom shares, in accordance with law provisions, based on the share price in the third quarter of 2013 in the amount of PLN 36.93, was made in November 2013 for persons holding managerial positions except for the Bank's Management Board in the amount of PLN 3.3 million, and in January 2014 for the Bank's Management Board (PLN 1.6 million).

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**42. Fair value of financial assets and financial liabilities**
**42.1. Categories of valuation at fair value of financial assets and liabilities measured at fair value in the statement of financial position**

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

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

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

Assets and liabilities measured at fair value as at 31.12.2013	Note	Carrying amount	Level 1	Level 2	Level 3
			Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
<b>Trading assets</b>	<b>16</b>	<b>484 485</b>	<b>479 943</b>	<b>4 542</b>	-
Debt securities		472 535	467 993	4 542	-
Shares in other entities		10 799	10 799	-	-
Investment certificates		1 151	1 151	-	-
<b>Derivative financial instruments</b>	<b>17</b>	<b>3 002 220</b>	<b>1 015</b>	<b>3 001 205</b>	-
Hedging instruments		361 639		361 639	-
Trade instruments		2 640 581	1 015	2 639 566	-
<b>Financial instruments measured upon initial recognition at fair value through profit and loss</b>	<b>19</b>	<b>15 179 188</b>	<b>931 325</b>	<b>14 247 863</b>	-
Debt securities		15 179 188	931 325	14 247 863	-
<b>Investment securities available for sale</b>	<b>21</b>	<b>13 730 976</b>	<b>8 563 440</b>	<b>5 030 221</b>	<b>137 315</b>
Debt securities		13 548 671	8 518 450	5 030 221	-
Equity securities*		182 305	44 990	-	137 315
<b>Financial assets measured at fair value - total</b>		<b>32 396 869</b>	<b>9 975 723</b>	<b>22 283 831</b>	<b>137 315</b>
<b>Derivative financial instruments</b>	<b>17</b>	<b>3 328 149</b>	<b>912</b>	<b>3 327 237</b>	-
Hedging instruments		414 804		414 804	
Trade instruments		2 913 345	912	2 912 433	
<b>Debt securities in issue</b>	<b>30</b>	<b>290 509</b>	-	<b>290 509</b>	-
Financial instruments designated at fair value through profit and loss		290 509		290 509	-
<b>Financial liabilities measured at fair value - total</b>		<b>3 618 658</b>	<b>912</b>	<b>3 617 746</b>	-

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

Trading assets as at 31.12.2013 (Note 16)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	472 535	467 993	4 542	-
Treasury bonds	390 660	390 660	-	-
Treasury bonds in EUR	4 542	-	4 542	-
municipal bonds	41 907	41 907	-	-
corporate bonds	24 026	24 026	-	-
bonds issued by WSE	6 628	6 628	-	-
bonds issued by PKO Finance AB in EUR	4 604	4 604	-	-
bonds issued by banks, of which BGK bonds	168	168	-	-
Shares in other entities	10 799	10 799	-	-
Investment certificates	1 151	1 151	-	-
<b>TOTAL</b>	<b>484 485</b>	<b>479 943</b>	<b>4 542</b>	-

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Financial instruments measured upon initial recognition at fair value through profit and loss as at 31.12.2013 (Note 19)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	15 179 188	931 325	14 247 863	-
NBP money market bills	13 997 228	-	13 997 228	-
Treasury bonds PLN	931 325	931 325	-	-
Treasury bills	-	-	-	-
municipal bonds EUR	136 700	-	136 700	-
municipal bonds PLN	113 935	-	113 935	-
<b>TOTAL</b>	<b>15 179 188</b>	<b>931 325</b>	<b>14 247 863</b>	<b>-</b>

Investment securities available for sale as at 31.12.2013 (Note 21)	Carrying amount	Level 1	Level 2	Level 3
Debt securities available for sale	13 548 671	8 518 450	5 030 221	-
Treasury bonds PLN	8 518 450	8 518 450	-	-
municipal bonds	3 440 753	-	3 440 753	-
corporate bonds	1 589 468	-	1 589 468	-
Equity securities	182 305	44 990	-	137 315
<b>TOTAL</b>	<b>13 730 976</b>	<b>8 563 440</b>	<b>5 030 221</b>	<b>137 315</b>

The table below presents a classification of financial assets and liabilities presented in the financial statements at fair value divided into 3 levels as at 31 December 2012.

Assets and liabilities measured at fair value as at 31.12.2012	Note	Carrying amount	Level 1	Level 2	Level 3
			Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
<b>Trading assets</b>	<b>16</b>	<b>282 230</b>	<b>282 230</b>	<b>-</b>	<b>-</b>
Debt securities		278 240	278 240	-	-
Shares in other entities		3 237	3 237	-	-
Investments certificates		713	713	-	-
Rights issues		40	40	-	-
<b>Derivative financial instruments</b>	<b>17</b>	<b>3 861 456</b>	<b>1 486</b>	<b>3 859 970</b>	<b>-</b>
Hedging instruments		498 130	-	498 130	-
Trade instruments		3 363 326	1 486	3 361 840	-
<b>Financial instruments measured upon initial recognition at fair value through profit and loss</b>	<b>19</b>	<b>12 614 917</b>	<b>1 322 226</b>	<b>11 292 691</b>	<b>-</b>
Debt securities		12 614 917	1 322 226	11 292 691	-
<b>Investment securities available for sale</b>	<b>21</b>	<b>12 054 239</b>	<b>7 668 556</b>	<b>4 297 451</b>	<b>88 232</b>
Debt securities		11 916 973	7 619 522	4 297 451	-
Equity securities		137 266	49 034	-	88 232
<b>Financial assets measured at fair value - total</b>		<b>28 812 842</b>	<b>9 274 498</b>	<b>19 450 112</b>	<b>88 232</b>
<b>Derivative financial instruments</b>	<b>17</b>	<b>3 964 170</b>	<b>696</b>	<b>3 963 474</b>	<b>-</b>
Hedging instruments		224 373	-	224 373	-
Trade instruments		3 739 797	696	3 739 101	-
<b>Debt securities in issue</b>	<b>30</b>	<b>368 622</b>	<b>-</b>	<b>368 622</b>	<b>-</b>
Financial instruments designated at fair value through profit and loss		368 622	-	368 622	-
<b>Financial liabilities designated at fair value - total</b>		<b>4 332 792</b>	<b>696</b>	<b>4 332 096</b>	<b>-</b>



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Trading assets as at 31.12.2012 (Note 16)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	278 240	278 240	-	-
Treasury bonds	216 521	216 521	-	-
municipal bonds	26 673	26 673	-	-
corporate bonds	15 141	15 141	-	-
bonds issued by WSE	13 880	13 880	-	-
bonds issued by PKO Finance AB in EUR	4 664	4 664	-	-
BGK bonds	1 361	1 361	-	-
Shares in other entities	3 237	3 237	-	-
Investments certificates	713	713	-	-
Rights issues	40	40	-	-
<b>TOTAL</b>	<b>282 230</b>	<b>282 230</b>	<b>-</b>	<b>-</b>

Financial instruments designated upon initial recognition at fair value through profit and loss as at 31.12.2012 (Note 19)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	12 614 917	1 322 226	11 292 691	-
NBP money market bills	9 995 300	-	9 995 300	-
Treasury bonds PLN	1 322 226	1 322 226	-	-
Treasury bills	1 040 863	-	1 040 863	-
municipal bonds EUR	145 343	-	145 343	-
municipal bonds PLN	111 185	-	111 185	-
<b>TOTAL</b>	<b>12 614 917</b>	<b>1 322 226</b>	<b>11 292 691</b>	<b>-</b>

Investment securities available for sale as at 31.12.2012 (Note 21)	Carrying amount	Level 1	Level 2	Level 3
Debt securities available for sale	11 916 973	7 619 522	4 297 451	-
Treasury bonds PLN	7 619 522	7 619 522	-	-
municipal bonds	2 780 212	-	2 780 212	-
corporate bonds	1 517 239	-	1 517 239	-
Equity securities	137 266	49 034	-	88 232
<b>TOTAL</b>	<b>12 054 239</b>	<b>7 668 556</b>	<b>4 297 451</b>	<b>88 232</b>

Depending on category of classification of financial assets and liabilities to hierarchy, different methods of fair value valuation are used:

**Level 1: Prices quoted on the active markets:**

Financial assets and liabilities whose fair value is stated directly at prices quoted (not adjusted) from active markets for identical assets and liabilities. The Bank classifies to this category financial and equity instruments measured at fair value through profit and loss and available for sale, for which there is an active market and for which the fair value is determined based on market value (bid price):

- debt securities valued at fixing from Bondspot platform,
- debt and equity securities which are traded on regulated market, including in the Brokerage House of PKO Bank Polski SA portfolio,
- derivative instruments.

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**Level 2: Valuation techniques based on observable market data**

Financial assets and liabilities whose fair value is determined with use of valuation models where all significant entry data are observable on the market directly (as prices) or indirectly (based on prices). The Bank classifies to that category financial instruments for which there is no active market:

Financial assets and liabilities measured at fair value	Valuation methods (techniques)	Observable inputs
<b>Trading assets</b> - Treasury bonds in EUR	Market price of Polish Treasury securities in foreign currency is obtained from information services, in which quotations of such securities are included (Bloomberg or brokerage websites in the Reuters system). This is not a regulated market.	The market price of securities obtained from information services.
<b>Derivative financial instruments - hedging instruments</b>	Valuation of derivatives: CIRS, IRS is made in accordance with the discounted future cash flows model. Discounting is based on the yield curves.	Yield curves are built based on market rates, market data of the money market, market transactions of FRA, IRS, basis swap.
<b>Derivative financial instruments - Trade instruments</b>	Valuation of derivatives: CIRS IRS and FRA is made in accordance with the discounted future cash flows model. Discounting is based on the yield curves. Valuation of currency options is made in accordance with specified valuation models for a given type of a currency option. The prices of exotic options embedded in structured products are obtained from the market (they are market prices).	Yield curves are built based on market rates, market data of the money market, market transactions of FRA, IRS, basis swap. Inputs to currency options valuation models are: yield curves built based on money market rates, market rate of swap points, volatility levels for specific currency pairs, NBP fixing exchange rates. For the purpose of valuation of exotic options embedded in structured products, market prices of these options are obtained.
<b>Financial assets designated upon initial recognition at fair value through profit and loss</b>		
- NBP money market bills	Yield curve valuation method.	Yield curve for money market bills is built based on market prices, money market data and OIS (overnight index swap) transactions market.
- municipal bonds EUR	Valuation in accordance with an accepted valuation model.	Inputs to a valuation model are: market rates, market data: money market, IRS transactions market, CDS (credit-default swap) transactions market, volatility of interest rate options market.
- municipal bonds PLN	Valuation in accordance with a yield curve and a risk margin.	Yield curve is built based on market rates, money market data, IRS transactions market.
<b>Investment securities available for sale</b>		
- municipal bonds	Valuation in accordance with a yield curve and a risk margin.	Yield curve is built based on market rates, money market data, IRS transactions market.
- corporate bonds	Valuation in accordance with a yield curve and a risk margin.	Yield curve is built based on market rates, money market data, IRS transactions market.
<b>Debt securities in issue</b> - Financial instruments measured at fair value through profit and loss	Bank securities valuation is made in accordance with a yield curve and the prices of exotic options embedded in these securities.	Yield curve is built based on market rates, money market data, IRS transactions market. For the purpose of valuation of exotic options embedded in structured products, market prices of these options are obtained.

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**Level 3: Other valuation techniques**

Financial assets and liabilities, whose fair value is determined with use of valuation models, for which available entry data are not derived from observable markets (unobservable entry data).

The Bank classified to that category shares not listed on WSE, which are valued with internal valuation models. The fair value of these securities (the Fund) is determined based on the net asset value of the fund, i.e. the fair value of investment projects (of the companies) in the fund, which are subject to semi-annual examination by the registered auditor. If the bank used the values of the unobservable parameters, that are extreme values from the range of possible values, the fair value of the equity financial instruments could be PLN 6 866 thousand higher or PLN 6 866 thousand less as at 31 December 2013.

The influence of parameters estimated on measurement of financial instruments at fair value, for which the Bank uses fair value measurement on Level 3 as at 31 December 2013 is as follows:

Financial instrument	Valuation technique	Unobservable factor	Impact on fair value	
			Positive scenario	Negative scenario
Investment securities available for sale				
Equity securities	Net Asset Value (NAV) method	price for a participation unit	7	(7)

The Bank does not disclose in the fair value hierarchy shares in companies, which are measured at acquisition price less impairment allowances, previously presented in Level 3. Comparable data were appropriately restated.

In the fourth quarter of 2013, a single measurement of Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. at fair value of PLN 48 532 thousand and a reclassification of a share in the above mentioned company to non-current assets held for sale were made.

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

In the period from 1 January to 31 December 2013, there were no transfers between levels in the fair value hierarchy used in measuring financial instruments at fair value.

The tables below present a reconciliation during the periods of measurement: accordingly from 1 January to 31 December 2013 and 2012 fair value in level 3 of fair value hierarchy:

	Investment securities available for sale	Investment securities available for sale
<b>Opening balance</b>	<b>88 232</b>	<b>29 050</b>
Total gains or losses	4 455	(20 883)
recognised in the income statement	4 455	(6 856)
recognised in other comprehensive income	-	(14 027)
Purchase	44 628	80 065
<b>Closing balance</b>	<b>137 315</b>	<b>88 232</b>
<b>Total gains or losses for the period presented in the financial result for assets held at the end of the reporting period</b>	<b>-</b>	<b>(6 856)</b>

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

The Bank holds certain financial instruments which are not presented at fair value in the statement of financial position.

Where there is no market value of financial instruments available, their fair values have been estimated with use of various valuation techniques. The fair value of financial instruments was measured using a model based on estimating the present value of future cash flows by discounting them using relevant interest rates.

All model calculations include certain simplifying assumptions and therefore are sensitive to those assumptions. Set out below is a summary of the main methods and assumptions used for estimation of fair values of financial instruments which are not presented at fair value.

For certain categories of financial instruments it has been assumed that their carrying amount equals approximately their fair values, which is due to lack of expected material differences between their carrying amount and their fair value resulting from the features of these groups (such as short term character, high correlation with market parameters, unique character of the instrument). This applies to the following groups of financial instruments:

- loans and advances granted by the Bank to its customers: a portion of the housing loans portfolio (the so called 'old' housing loans portfolio), loans with no specified repayment schedule, which are due at the moment of valuation,
- amounts due to customers: liabilities with no specified payment schedule, other specific products for which no active market exists,
- deposits and interbank placements with maturity date up to 7 days or with a variable interest rate,
- loans or advances granted and taken on interbank market at a variable interest rate (change of interest rate maximum on a 3 month basis),
- cash and balances with the central bank and amounts due to the central bank,
- other financial assets and liabilities.

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

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

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

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

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

	level of fair value hierarchy	valuation method	31.12.2013	
			carrying amount	fair value
Cash and balances with the central bank	n/a	value at cost to pay including impairment allowance	7 188 406	7 188 406
Amounts due from banks	3	discounted cash flows	2 089 087	2 084 806
Loans and advances to customers			147 372 326	150 080 006
housing loans	3	discounted cash flows	74 778 407	74 923 488
corporate loans	3	discounted cash flows	49 662 062	51 918 323
consumer loans	3	discounted cash flows	18 998 829	19 305 272
Receivables due from repurchase agreements		discounted cash flows	2 144 088	2 144 088
debt securities	3	discounted cash flows	1 788 940	1 788 835
Other financial assets	3	value at cost to pay including impairment allowance	568 554	646 028
Amounts due to the central bank	3	value at cost to pay including impairment allowance	4 065	4 065
Amounts due to banks	3	discounted cash flows	2 529 623	2 529 387
Amounts due to customers			159 957 671	160 186 742
due to corporate entities	3	discounted cash flows	40 702 728	40 935 422
due to State budget entities	3	discounted cash flows	3 473 476	3 473 476
due to retail clients	3	discounted cash flows	115 781 467	115 777 844
Debt securities in issue	3	discounted cash flows	692 614	692 728
Subordinated debt	2	discounted cash flows	1 620 857	1 605 265
Other financial liabilities	3	value at cost to pay including impairment allowance	1 969 840	1 969 646

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	level of fair value hierarchy	valuation method	31.12.2012 restated	
			carrying amount	fair value
Cash and balances with the central bank	n/a	discounted cash flows	10 229 230	10 229 230
Amounts due from banks	3	discounted cash flows	3 456 391	3 451 084
Loans and advances to customers			141 692 280	139 503 860
housing loans	3	discounted cash flows	70 274 448	69 382 707
corporate loans	3	discounted cash flows	49 160 199	48 893 658
consumer loans	3	discounted cash flows	20 183 682	19 156 811
debt securities	3	discounted cash flows	2 073 951	2 070 684
Other financial assets	3	discounted cash flows	716 136	716 136
Amounts due to the central bank	3	value at cost to pay including impairment allowance	3 128	3 128
Amounts due to banks	3	discounted cash flows	2 502 888	2 502 639
Amounts due to customers			154 740 574	155 202 623
due to corporate entities	3	discounted cash flows	41 154 325	41 621 664
due to State budget entities	3	discounted cash flows	3 458 897	3 458 897
due to retail clients	3	discounted cash flows	110 127 352	110 122 062
Debt securities in issue	3	discounted cash flows	497 283	497 587
Subordinated debt	2	discounted cash flows	1 631 256	1 638 663
Other financial liabilities	3	discounted cash flows	1 295 765	1 295 765

	level of fair value hierarchy	valuation method	01.01.2012 restated	
			carrying amount	fair value
Cash and balances with the central bank	na	discounted cash flows	9 060 280	9 060 280
Amounts due from banks	3	discounted cash flows	2 320 198	2 319 568
Loans and advances to customers			139 678 644	132 912 765
housing loans	3	discounted cash flows	69 499 147	64 753 639
corporate loans	3	discounted cash flows	47 522 770	45 929 062
consumer loans	3	discounted cash flows	22 563 891	22 137 228
receivables due from repurchase agreements		discounted cash flows	92 836	92 836
debt securities	3	discounted cash flows	-	-
Other financial assets	3	discounted cash flows	380 795	380 795
Amounts due to the central bank	3	value at cost to pay including impairment allowance	3 454	3 454
Amounts due to banks	3	discounted cash flows	5 321 390	5 316 737
Amounts due to customers			150 030 681	150 052 214
due to corporate entities	3	discounted cash flows	42 784 326	42 784 292
due to State budget entities	3	discounted cash flows	3 822 219	3 822 219
due to retail clients	3	discounted cash flows	103 424 136	103 445 703
Debt securities in issue	3	discounted cash flows	3 105 588	3 107 502
Subordinated debt	2	discounted cash flows	1 614 377	1 618 446
Other financial liabilities	3	discounted cash flows	1 692 423	1 692 423

### 43. Fiduciary activities

The Bank is a direct participant in the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych) and the Securities Register (at the National Bank of Poland). The Bank maintains securities accounts, services transactions on the domestic and foreign markets, and provides fiduciary services and performs depository role for pension and investment funds. Assets placed in the Bank within fiduciary services are not included in these financial statements as they do not meet the criteria of an asset.

Moreover, as a member of the Council of Depositary Banks and the Council of Non-treasury Debt Securities by the Polish Bank Association, PKO Bank Polski SA takes part in developing regulations and market standards.

## OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS

### 44. Risk management of PKO Bank Polski SA

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

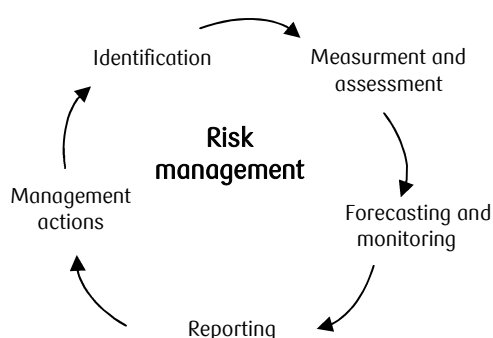
In the Bank, the following types of banking risk have been identified, which are subject to management: credit risk, interest rate risk, currency risk, liquidity risk, commodity price risk, price risk of equity instruments, derivative instruments risk, operational risk, compliance risk, macroeconomic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

#### 44.1 Elements of banking risk management process

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

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

The risk management process is described on the chart below:



#### 44.2 Main principles of risk management

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

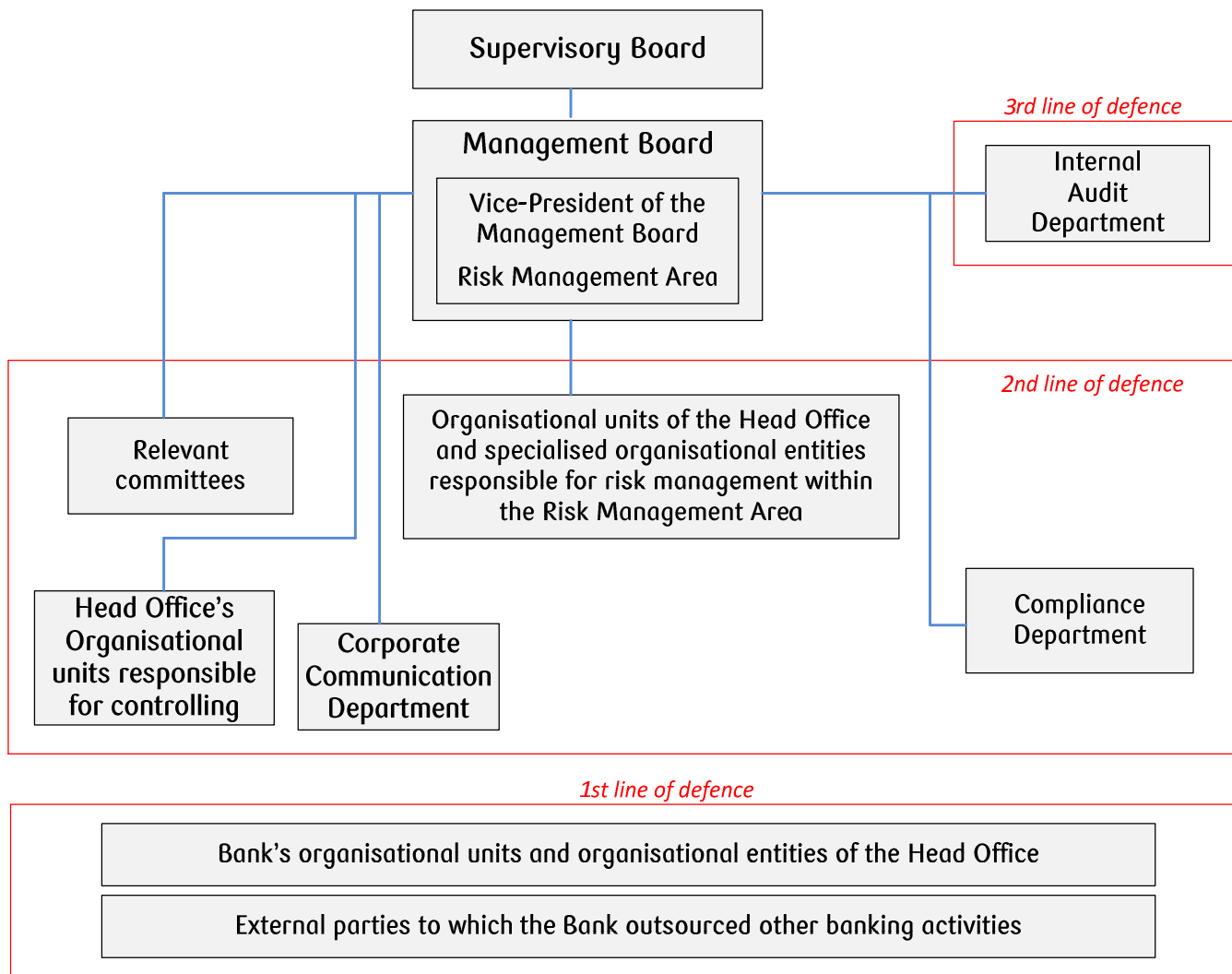
- the Bank manages all of the identified types of banking risk,
- the risk management process is appropriate to the scale of the operations and to the materiality, scale and complexity of a given risk and tailored to new risk factors and sources on a current basis,
- the risk management methods (in particular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

#### 44.3. The organisation of risk management in the Bank

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

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

**The organisation of risk management chart**



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

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

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

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

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

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

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

The second line of defence is being performed, in particular, in the Risk Management Area, the specialised organisational units of the Bank responsible for credit analyses and for debt collecting and restructuring receivables in the organisational units of the Head Office managing the compliance risk, reputation risk, model risk, as well as the organisational units of the Head Office responsible for controlling.

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

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

The Banking Risk Division is responsible for:

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

The Model Validation Office is responsible for:

- validation of risk measurement models,
- creating an effective system of the models risk management at the Bank, measurement and reporting risk levels of the models,
- supporting risk management.

The Restructuring and Debt Collection Centre and the Department of Restructuring and Debt Collection of the Corporate Client are responsible for:

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

The Analysis and Credit Risk Assessment Centre is responsible for the reduction of the credit risk of individual credit exposures of the Bank's retail and corporate market clients and ensuring effective credit analyses in respect of mortgage loans granted to individual clients through the Bank's retail network and loans granted to rated small and medium enterprises clients evaluated with rating methods, as well as taking credit decisions in this regard.

Risk management is supported by the following committees:

Risk Committee ('the RC')

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

Assets & Liabilities Committee (the 'ALCO')

- makes decisions within the scope of limits and thresholds on particular kinds of risks, issues related to transfer pricing, and risk models and their parameters,
- gives recommendations to the Management Board i.a. with regard to determining the structure of the Bank's assets and liabilities, managing different types of risks, equity and price policy.

Bank's Credit Committee (the 'BCC')

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

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

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



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Operating Risk Committee (the 'ORC')

- takes decisions, issues recommendations and opinions regarding i.a. strategic tolerance limits and loss limit for operational risk, key risk indicators (KRI), assumptions of stress tests, results of validation of operational risk measurement models and changes in AMA approach.

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

#### **44.4. Activities in the area of risk management in the Bank**

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

In this respect, the Bank took i.a. the following actions in 2013:

- rolled forward short-term bonds in the amount from PLN 500 to 850 million, while extending the maturity date of the securities from three to six months,
- transferred a part of the Bank's profit for 2012 to equity,
- acquired in September 2013, financing in the form of a loan in the amount of EUR 75 million and in November circa CHF 185 million.

On 12 June 2013, the Bank signed an agreement to acquire Nordea Bank Polska SA, Nordea Finance Polska SA, Nordea Polska Towarzystwo Ubezpieczeń na Życie SA, and the corporate loan portfolio serviced directly by the Seller – the Scandinavian financial group Nordea. The above mentioned acquisition shall have no impact on the change in the risks identified in the business of PKO Bank Polski SA or Nordea Bank Polska SA.

In the first half of 2013 in respect of operational risk, the Bank endeavoured to adapt to the requirements of Recommendation M of the Polish Financial Supervision Authority amended in January 2013 relating to operational risk management in banks. The Bank complied with all the recommendations by 30 June 2013, and complied with the recommendation relating to disclosure of information on operational losses – in accordance with Recommendation M – in the third quarter of 2013.

In the second half of 2013, the Bank implemented the process of incorporating counterparty credit risk in the valuation of financial instruments in accordance with the best practices in the market and internal conditions.

#### **44.5 Identification of significant types of risk**

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

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

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

### **45. Credit risk management**

Credit risk is defined as a risk of occurrence of losses due to counterparty's default of payments to the Bank or as a risk of decrease in economic value of amounts due to the Bank as a result of deterioration of counterparty's ability to repay amounts due to the Bank. The objective of credit risk management is to minimise losses on the credit portfolio as well as to minimise the risk of occurrence of loans threatened with impairment exposure, while keeping expected level of profitability and value of credit portfolio at the same time.

The Bank applies the following principles of credit risk management:

- each loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
- credit risk relating to potential and concluded loan transactions is measured on a cyclical basis, taking into consideration changes in external conditions and in the financial standing of the borrowers,
- credit risk assessment of exposures which are significant due to their risk levels or its values is subject to additional verification by credit risk assessment teams, which are independent of the business teams,
- terms of loan contracts that are offered to a client depend on the credit risk generated by the contract,
- loan granting decisions are made only by authorised persons,
- credit risk is diversified particularly by geographical location, by industry, by product and by clients,
- expected credit risk level is mitigated by collateral received by the Bank, margins from clients and allowances (provisions) for credit losses.

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



## **45.1. Measurement and assessment of credit risk**

### **Credit risk measurement and assessment methods**

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

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

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

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

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

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

### **Rating models for corporate clients**

In 2013 the Bank implemented new rating models for corporate clients, including entrepreneurs keeping books of account in accordance with the Accounting Act or in accordance with IAS and keeping tax book of revenues and expenses, and entrepreneurs credited in the formula of specialist financing. The implementation of the evaluation model of entrepreneurs credited in the formula of specialist financing will particularly allow adequate assessment of the credit risk of large projects involving the financing of real estate held for rental or sale (e.g. office space, retail areas, industrial areas) and infrastructure projects (e.g. telecommunications; industrial; public utility infrastructure).

These models were prepared using internal data of the Bank which ensures that they are tailored to the risk profile of the Bank's clients. Models are based on a statistical dependence analysis between the default and a customer's risk scoring. Scoring includes an assessment of the financial indicators, qualitative factors and evaluation of behavioural factors. In addition, the client's risk assessment depends on the size of the enterprise for which risk analysis is made.

The above mentioned models were implemented in a new IT tool that supports the Bank's credit risk assessment related to financing corporate clients.

### **The evaluation of retail clients credit risk**

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

In the first half of 2013 in respect of credit risk, the Bank endeavoured to adapt to the requirements of Recommendation T of the Polish Financial Supervision Authority amended in February 2013, relating to best practice in respect of management of risk arising from retail loan exposures. All recommendations have been implemented in the Bank in accordance with the expected date, i.e. to 31 July 2013.

In the second half of 2013, the Bank endeavoured to adapt to the requirements of Recommendation S of the PFSA amended in June 2013, relating to best practice in respect of management of mortgage-secured loan exposures. A part of the recommendations have been implemented in the end of 2013, in accordance with the PFSA's expectations, the work on the full adaptation of the Bank to the provisions of this Recommendation will also be continued in the first half of 2014 (a part of recommendations should be implemented no later than to 1 July 2014).

### **Assessment of credit risk relating to the financing of corporate clients**

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

In case of corporate customers from the small and medium enterprise segment that meet certain criteria, the Bank assesses credit risk using the scoring method. Such assessment refers to low-value, uncomplicated loan transactions and it is performed in two dimensions: clients' borrowing capacity and his creditworthiness. The borrowing capacity assessment involves examination of the client's economic and financial situation, whereas the creditworthiness assessment involves scoring and evaluation of the client's credit history obtained from internal records of the Bank and external sources.

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

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

In June 2013 the Bank implemented a new methodology for assessing portfolio parameters used in determining loan exposure impairment write-downs and provisions for off-balance sheet credit exposures. This methodology uses elements of portfolio parameter modelling for the purpose of determining capital requirements in accordance with the IRB methodology. It ensures monitoring the behaviours of the credit portfolio divided into more homogeneous groups, and more precise information on the recoveries realised.

## 45.2 Forecasting and monitoring of credit risk

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

Amounts due from banks	Exposure	
	31.12.2013	31.12.2012
Amounts due from banks impaired, of which:	51 240	33 569
assessed on an individual basis	50 892	33 569
Amounts due from banks not impaired, of which:	2 078 084	3 453 614
not past due	2 078 084	3 453 614
<b>Gross total</b>	<b>2 129 324</b>	<b>3 487 183</b>
<b>Impairment allowances</b>	<b>(40 237)</b>	<b>(30 792)</b>
<b>Net total by carrying amount</b>	<b>2 089 087</b>	<b>3 456 391</b>

Loans and advances to customers	Exposure		
	31.12.2013	31.12.2012 restated	01.12.2012 restated
Loans and advances impaired, of which:	12 265 138	12 287 936	10 372 347
assessed on an individual basis	5 091 377	5 550 954	4 458 618
Loans and advances not impaired, of which:	141 488 420	135 632 973	134 289 087
not past due	138 235 574	131 368 749	130 746 410
past due	3 252 846	4 264 224	3 542 677
past due up to 4 days	1 045 547	1 725 423	774 863
past due over 4 days	2 207 299	2 538 801	2 767 814
<b>Gross total</b>	<b>153 753 558</b>	<b>147 920 909</b>	<b>144 661 434</b>
<b>Impairment allowances</b>	<b>(6 381 232)</b>	<b>(6 228 629)</b>	<b>(4 982 790)</b>
<b>Net total by carrying amount</b>	<b>147 372 326</b>	<b>141 692 280</b>	<b>139 678 644</b>

Investment securities available for sale – debt securities	Exposure	
	31.12.2013	31.12.2012
Debt securities impaired, of which:	6 160	5 536
assessed on an individual basis	6 160	5 536
Debt securities not impaired, of which:	13 545 807	11 916 973
not past due	13 545 807	11 916 973
with external rating	9 077 514	7 670 414
with internal rating	4 468 293	4 246 559
<b>Gross total</b>	<b>13 551 967</b>	<b>11 922 509</b>
<b>Impairment allowances</b>	<b>(3 296)</b>	<b>(5 536)</b>
<b>Net total by carrying amount</b>	<b>13 548 671</b>	<b>11 916 973</b>

Other assets – other financial assets	Exposure	
	31.12.2013	31.12.2012
Other assets impaired	61 270	71 894
Other assets not impaired, of which:	567 643	708 896
not past due	559 602	707 876
past due	8 041	1 020
<b>Gross total</b>	<b>628 913</b>	<b>780 790</b>
<b>Impairment allowances</b>	<b>(60 359)</b>	<b>(64 654)</b>
<b>Net total by carrying amount</b>	<b>568 554</b>	<b>716 136</b>

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**Maximum exposure to credit risk**

Items of the statement of financial position	31.12.2013	31.12.2012 restated	01.12.2012 restated
<b>Current account in the central bank</b>	<b>4 018 340</b>	<b>7 550 898</b>	<b>6 845 759</b>
<b>Amounts due from banks</b>	<b>2 089 087</b>	<b>3 456 391</b>	<b>2 320 198</b>
<b>Trading assets – debt securities</b>	<b>472 535</b>	<b>278 240</b>	<b>1 300 164</b>
issued by banks	168	1 371	1 724
issued by other financial institutions	11 366	18 611	239
issued by non-financial institutions	23 892	15 064	14 947
issued by the State Treasury	395 202	216 521	1 268 471
issued by local government bodies	41 907	26 673	14 783
<b>Derivative financial instruments</b>	<b>3 002 220</b>	<b>3 861 456</b>	<b>3 065 149</b>
<b>Financial instruments designated upon initial recognition at fair value through profit and loss - debt securities</b>	<b>15 179 188</b>	<b>12 614 917</b>	<b>12 467 201</b>
issued by the State Treasury	931 325	2 363 089	3 620 515
issued by central banks	13 997 228	9 995 300	8 593 791
issued by local government bodies	250 635	256 528	252 895
<b>Loans and advances to customers</b>	<b>147 372 326</b>	<b>141 692 280</b>	<b>139 678 644</b>
financial sector (other than banks)	5 711 190	3 132 773	3 211 630
corporate loans	3 672 767	3 132 773	3 118 794
receivables due from repurchase agreements	2 038 423	-	92 836
non-financial sector	134 531 822	130 976 497	131 416 364
housing loans	74 778 407	70 274 448	69 499 147
corporate loans	39 942 827	39 617 105	39 353 326
consumer loans	18 998 829	20 183 682	22 563 891
debt securities	811 759	901 262	-
State budget sector	7 129 314	7 583 010	5 050 650
corporate loans	6 046 468	6 410 321	5 050 650
debt securities	977 181	1 172 689	-
receivables due from repurchase agreements	105 665	-	-
<b>Investment securities available for sale - debt securities</b>	<b>13 548 671</b>	<b>11 916 973</b>	<b>14 104 181</b>
issued by the State Treasury	8 518 450	7 619 522	8 310 429
issued by banks	558 814	50 892	50 870
issued by other financial institutions	33 401	156 393	152 257
issued by non-financial institutions	997 253	1 309 954	2 132 269
issued by local government bodies	3 440 753	2 780 212	3 458 356
<b>Other assets - other financial assets</b>	<b>568 554</b>	<b>716 136</b>	<b>380 795</b>
<b>Total</b>	<b>186 250 921</b>	<b>182 087 291</b>	<b>180 162 091</b>

Off-balance sheet items	31.12.2013	31.12.2012
Irrevocable liabilities granted	8 157 608	8 397 676
Guarantees granted	7 147 120	7 501 328
Letters of credit granted	494 586	377 643
Guarantees of issue	3 675 067	3 673 585
<b>Total</b>	<b>19 474 381</b>	<b>19 950 232</b>

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**Credit quality of financial assets which are neither past due nor impaired**
**Internal rating classes**

Exposures to corporate clients which are not individually impaired are classified according to customer rating as part of the internal rating classes, from A to G (in respect of financial institutions from A to F).

The following loan portfolios are covered by the rating system:

- corporate clients,
- housing market corporate clients,
- small and medium enterprises (excluding certain product groups which are assessed in a simplified manner).

Financial assets neither past due nor impaired	31.12.2013	31.12.2012 restated	01.12.2012 restated
<b>Amounts due from banks</b>	<b>2 078 084</b>	<b>3 453 614</b>	<b>2 311 628</b>
<b>of which:</b>			
with external rating	1 702 673	3 174 099	2 056 450
without rating	375 411	279 515	255 178
<b>Loans and advances to customers</b>	<b>138 235 574</b>	<b>131 368 749</b>	<b>130 746 410</b>
with internal rating – financial, non-financial and public sector (corporate loans)	41 248 589	39 543 182	40 866 390
A (first rate)	1 414 115	1 346 291	1 269 043
B (very good)	1 247 527	1 639 493	2 377 152
C (good)	4 164 801	3 596 148	4 248 073
D (satisfactory)	5 803 780	7 125 127	8 937 711
E (average)	10 339 621	10 765 338	10 092 736
F (acceptable)	9 314 520	10 513 388	11 088 797
G (poor)	8 964 225	4 557 397	2 852 878
with internal rating – non-financial sector (consumer and housing loans)	84 848 494	81 322 095	83 438 089
A (first rate)	59 604 586	39 329 628	39 006 051
B (very good)	13 546 734	25 229 102	28 255 664
C (good)	5 261 693	6 162 155	6 770 389
D (average)	4 648 762	4 297 993	3 224 042
E (acceptable)	1 786 719	6 303 217	6 181 943
without internal rating – financial, non-financial and public sector (consumer, housing and other loans)	12 138 491	10 503 472	6 441 931
<b>Trading assets – debt securities – with internal rating</b>	<b>10</b>	<b>-</b>	<b>-</b>
C (good)	10	-	-
<b>Financial instruments measured at fair value through profit and loss – debt securities with internal rating</b>	<b>-</b>	<b>111 185</b>	<b>108 922</b>
D (satisfactory)	-	111 185	108 922
<b>Investment securities available for sale – debt securities with – internal rating</b>	<b>4 468 293</b>	<b>4 246 559</b>	<b>5 729 884</b>
A (first rate)	53 776	13 370	25 293
B (very good)	336 547	370 368	341 104
C (good)	1 026 669	772 269	758 732
D (satisfactory)	912 529	1 010 451	2 320 579
E (average)	1 310 986	954 548	1 241 433
F (acceptable)	755 984	1 058 604	755 049
G (poor)	71 802	59 669	84 180
G3 (low)	-	7 280,00	-
H (bad)	-	-	203 514
<b>Other assets – other financial assets</b>	<b>559 602</b>	<b>707 876</b>	<b>368 348</b>
<b>Total</b>	<b>145 341 563</b>	<b>139 887 983</b>	<b>139 265 192</b>

Loans and advances which are not individually impaired and are not rated, are characterised with a satisfactory level of the credit risk. It concerns, in particular, retail loans (including housing loans) which are not individually significant and thus do not create significant credit risk.

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**External rating classes**

Structure of debt securities and amounts due from banks, neither past due nor impaired by external rating class is presented below:

**31 December 2013**

Portfolio/Rating	AAA	AA- to AA+	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	without rating	Total
<b>Amounts due from banks</b>	-	117 968	1 191 192	109 494	1 156	282 863	375 411	2 078 084
<b>Trading assets – debt securities</b>	-	-	400 284	21 031	-	-	51 210	472 525
<b>of which:</b>								-
issued by the State Treasury	-	-	395 202	-	-	-	-	395 202
issued by local government bodies	-	-	320	-	-	-	41 587	41 907
issued by banks	-	-	158	-	-	-	-	158
Issued by other financial institutions	-	-	4 604	-	-	-	6 762	11 366
issued by non-financial institutions	-	-	-	21 031	-	-	2 861	23 892
<b>Financial Instruments measured at fair value through profit and loss - debt securities</b>	-	-	15 042 488	136 700	-	-	-	15 179 188
<b>of which:</b>								-
issued by central bank	-	-	13 997 228	-	-	-	-	13 997 228
issued by the State Treasury	-	-	931 325	-	-	-	-	931 325
issued by local government bodies	-	-	113 935	136 700	-	-	-	250 635
<b>Investment securities available for sale – debt securities</b>	-	-	9 027 734	49 530	-	-	250	9 077 514
<b>of which:</b>								-
issued by the State Treasury	-	-	8 518 450	-	-	-	-	8 518 450
issued by local government bodies	-	-	-	-	-	-	250	250
issued by banks	-	-	509 284	49 530	-	-	-	558 814
<b>Total</b>	-	117 968	25 661 698	316 755	1 156	282 863	426 871	26 807 311

**31 December 2012**

Portfolio/Rating	AAA	AA- to AA+	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	without rating	Total
<b>Amounts due from banks</b>	247 968	130 158	1 809 061	527 134	101 115	358 663	279 515	3 453 614
<b>Trading assets – debt securities</b>	-	-	217 892	-	-	-	60 348	278 240
<b>of which:</b>								-
issued by the State Treasury	-	-	216 521	-	-	-	-	216 521
issued by local government bodies	-	-	-	-	-	-	26 673	26 673
issued by banks	-	-	1 371	-	-	-	-	1 371
issued by other financial institutions	-	-	-	-	-	-	18 611	18 611
issued by non-financial institutions	-	-	-	-	-	-	15 064	15 064
<b>Financial Instruments measured at fair value through profit and loss - debt securities</b>	-	-	12 503 732	-	-	-	-	12 503 732
<b>of which:</b>								-
issued by central bank	-	-	9 995 300	-	-	-	-	9 995 300
issued by the State Treasury	-	-	2 363 089	-	-	-	-	2 363 089
issued by local government bodies	-	-	145 343	-	-	-	-	145 343
<b>Investment securities available for sale – debt securities</b>	-	-	7 619 522	50 892	-	-	-	7 670 414
<b>of which:</b>								-
issued by the State Treasury	-	-	7 619 522	-	-	-	-	7 619 522
issued by local government bodies	-	-	-	-	-	-	-	-
issued by banks	-	-	-	50 892	-	-	-	50 892
<b>Total</b>	247 968	130 158	22 150 207	578 026	101 115	358 663	339 863	23 906 000

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### 45.3. Concentration of credit risk within the Bank

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

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

#### Concentration by the largest business entities

The Banking Law specifies maximum concentration limits for the Bank. According to Article 71.1 of the Banking Law, the total value of the Bank's exposures, off-balance sheet liabilities and commitments granted or shares held by the Bank directly or indirectly in another entity, additional payments into a limited liability company as well as contributions or limited partnership sums - whichever higher - in a limited partnership or limited joint-stock partnership with a risk of one entity or a group of entities related by capital or management, cannot exceed concentration limit which is 25% of the Bank's own funds.

As at 31 December 2013 and 31 December 2012, those concentration limits had not been exceeded. As at 31 December 2013, the level of concentration of the Bank risk with respect to individual exposures was low - the largest exposure to a single entity was equal to 11.5% and 10.1% of the Bank's own funds. Exposure of the Bank towards the 20 largest non-banking sector clients:

31.12.2013			31.12.2012		
No.	Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees and interest receivable	Share in credit portfolio, which does not include off-balance sheet and capital exposures	No.	Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees and interest receivable	Share in credit portfolio, which does not include off-balance sheet and capital exposures
1. *	2 249 182	1.46%	1. *	2 014 183	1.38%
2.	929 786	0.60%	2.	1 022 563	0.70%
3. *	673 507	0.44%	3.	532 590	0.36%
4.	556 154	0.36%	4.	520 228	0.36%
5.	464 144	0.30%	5.	487 000	0.33%
6.	441 634	0.29%	6.	321 896	0.22%
7.	356 875	0.23%	7.	296 218	0.20%
8.	329 657	0.21%	8.	292 045	0.20%
9.	307 240	0.20%	9.	280 166	0.19%
10.	299 405	0.19%	10.	251 472	0.17%
11.	282 069	0.18%	11.	247 297	0.17%
12.	275 920	0.18%	12.	244 592	0.17%
13.	274 024	0.18%	13.	244 417	0.17%
14.	263 134	0.17%	14.	244 065	0.17%
15.	260 022	0.17%	15.	241 373	0.17%
16.	256 352	0.17%	16.	241 000	0.16%
17.	240 597	0.16%	17.	238 652	0.16%
18.	231 002	0.15%	18.	227 296	0.16%
19.	227 778	0.15%	19.	220 575	0.15%
20.	223 309	0.15%	20.	220 032	0.15%
<b>Total</b>	<b>9 141 791</b>	<b>5.94%</b>	<b>Total</b>	<b>8 387 660</b>	<b>5.74%</b>

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

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### Concentration by the largest capital groups

The largest concentration of PKO Bank Polski SA into the capital group is 1.97% of the loan portfolio of the Bank.

As at 31 December 2013, the concentration risk level by the largest capital groups was low - the greatest exposure of PKO Bank Polski SA towards a capital group amounted to 19,7%\* and 20,6% of the Bank's own funds.

Exposure of the Bank towards the 5 largest capital groups:

31.12.2013			31.12.2012		
No.	Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, and off-balance sheet and capital exposures and interest receivable	Share in credit portfolio, which does not include off-balance sheet and capital exposures	No.	Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, and off-balance sheet and capital exposures and interest receivable	Share in credit portfolio, which does not include off-balance sheet and capital exposures
*1	4 040 364	2.63%	1	4 021 399	2.04%
2	3 536 942	2.30%	*2	3 695 708	1.87%
3	2 790 997	1.82%	3	2 992 512	1.52%
4	2 056 058	1.34%	4	1 957 102	0.99%
5	1 960 687	1.28%	5	1 638 882	0.83%
<b>Total</b>	<b>14 385 048</b>	<b>9,37%</b>	<b>Total</b>	<b>14 305 603</b>	<b>7.25%</b>

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

### Concentration by industry

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

As compared with 31 December 2012 the exposure of PKO Bank Polski SA in industry sectors has increased by approx. PLN 390 million. The total exposure in the four largest industry groups: 'Industrial processing', 'Maintenance of real estate', 'Wholesale and retail trade (...)', and 'Construction' amounted to approx. 61% of the total loan portfolio covered by an analysis of the sector.

Structure of exposure by industry segments as at 31 December 2013 and as at 31 December 2012 is presented in the table below:

Section		31.12.2013		31.12.2012	
		Exposure	Number of entities	Exposure	Number of entities
C	Industrial processing	17.89%	11.15%	17.75%	11.48%
L	Maintenance of real estate	17.16%	18.35%	16.98%	18.14%
G	Wholesale and retail trade; repair of motor vehicles	15.31%	24.60%	15.10%	24.67%
F	Construction	10.84%	12.05%	11.76%	12.31%
O	Public administration and national defence, obligatory social security	9.83%	0.45%	10.39%	0.56%
D	Electricity, gas, water vapour, hot water and air to the mechanical systems production and supply	2.24%	0.18%	2.16%	0.17%
Other exposure		26.73%	33.22%	25.85%	32.67%
<b>Total</b>		<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

The above industry structure does not include an exposure arising from debt securities reclassified from the category 'available for sale' to 'advances and receivables'.

### Concentration by geographical regions

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

The structure of the loan portfolio by geographic regions is distinguished in the Bank due to the area - a separate area for the retail client (ORD), a separate area for the corporate client (ORK). 11 geographical regions are distinguished within ORD. As at 31 December 2013, the largest concentration of the ORD loan portfolio occurs in region of Katowice and Warsaw (circa 23% of the ORD portfolio).

Within ORK, the Bank distinguish 7 macro-regions and the headquarter. As at 31 December 2013, the largest concentration of the ORK loan portfolio occurs in the headquarter and in the central macroregion (22% and 16% of the ORK portfolio, respectively).

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



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**Concentration of credit risk by currency**

As at 31 December 2013, the share of currency exposures in exchangeable currencies, other than PLN, in the total credit portfolio of PKO Bank Polski SA amounted to 19.6%. The greatest parts of currency exposures of PKO Bank Polski SA are those in CHF. A decrease in share of loans denominated in foreign currencies in 2013 is a result of a decrease in USD and CHF exchange rates in comparison to 2012. Moreover, a steady growth in new sales of loans offered to corporate clients granted in foreign currencies was observed, offset by a decrease in the involvement of currency portfolio of individual clients, as a result of lack of currency loans for these clients in the Bank's offer.

Concentration of credit risk by currency	31.12.2013	31.12.2012
PLN	80.41%	79.32%
Foreign currencies, of which:	19.59%	20.68%
CHF	13.12%	14.67%
EUR	5.14%	5.00%
USD	1.32%	0.99%
GBP	0.01%	0.01%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

**Other types of concentration**

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

As at 31 December 2013, these limits have not been exceeded.

**45.4. Forbearance practices**

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

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

- 1) restoration of original terms,
- 2) repayment schedule,
- 3) spreading of payments into instalments,
- 4) interest rate,
- 5) loans reduction,
- 6) payment formulas (annuity instalments, diminishing instalments).

As a result of signing and a timely service of forbearance agreement, the debt becomes unmatured. Evaluation of the ability of a debtor to fulfil the forbearance agreement conditions (debt repayment according to the agreed schedule) constitutes an element of the forbearance process.

Concluded forbearance agreements are monitored on an on-going basis. Signing of the forbearance agreement, amending the contractual terms due to the financial difficulties of a debtor or an issuer, is one of indications of individual impairment and results in the necessity of analysing the situation in terms of recording impairment charges or provisions revaluating the exposure value (provisions) resulting from this fact.

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

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

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	31.12.2013	31.12.2012
<b>Loans and advances to customers, gross</b>	<b>153 753 558</b>	<b>147 920 909</b>
<b>of which forbearance:</b>	<b>4 318 155</b>	<b>3 987 760</b>
financial sector	183	523
corporate loans	183	523
non-financial sector	4 317 682	3 987 035
corporate loans	2 439 686	2 024 274
housing loans	1 437 655	1 512 753
consumer loans	440 341	450 008
public sector	290	202
corporate loans	290	202
<b>Impairment losses on loans and advances to forbearance customers</b>	<b>(991 371)</b>	<b>(919 156)</b>
<b>Loans and advances to customers, net forbearance</b>	<b>3 326 784</b>	<b>3 068 604</b>

<b>Loans and advances to customers subjected to forbearance by geographical regions</b>	<b>31.12.2013</b>	<b>31.12.2012</b>
<b>Poland</b>		
mazowiecki	1 772 532	1 792 783
wielkopolski	434 487	392 709
śląsko-opolski	401 978	382 422
małopolsko-świętokrzyski	337 180	270 874
pomorski	242 532	246 339
podlaski	233 365	176 330
łódzki	206 303	173 453
dolnośląski	205 842	148 733
kujawsko-pomorski	160 294	114 211
zachodnio-pomorski	157 392	100 260
lubelsko-podkarpacki	101 949	94 389
warmińsko-mazurski	64 301	95 257
<b>Total</b>	<b>4 318 155</b>	<b>3 987 760</b>

<b>Loans and advances to customers subjected to forbearance</b>	<b>Exposure by the gross carrying amount</b>		<b>Collateral value</b>	
	<b>31.12.2013</b>	<b>31.12.2012</b>	<b>31.12.2013</b>	<b>31.12.2012</b>
Loans and advances impaired	3 107 480	3 519 311	173 583	209 507
Loans and advances not impaired, of which:	1 210 675	468 449	83 947	41 679
not past due	880 476	284 734	18 220	31 691
past due	330 199	183 715	65 727	9 988
<b>Total gross</b>	<b>4 318 155</b>	<b>3 987 760</b>	<b>257 530</b>	<b>251 186</b>

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

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

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For the year ended 31 December 2012	Total
Carrying amount at the beginning of the period, net	3 304 253
Impairment allowances	299 277
Loans and advances derecognised in the period	(2 722 631)
Loans and advances recognised in the period	2 349 200
Other changes/repayment	(161 495)
<b>Carrying amount at the end of the period, net</b>	<b>3 068 604</b>

Loans and advances to customers gross by applied changes in terms of repayment for forbearance	Gross carrying amount	
	31.12.2013	31.12.2012
Restoration of original terms	2 482 200	2 500 962
Repayment schedule	1 540 718	745 498
Spreading of payments into instalments (introducing of payment schedule)	808 174	753 493
Change in payments formulas (annuity instalments, diminishing instalments)	702 804	332 546
Change in interest rate	586 314	491 250
Loans reduction	307 501	272 539

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

The amount of recognised interest income related to loans and advances to customers, which are subject to forbearance amounted to PLN 391 983 thousand as at 31 December 2013 (as at 31 December 2012 amounted to PLN 398 125 thousand).

#### 45.5. Past due of financial assets

Financial assets which are past due but not impaired include the following financial assets:

Financial assets	31.12.2013			
	up to 1 month	1 - 3 months	over 3 months	Total
<b>Loans and advances to customers</b>	2 228 920	769 312	254 614	<b>3 252 846</b>
financial sector	14	273	-	287
non-financial sector	2 166 612	758 753	254 614	3 179 979
public sector	62 294	10 286	-	72 580
<b>Other assets – other financial assets</b>	694	27	7 320	<b>8 041</b>
<b>Total</b>	<b>2 229 614</b>	<b>769 339</b>	<b>261 934</b>	<b>3 260 887</b>

Financial assets	31.12.2012			
	up to 1 month	1 - 3 months	over 3 months	Total
<b>Loans and advances to customers</b>	3 091 080	1 078 682	94 462	<b>4 264 224</b>
financial sector	601	-	-	601
non-financial sector	3 010 498	1 074 470	94 462	4 179 430
public sector	79 981	4 212	-	84 193
<b>Other assets – other financial assets</b>	666	-	354	<b>1 020</b>
<b>Total</b>	<b>3 091 746</b>	<b>1 078 682</b>	<b>94 816</b>	<b>4 265 244</b>

Collateral for the above receivables includes: mortgages, registered pledges, transfers of property rights, account lock-ups, loan exposure insurances, warranties and guarantees.

The Bank made an assessment which proved that for the above mentioned financial assets the expected cash flows fully cover the carrying amount of these exposures.

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**45.6. Financial assets assessed on an individual basis for which individual impairment allowance has been recognised by carrying amount gross**

	31.12.2013	31.12.2012 restated	01.12.2012 restated
<b>Amounts due from banks</b>	<b>50 892</b>	<b>33 569</b>	<b>42 166</b>
<b>Loans and advances to customers</b>	<b>5 091 377</b>	<b>5 550 954</b>	<b>4 458 618</b>
Financial sector	3 709	-	-
corporate loans	3 709	-	-
Non-financial sector	5 081 459	5 544 745	4 451 067
corporate loans	3 548 668	3 790 964	3 267 730
housing loans	1 326 840	1 657 742	1 108 700
consumer loans	101 214	96 039	74 637
investments securities	104 737	-	-
Public sector	6 209	6 209	7 551
corporate loans	6 209	6 209	7 551
<b>Investment debt securities available for sale issued by non-financial institutions</b>	<b>6 160</b>	<b>5 536</b>	<b>12 998</b>
<b>Total</b>	<b>5 148 429</b>	<b>5 590 059</b>	<b>4 513 782</b>

The above assets were secured by the following collaterals established for the PKO Bank Polski SA:

- for loans and advances to customers: ceiling mortgages and ordinary mortgages, registered pledges, promissory notes and transfers of receivables. The financial effect of collaterals held in respect of the amount that best represents the maximum exposure to credit risk as at 31 December 2013 amounted to PLN 3 755 204 thousand (as at 31 December 2012 it amounted to PLN 3 925 837 thousand respectively),
- for investment securities available for sale: blank promissory notes, registered pledges on the bank account and on debtor's shares.

In determining impairment allowances for the above assets, the Bank considered the following factors:

- delay in payment of the amounts due by the debtor,
- the debt being declared as due and payable,
- enforcement proceedings against the debtor,
- declaration of the debtor's bankruptcy or filing a petition to declare bankruptcy,
- the amount of the debt being challenged by the debtor,
- commencement of corporate recovery proceedings against the debtor,
- establishing imposed administration over the debtor or suspending the debtor's activities,
- a decline in debtor's rating to a level indicating a significant threat to the repayment of debt (with respect to non-financial clients 'H1' rating, with respect to financial institutions – G, H rating),
- restructuring actions taken and payment reliefs applied,
- additional impairment indicators identified for exposures to housing cooperatives arising from housing loans of the so called 'old portfolio', covered by State Treasury guarantees,
- expected future cash flows from the exposure and the related collateral,
- expected future economic and financial position of the client,
- the extent of execution of forecasts by the client.

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#### **45.7. Allowances for credit losses**

PKO Bank Polski SA performs a monthly review of loan exposures in order to identify credit exposures threatened with impairment, measure the impairment of loan exposures and record impairment charges or provisions.

The process of determining the impairment charges and provisions consists of the following stages:

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

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

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

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

##### **45.7.1 Impairment estimating methods**

PKO Bank Polski SA applies three methods of estimating impairment:

- the individualised method applied in respect of individually significant loans, for which the objective evidence of impairment was identified or requiring individual assessment due to the transactions specifics and resulting from events determining the repayment of exposure,
- the portfolio method applied in respect of individually insignificant loans, for which the objective evidence of impairment was identified,
- the group method (IBNR) applied in respect of the loans, for which the objective evidence of impairment was not identified, but there is a possibility of losses incurred but not recognised occurring.

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

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

##### **45.7.2 Off-balance sheet provisions**

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

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

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

The provision is determined as the difference between the expected amount of exposure in the statement of financial position, which will arise as a result of an off-balance sheet liabilities (from the date at which the assessment is performed till the date of overdue amounts due arising considered as constituting an indication of individual impairment) and the present value of the expected future cash flows obtained from the exposure in the statement of financial position arising out of the liability.

When determining a provision under the individualised method, the expected future cash flows are estimated for each loan exposure separately.

When determining a provision under the portfolio method or the group method, the portfolio parameters are used, estimated using statistical methods, based on the historic observation of exposures with the same features.

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In the second half of 2013, PKO Bank Polski SA implemented the results of work on more consistent methodology for estimating portfolio parameters used in the process of estimation of impairment allowances and write-downs with the methodology used for the purposes of determining capital requirements using internal rating based method (IRB). Standardised definition of default, including all indications of individual impairment, was included in the new methodology. Methods for portfolio parameters estimation depend on the characteristics of the distinguished portfolios and the possibility of using elements of modeling parameters in accordance with IRB.

Separate sub-portfolios of exposures without default history (FirstDefault) and with default history (ReDefault) were distinguished in PD model, making their further granulation as a result of overdue and client's rating class or score level. The methodology for estimating recovery rates ensures distinguishing their components, resulting from the recovery, restructuring and debt collection.

Introduced changes improved the impairment measurement accuracy and adequacy of impairment allowances recognised on distinguished loan sub-portfolios. At the level of the entire portfolio they did not cause significant changes in the amount of impairment allowances.

The structure of the loan portfolio and loan impairment allowances of PKO Bank Polski SA's loan exposures are presented in Note 20 'Loans and advances to customers'.

#### 45.8. Credit risk of financial institutions

As at 31 December 2013, the largest exposures of PKO Bank Polski SA on the interbank market presents in the table below:

Exposure on the interbank market*			
Counterparty	Type of instrument		Total
	Deposit	Derivatives	
Counterparty 1	325 000	(48 464)	325 000
Counterparty 2	200 000	4 706	204 706
Counterparty 3	-	74 384	74 384
Counterparty 4	-	58 479	58 479
Counterparty 5	-	56 339	56 339
Counterparty 6	50 000	(4 830)	50 000
Counterparty 7	-	46 844	46 844
Counterparty 8	45 619	-	45 619
Counterparty 9	-	39 817	39 817
Counterparty 10	22 349	15 318	37 667
Counterparty 11	-	33 641	33 641
Counterparty 12	5 000	18 131	23 131
Counterparty 13	20 000	1 601	21 601
Counterparty 14	-	18 806	18 806
Counterparty 15	12 204	-	12 204
Counterparty 16	-	9 617	9 617
Counterparty 17	-	9 583	9 583
Counterparty 18	-	7 785	7 785
Counterparty 19	-	7 548	7 548
Counterparty 20	-	6 308	6 308

\* Excluding exposure to the State Treasury and the National Bank of Poland.

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

Exposure on the interbank market*			
Counterparty	Type of instrument		Total
	Deposit	Derivatives	
Counterparty 2	407 450	1 271	408 721
Counterparty 1	272 470	(60 011)	272 470
Counterparty 7	185 976	66 456	252 432
Counterparty 21	247 968	-	247 968
Counterparty 22	224 980	10 391	235 371
Counterparty 23	123 984	-	123 984
Counterparty 5	100 000	22 617	122 617
Counterparty 3	-	119 742	119 742
Counterparty 24	98 117	-	98 117
Counterparty 25	87 676	(31 447)	87 676
Counterparty 8	81 764	-	81 764
Counterparty 4	-	74 106	74 106
Counterparty 26	-	56 531	56 531
Counterparty 11	-	50 834	50 834
Counterparty 9	-	38 843	38 843
Counterparty 27	30 000	(9 060)	30 000
Counterparty 28	-	29 495	29 495
Counterparty 29	-	25 023	25 023
Counterparty 12	10 000	2 694	12 694
Counterparty 6	10 000	(20 957)	10 000

\* Excluding exposure to the State Treasury and the National Bank of Poland.

For the purpose of determining exposures, placements and securities issued by the counterparties, are stated at nominal values, while derivative instruments are stated at market values, excluding the collateral established by the counterparty. Total exposure to each counterparty ('Total') is the sum of exposures arising from deposit and securities, increased by the exposure arising from derivative instruments, if it is positive (otherwise the exposure arising from derivatives is not included in total exposure). Exposure arising from all instruments is calculated from the moment of entering into transaction.

As at 31 December 2013 the Bank had signed framework agreements (in accordance with ISDA/ Polish Banks Association standards) with 26 local banks and 56 foreign banks and credit institutions. Additionally the Bank was a party of 63 CSA agreements (Credit Support Annex)/Polish Banks Association Agreements with established collateral and 7 ISMA agreements (International Securities Market Association).

#### Geographical localisation of counterparties

The counterparties generating the 20 largest exposures as at 31 December 2013 come from the following countries detailed in the table below (classified by location of registered office):

No.	Country	Counterparty
1	Belgium	Counterparty 14
2	Denmark	Counterparty 5
3	France	Counterparty 2; Counterparty 20, Counterparty 7
4	The Netherlands	Counterparty 4
5	Germany	Counterparty 9
6	Poland	Counterparty 1, Counterparty 10, Counterparty 12, Counterparty 13, Counterparty 16, Counterparty 18, Counterparty 6
7	Switzerland	Counterparty 17
8	Sweden	Counterparty 15
9	Ukraine	Counterparty 8
10	The United Kingdom	Counterparty 11, Counterparty 19, Counterparty 3

#### Counterparty structure by rating

Exposure structure by rating is presented in the table below. The ratings were determined based on external ratings granted by Moody's, Standard&Poor's and Fitch (when a rating was granted by two agencies, the lower rating was applied, whereas when a rating was granted by three agencies, the middle rating was applied). Rating for counterparties 1 to 20 was accepted as at 31 December 2013.

Rating	Counterparty
AA	Counterparty 11
A	Counterparty 1, Counterparty 2, Counterparty 3, Counterparty 4, Counterparty 5, Counterparty 7, Counterparty 9, Counterparty 14, Counterparty 15, Counterparty 17, Counterparty 19, Counterparty 20, Counterparty 12
BBB	Counterparty 6, Counterparty 10, Counterparty 16
BB	Counterparty 13, Counterparty 18
B	Counterparty 8

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**Credit risk of financial institutions on retail markets**

In addition to the interbank market exposure discussed above, as at 31 December 2013 the Bank had an exposure to financial institutions on the retail market. The structure of these exposures over PLN 10 million is presented in the table below:

	Nominal value of exposure (in PLN thousand)		Country of the counterparty
	Statement of financial position item	Off-balance	
Counterparty 8	150 600	-	Ukraine
Counterparty 12	500 000	-	Poland
Counterparty 27	50 000	-	Poland

#### 45.9. Management of foreclosed collateral

Foreclosed collaterals as a result of restructuring or debt collection activities are either used by PKO Bank Polski SA for internal purposes or designated for sale. Details of the foreclosed assets are analysed in order to determine whether they can be used by the Bank for internal purposes. All of the assets taken over as a result of restructuring and debt collection activities in the years ended 31 December 2013 and 31 December 2012, respectively, were designated for sale.

Activities undertaken by the Bank are aimed at selling assets as soon as possible. In individual and justified cases, assets may be withheld from sale. This occurs only if circumstances, which are beyond the control, indicate that the sale of the assets at a later date is likely to generate greater financial benefits. The primary procedure for a sale of assets is open tender. Other procedures are acceptable in cases where due to the nature of the assets sold they provide a better chance of finding a buyer and generate higher proceeds for the Bank.

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

The carrying amounts of non-financial assets held by the Bank, gained as a result of collateral as at 31 December 2013 amounted to PLN 7 594 thousand (as at 31 December 2012 it amounted to PLN 5 691 thousand). The above mentioned amounts are presented in Note 26, 'Other assets' in line item 'Other'.

#### 45.10. Credit risk reporting

The Bank prepares monthly and quarterly credit risk reports. The reporting of credit risk covers specifically cyclic information on the risk exposure of the credit portfolio. In addition to the information concerning the Bank, the reports also contain information about the credit risk level for the Group's subsidiaries (i.a. KREDOBANK SA and the PKO Leasing SA Group), which have significant credit risk levels.

#### 45.11. Management actions concerning credit risk

Basic credit risk management tools used by the Bank include:

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

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



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

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

The policy regarding legal collateral is defined by the Bank's internal regulations.

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

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

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

## **46. Interest rate risk management**

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

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

### **46.1. Measurement of interest rate risk**

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

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

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

Stress-tests are used to estimate potential losses arising from a held structure of the statement of financial position and off-balance sheet items under market conditions that cannot be described in a standard manner using statistical measures. Two types of scenarios are used by the Bank:

- 1) hypothetical scenarios – which are based on arbitrary interest rate fluctuations: a parallel move in interest rate curves for the particular currencies by  $\pm 50$  b.p., by  $\pm 100$  b.p. and by  $\pm 200$  b.p. and bend of yield curve scenarios (non-parallel fluctuations of peak and twist types),
- 2) historical scenarios – in which interest rate fluctuations are adopted based on the behaviour of interest rates in the past, including: the highest historical change, a bend of a yield curve along with portfolio positions, the largest historical non-parallel fluctuation of the interest rate curves for securities and derivative instruments that hedge them.

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The repricing gap shows the difference between the present value of assets and liabilities exposed to interest rate risk, subject to revaluation in a given time range, and these balances are recognised on the transaction date.

Repricing Gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
<b>PLN (in PLN thousand)</b>								<b>31.12.2013</b>
Periodic gap	33 491 276	65 625 011	(21 545 509)	(58 315 244)	(3 495 832)	4 730 212	360 845	<b>20 850 759</b>
Cumulative gap	33 491 276	99 116 287	77 570 778	19 255 534	15 759 702	20 489 914	20 850 759	
<b>PLN (in PLN thousand)</b>								<b>31.12.2012</b>
Periodic gap	29 913 475	66 427 582	(69 437 253)	(12 625 746)	3 882 918	1 224 585	730 987	<b>20 116 548</b>
Cumulative gap	29 913 475	96 341 057	26 903 804	14 278 058	18 160 976	19 385 561	20 116 548	-
<b>USD (in USD thousand)</b>								<b>31.12.2013</b>
Periodic gap	33 794	423 306	(1 020)	(432 499)	630	-	(198 927)	<b>(174 716)</b>
Cumulative gap	33 794	457 100	456 080	23 581	24 211	24 211	(174 716)	-
<b>USD (in USD thousand)</b>								<b>31.12.2012</b>
Periodic gap	149 449	673 159	(380 907)	(384 176)	9 229	543	(275 527)	<b>(208 230)</b>
Cumulative gap	149 449	822 608	441 701	57 525	66 754	67 297	(208 230)	-
<b>EUR (in EUR thousand)</b>								<b>31.12.2013</b>
Periodic gap	177 565	757 459	(96 278)	(680 680)	(474 881)	116 737	(13 300)	<b>(213 378)</b>
Cumulative gap	177 565	935 024	838 746	158 066	(316 815)	(200 078)	(213 378)	-
<b>EUR (in EUR thousand)</b>								<b>31.12.2012</b>
Periodic gap	652 430	312 206	(770 543)	89 561	(31 014)	(352 329)	(48 728)	<b>(148 417)</b>
Cumulative gap	652 430	964 636	194 093	283 654	252 640	(99 689)	(148 417)	-
<b>CHF (in CHF thousand)</b>								<b>31.12.2013</b>
Periodic gap	(740 322)	1 193 856	(1 676)	(40 262)	(499 979)	(7 676)	17 738	<b>(78 321)</b>
Cumulative gap	(740 322)	453 534	451 858	411 596	(88 383)	(96 059)	(78 321)	-
<b>CHF (in CHF thousand)</b>								<b>31.12.2012</b>
Periodic gap	(596 409)	1 040 577	(43 057)	(1 978)	1 030	(492 069)	20 184	<b>(71 722)</b>
Cumulative gap	(596 409)	444 168	401 111	399 133	400 163	(91 906)	(71 722)	-

As at the end of 2013 and 2012, PKO Bank Polski SA had a positive cumulative gap in PLN in all the time horizons.

## 46.2. Forecasting and monitoring of interest rate risk

Exposure of PKO Bank Polski SA to interest rate risk was, within accepted limits as at 31 December 2013. The Bank was mainly exposed to PLN interest rate risk, which represents about 67% of the Bank's Value at Risk (VaR) as at 31 December 2013. Interest rate risk was determined mainly by the risk of a mismatch between the repricing of interest rates of the Banks assets and liabilities.

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

Name of sensitivity measure	31.12.2013	31.12.2012
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)	54 930	64 451
Parallel movement of interest rate curves by 200 b.p. (in PLN thousand) (stress test)*	523 130	299 015

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

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As at 31 December 2013, the Bank's interest rate VaR for the 10-day time horizon (10-day VaR) amounted to PLN 54 930 thousand, which accounted for approximately 0.27% of the value of the Bank's own funds. As at 31 December 2012, VaR for the Bank amounted to PLN 64 451 thousand, which accounted for approximately 0.33% of the Bank's own funds.

### 46.3. Reporting of the interest rate risk

The Bank prepares daily, weekly, monthly and quarterly reports addressing interest rate risk. Reports present the information on interest rate risk exposure and usages of available limits regarding the risk.

### 46.4. Management decisions as regards interest rate risk

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

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

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

## 47. Currency risk management

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

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

### 47.1. Measurement of the currency risk

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

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

Stress-tests and crash-tests are used to estimate potential losses arising from currency position under extraordinary market conditions that cannot be described in a standard manner using statistical measures. Two types of scenarios are used by the Bank:

- 1) hypothetical scenarios – which assume a hypothetical appreciation or depreciation of currency rates (by 20 percent and 50 percent),
- 2) historical scenarios – based on the behaviour of currency rates observed in the past.

### 47.2. Forecasting and monitoring of currency risk

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

Name of sensitivity measure	31.12.2013	31.12.2012
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)	2 443	628
Change in CUR/PLN by 20% (in PLN thousand) (stress-test)*	21 428	3 869

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

The level of currency risk was low both as at 31 December 2013 and as at 31 December 2012.

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

Currency Position	31.12.2013	31.12.2012
EUR	13 110	(11 933)
USD	79 507	(8 277)
CHF	6 526	(20 127)
GBP	3 673	4 611
Other (Global Net)	6 020	12 395

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The volume of currency positions is a key factor determining the level of currency risk on which the Bank is exposed (except for volatility of foreign exchange rates). The level of currency positions is determined by all foreign currency transactions, which are concluded by the Bank, both in the statement of financial position (such as loans) and off-balance sheet (such as derivatives, CIRS transactions in particular). In accordance with the currency risk management principles at the Bank, the daily currency position opened by the Bank within the banking book (such as repayment of loans denominated in foreign currency by the clients, exposure currency conversion) is closed every day, also using derivative instruments. This means that the currency position of the Bank at the end of the day may constitute only of generated unclosed position in banking book on this day and currency position in trading book within the limits, which results in a low exposure of the Bank to currency risk (with reference to own funds, VaR for a 10-day time horizon for the Bank's currency position as at the end of 2013 amounted to approx. 0.012%).

### 47.3. Currency structure

The tables below present currency exposure by the specific types of assets, liabilities and off-balance sheet liabilities:

	Currency translated to PLN – 31.12.2013				
	PLN	EUR	CHF	Other	Total
<b>Assets, of which:</b>					
Cash and balances with the central bank	6 358 891	574 455	39 611	215 449	7 188 406
Amounts due from banks	798 058	605 433	12 468	713 365	2 129 324
Loans and advances to customers	124 232 696	7 822 554	19 923 489	1 774 819	153 753 558
Securities	29 287 880	145 846	-	-	29 433 726
Tangible assets	10 939 262	-	-	-	10 939 262
Other assets and derivative financial instruments	4 421 587	224 233	27 488	44 956	4 718 264
Total assets (gross)	176 038 374	9 372 521	20 003 056	2 748 589	208 162 540
Depreciation / amortisation / impairment	(11 036 819)	(127 989)	(614 160)	(103 640)	(11 882 608)
<b>Total assets (net)</b>	<b>165 001 555</b>	<b>9 244 532</b>	<b>19 388 896</b>	<b>2 644 949</b>	<b>196 279 932</b>
<b>Liabilities and equity, of which:</b>					
Amounts due to the central bank	4 065	-	-	-	4 065
Amounts due to banks	553 944	306 606	1 389 847	279 226	2 529 623
Amounts due to customers	139 571 382	9 944 645	3 967 233	6 474 411	159 957 671
Debt securities in issue	983 123	-	-	-	983 123
Subordinated liabilities	1 620 857	-	-	-	1 620 857
Provisions	296 289	9 100	467	4 625	310 481
Other liabilities and derivative financial instruments and provision for deferred tax liability	5 275 881	233 349	1 471	252 169	5 762 870
Equity	25 111 242	-	-	-	25 111 242
<b>Total liabilities and equity</b>	<b>173 416 783</b>	<b>10 493 700</b>	<b>5 359 018</b>	<b>7 010 431</b>	<b>196 279 932</b>
<b>Off-balance sheet liabilities granted</b>	<b>39 813 240</b>	<b>3 763 305</b>	<b>117 918</b>	<b>1 819 781</b>	<b>45 514 244</b>

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	Currency translated to PLN – 31.12.2012 restated				
	PLN	EUR	CHF	Other	Total
<b>Assets, of which:</b>					
Cash and balances with the central bank	9 367 928	661 352	32 991	166 959	10 229 230
Amounts due from banks	608 856	640 402	113 452	2 124 473	3 487 183
Loans and advances to customers	117 971 887	7 318 151	21 415 626	1 215 245	147 920 909
Securities	24 743 101	240 044	-	-	24 983 145
Tangible assets	9 999 038	-	-	-	9 999 038
Other assets and derivative financial instruments	4 776 280	343 070	80 099	68 848	5 268 297
Total assets (gross)	167 467 090	9 203 019	21 642 168	3 575 525	201 887 802
Depreciation / amortisation / impairment	(10 324 734)	(146 864)	(587 347)	(140 098)	(11 199 043)
<b>Total assets (net)</b>	<b>157 142 356</b>	<b>9 056 155</b>	<b>21 054 821</b>	<b>3 435 427</b>	<b>190 688 759</b>
<b>Total liabilities and equity, of which:</b>					
Amounts due to the central bank	3 128	-	-	-	3 128
Amounts due to other banks	432 274	435 339	1 393 048	242 227	2 502 888
Amounts due to customers	134 565 501	9 919 829	3 820 176	6 435 068	154 740 574
Debt securities in issue	865 905	-	-	-	865 905
Subordinated liabilities	1 631 256	-	-	-	1 631 256
Provisions	713 660	15 072	379	6 581	735 692
Other liabilities and derivative financial instruments and provision for deferred tax liability	5 158 285	312 801	265 729	97 684	5 834 499
Equity	24 374 817	-	-	-	24 374 817
<b>Total liabilities and equity</b>	<b>167 744 826</b>	<b>10 683 041</b>	<b>5 479 332</b>	<b>6 781 560</b>	<b>190 688 759</b>
<b>Off-balance sheet liabilities granted</b>	<b>38 291 335</b>	<b>3 719 156</b>	<b>126 535</b>	<b>1 892 459</b>	<b>44 029 485</b>

	Currency translated to PLN – 01.01.2012 restated				
	PLN	EUR	CHF	Other	Total
<b>Assets, of which:</b>					
Cash and balances with the central bank	8 453 599	344 819	28 725	233 137	9 060 280
Amounts due from banks	378 318	1 030 890	204 172	740 528	2 353 908
Loans and advances to customers	110 728 363	7 899 058	24 518 202	1 515 811	144 661 434
Securities	27 653 173	309 552	-	-	27 962 725
Tangible assets	9 369 430	-	-	-	9 369 430
Other assets and derivative financial instruments	3 810 568	261 014	41 031	85 269	4 197 882
Total assets (gross)	160 393 451	9 845 333	24 792 130	2 574 745	197 605 659
Depreciation / amortisation / impairment	(8 718 665)	(187 163)	(527 939)	(105 737)	(9 539 504)
<b>Total assets (net)</b>	<b>151 674 786</b>	<b>9 658 170</b>	<b>24 264 191</b>	<b>2 469 008</b>	<b>188 066 155</b>
<b>Total liabilities and equity, of which:</b>					
Amounts due to the central bank	3 454	-	-	-	3 454
Amounts due to other banks	1 035 519	710 879	3 443 872	131 120	5 321 390
Amounts due to customers	132 705 731	10 237 739	2 227 079	4 860 132	150 030 681
Debt securities in issue	3 105 588	-	-	-	3 105 588
Subordinated liabilities	1 614 377	-	-	-	1 614 377
Provisions	614 494	13 835	434	3 323	632 086
Other liabilities and derivative financial instruments and provision for deferred tax liability	4 476 390	316 645	4 523	71 860	4 869 418
Equity	22 489 161	-	-	-	22 489 161
<b>Total liabilities and equity</b>	<b>166 044 714</b>	<b>11 279 098</b>	<b>5 675 908</b>	<b>5 066 435</b>	<b>188 066 155</b>
<b>Off-balance sheet liabilities granted</b>	<b>32 642 150</b>	<b>3 731 493</b>	<b>157 150</b>	<b>1 545 004</b>	<b>38 075 797</b>

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#### 47.4. Reporting of the currency risk

The Bank prepares daily, weekly, monthly, and quarterly reports addressing currency risk. Reports gather the information on currency risk exposure and updates on available limits regarding the risk.

#### 47.5. Management decisions concerning currency risk

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

- procedures for currency risk management,
- limits and thresholds for currency risk,
- defining allowable types of transactions in foreign currencies and the exchange rates used in such transactions.

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

#### 48. Liquidity risk management

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

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

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

##### 48.1. Measurement of the liquidity risk

The Bank makes use of the following liquidity risk measures:

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

##### 48.2. Forecasting and monitoring of liquidity risk

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

	a'vista	0 - 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 24 months	24 - 60 months	over 60 months
<b>31.12.2013</b>								
Adjusted gap in real terms	7 013 631	13 166 722	(9 759 378)	(768 599)	1 984 857	5 271 529	18 081 601	(34 990 363)
Cumulative adjusted gap in real terms	7 013 631	20 180 353	10 420 975	9 652 376	11 637 233	16 908 762	34 990 363	-
<b>31.12.2012</b>								
Adjusted gap in Real terms	10 223 289	6 747 680	402 358	3 132 724	2 174 389	9 249 234	11 556 246	(43 485 920)
Cumulative adjusted gap in real terms	10 223 289	16 970 969	17 373 327	20 506 051	22 680 440	31 929 674	43 485 920	-

In all time horizons, PKO Bank Polski SA's cumulative adjusted liquidity gap in real terms as at 31 December 2013 and as at 31 December 2012 was positive. This means a surplus of assets receivable over liabilities payable.

The table below presents liquidity reserve of the Bank as at 31 December 2013 and as at 31 December 2012:

Name of sensitivity measure	31.12.2013	31.12.2012
Liquidity reserve up to 1 month* (in PLN million)	17 816	13 568

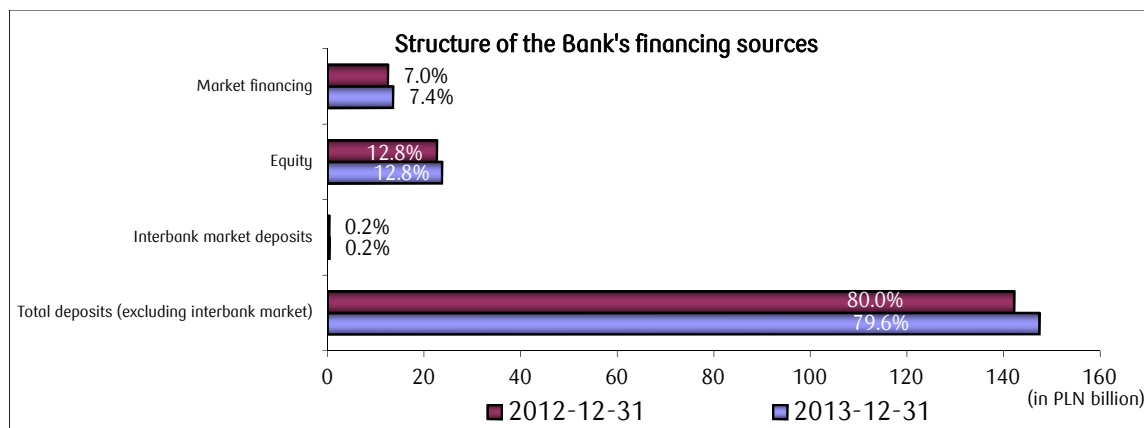
\*Liquidity reserve equals the gap between the most liquid assets and expected and potential liabilities which mature in a given period of time.

As at 31 December 2013 the level of permanent balances on deposits constituted approx. 95.9% of all deposits in the Bank (excluding interbank market), which means an increase by approximately 2.6 pp. as compared to the end of 2012.

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The chart below presents the structure of the Bank's sources of financing as at 31 December 2013 and as at 31 December 2012.


**48.3. The contractual flows of the Bank's liabilities excluding derivative financial instruments as at 31 December 2013 and as at 31 December 2012 respectively, by maturity**

The tables below show the contractual maturity analysis presenting the outstanding contractual maturity dates by individual categories of balance sheet and off-balance sheet liabilities, excluding derivative financial instruments as at 31 December 2013 and as at 31 December 2012 respectively.

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2013 and as at 31 December 2012. The amounts disclosed comprise non-discounted future flows, both in respect of principal and interest (if applicable), in accordance with the contract, for the entire period to the date of the liability's maturity. In situations where the party to whom the Bank has a liability is able to select the settlement deadline, it has been assumed that the earliest date on which the Bank is obliged to settle the liability shall be taken into account. In situations where the Bank is obliged to settle the liabilities in instalments, each instalment is allocated to the earliest period in which the Bank might be obligated to settle. In the case of liabilities where the instalment date is not fixed, the terms binding as at the reporting date have been adopted.

**Contractual flows of the Bank's liabilities as at 31 December 2013 by maturity**

	Up to 1 month	1 - 3 months	3 months-1 year	1 - 5 years	Over 5 years	Contractual value	Carrying amount
<b>Liabilities:</b>							
Amounts due to the central bank	4 065	-	-	-	-	4 065	4 065
Amounts due to other banks	1 186 145	5 345	14 412	1 430 013	-	2 635 915	2 529 623
Amount due to customers	94 392 577	15 994 946	26 010 843	20 710 859	6 160 417	163 269 642	159 957 671
Debt securities in issue	-	69 624	788 778	114 714	-	973 116	983 123
Subordinated liabilities	-	34 688	35 292	348 471	2 013 270	2 431 721	1 620 857
Other liabilities	1 902 583	75 322	492 082	36 789	35 514	2 542 290	2 434 721
Off-balance sheet financial liabilities - granted	20 718 989	843 027	3 626 376	3 191 009	5 857 417	34 236 818	-
Off-balance sheet guarantee liabilities - granted	155 833	321 019	2 347 372	7 179 190	1 274 013	11 277 427	-

**Contractual flows of the Bank's liabilities as at 31 December 2012 by maturity**

	Up to 1 month	1 - 3 months	3 months-1 year	1 - 5 years	Over 5 years	Contractual value	Carrying amount
<b>Liabilities:</b>							
Amounts due to the central bank	3 128	-	-	-	-	3 128	3 128
Amounts due to other banks	1 122 566	2 532	15 436	1 449 522	-	2 590 056	2 502 888
Amount due to customers	86 795 888	16 219 571	40 924 492	7 827 553	5 392 599	157 160 103	154 740 574
Debt securities in issue	-	500 000	174 352	186 526	-	860 878	865 905
Subordinated liabilities	-	52 389	53 257	422 874	2 129 220	2 657 740	1 631 256
Other liabilities	1 415 870	6 589	373 500	17 646	38 856	1 852 461	1 726 055
Off-balance sheet financial liabilities - granted	18 171 428	816 755	3 765 160	3 656 343	6 067 243	32 476 929	-
Off-balance sheet guarantee liabilities - granted	11 552 556	-	-	-	-	11 552 556	-

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**48.4. The contractual flows related to derivative financial instruments as at 31 December 2013 and as at 31 December 2012 respectively, by maturity dates**

**Derivative financial instruments settled in net amounts**

Derivative financial instruments settled by the Bank on a net basis include:

- interest rate swaps (IRS),
- Forward Rate Agreements (FRA),
- Non Deliverable Forwards (NDF),
- options.

The tables below show the contractual maturity analysis presenting the outstanding contractual maturity dates by individual categories of derivative financial instruments in respect of which the balance date valuation was negative (a liability) as at 31 December 2013 and as at 31 December 2012 respectively.

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2013 and as at 31 December 2012. In case of IRS transactions, non-discounted future net cash flows in respect of interest have been presented and in case of the remaining derivative instruments settled on a net basis, the amount of the valuation as at 31 December 2013 and as at 31 December 2012 respectively was adopted as the value of a cash flow.

Moreover, the cash flows from IRS transactions which constitute cash flow hedges in respect of loans with variable interest rates are shown separately in the table.

31 December 2013	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value
<b>Derivative financial instruments - liabilities:</b>						
- Interest Rate Swap (IRS) transactions, of which:	90 370	(57 992)	111 747	111 310	(10 916)	244 519
- derivative hedging instruments	49 757	14 229	48 532	150 395	-	262 913
- other derivative instruments: options, FRA, NDF	(41 165)	(8 319)	(48 048)	(41 165)	-	(138 697)
31 December 2012	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value
<b>Derivative financial instruments - liabilities:</b>						
- Interest Rate Swap (IRS) transactions, of which:	(23 128)	(277 200)	(535 706)	(742 846)	(86 351)	(1 665 231)
- derivative hedging instruments	-	(534)	24	(1 023)	-	(1 533)
- other derivative instruments: options, FRA, NDF	(5 871)	(9 398)	(129 056)	(45 167)	-	(189 492)

**Derivative financial instruments settled in gross amounts**

Derivative financial instruments settled by the Bank on a gross basis include:

- foreign currency swaps,
- foreign currency forwards,
- Cross Currency IRS (CIRS).

The tables below show the contractual maturity analysis, presenting the outstanding contractual maturity dates by individual categories of derivative financial instruments (inflows and outflows) in respect of which the balance date valuation was negative (a liability) as at 31 December 2013 and as at 31 December 2012 respectively.

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2013 and as at 31 December 2012. The amounts disclosed comprise non-discounted future cash flows, both in respect of principal and interest (if applicable).



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In the table below cash flows from CIRS transactions which constitute cash flow hedges in respect of mortgage loans denominated in CHF and deposits negotiated in PLN are shown separately.

31 December 2013	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value
<b>Derivative financial instruments:</b>						
- outflows, of which:	(1 849 706)	(450 043)	(1 495 046)	(3 028 734)	(1 071 151)	(7 894 680)
- derivative hedging instruments	(9 510)	(104 562)	(76 941)	(762 546)	(799 481)	(1 753 040)
- inflows, of which:	2 667 156	660 715	1 277 266	4 458 373	1 601 828	10 665 338
- derivative hedging instruments	16 525	376 723	249 269	2 611 406	1 320 615	4 574 538

31 December 2012	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value
<b>Derivative financial instruments:</b>						
- outflows, of which:	(2 350 623)	(1 591 972)	(5 725 783)	(3 207 017)	(379 212)	(13 254 607)
- derivative hedging instruments	(7 150)	(233 873)	(961 308)	(1 005 985)	(103 629)	(2 311 945)
- inflows, of which:	2 297 546	1 682 377	6 009 744	5 022 560	658 357	15 670 584
- derivative hedging instruments	34 582	256 419	2 619 538	3 283 481	373 846	6 567 866

**48.5. Current and non-current assets and liabilities**

31 December 2013

	Short-term	Long-term	Impairment allowances	Total carrying amount
<b>Assets</b>				
Cash and balances with the central bank	7 188 406	-	-	7 188 406
Amounts due from banks	1 871 381	257 943	(40 237)	2 089 087
Trading assets	484 485	-	-	484 485
Derivative financial instruments	822 493	2 179 727	-	3 002 220
Financial instruments designated upon initial recognition at fair value through profit and loss	14 185 577	993 611	-	15 179 188
Loans and advances to customers	40 032 445	113 721 113	(6 381 232)	147 372 326
Investment securities available for sale	622 781	13 147 272	(33 355)	13 736 698
Other assets	1 752 547	6 642 764	(1 167 789)	7 227 522
<b>Total assets</b>	<b>66 960 115</b>	<b>136 942 430</b>	<b>(7 622 613)</b>	<b>196 279 932</b>
<b>Liabilities</b>				
Amounts due to the central bank	4 065	-	-	4 065
Amounts due to banks	1 142 857	1 386 766	-	2 529 623
Derivate financial instruments	834 137	2 494 012	-	3 328 149
Amounts due to customers	134 878 913	25 078 758	-	159 957 671
Debt securities in issue	865 038	118 085	-	983 123
Subordinated liabilities	-	1 620 857	-	1 620 857
Other liabilities	2 613 104	132 098	-	2 745 202
<b>Total liabilities</b>	<b>140 338 114</b>	<b>30 830 576</b>	<b>-</b>	<b>171 168 690</b>
<b>Equity</b>	<b>-</b>	<b>25 111 242</b>	<b>-</b>	<b>25 111 242</b>
<b>Total liabilities and equity</b>	<b>140 338 114</b>	<b>55 941 818</b>	<b>-</b>	<b>196 279 932</b>

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31 December 2012 restated

	Short-term	Long-term	Impairment allowances	Total carrying amount
<b>Assets</b>				
Cash and balances with the central bank	10 229 230	-	-	10 229 230
Amounts due from banks	3 221 423	265 760	(30 792)	3 456 391
Trading assets	282 230	-	-	282 230
Derivative financial instruments	1 138 959	2 722 497	-	3 861 456
Financial instruments designated upon initial recognition at fair value through profit and loss	11 036 163	1 578 754	-	12 614 917
Loans and advances to customers	38 549 901	109 371 008	(6 228 629)	141 692 280
Investment securities available for sale	911 348	11 174 650	(24 592)	12 061 406
Other assets	2 020 540	5 322 089	(851 780)	6 490 849
<b>Total assets</b>	<b>67 389 794</b>	<b>130 434 758</b>	<b>(7 135 793)</b>	<b>190 688 759</b>
<b>Liabilities</b>				
Amounts due to the central bank	3 128	-	-	3 128
Amounts due to other banks	1 114 300	1 388 588	-	2 502 888
Derivative financial instruments	1 276 556	2 687 614	-	3 964 170
Amounts due to customers	143 079 441	11 661 133	-	154 740 574
Debt securities in issue	679 433	186 472	-	865 905
Subordinated liabilities	-	1 631 256	-	1 631 256
Other liabilities	2 147 632	458 389	-	2 606 021
<b>Total liabilities</b>	<b>148 300 490</b>	<b>18 013 452</b>	<b>-</b>	<b>166 313 942</b>
<b>Equity</b>	<b>-</b>	<b>24 374 817</b>	<b>-</b>	<b>24 374 817</b>
<b>Total liabilities and equity</b>	<b>148 300 490</b>	<b>42 388 269</b>	<b>-</b>	<b>190 688 759</b>

1 January 2012 restated

	Short-term	Long-term	Impairment allowances	Total carrying amount
<b>Assets</b>				
Cash and balances with the central bank	9 060 280	-	-	9 060 280
Amounts due from banks	2 224 379	129 529	(33 710)	2 320 198
Trading assets	638 321	672 768	-	1 311 089
Derivative financial instruments	1 305 142	1 760 007	-	3 065 149
Financial instruments designated upon initial recognition at fair value through profit and loss	11 666 896	800 305	-	12 467 201
Loans and advances to customers	35 947 439	108 713 995	(4 982 790)	139 678 644
Investment securities available for sale	1 954 712	12 229 723	(15 502)	14 168 933
Other assets	1 607 868	5 052 551	(665 758)	5 994 661
<b>Total assets</b>	<b>64 405 037</b>	<b>129 358 878</b>	<b>(5 697 760)</b>	<b>188 066 155</b>
<b>Liabilities</b>				
Amounts due to the central bank	3 454	-	-	3 454
Amounts due to other banks	5 321 363	27	-	5 321 390
Derivative financial instruments	883 657	1 761 624	-	2 645 281
Amounts due to customers	140 943 018	9 087 663	-	150 030 681
Debt securities in issue	2 929 973	175 615	-	3 105 588
Subordinated liabilities	-	1 614 377	-	1 614 377
Other liabilities	2 401 342	454 881	-	2 856 223
<b>Total liabilities</b>	<b>152 482 807</b>	<b>13 094 187</b>	<b>-</b>	<b>165 576 994</b>
<b>Equity</b>	<b>-</b>	<b>22 489 161</b>	<b>-</b>	<b>22 489 161</b>
<b>Total liabilities and equity</b>	<b>152 482 807</b>	<b>35 583 348</b>	<b>-</b>	<b>188 066 155</b>

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#### **48.6. Reporting of the liquidity risk**

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

#### **48.7. Management actions concerning liquidity risk**

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

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

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

#### **49. Commodity price risk management**

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

The objective of commodity price risk management is to reduce potential losses resulting from changes in commodity prices to the acceptable level by manipulating the structure of balance sheet and off-balance sheet commodity items.

Commodity price risk is managed by imposing limits on instruments generating the commodity price risk, monitoring their use and reporting the risk level.

The effect of commodity price risk on the Bank's financial position is immaterial.

#### **50. Price risk of equity securities management**

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

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

Managing the price of risk equity securities is aimed at limiting possible losses due to changes in the prices of equity securities on the public market or stock exchange indices to a level acceptable to the Bank, by optimising the positions taken in instruments sensitive to changes in these market parameters.

The risk is managed by imposing limits on the activities of the Brokerage House of PKO Bank Polski SA and by monitoring the utilisation thereof.

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

The Bank prepares monthly and quarterly reports addressing the price risk of equity securities. Reports contain the information on equity securities price risk exposure and usage of available limits regarding the risk.

#### **51. Other price risks**

Taking into consideration other price risks, at the end of the year 2013, the Bank was exposed to price risk of investment fund participation units in collective investment funds.

Influence of this risk to the Bank's financial situation is also immaterial - a capital requirement, pursuant to the Resolution No. 76/2010 of the Polish Financial Supervision Authority (with subsequent amendments), to cover the above mentioned risk amounted to approx. PLN 60 thousand at the end of the year 2013.



## **52. Derivative instruments risk management**

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

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

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

### **52.1. Measurement of the derivative instruments risk**

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

### **52.2. Forecasting and monitoring of derivative instruments risk**

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

### **52.3. Reporting of derivative instruments risk**

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

### **52.4. Management actions concerning risk of derivative instruments**

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

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

Risk management is carried out by imposing limits on derivative instruments included in the trading and banking portfolios, monitoring limits and reporting risk level.

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

## **53. Operational risk management**

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

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

### **53.1. Measurement of the operational risk**

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

- calculation of Key Risk Indicators (KRI),
- calculation of AMA result,
- stress-tests,
- calculation of capital requirements and internal capital.

Identification and assessment of operational risk comprises operational risk appearing in the existing products, processes and IT applications of the Bank, and is conducted with the use of:

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

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### **53.2. Forecasting and monitoring of operational risk**

The Bank regularly monitors:

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

### **53.3. Reporting of operational risk**

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

- the results of measuring and monitoring of operational risk,
- the operational risk profile of the Bank resulting from the process of identifying and assessing the threats for products, processes and IT applications of the Bank,
- actions taken to reduce operational risk and evaluate the effectiveness of actions taken to reduce the operational risk level,
- recommendation and decision of the Operational Risk Committee or the Management Board.

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

### **53.4. Management actions concerning operational risk**

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

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

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

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

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

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

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

### **54. Compliance risk management**

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

The objective of the compliance risk management is:

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

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

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

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

**54.1. Monitoring of compliance risk includes in particular:**

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

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

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

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

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

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

**55. Business risk management**

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

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

**55.1. Business risk measurement**

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

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

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

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



## **55.2. Forecasting and monitoring of business risk**

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

Monitoring of business risk includes in particular:

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

## **55.3. Reporting of business risk**

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

## **55.4. Management decisions concerning business risk**

The main tools used in business risk management in the Bank include:

- procedures for business risk management,
- limits and thresholds for business risk.

## **56. Reputation risk management**

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

Reputation risk management in the Bank includes mainly:

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

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

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

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

## **57. Model risk management**

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

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

### **57.1. Identification and assessment of model risk**

Identification of model risk in the Bank mainly consists of:

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

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

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

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



## **57.2. Model risk monitoring**

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

## **57.3. Model risk reporting**

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

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

## **57.4. Management actions concerning model risk**

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

Management actions in particular consist of:

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

## **58. Macroeconomic changes risk management**

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

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

### **58.1. Identification and assessment of risk of macroeconomic changes**

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

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

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

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

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

### **58.2. Macroeconomic changes risk monitoring**

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

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

### **58.3. Macroeconomic changes risk reporting**

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

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



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#### **58.4. Management actions concerning risk of macroeconomic changes**

Management actions in particular consist of:

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

#### **59. Complex stress-tests**

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

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

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

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

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

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

#### **60. Capital adequacy**

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

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

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

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

The main measures of capital adequacy are:

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

As at 31 December 2013 the capital adequacy ratio of the Bank increased by 0.64 pp. to the level of 13.38% compared to 31 December 2012. It was mainly caused by the increase in the value of the Bank's own funds for capital adequacy purposes.

The level of capital adequacy of the Bank in 2013 remained on a safe level, significantly above the statutory limits.

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## 60.1. Own funds for capital adequacy purposes

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

Own funds comprise basic funds, supplementary funds and short-term capital.

Basic funds (so called Tier 1) are comprised of the following items:

- 1) principal funds comprising: share capital, reserve capital, other reserve capital,
- 2) general banking risk fund,
- 3) unappropriated profits from previous years,
- 4) net profit prior to approval and net profit for the current reporting period, calculated based on appropriate accounting standards, decreased by any expected charges and dividends, in amounts not exceeding amounts audited by certified public accountants, in accordance with the Banking Law, Article 127.2, Point 2) c).

Basic funds are reduced by deducting the following items:

- 1) intangible assets stated at carrying amount,
- 2) the Bank's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies – in the amount of 50% of the value of such exposures,
- 3) unrealised losses on debt and equity instruments and other receivables classified as available for sale,
- 4) negative amounts in respect of adjustments on revaluation of assets in the trading portfolio.

Supplementary funds (so called Tier 2) are comprised of the following items:

- 1) subordinated liabilities,
- 2) unrealised gains on debt and equity instruments classified as available for sale – in the amount of 80% of their pre-tax value.

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

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

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

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

<b>BANK'S OWN FUNDS</b>	<b>31.12.2013</b>	<b>31.12.2012 restated</b>
<b>Basic funds (Tier 1)</b>	<b>19 346 921</b>	<b>18 344 766</b>
Share capital	1 250 000	1 250 000
Reserve capital	16 598 111	15 198 111
Other reserves	3 416 893	3 385 743
General banking risk fund for unidentified banking activities risk	1 070 000	1 070 000
Unappropriated profits from previous years	(271 242)	(224 681)
Unrealised losses on debt and equity instruments and other receivables classified as available for sale	(134 128)	(72 303)
Assets valuation adjustments in trade portfolio	(5 656)	(504)
Intangible assets	(1 944 132)	(1 681 120)
Equity exposures	(632 925)	(580 480)
<b>Supplementary funds (Tier 2)</b>	<b>1 022 720</b>	<b>1 087 104</b>
Subordinated liabilities classified as supplementary funds	1 600 700	1 600 700
Unrealised profits on debt and equity instruments classified as available for sale (up to 80% of their values before tax)	54 945	66 884
Equity exposures	(632 925)	(580 480)
<b>Short-term equity (Tier 3)</b>	<b>154 112</b>	<b>129 641</b>
<b>TOTAL EQUITY</b>	<b>20 523 753</b>	<b>19 561 511</b>

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## 60.2. Capital requirements (Pillar 1)

PKO Bank Polski SA calculates capital requirements in accordance with the Resolution No. 76/2010 of the Polish Financial Supervision Authority dated 10 March 2010 on scope and detailed principles of setting capital requirements in connection with the individual risk types (PFSA's Journal of Laws No 2, item 11 dated 9 April 2011 with subsequent amendments):

- in respect of credit risk - using the standard method,
- in respect of operational risk - using the advanced method (AMA),
- in respect of market risk - using basic methods.

The scale of the Bank's trading activities is significant, therefore the total capital requirements constitute sum of the capital requirements for:

- 1) credit risk - including credit risk of the banking book and counterparty credit risk,
- 2) market risk - including foreign exchange risk, commodities risk, equity securities risk, specific risk of debt instruments, general risk of interest rates,
- 3) operational risk,
- 4) other types of capital requirements in respect of:
  - settlement/delivery risk,
  - the risk of exceeding the exposure concentration limit and the large exposure limit,
  - the risk of exceeding the capital concentration threshold.

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

Capital requirements	31.12.2013	31.12.2012 restated
<b>Credit risk</b>	<b>11 391 785</b>	<b>11 189 556</b>
credit risk (banking book)	11 236 568	11 024 904
counterparty risk (trading book)	155 217	164 652
<b>Market risk</b>	<b>340 410</b>	<b>526 814</b>
equity securities price risk	17 507	586
specific risk of debt instruments	226 561	441 346
general risk of interest rates	96 322	84 882
settlements and deliveries	20	-
<b>Operational risk</b>	<b>539 813</b>	<b>566 904</b>
<b>Total capital requirements</b>	<b>12 272 008</b>	<b>12 283 274</b>
<b>Capital adequacy ratio</b>	<b>13.38%</b>	<b>12.74%</b>

An increase in the capital requirement in respect of credit risk by PLN 202 million (an increase of approx. 1.8%) to the level of PLN 11 392 million, resulted mainly from an increase in 2013 in the volume of loan portfolio (in statement of financial position and off-balance sheet exposure by approx. 3.6%).

A decrease in the capital requirement in respect of market risk by 35% to the level of PLN 340 million including mainly corporate bonds issue underwriting, and portfolio of corporate bonds (total decrease in the requirements on bonds approx. by 57%).

The Bank's capital requirements in respect of operating risk have been calculated under the advanced measurement approach (AMA). A slight decrease of requirement in respect of operating risk from PLN 567 million (as at 31 December 2012) to PLN 540 million (as at 31 December 2013).

The Bank calculates capital requirements on account of credit risk according to the following formula:

- in case of statement of financial position items - a product of a carrying amount, a risk weight of the exposure calculated according to the standardised method of credit risk requirement and 8% (considering collateral),
- in case of granted off-balance sheet liabilities - a product of nominal value of liability (considering value of allowances on the liability), a risk weight of the product, a risk weight of off-balance sheet exposure calculated according to the standardised method of credit risk requirement and 8% (considering recognised collateral),
- in case of off-balance sheet transactions (derivative instruments) - a product of risk weight of the exposure calculated according to the standardised method of credit risk requirement, equivalent in the statement of financial position of off-balance sheet transaction and 8% (the value of the equivalent in the statement of financial position is calculated in accordance with the mark-to-market method).

Risk-weighted amount divided into portfolios (on account of credit risk of instruments included into banking book, counterparty credit risk and specific risk of instruments from the trading portfolio) as at 31 December 2013 and as at 31 December 2012 are as follows:

Financial instruments	Carrying amount	Risk - weighted value	Carrying amount	Risk - weighted value
	31.12.2013		31.12.2012	
Bank portfolio	189 165 113	125 074 657	186 123 995	122 498 742
Trading portfolio	7 114 819	1 876 552	4 564 764	2 038 936
<b>Total</b>	<b>196 279 932</b>	<b>126 951 209</b>	<b>190 688 759</b>	<b>124 537 678</b>

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Off-balance sheet liabilities granted (financial and guarantees)	Nominal value	Statement of financial position equivalent	Risk - weighted value	Nominal value	Statement of financial position equivalent	Risk - weighted value
31.12.2013				31.12.2012 restated		
Bank portfolio	41 839 177	16 212 424	14 736 876	40 355 900	16 008 662	14 702 977
Trading portfolio	3 675 067	3 675 067	1 174 298	3 673 585	3 673 585	3 485 214
<b>Total</b>	<b>45 514 244</b>	<b>19 887 491</b>	<b>15 911 174</b>	<b>44 029 485</b>	<b>19 682 247</b>	<b>18 188 191</b>

Derivative financial instruments	Nominal value	Statement of financial position equivalent	Risk - weighted value	Nominal value	Statement of financial position equivalent	Risk - weighted value
31.12.2013				31.12.2012 restated		
Bank portfolio	44 466 935	1 550 249	645 573	54 389 358	1 938 105	810 449
Trading portfolio	219 290 603	4 497 619	1 940 208	238 509 794	4 192 036	2 058 153
<b>Total</b>	<b>263 757 538</b>	<b>6 047 868</b>	<b>2 585 781</b>	<b>292 899 152</b>	<b>6 130 141</b>	<b>2 868 602</b>

### 60.3. Internal capital (Pillar 2)

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

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

- credit risk (including default and concentration risks),
- currency risk,
- interest rate risk,
- liquidity risk,
- operational risk,
- business risk (including strategy risk).

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

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

The internal capital for covering the individual risk types is determined using the methods specified in the internal regulations. In the event of performing internal capital estimates based on statistical models, the annual forecast horizon is adopted and a 99.9% confidence level. The total internal capital of the Bank is the sum of internal capital amount necessary to cover all of the significant risks for the Bank.

The Bank adopts a prudent approach to the aggregation of risks and does not rely on the diversification effect. In 2013, the relation of the Bank's own funds to its internal capital remained on a level exceeding both the threshold set by the law and the Bank's internal limits.

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#### **60.4. Disclosures (Pillar 3)**

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

Details of the scope of capital adequacy information disclosed, the method of its verification and publication are presented in the PKO Bank Polski SA Capital Adequacy Information Policies, which are available on the Bank's website ([www.pkobp.pl](http://www.pkobp.pl)).

#### **61. Information on loan bundle sale**

The Bank did not enter any securitisation transactions, although:

- 1) in 2012, the Bank performed a bundle sale of 99 thousand retail loans classified as 'loss' in relation to individuals who do not conduct business activities. Sales subject the debt portfolio amounted to PLN 1 133 million and 2 thousand loans from institutional clients classified as 'loss', with a total value of PLN 288.2 million,
- 2) in 2013, the Bank carried out the subsequent bundle sales:
  - in the first quarter, over 3 thousand retail loans classified as 'loss' in relation to individuals who do not conduct business activities, with a total debt of PLN 60.8 million, over 580 corporate loans classified as 'loss' with a total debt of PLN 47 million and 53 loans from institutional clients classified as 'loss', with a total debt of PLN 88.8 million,
  - in the second quarter, over 8.3 thousand retail loans classified as 'loss' in relation to individuals who do not conduct business activities, with a total debt of PLN 212 million and over 116 corporate loans (mortgage-secured) classified as 'loss'. The sale covered a portfolio with a total debt of PLN 118 million,
  - in the third quarter, nearly 15 thousand retail loans (including mortgage-secured loans, credit cards loans and loans in which debtors were convicted for an offence as a result of a valid criminal court judgment) classified as 'loss' in relation to individuals who do not conduct business activities, with a total debt of PLN 321.5 million, CHF 14.3 million and EUR 298 thousand, over 3.1 thousand corporate loans classified as 'loss' with a total debt of PLN 296 million, EUR 2.4 million, CHF 6.1 million, and 75 loans from institutional clients classified as 'loss', with a total debt of PLN 270 million,
  - in the fourth quarter, over 9.8 thousand retail loans (including credit cards loans) classified as 'loss' in relation to individuals who do not conduct business activities, with a total debt of PLN 155 million, over 730 corporate loans classified as 'loss' with a total debt of PLN 63.7 million, and 90 loans from institutional clients classified as 'loss', with a total debt of PLN 272 million and USD 4.5 million.

The total carrying amount of the provision for potential claims on impaired loan portfolios sold as at 31 December 2013 amounted to PLN 2 087 thousand (as at 31 December 2012 it was PLN 5 502 thousand).

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



## OTHER ADDITIONAL NOTES, INCLUDING INFORMATION ON THE ENTITY AUTHORISED TO AUDIT FINANCIAL STATEMENTS AND EVENTS AFTER THE REPORTING PERIOD

### 62. Influence of macroeconomic situation on the Bank's financial results

The global macroeconomic situation had a significant influence on the activities and financial situation of the Bank in 2013. In the first half of the year the financial markets participants were again focused on the problems of the euro zone's banking sectors in relation to the aid package for Cyprus. Agreement on the rules of financial support for Cypriot banks (in particular the project for a 'tax on deposits') increased uncertainty in the financial markets and negatively affected the deposit base of banks in the euro zone, which in turn had a negative effects on the liquidity situation and the willingness of banks to grant loans. In response to low economic activity in the euro zone and worsening projections for inflation (risk of price dynamics staying below the ECB's stability criterion in a long term), the ECB Council decided to decrease basic interest rate (repo) from 0.75% as at the beginning of the year to 0.25% at the end of 2013. Parallel to the decision on the level of interest rates, the ECB was preparing to take over the role of the regulator of the banking sector in the euro zone, including carrying out another round of stress tests (stress-test) in cooperation with the European Banking Authority (EBA) and was considering a new custom tool aimed at further easing financial conditions in the euro zone. Announced in 2012 the OMT program (buying euro zone bonds by the ECB) was not launched. An important role in determining the behavior of financial market participants in 2013 had also the intensification of expectations of a gradual reduction of the scale of the quantitative program of easing of monetary policy (QE) in the U.S. Starting from May, when the federal open market committee FED (FOMC) signaled willingness to reduce the dynamics of the asset purchase, there has been an outflow of capital from emerging markets, including Poland, despite the continuation of quantitative expansion in the U.S. and Japan. Considering improvement in the U.S. labor market and the reduction of the negative risks to economic growth in the U.S., in December 2013 FOMC has decided, starting from January 2014, to reduce the pace of assets purchase within the QE program.

In 2013, GDP growth in Poland amounted to 1.6% compared with 1.9% in 2012. After reaching a cyclical 'low point' in the first quarter (GDP growth by 0.5% y/y), a slight acceleration in the second quarter (to 0.8% y/y), as expected, in the second half of the year, the economy entered the path of recovery (growth in the third quarter by 1.9% y/y and in fourth quarter by ~ 3.0% y/y). Together with the improvement in activity in the second half of the year, the change of the economic growth factors had been continued. In the second half of the year, the role of domestic demand increased, as a result of a gradual improvement in consumer and investment demand. Despite an increase in the import-intensive component of the domestic sale, sustained (throughout the year) strong exports favored positive contribution of net exports to growth. Due to inflation remaining below the lower bracket of fluctuations, in 2013 the Monetary Policy Council ('RPP') decided to decrease interest rates by total of -175 b.p. (and -225 b.p. in the whole cycle), which brought the reference rate to the level of 2.50%. In November was announced that interest rates will remain at this level at least until mid-2014.

PKO Bank Polski SA has positively passed the stress tests carried out in the second half of 2013 by Polish Financial Supervision Authority. Tests results confirm the high resistance of PKO Bank Polski to the occurrence of macroeconomic shocks. In each scenario the Bank records a net profit and value of capital adequacy measures remains above the internal and external limits.

Taking into account the impact of the macroeconomic situation on the condition of the customers of PKO Bank Polski SA, the Bank strictly follows a conservative approach to credit risk by recognising impairment losses whose scale and structure reflects the impact of the current macroeconomic situation on the Bank's financial statements.

The financial results achieved by the Bank in 2013 shaped up on a high level, and loan and deposit volumes were the highest among institutions in Polish banking sector. In 2013, the Bank developed its business activities based on a safe and effective structure of financing.

Despite the negative growth in net profit on an annual basis, very good financial results were achieved in 2013. Compared to last year, in the structure of profit, a decrease in net interest income was recorded as a result of a strong reduction in market interest rates, which was partially offset by an increase in net fee and commission income, high operating income and an improvement in net impairment allowance. In addition, the discipline in terms of administrative expenses, despite the negative growth in the Bank's income items, helped to maintain the high efficiency of the Bank's activity measured with the C/I ratio.

Achieved financial results of the Bank are an important element of the strategy 'PKO Bank Polski. Codziennie Najlepsz' ('PKO Bank Polski. Daily the Best') implementation for the years 2013-2015. Strategic objectives are implemented within 6 long-term strategic levers: 'Satysfakcja klienta' ('Customer satisfaction'), 'Doskonałość dystrybucyjna' ('Distribution excellence'), 'Innowacje i technologie' ('Innovation and technology'), 'Efektywność organizacji' ('Organisational effectiveness'), 'Rozwój kompetencji' ('Development of competencies'), 'Akwizycje i aliance' ('Acquisitions and alliances'). Key strategic initiatives focus on increasing value for shareholders, as well as strengthening the brand in areas such as: professionalism and flexibility of customer service, modern product offer, innovation and mobile technologies and branch network standards. The strategic aim is also to ensure a high profitability and operating efficiency, while maintaining safe levels of capital adequacy and liquidity ratios.

Due to the exposure in Ukrainian companies, in particular KREDOBANK SA, the Bank is exposed to the effects of risks characteristic to the Ukrainian market. In 2013, the Ukraine's economy was in stagnation (GDP growth amounted to 0.0% y/y after a decline of 0.2% y/y in 2012), which was due to a decline in investment demand, slowdown in private consumption and a decline in demand for primary export goods of Ukraine.

In the last months of 2013 and at the beginning of 2014, the political and social situation in Ukraine significantly deteriorated, which generate risks to the economic environment (risk of macroeconomic instability and insolvency of Ukraine, availability of foreign financing, risk of financial market and hryvnia exchange rate instability, risk to the stability of banking sector and regulatory uncertainty).

As a result of the rapid pace of running out foreign currency reserves, in February 2014, the National Bank of Ukraine (NBU) departed from the intervention policy in order to maintain a stable foreign exchange rate by introducing a variable rate regime. Administrative restrictions on the use of currencies by legal entities other than banks (e.g. prohibition of prepayment of foreign currency liabilities to non-residents). The scale of financing of banks by the NBU was also reduced. It intensified depreciation of the Ukrainian currency towards other main foreign currencies. Attempts to maintain the hryvnia exchange rate resulted in reduction of currency reserves which have decreased to the lowest level for the last eight years. Rating of Ukraine was decreased to Caa2 with negative perspective (Moody's as at 31 January 2014), CCC with a negative perspective (S&P's and Fitch in February 2014). This led to the reduction in the rating of banks operating in Ukraine including KREDOBANK SA to CCC level.

There is a risk of intensification of macroeconomic instability in Ukraine, especially in case of lack of rapid solution of the ongoing political crisis.

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PKO Bank Polski SA continues to implement measures aimed at ensuring the safe functioning of its companies in Ukraine in the environment of the current political and macroeconomic situation. These measures include strengthening supervisory activities, i.e. monitoring funds transferred to the Companies by the Bank and the development of the regulatory requirements determined by the National Bank of Ukraine. The bank is continuously analysing macroeconomic risks for KREDOBANK SA activities.

### 63. Information on the entity authorised to audit financial statements

Entity authorised to audit financial statements with which PKO Bank Polski SA concluded an agreement is PricewaterhouseCoopers Sp. z o.o. The agreement concerns auditing the financial statements of PKO Bank Polski SA as well as auditing the consolidated financial statements of the PKO Bank Polski SA Group. The above agreement was concluded on 14 April 2011.

Total net remuneration of PricewaterhouseCoopers Sp. z o.o. for the audit of the separate financial statements and consolidated financial statements of PKO Bank Polski SA amounted in 2013 to PLN 1 140 thousand (2012: PLN 1 140 thousand), total net remuneration for the certifying services, including the review of the financial statements amounted in 2013 to PLN 1 1731 thousand (2012: PLN 2 795 thousand).

Total net remuneration of PricewaterhouseCoopers Sp. z o.o. related to rendering PKO Bank Polski SA other services amounted in 2013 to PLN 341 thousand (2012: PLN 438 thousand).

### 64. Events after the reporting period

1. On 8 January 2014 the Supervisory Board of PKO Bank Polski SA passed the Resolutions appointing again:

- Mr Zbigniew Jagiełło for the position of the President of the Management Board of the Bank,
- Mr Piotr Alicki for the position of the Vice-President of the Management Board of the Bank,
- Mr Bartosz Drabikowski for the position of the Vice-President of the Management Board of the Bank,
- Mr Piotr Mazur for the position of the Vice-President of the Management Board of the Bank,
- Mr Jarosław Myjak for the position of the Vice-President of the Management Board of the Bank,
- Mr Jacek Obłękowski for the position of the Vice-President of the Management Board of the Bank,
- Mr Jakub Papierski for the position of the Vice-President of the Management Board of the Bank.

According to the passed Resolutions, the above mentioned persons have been appointed to perform indicated functions in the PKO Bank Polski SA for the joint term of the Management Board of the Bank which commence with the end of the current joint term of the Management Board of the Bank.

2. On 13 January 2014, a new company – Polski Standard Płatności Sp. z o.o. was registered with the National Court Register. The share capital of the Company amounts to PLN 2 271 thousand. All shares of the Company were acquired by PKO Bank Polski SA. The Company was established as part of the project for building a new mobile payments standard in Poland.
3. On 20 January 2014, a decrease in share capital of CENTRUM HAFNERA Sp. z o.o., through redemption of shares owned by the Shareholder – the City of Sopot, was registered with the National Court of Register, and on 20 January 2014, CENTRUM HAFNERA Sp. z o.o. became a subsidiary of PKO Bank Polski SA.
4. On 23 January 2014, PKO Finance issued within the framework of Programme another series of bonds with a total nominal value of 500 000 000 EUR, which conditions have been settled in a supplement to the agreement of the loan of 20 January 2014 and Emission Conditions (Final Terms) forming part of the documentation, including the prospectus EMTN programme of 8 May 2013, along with supplements. Issued bonds at a fixed interest rate of 2.324% per annum, payable annually, with the maturity of 5 years. The bonds are listed on the LSE in Luxembourg. In connection with the issue on 23 January 2014, PKO Finance granted to the Bank a cash loan, in an amount corresponding to the amount of proceeds received from the bonds issue, for general financing purposes of the Bank. The interest rate on the loan is fixed and corresponds to the interest rate on the bonds issued. The loan is unsecured and has been granted for a period of five years. The loan granted to the Bank by PKO Finance is not subordinated.
5. On 5 February 2014, PKO Bank Polski SA made a capitalisation to KREDOBANK SA through a financial donation in the amount of USD 6 020 thousand (i.e. PLN 18 656 thousand at the average NBP exchange rate as at the date of funds transfer).
6. In February 2014, there was a fulfillment of the following suspensive conditions, relating to the completion of the acquisition transaction of the Nordea Group entities:
  - a condition involving the uninterrupted (significantly) provision, by the entity from the Nordea Group (i.e. Nordea IT Polska Sp. z o.o.) in favour of Nordea Bank Polska SA, within the contractual period, of IT services, defined in the outsourcing agreement, enabling the safe operation of Nordea Bank Polska SA prior to migration of data, customer data, services and systems of Nordea Bank Polska SA to the Bank systems.
  - issuing by the Polish Financial Supervision Authority a decision declaring no grounds for objections against acquisition by PKO Bank Polski SA of shares of Nordea Bank Polska Towarzystwo Ubezpieczeń na Życie SA in a number resulting in exceeding a 50% share in the share capital and in the total number of votes at the general meeting of this Company.



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7. On 3 March 2013 Polish Financial Supervision Authority took the decision that there were no ground for objections against the acquisition of shares of Nordea Bank Polska SA in a number resulting in exceeding a 50% stake in the share capital and the total number of votes at the general meeting of the Entity. Obtaining the decision satisfies the last condition precedent for the closing of the Transaction set out in the Agreement. Additionally, obtaining the Nordea Bank Polska Decision satisfies the condition determined in item 24 of the tender offer for the sale of shares of Nordea Bank Polska announced by the Bank on 3 December 2013 (the "Tender Offer").

Subject to technical capability, the Bank will take actions aimed at settling the transaction of acquisition of shares of Nordea Bank Polska under the Tender Offer on 4 April 2014. If technical considerations prevent the settlement of this transaction on 4 April 2014, it will be settled on 9 April 2014 at the latest.

Signatures of all Members of the Management Board of the Bank

04.03.2014	Zbigniew Jagiełło	President of the Management Board	..... (signature)
04.03.2014	Piotr Alicki	Vice-President of the Management Board	..... (signature)
04.03.2014	Bartosz Drabikowski	Vice-President of the Management Board	..... (signature)
04.03.2014	Piotr Mazur	Vice-President of the Management Board	..... (signature)
04.03.2014	Jarosław Myjak	Vice-President of the Management Board	..... (signature)
04.03.2014	Jacek Obłąkowski	Vice-President of the Management Board	..... (signature)
04.03.2014	Jakub Papierski	Vice-President of the Management Board	..... (signature)

Signature of person responsible for  
maintaining the books of account

04.03.2014

Danuta Szymańska  
Director of the Accounting Division

.....  
(signature)