Bank Polski

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

Report publication date:
1 September 2014

Bank Polski

SELECTED FINANCIAL DATA DERIVED FROM THE CONSOLIDATED FINANCIAL STATEMENTS

SELECTED CONSOLIDATED FINANCIAL DATA	PLN thousand		EUR thousand	
	period from 01.01.2014 to 30.06.2014	period from 01.01.2013 to 30.06.2013 restated	period from 01.01.2014 to 30.06.2014	period from 01.01.2013 to 30.06.2013 restated
Net interest income	3 678 862	3 380 501	880 448	802 207
Net fee and commission income	1 489 029	1 434 416	356 363	340 393
Operating profit	2 058 905	1 913 504	492 750	454 083
Profit before income tax	2 066 218	1 898 851	494 500	450 605
Net profit (including non-controlling shareholders)	**1 648 612**	**1 538 905**	**394 556**	**365 189**
Net profit attributable to equity holders of the parent company	**1 658 128**	**1 539 179**	**396 833**	**365 254**
Earnings per share for the period – basic (in PLN/EUR)	**1.33**	**1.23**	**0.32**	**0.29**
Earnings per share for the period – diluted (in PLN/EUR)	**1.33**	**1.23**	**0.32**	**0.29**
Net comprehensive income	1 796 823	1 212 899	430 027	287 826
Net cash flows used in operating activities	(1 131 447)	(3 674 331)	(270 785)	(871 934)
Net cash flows used in investing activities	(7 842 892)	(1 276 130)	(1 877 008)	(302 831)
Net cash flows from / used in financing activities	12 548 352	(107 427)	3 003 148	(25 493)
Total net cash flows	3 574 013	(5 057 888)	855 354	(1 200 258)

SELECTED CONSOLIDATED FINANCIAL DATA	PLN thousand			EUR thousand		
	as at 30.06.2014	as at 31.12.2013	as at 30.06.2013 restated	as at 30.06.2014	as at 31.12.2013	as at 30.06.2013 restated
Total assets	242 289 427	199 231 110	197 865 473	58 230 053	48 039 909	45 704 858
Total equity	26 013 648	25 154 325	23 399 307	6 251 928	6 065 375	5 404 996
Capital and reserves attributable to equity holders of the parent company	26 021 852	25 152 816	23 396 709	6 253 900	6 065 012	5 404 396
Share capital	1 250 000	1 250 000	1 250 000	300 416	301 408	288 737
Number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000	1 250 000	1 250 000
Book value per share (in PLN/EUR)	20.81	20.12	18.72	5.00	4.85	4.32
Diluted number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000	1 250 000	1 250 000
Diluted book value per share (in PLN/EUR)	20.81	20.12	18.72	5.00	4.85	4.32
Capital adequacy ratio	12.32%	13.58%	13.51%	12.32%	13.58%	13.51%
Basic funds (Tier 1)	21 491 184	19 611 274	20 272 336	5 165 033	4 728 799	4 682 698
Supplementary funds (Tier 2)	2 367 810	1 539 670	1 525 762	569 062	371 255	352 435
Short-term equity (Tier 3)	-	154 112	38 075	-	37 160	8 795

The selected consolidated financial statements positions were translated into EUR using the following exchange rates:

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

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

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CONSOLIDATED INCOME STATEMENT

	Note	01.01-30.06.2014	01.01-30.06.2013 restated
Continuing operations			
Interest and similar income	5	5 244 639	5 700 041
Interest expense and similar charges	5	(1 565 777)	(2 319 540)
Net interest income		3 678 862	3 380 501
Fee and commission income	6	2 044 672	1 844 739
Fee and commission expense	6	(555 643)	(410 323)
Net fee and commission income		1 489 029	1 434 416
Dividend income		6 091	5 295
Net income from financial instruments measured at fair value	7	52 963	3 298
Gains less losses from investment securities	8	38 546	61 353
Net foreign exchange gains (losses)		135 421	74 943
Other operating income	9	273 594	250 583
Other operating expense	9	(175 946)	(204 472)
Net other operating income and expense		97 648	46 111
Net impairment allowance and write-downs	10	(971 141)	(866 919)
Administrative expenses	11	(2 468 514)	(2 225 494)
Operating profit		2 058 905	1 913 504
Share in profit (loss) of associates and joint ventures		7 313	(14 653)
Profit before income tax		2 066 218	1 898 851
Income tax expense	12	(417 606)	(359 946)
Net profit (including non-controlling shareholders)		1 648 612	1 538 905
Profit (loss) attributable to non-controlling shareholders		(9 516)	(274)
Net profit attributable to equity holders of the parent company		**1 658 128**	**1 539 179**

Earnings per share	13		
– basic earnings per share for the period (PLN)		1.33	1.23
– diluted earnings per share for the period (PLN)		1.33	1.23
Weighted average number of ordinary shares during the period (in thousand)		1 250 000	1 250 000
Weighted average diluted number of ordinary shares during the period (in thousand)		1 250 000	1 250 000

Discontinued operations

In the six-month periods ended 30 June 2014 and 30 June 2013 respectively, no discontinued operations were conducted by the PKO Bank Polski SA Group.

(IN PLN THOUSAND)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	01.01-30.06.2014	01.01-30.06.2013 restated
Net profit (including non-controlling shareholders)		1 648 612	1 538 905
Other comprehensive income		148 211	(326 006)
Items that may be reclassified to the income statement		148 302	(326 006)
Cash flow hedges (gross)	19	151 935	(245 054)
Deferred tax on cash flow hedges	12	(28 868)	46 560
Cash flow hedges (net)		123 067	(198 494)
Unrealised net gains on financial assets available for sale (gross)	8	111 130	(167 948)
Deferred tax on unrealised net gains on financial assets available for sale	12	(21 219)	31 737
Unrealised net gains on financial assets available for sale (net)		89 911	(136 211)
Currency translation differences from foreign operations		(64 978)	10 537
Share in other comprehensive income of an associate		302	(1 838)
Items that may not be reclassified to the income statement		(91)	-
Actuarial gains and losses / Shares settlement (net)		(91)	-
Total net comprehensive income		**1 796 823**	**1 212 899**
Total net comprehensive income, of which attributable to:		1 796 823	1 212 899
equity holders of PKO Bank Polski SA		1 806 536	1 213 124
non-controlling shareholders		(9 713)	(225)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30.06.2014	31.12.2013	30.06.2013 restated
ASSETS				
Cash and balances with the central bank	15	9 910 908	7 246 120	5 658 046
Amounts due from banks	16	2 470 074	1 893 441	3 243 295
Trading assets	17	1 184 220	479 881	3 376 991
Derivative financial instruments	18	3 385 895	3 000 860	3 324 374
Financial assets designated upon initial recognition at fair value through profit and loss	20	16 058 563	15 204 756	12 661 245
Loans and advances to customers	21	177 993 959	149 623 262	148 684 445
Investment securities available for sale	22	21 665 452	14 073 078	13 720 351
Investment securities held to maturity	23	206 816	38 005	49 624
Investments in associates and joint ventures	24	306 241	309 692	111 297
Non-current assets held for sale	25	118 351	172 219	28 261
Inventories	26	617 558	649 641	645 666
Intangible assets	27	3 342 349	2 230 222	1 983 545
Tangible fixed assets, of which:	27	2 778 061	2 611 233	2 662 292
investment properties		133 177	114 589	193
Current income tax receivables		30 742	206 401	42 443
Deferred income tax asset	12	782 648	562 421	713 214
Other assets		1 437 590	929 878	960 384
TOTAL ASSETS		242 289 427	199 231 110	197 865 473
LIABILITIES AND EQUITY				
Liabilities				
Amounts due to the central bank		3 739	4 065	3 858
Amounts due to banks	28	19 239 394	3 747 337	3 876 976
Derivative financial instruments	18	3 567 160	3 328 211	3 684 673
Amounts due to customers	29	171 378 386	151 904 181	149 242 633
Liabilities due to insurance operations	30	2 541 254	-	-
Liabilities associated with assets classified as held for sale		1 671	2 880	-
Debt securities in issue	31	12 699 201	10 546 446	10 939 240
Subordinated liabilities	32	2 624 548	1 620 857	1 624 355
Other liabilities	33	3 832 682	2 547 237	4 743 457
Current income tax liabilities		22 321	22 595	4 887
Deferred income tax liability	12	44 164	32 106	44 192
Provisions	34	321 259	320 870	301 895
TOTAL LIABILITIES		216 275 779	174 076 785	174 466 166
Equity				
Share capital		1 250 000	1 250 000	1 250 000
Other capital		23 368 583	21 108 673	21 044 504
Currency translation differences from foreign operations		(194 201)	(129 420)	(109 817)
Undistributed profits		(60 658)	(306 230)	(327 157)
Net profit for the year		1 658 128	3 229 793	1 539 179
Capital and reserves attributable to equity holders of the parent company		26 021 852	25 152 816	23 396 709
Non-controlling interest		(8 204)	1 509	2 598
TOTAL EQUITY		26 013 648	25 154 325	23 399 307
TOTAL LIABILITIES AND EQUITY		242 289 427	199 231 110	197 865 473
Capital adequacy ratio	62	12.32%	13.58%	13.51%
Book value (in PLN thousand)		26 013 648	25 154 325	23 399 307
Number of shares (in thousand)	1	1 250 000	1 250 000	1 250 000
Book value per share (in PLN)		20.81	20.12	18.72
Diluted number of shares (in thousand)		1 250 000	1 250 000	1 250 000
Diluted book value per share (in PLN)		20.81	20.12	18.72

(IN PLN THOUSAND)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period ended 30 June 2014	Share capital	Other capital									Currency translation differences from foreign operations	Undistributed profits	Net profit for the period	Total capital and reserves attributable to equity holders of the parent company	Non-controlling interest	Total equity
		Reserves			Other comprehensive income				Total other capital							
		Reserve capital	General banking risk fund	Other reserves	Share in other comprehensive income of an associate	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses / Shares settlement								
As at 1 January 2014	1 250 000	16 760 686	1 070 000	3 469 107	(54)	(57 797)	(125 593)	(7 676)	21 108 673		(129 420)	(306 230)	3 229 793	25 152 816	1 509	25 154 325
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	-		-	3 229 793	(3 229 793)	-	-	-
Total comprehensive income, of which:	-	-	-	-	302	89 911	123 067	(91)	213 189		(64 781)	-	1 658 128	1 806 536	(9 713)	1 796 823
Net profit	-	-	-	-	-	-	-	-	-		-	-	1 658 128	1 658 128	(9 516)	1 648 612
Other comprehensive income	-	-	-	-	302	89 911	123 067	(91)	213 189		(64 781)	-	-	148 408	(197)	148 211
Transfer from undistributed profits	-	2 041 701	-	5 020	-	-	-	-	2 046 721		-	(2 046 721)	-	-	-	-
Dividend declared	-	-	-	-	-	-	-	-	-		-	(937 500)	-	(937 500)	-	(937 500)
As at 30 June 2014	1 250 000	18 802 387	1 070 000	3 474 127	248	32 114	(2 526)	(7 767)	23 368 583		(194 201)	(60 658)	1 658 128	26 021 852	(8 204)	26 013 648

for the year ended 31 December 2013	Share capital	Other capital									Currency translation differences from foreign operations	Undistributed profits	Net profit for the period	Total capital and reserves attributable to equity holders of the parent company	Non-controlling interest	Total equity
		Reserves			Other comprehensive income				Total other capital							
		Reserve capital	General banking risk fund	Other reserves	Share in other comprehensive income of an associate	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses								
As at 1 January 2013 (restated)	1 250 000	15 364 728	1 070 000	3 437 957	1 330	7 098	51 899	51 953	19 984 965		(120 305)	(416 554)	3 738 640	24 436 746	(338)	24 436 408
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	-		-	3 738 640	(3 738 640)	-	-	-
Total comprehensive income, of which:	-	-	-	-	(1 384)	(64 895)	(177 492)	(7 676)	(251 447)		(9 115)	-	3 229 793	2 969 231	(1 314)	2 967 917
Net profit	-	-	-	-	-	-	-	-	-		-	-	3 229 793	3 229 793	(1 600)	3 228 193
Other comprehensive income	-	-	-	-	(1 384)	(64 895)	(177 492)	(7 676)	(251 447)		(9 115)	-	-	(260 562)	286	(260 276)
Transfer from undistributed profits	-	1 416 885	-	31 150	-	-	-	-	1 448 035		-	(1 448 035)	-	-	-	-
Change in non-controlling interest	-	-	-	-	-	-	-	-	-		-	(3 161)	-	(3 161)	3 161	-
Loss of control over a subsidiary	-	(20 927)	-	-	-	-	-	-	(20 927)		-	20 927	-	-	-	-
Transfer from other comprehensive income to undistributed profits	-	-	-	-	-	-	-	(51 953)	(51 953)		-	51 953	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-		-	(2 250 000)	-	(2 250 000)	-	(2 250 000)
As at 31 December 2013	1 250 000	16 760 686	1 070 000	3 469 107	(54)	(57 797)	(125 593)	(7 676)	21 108 673		(129 420)	(306 230)	3 229 793	25 152 816	1 509	25 154 325

for the period ended 30 June 2013	Share capital	Other capital									Currency translation differences from foreign operations	Undistributed profits	Net profit for the period	Total capital and reserves attributable to equity holders of the parent company	Non-controlling interest	Total equity
		Reserves			Other comprehensive income				Total other capital							
		Reserve capital	General banking risk fund	Other reserves	Share in other comprehensive income of an associate	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses								
As at 1 January 2013 (restated)	1 250 000	15 364 728	1 070 000	3 437 957	1 330	7 098	51 899	51 953	19 984 965		(120 305)	(416 554)	3 738 640	24 436 746	(338)	24 436 408
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	-		-	3 738 640	(3 738 640)	-	-	-
Total comprehensive income, of which:	-	-	-	-	(1 838)	(136 211)	(198 494)	-	(336 543)		10 488	-	1 539 179	1 213 124	(225)	1 212 899
Net profit (restated) *	-	-	-	-	-	-	-	-	-		-	-	1 539 179	1 539 179	(274)	1 538 905
Other comprehensive income (restated) *	-	-	-	-	(1 838)	(136 211)	(198 494)	-	(336 543)		10 488	-	-	(326 055)	49	(326 006)
Transfer from undistributed profits	-	1 416 885	-	31 150	-	-	-	-	1 448 035		-	(1 448 035)	-	-	-	-
Transfer from other comprehensive income to undistributed profits	-	-	-	-	-	-	-	(51 953)	(51 953)		-	51 953	-	-	-	-
Dividend declared	-	-	-	-	-	-	-	-	-		-	(2 250 000)	-	(2 250 000)	-	(2 250 000)
Change in the controlling interest	-	-	-	-	-	-	-	-	-		-	(3 161)	-	(3 161)	3 161	-
As at 30 June 2013 (restated)	1 250 000	16 781 613	1 070 000	3 469 107	(508)	(129 113)	(146 595)	-	21 044 504		(109 817)	(327 157)	1 539 179	23 396 709	2 598	23 399 307

* The description of restatements is included in Note 27.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014 (IN PLN THOUSAND)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	01.01 - 30.06.2014	01.01 - 30.06.2013 restated
Net cash flows from operating activities			
Profit before income tax		2 066 218	1 898 851
Adjustments:		(3 197 665)	(5 573 182)
Amortisation and depreciation		358 967	283 987
(Gains) losses from investing activities		(26 516)	1 473
Interest and dividends		(166 056)	(303 150)
Change in amounts due from banks		534 942	(280 445)
Change in trading assets and financial assets designated upon initial recognition at fair value through profit and loss		4 041 415	(3 130 959)
Change in derivative financial instruments (asset)		(356 651)	536 187
Change in loans and advances to customers		(4 129 295)	(5 670 898)
Change in other assets, inventories and non-current assets held for sale		(342 960)	(6 238)
Change in amounts due to banks		(10 135 426)	236 848
Change in derivative financial instruments (liability)		227 863	(279 425)
Change in amounts due to customers		6 025 849	2 985 737
Liabilities classified as held for sale		(1 209)	-
Change in debt securities in issue		167 869	643 013
Change in provisions and impairment allowances		662 930	(84 295)
Change in other liabilities, subordinated liabilities and liabilities due to insurance operations		86 087	632 887
Income tax paid		(294 113)	(547 423)
Other adjustments		148 639	(590 481)
Net cash used in operating activities		(1 131 447)	(3 674 331)
Net cash flows from investing activities			
Inflows from investing activities		24 823 634	27 737 276
Proceeds from sale and interest on investment securities		24 751 297	27 727 755
Proceeds from sale of intangible assets and tangible fixed assets		60 645	7 649
Other investing inflows (dividends)		11 692	1 872
Outflows from investing activities		(32 666 526)	(29 013 406)
Purchase of subsidiaries, net of cash acquired		(1 797 972)	-
Purchase of investment securities		(30 622 436)	(28 647 451)
Purchase of intangible assets and tangible fixed assets		(246 118)	(365 955)
Net cash used in investing activities		(7 842 892)	(1 276 130)
Net cash flows from financing activities			
Proceeds from debt securities in issue		2 823 567	1 429 385
Redemption of debt securities in issue		(838 681)	(1 397 096)
Repayment of interest from issued debt securities and subordinated loans		(129 262)	(72 167)
Long-term borrowings		14 769 249	292 196
Repayment of long-term borrowings and interest		(4 076 521)	(359 745)
Net cash generated from/used in financing activities		12 548 352	(107 427)
Net cash flow		3 574 013	(5 057 888)
of which currency translation differences on cash and cash equivalents		(7 321)	164 601
Cash and cash equivalents at the beginning of the period		8 884 739	12 495 632
Cash and cash equivalents at the end of the period	37	12 458 752	7 437 744
of which restricted		21 248	11 694

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(IN PLN THOUSAND)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

The condensed interim consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski SA Group ('the PKO Bank Polski SA Group', 'the Group') have been prepared for the six-month period ended 30 June 2014 and include comparative data for the six-month period ended 30 June 2013 (as regards consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity), for the twelve-month period ended 31 December 2013 (as regards consolidated statement of changes in equity) and comparative data as at 31 December 2013 and as at 30 June 2013 (as regards consolidated statement of financial position). Financial data has been presented in Polish zloty (PLN), rounded to thousand zloty, unless indicated otherwise.

The parent company of the Group is Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ('PKO Bank Polski SA', 'the Bank').

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

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

According to information available as at 30 June 2014 the Bank's shareholding structure is as follows:

Name of entity	Number of shares	Number of votes %	Nominal value of 1 share	Share in equity %
As at 30 June 2014				
The State Treasury	392 406 277	31.39	PLN 1	31.39
Aviva Otwarty Fundusz Emerytalny[1]	83 952 447	6.72	PLN 1	6.72
ING Otwarty Fundusz Emerytalny[2]	64 594 448	5.17	PLN 1	5.17
Other shareholders	709 046 828	56.72	PLN 1	56.72
Total	1 250 000 000	100.00	---	100.00
As at 31 December 2013				
The State Treasury	392 406 277	31.39	PLN 1	31.39
Aviva Otwarty Fundusz Emerytalny[1]	83 952 447	6.72	PLN 1	6.72
ING Otwarty Fundusz Emerytalny[2]	64 594 448	5.17	PLN 1	5.17
Other shareholders	709 046 828	56.72	PLN 1	56.72
Total	1 250 000 000	100.00	---	100.00

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

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

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

The structure of PKO Bank Polski SA's 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
Total	---	1 250 000 000	---	PLN 1 250 000 000

In the six-month period of 2014 there were no changes in the amount of the share capital of PKO Bank Polski SA. Issued shares of PKO Bank Polski SA are not preferred shares and are fully paid.

Business activities of the Group

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.

Banking services in Poland and Ukraine are also offered through subsidiaries of the Bank.

Moreover, through its subsidiaries, the Group provides financial services relating to leasing, factoring, investment funds, pension funds, life insurances, IT systems' development and maintaining services, it conducts real estate development and management activities, as well as through its subsidiaries in Ukraine, the Group conducts debt collection and factoring activities.

The scope of activities of each of the Group entities is set out in the position 'Structure of the PKO Bank Polski SA Group'.

The Group operates in the Republic of Poland and through its subsidiaries: KREDOBANK SA, 'Inter-Risk Ukraina' Additional Liability Company, Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o., Finansowa Kompania 'Idea Kapitał' Sp. z o.o – in Ukraine and through its subsidiaries PKO Finance AB and PKO Leasing Sverige AB in Sweden.

Seasonality or cyclicality of activities in the reporting period

PKO Bank Polski SA is a universal bank, which provides services on the territory of Poland, and thus its activities are exposed to similar cyclical fluctuations to those affecting the entire Polish economy. The activities of other companies of the PKO Bank Polski SA Group also do not show any particular seasonality or cyclicality characteristics.

(IN PLN THOUSAND)

Structure of the PKO Bank Polski SA Group

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

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

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

(IN PLN THOUSAND)

Joint ventures and associates included in the consolidated financial statements:

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

* Share in equity of direct parent entity

Information on changes in the participation in the share capital of the subsidiaries is set out in Note 43 'Changes to the entities of the Group'.

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

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

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

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

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

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

Approval of financial statements

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

2. The acquisition of the Nordea Bank AB (publ) Group entities by PKO Bank Polski SA

2.1 Description of transaction

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

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

- ✓ acquired shares of Nordea Bank Polska SA

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

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

On 12 May 2014, as part of the compulsory buy-out, PKO Bank Polski SA bought 117 408 shares of Nordea Bank Polska SA i.e. all remaining, dematerialised shares, for the amount of PLN 5 635 thousand.

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

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

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

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

On 14 May 2014, the change in the Company's name to PKO Życie Towarzystwo Ubezpieczeń SA was registered with the National Court Register. At the same time, in connection with the acquisition of 'Nordea Polska Towarzystwo Ubezpieczeń na Życie' SA, its subsidiary, Nordea Usługi Finansowe Sp. z o.o. (currently Ubezpieczeniowe Usługi Finansowe Sp. z o.o. – the change of business name was registered with the National Court Register on 14 May this year) became part of the PKO Bank Polski SA Group.

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

✓ acquired shares of Nordea Finance Polska SA

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

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

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

✓ acquired the so called 'Swedish portfolio' assets

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

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

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

On 1 April 2014, PKO Bank Polski SA concluded a loan agreement with Nordea Bank Polska SA, according to which funds received under the Credit Facility were transferred to Nordea Bank Polska SA in the form of a facility, the so-called push-down facility, in an amount of up to: CHF 3 645 818 thousand, EUR 465 414 thousand and USD 3 725 thousand for a period of no longer than 7 years, with a three-year repayment suspension period (the 'Push-Down Facility'). The Push-Down Facility is unsecured. The financial terms of the Push-Down Facility (credit margin, commission) are set at arm's length. The liability in the amount of PLN 14 441 997 thousand has been disclosed in Note 28 'Amounts due to Banks'.

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

2.2. Settlement of the purchase transaction

The settlement of the purchase transaction was conducted in accordance with International Financial Reporting Standard 3 "Business Combinations" (IFRS 3) which requires the acquirer to be identified, the acquisition date to be determined, and identifiable assets acquired, liabilities measured at fair value as at the acquisition date and non-controlling interests in the acquiree to be recognised and measured, and goodwill or gain on bargain acquisition to be recognised and measured.

Given that the assumption of control over the Nordea Polska entities occurred on 1 April 2014, the settlement of the Transaction was made based on data of acquired entities as at 31 March 2014, taking into account the adjustments required by IFRS 3.

Total consideration paid and the amount of any non-controlling interests in the acquiree

Total consideration paid	Number of shares	in PLN thousand
- Shares in Nordea Bank Polska SA	-	2 598 388
- purchased from Nordea Bank AB on 1 April 2014	55 061 403	2 620 402
- purchased from minority shareholders on 1 April 2014	319 889	15 351
- remaining part of shares acquired under the compulsory buyout of minority shareholders on 12 May 2014*	117 408	5 635
- discount	-	(43 000)
- Shares of PKO Życie Towarzystwo Ubezpieczeń SA (formerly Nordea Polska Towarzystwo Ubezpieczeń na Życie SA)	1 725 329	184 636
- Shares of PKO Leasing Pro SA (formerly Nordea Finance Polska SA)	4 100 000	8 000
- Swedish Portfolio	-	1 763 815
Total	61 324 029	4 554 839

* The compulsory buyout was a part of the purchase transaction of Nordea Bank's shares.

The transaction on increasing the share capital of Nordea Bank Polska SA does not constitute a component of the Purchase prices in the acquisition by the Bank of the assets of Nordea Bank Polska SA from Nordea Bank AB.

The Bank holds a 100% interest in the purchased Nordea Polska Entities, and therefore there are no non-controlling interests within the acquired entities.

Due to the fact that the conditions of the IFRS 10 'Consolidated financial statements' paragraph B97 have been met, the purchase of shares in individual entities of Nordea Polska and the purchase of the Swedish Portfolio should be considered a single Transaction

Shares were paid up in cash.

Recognition and measurement of identifiable acquired assets and liabilities measured in accordance with IFRS

The data presented below concerning fair value measurement of identifiable assets acquired and liabilities assumed is based on an identification conducted from the perspective of the entire PKO Bank Polski SA Group as well as on adopted assumptions concerning the materiality threshold.

ASSETS	Nordea Polska Entities and Swedish Portfolio Combined
Cash and balances with the central bank	775 945
Amounts due from banks	420 406
Derivative financial instruments	28 384
Other financial instruments measured at fair value through profit and loss	5 599 561
Loans and advances to customers	28 321 738
Securities held to maturity	40 953
Inventories	1 070
Intangible assets	310 309
Tangible fixed assets	108 621
Current income tax receivables	5 567
Deferred income tax asset	212 363
Other assets	77 731
TOTAL ASSETS	35 902 647

(IN PLN THOUSAND)

LIABILITIES AND NET ASSETS	Nordea Polska Entities and Swedish Portfolio Combined
Amounts due to other banks	14 848 744
Derivative financial instruments	11 086
Amounts due to customers	13 490 346
Liabilities due to insurance operations	2 517 427
Subordinated liabilities	1 000 115
Other liabilities	290 711
Current income tax liabilities	3 038
Deferred income tax liability	23 615
Provisions	43 985
TOTAL LIABILITIES	32 229 067
NET ASSETS	3 673 580
TOTAL LIABILITIES AND NET ASSETS	35 902 647

	Nordea Polska Entities and Swedish Portfolio Combined
Amounts due from banks, gross	420 407
Impairment allowances on receivables	(1)
Receivables from banks, net	420 406

	Nordea Polska Entities and Swedish Portfolio Combined
Loans and advances to customers, gross	28 873 719
Allowances - total	(551 981)
Loans and advances to customers, net	28 321 738

The portfolio of loans and advances granted to customers acquired as part of the Transaction involving the acquisition of Nordea Polska Entities and the Swedish Portfolio, measured at fair value as at the acquisition date, has been presented in the financial statements showing separately the gross values (which include fair value adjustments) and write-downs. Such presentation is more useful to financial statement users and reflects the market practice followed by the banks.

✓ Loans and advances to customers

1) Fair value measurement of the loan portfolio was conducted by discounting future cash flows taking into account estimated cash flows from an individual loan, the time value of money **reflected** in risk-free interest rates, the risk premium, credit losses incurred, additional expected future credit losses and liquidity premium. Discounting factors used in the model were determined based on risk-free interest rates curve and market margin, and for mortgage loans, also based on the capital requirement charge.

   The fair value measurement of the corporate portfolio without impairment was conducted using the discounted cash flow method ('DCF') as at the acquisition date. Cash flows were determined using the discounting curve derived based on risk-free interest rates curve and market margins. The risk-free interest rate curve was derived using the following curves:

   - for PLN: WIBOR (up to one year) and IRS (above one year),
   - for foreign currencies: LIBOR (up to 3 months), FRA (from 3 to 12 months) and IRS (above one year).

   Market margins were determined based on an analysis of margins at which the Bank provided financing to entities in 2014. These margins depended on the currency of the financing granted and the borrower's credit rating.

   The measurement of the corporate portfolio with impairment was conducted using the discounted cash flow method ('DCF') as at the acquisition date. Cash flows from the collateral provided and other cash flows (from sources other than collateral) over the 5 year horizon (2014-2018) were taken into account. The market discount rate was adopted as the discounting rate. It was estimated based on observable asset sale transactions. This rate includes additional risk premium based on observable market transactions involving the sale of similar loan portfolios. WIBOR 3M/LIBOR 3M, as appropriate, was the reference rate adopted.

   The measurement of the public sector customers portfolio without impairment (both loans and bonds classified to loans and receivables portfolio) was performed using the same expected future cash flow methods as in the case of corporate loans without impairment.

Fair value measurement of the Nordea Bank mortgage loan portfolio without impairment was conducted by applying the discounted cash flow method ('DCF') as at the acquisition date to specific selected sub-groups of the portfolio. The selection was based on the currency of the contract and the variable part of the interest rate (the reference/base rate). For each of the selected sub-portfolios, a separate valuation was conducted.

Based on contractual schedules for the repayment of principal (in the currency of the contract), an aggregate monthly repayment schedule was developed for each of the sub-portfolios. Future cash flows were determined based on repayment schedules for the principal, early repayments, future impairment losses, contractual interest, income of foreign currency exchange and the costs of liquidity and account servicing. Contractual cash flows from the repayment of the principal were adjusted for early repayments of the principal based on the calculated early repayment ratio.

Future impairment losses were determined based on the PD ratio of Nordea Bank Polska and LGD with 5-year recovery period, taken as the average (weighted by the capital engaged), of each of the sub-portfolios identified.

Future cash flows from the repayment of interest was determined based on forward rates calculated based on reference rates (risk-free interest rate curve) and the average contractual credit margins weighted by the capital engaged, for each exposure forming part of this part of the mortgage loan portfolio. Expected future cash flows were discounted using determined discounting rates based on:

- a risk-free interest rate curve:

- for PLN: WIBOR (up to one year) and IRS (above one year);
- for foreign currencies: LIBOR (up to 3 months), FRA (from 3 to 12 months) and IRS (above one year);

- capital requirement charges which depend on the minimum capital adequacy ratio (12%), the cost of capital determined for the Bank (10.8%), risk weights for assets (75% for loans denominated in PLN, 100% for loans denominated in foreign currencies);
- the market margin for the liquidity used by the Bank which, depending on the currency and tenor, assumes the values described below.

For the part of the portfolio denominated in a currency other than PLN but actually not repaid in the contractual currency, the valuation includes income on foreign exchange calculated based on the total cash flows in a given period, as an additional gain to the Bank on the translation of the payments made in PLN into the loan account maintained in a foreign currency. The foreign exchange income rate was calculated as the difference between the selling exchange rate and the exchange rate of the National Bank of Poland ('NBP'). Foreign exchange income relates to some of the customers.

In addition, the cost of account servicing was included in the calculation.

For the purposes of the measurement, the portfolio of mortgage loans with an impairment was divided into:

- Debt collection sub-portfolio – containing exposures with an assigned legal status of 'debt collection', 'fraud' or 'bankruptcy'. A debt collection process, depending on the type of collateral provided, is initiated in respect of such customers.
- Other exposures – containing exposures with other status assigned: 'restructuring', 'write-off', or the ones without an assigned legal status.

As part of the fair value measurement of the debt collection sub-portfolio, the effective interest rate was reduced to the market discounting rate, based on observable rates of return on similar assets in the market, e.g. based on market transactions involving the sale of assets. An analysis of the observable transaction prices for similar purchase and sale transactions enabled determining the fair value of the loans, and consequently, the price which other market participants would be willing to pay for a debt collection sub-portfolio of mortgage loans.

To determine the fair value of the remaining sub-portfolio exposures, it was necessary to adjust the effective interest rate to the market discount rate, based on observed rates of return for comparable assets in the market, eg. Based on market transactions, sales of assets or the estimated discount rate compared to the market risk free rate (in accordance with IFRS 13). The fair value adjustment for this sub-portfolio results from the increase in the discount rate used to discount future cash flows. The discount is an additional risk premium determined on the basis of the observed market sales transactions of similar loan portfolios. This allowed to determine the fair value of loans, and thus the price that other market participants would be willing to pay for these mortgage portfolio.

The total amount of adjustments resulting from the fair value remeasurement of the loans and advances granted to customers amounted to minus PLN 651.3 million. The largest adjustment, in absolute terms, is the adjustment relating to the portfolio of mortgage loans for private individuals of PLN 651.1 million.

2) In addition, the carrying value of loans and advances granted to customers was reduced by the adjustments resulting from the need to adopt the models and estimation methods used by the PKO Bank Polski SA Group.

In particular, the following adjustments were recognised:

- An increase in the IBNR impairment allowance for corporate loans acquired. Due to the differences in customer evaluation systems and the corresponding PD and LGD parameters between the PKO BP Group and the Nordea Group as at the acquisition date, the Bank mapped the Nordea Bank ratings between the two systems. The additional IBNR impairment allowance amounts to PLN 37.9 million for both the public and corporate customer portfolios, and represents additional IBNR impairment allowance resulting from the differences between the abovementioned systems.
- An increase in charges in respect of the mortgage loans acquired, which includes both the charges for identified and unidentified impairment losses (IBNR) and results from harmonisation of the risk parameters, including PD parameters (through re-scaling PD parameters to the 6-monthly period), and the LGD curve (through the shortening of the recoveries from the 6 year period to the 5 year period applied by PKO BP). In addition, all impaired mortgage loan exposures with a gross value not exceeding PLN 3 million in respect of which provisions were assessed on individual basis, were subject to a collective assessment. The total amount of additional charges was PLN 50.6 million.

- An increase in the impairment allowances of the impaired corporate portfolio assessed on individual basis due to verification of the expected cash flows from selected credit exposures amounted to PLN 13.5 million.

The total impact of the abovementioned adjustments on the decrease of carrying value of acquired loan portfolio amounted tp PLN 102.0 million.

Additionally, as at the acquisition date an IBNR impairment allowance of PLN 4.7 million was recognised in respect of the Swedish portfolio assets and PLN 3 million for mortgae loans portolio due to the adjustment of the effective interest rate method.

✓ Intangible assets

When accounting for the purchase transaction, the following acquired intangible assets were identified:

- **customers relations in the area of deposits** at the level of PLN 86.5 million. Customers relations in the area of deposits were separately analysed for each cash generating unit (CGU) split into two core products: current accounts and term deposits. The Multiperiod Excess Earnings Method has been used in order to measure customer relations.

  In this method the value is determined based on discounted future cash flows resulting from additional income generated by an entity possessing a particular intangible asset in excess over the income generated by an entity which does not hold such intangible asset. This method also takes into consideration the costs and investments connected with a given intangible asset, such as patent fees, research and development costs, marketing expenses, etc. For the purposes of customer relations fair value estimation, identification of relations with key customers for each CGU is made, the forecasted period of its further duration and forecasted income on each relation and costs directly associated with these relations are determined. The amount of general administrative expenses (including amortisation) for CGU in each year is deducted subsequently from such determined cash flows. The Contributory Asset Charge (‘CAC’) contributing to generating income on client relations (inflow of intangible fixed assets, working capital, organised labour force, brand) are deducted afterwards. The charges resulting from utilising other assets correspond to the required return on each tangible and intangible assets. The required return is calculated respectively for non-current assets, net working capital and organised labour force and aggregated subsequently and in such amount recognised in income on customers relations. The required return on brands (if it appears in a given CGU) are determined separately. Cash flows obtained for respective years are discounted subsequently with an appropriate discount rate enlarged by an appropriate premium on intangible assets. After discounting the cash flows, the present value of Tax Amortisation Benefit is added. Thus received discounted amount of cash flows stands as estimation of intangible assets.

- **Value in force** – future profits on concluded insurance contracts in the amount of PLN 216 million. The present value of future profits on concluded insurance contracts was estimated based on cash flows for three groups of products: regular premium life insurance with a significant investment component, one-off premium life insurance with a significant investment component and protective life insurance. The present value of future profits does not take into consideration changes in deferred acquisition costs, because they were entirely written-off at the moment of acquisition.

In accordance with the Purchase Agreement, the ‘Nordea’ trademark and any other trademarks held by Nordea Polska entities will be transferred into Nordea Bank AB before the closure of the Transaction and will be excluded from the group of assets acquired by the Bank. The Bank is entitled to use the ‘Nordea’ trademark during the transition period without incurring any costs. Using the ‘Nordea’ trademark during the transition period is merely a technical matter, connected with aspects on integration of Nordea Polska entities within the acquirer’s structure and does not serve for any business purposes aimed at acquiring new customers. These conditions were considered within the price paid by the Acquirer. In the event of the Bank’s willingness to use the ‘Nordea’ trademark longer, it would be obliged to incur licence fees due to the use of the ‘Nordea’ trademark on terms determined within the Agreement. Having in regard the above conditions there is no possibility to recognise the ‘Nordea’ trademark as an intangible asset.

✓ Tangible fixed assets

The valuation of properties (buildings) of the Nordea Bank was carried out using the income method. This approach involves assessing the property’s value assuming that its buyer will pay for it a price which depends on the expected income which can be derived from that property.

The valuation of land was carried out using the comparative approach, by applying the paired comparison method or the average price adjustment method. In the paired comparison method the value of property whose features are known and which is being appraised is compared with similar properties which were traded in the market, where the transaction prices, transaction settlement conditions and property prices are known. In the average price adjustment method the property value is determined as an adjustment to the average price of similar properties by adjusting coefficients which reflect the differences in particular features of these properties.

✓ Other assets

The adjustment to other assets relates mainly to the write-off of any DAC (deferred acquisition costs) in PKO Życie which have no fair value as at the settlement date. These costs are included in the calculation of the portfolio’s present value (Value in Force) and their write-off is covered with this intangible asset.

✓ Other adjustments

Other adjustments to fair value and the so-called net assets adjustments resulting from harmonising inconsistent accounting policies related i.a. to a fair value adjustment of assets held to maturity, where for the purposes of the acquisition settlement, instruments measured at amortised costs held by PKO Życie were measured at fair value as at the acquisition date; fair value adjustment of liabilities in respect of the provisions indentified in the entities acquired, including Nordea Bank and PKO Życie, and other liabilities including IT services or resulting from onerous contracts.

(IN PLN THOUSAND)

Determining the fair value of the acquired assets and liabilities, and the identification and recognition of intangible assets arising from the acquisition were carried out on the basis of available information, and the best estimates at the date of the financial statements. According to IFRS 3.45 the Group has 12 months - ie. until 31 March 2015 to determine the final value.

Goodwill arising on the Transaction:

	Nordea Polska Entities and Swedish Portfolio Combined
Total consideration paid	4 554 839
Net amount of identifiable assets acquired and liabilities assumed valued in accordance with IFRS	3 673 580
Goodwill	881 259
of which assigned to the following segments:	
retail segment	743 514
corporate segment	116 554
investment segment	21 191

	Nordea Polska Entities and Swedish Portfolio Combined
Deferred tax asset	212 363
Deferred tax liability	23 615
Total	188 748

Tax effects on adjustments relating to identification and fair value measurement and changes in models and estimating policies	Nordea Polska Entities and Swedish Portfolio Combined
Loans and advances to customers	137 234
Intangible assets – Value in force (future profits on insurance policies)	(41 054)
Intangible assets – Customer relations	(16 435)
Other assets – acquisition costs writen off	29 241
Other	1 854
Total deferred tax asset and liability	110 840

The goodwill will not be a subject to tax deduction.

The synergy effect due to the acquisition of Nordea Polska entities will enable the Bank to strengthen its leading position in retail banking, expand its distribution network in large Polish cities, enlarge the base of affluent clients and strengthen its activities in the corporate area, particularly in respect of municipal and corporate bonds issues and servicing enterprises from the key sectors of the economy as well as cross-border clearing services. Acquisition of the insurance company will accelerate the accomplishment of strategic goals in the area of bancassurance.

The transaction is consistent with the PKO Bank Polski SA strategy for 2013-2015, which assumes utilising capital surpluses to strengthen PKO Bank Polski SA's position on the Polish market through acquisitions in order to maintain high growth rates also in an environment of an economic slowdown and low interest rates.

In accordance with IFRS 3, as part of the settlement of the merger, the Bank, as the acquirer, has the possibility of recognising indemnification assets. These assets may result from specific agreements with the seller, who undertakes himself to compensate the acquirer for any losses incurred due to the unknown outcome of a contingent event or uncertainty connected with the entire or part of a particular asset or liability. The acquirer recognises the indemnification assets at the same time as the indemnified item is recognised (as at the acquisition date) and measures that asset using the same method as the underlying asset, typically at fair value.

As part of the work conducted in connection with the settlement of the transaction, the Bank performed a sensitivity analysis of the Special Indemnity Agreement. In the sensitivity analysis, the Group determined scenarios for the evolution of macroeconomic indicators, and consequently, of the credit quality indicators, including the reference scenario and stress-test scenarios. The reference scenario was the one developed for the purposes of stress-tests currently being conducted by EBA. Subsequently, the Group determined discounted cash flows in each of the scenarios and assigned probabilities of occurrence of each of the scenarios. The reference scenario was assigned the highest probability. Based on the scenarios, the expected cash flows from the Special Indemnity Agreement was determined and amounted to zero.

(IN PLN THOUSAND)

Due to the fact that the merger took place during the reporting period, the income statement of the acquirees for the period from the acquisition date to 30 June 2014 and the income statement of the Group for the six months ended 30 June 2014 are presented below as if the acquisition date for all mergers had fallen on 1 January 2014:

The following table presents the amounts of income and profits or losses of the Nordea Polska entities since the date of the acquisition, i.e. since 1 April 2014.

01.04 – 30.06.2014	TOTAL Entities of Nordea Polska
Continuing operations	
Interest and similar income	254 229
Interest expense and similar charges	(82 902)
Net interest income	171 327
Fee and commission income	54 926
Fee and commission expense	(10 932)
Net fee and commission income	43 994
Dividend income	-
Net income from financial instruments measured at fair value	2 882
Gains less losses from investment securities	-
Net foreign exchange gains (losses)	21 652
Other operating income	8 145
Other operating expense	(1 137)
Net other operating income and expense	7 008
Net impairment allowance and write-downs	(6 842)
Administrative expenses	(149 095)
Operating profit	90 926
Share of profit (loss) of associates and joint ventures	-
Profit before income tax	**90 926**
Income tax expense	(18 470)
Net profit (including non-controlling shareholders)	72 456
Profit (loss) attributable to non-controlling shareholders	-
Net profit attributable to equity holders of the parent company	**72 456**

The table below presents income and profits or losses of the PKO Bank Polski SA Group including the Nordea Polska entities for the current reporting period, calculated as if the date of the acquisitions carried out during the year had fallen at the beginning of the annual reporting period, i.e. on 1 January 2014.

01.01 – 30.06.2014	TOTAL The Group including Entities of Nordea Polska
Continuing operations	
Interest and similar income	5 479 526
Interest expense and similar charges	(1 652 889)
Net interest income	3 826 637
Fee and commission income	2 098 400
Fee and commission expense	(591 275)
Net fee and commission income	1 507 125
Dividend income	6 091
Net income from financial instruments measured at fair value	54 134
Gains less losses from investment securities	38 546
Net foreign exchange gains (losses)	151 550
Other operating income	286 944
Other operating expense	(177 412)
Net other operating income and expense	109 532
Net impairment allowance and write-downs	(1 026 175)
Administrative expenses	(2 606 983)
Operating profit	2 060 457
Share of profit (loss) of associates and joint ventures	7 313
Profit before income tax	**2 067 770**
Income tax expense	(420 810)
Net profit (including non-controlling shareholders)	1 646 960
Profit (loss) attributable to non-controlling shareholders	(9 516)
Net profit attributable to equity holders of the parent company	**1 656 476**

By 30 June 2014, amortisation of intangible assets and adjustments resulting from the measurement at fair value amounted to PLN 14 482 thousand.

3. Summary of significant accounting policies and estimates and judgements

3.1. Compliance with accounting standards and accounting policies applied

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

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

In particular due to the purchase of Nordea Polska Entities' shares as well as of amounts due from corporate customers portfolio (assets of so called Swedish portfolio) on 1 April 2014, the PKO Bank Polski SA Group applied the provisions of IFRS 3 'Business Combinations' (IFRS 3).

The purchase is accounted for the acquisition method in accordance with IFRS 3, which application requires:

- ✓ identifying the acquirer,
- ✓ determining the acquisition date
- ✓ recognising and measuring the identifiable assets acquired, the liabilities assumed measured at fair value and any non-controlling interest in the acquiree,
- ✓ recognising and measuring goodwill or a gain from a bargain purchase, which are measured as a difference between:
    - the aggregate of: the consideration transferred and the amount of any non-controlling interest in the acquiree,
    - and the net amount of the identifiable assets acquired and liabilities assumed measured in accordance with IFRS.

For each business combination, one of the combining entities shall be identified as the acquirer. The acquirer shall identify the acquisition date, which is the date on which it obtains control of the acquiree. As of the acquisition date, the acquirer shall recognise, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree.

At the acquisition date, the acquirer shall classify or designate the identifiable assets acquired and liabilities assumed as necessary to apply other IFRSs subsequently. The acquirer shall make those classifications or designations on the basis of the contractual terms, economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date.

The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

The requirements in IAS 37 'Provisions, contingent liabilities and contingent assets' do not apply in determining which contingent liabilities to recognise as of the acquisition date. Instead, the acquirer shall recognise as of the acquisition date a contingent liability assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably. The acquirer recognises a contingent liability assumed in a business combination at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

The seller in a business combination may contractually indemnify the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability. As a result, the acquirer obtains an indemnification asset. The acquirer shall recognise an indemnification asset at the same time that it recognises the indemnified item measured on the same basis as the indemnified item, subject to the need for a valuation allowance for uncollectible amounts.

The acquirer shall identify any items that are not part of what the acquirer and the acquiree (or its former owner) exchanged in the business combination, i.e. items that are not part of the consideration transferred for the acquiree. When applying the acquisition method the acquirer recognises only the consideration transferred for the acquiree and the assets acquired and liabilities assumed under the acquisition transaction of the acquiree.

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

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

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

A broader description of new standards and their impact on the consolidated financial statements was included in the consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2013.

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

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

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

3.3. Critical estimates and judgements

While preparing consolidated financial statements, the Group makes certain estimates and assumptions, which have a direct influence on both the financial statements and the notes to these financial statements.

The estimates and assumptions that are used by the Group in determining the value of assets and liabilities as well as revenues and costs, are made based on historical data and other factors which are available and are considered to be proper in the given circumstances.

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

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

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

3.4. Impairment of loans and advances

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

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

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

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

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

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

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

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

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

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

3.7. Fair value measurement of acquired assets and liabilities

In accordance with IFRS 13, the fair value measurement of acquired assets and liabilities takes into consideration i.a. such elements as:

- estimates of future cash flows from assets and liabilities;
- any expected changes in the amounts and timing of cash flows (uncertainties inherent in cash flow estimates);
- time value of money, estimated through the application of market risk-free rates;
- the pricing of uncertainty inherent in cash flows (the so-called risk premium);

Amounts due from retail customers (mortgage loans) with no impairment identified were measured using the discounted cash flows method which is based on contractual repayments schedules, forecasted interest flows, repayments, prepayments and credit risk losses.
Expected cash flows were discounted to the present value using a rate which takes into account the risk free rate, capital requirement margin and liquidity margins.

The fair value measurement of loans to corporate and public entities with no impairment identified was carried out using the discounted cash flows method based on contractual cash flows discounted by the market margin.

In order to determine the fair value of impaired loans, it was necessary to adjust the effective rate to the market discounting rate, based on the observable rate of returns on comparable items of assets or liabilities in the market, e.g. based on market transactions involving the sale of assets or estimated discount rates in relation to the market risk-free rate (in accordance with IFRS 13). For non-working corporate loans the adjustment to fair value results from an increase in the discounting rate used to discount the future cash flows. Such a discount constitutes an additional risk premium based on the observable market sales transactions of similar loan portfolios. This enabled determining the fair values of loans, and thus the price which other market participants would be willing to pay for the said corporate loans portfolio.

In addition, the carrying amount of receivables from customers was reduced by the adjustments resulting from the application of different accounting policies used by the PKO Bank Polski SA Group.

Under the acquisition transaction, the following intangible assets were identified:

- **customers relations in the area of deposits** at the level of **PLN 86.5 million**. Customers relations in the area of deposits were analysed separately for each cash generating unit (CGU) split into two core products: current accounts and term deposits. The Multiperiod Excess Earnings Method has been used in order to measure the customers relations.
- **Value in force** – future profits on concluded insurance contracts in the amount of PLN 216 million. The present value of future profits on concluded insurance contracts was estimated based on cash flows for three groups of products: regular premium life insurance with a significant investment component, one-off premium life insurance with a significant investment component and protective life insurance. The present value of future profits does not take into consideration changes in deferred acquisition costs, because they were entirely written-off at the moment of acquisition.

The valuation of properties (buildings) of the Nordea Bank was carried out using the income method. This approach involves assessing the property's value assuming that its buyer will pay for it a price which depends on the expected income which can be derived from that property.

The valuation of land was carried out using the comparative approach, by applying the paired comparison method or the average price adjustment method. In the paired comparison method the value of property whose features are known and which is being appraised is compared with similar properties which were traded in the market, where the transaction prices, transaction settlement conditions and property prices are known. In the average price adjustment method the property value is determined as an adjustment to the average price of similar properties by adjusting coefficients which reflect the differences in particular features of these properties.

Due to the fact that the financial terms relating to amounts due to customers and amounts due to banks, including the push-down facility received from Nordea Bank AB (publ.), were determined at a level close to the prevailing market conditions, no adjustment to fair value of these liabilities was recognised.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014 (IN PLN THOUSAND)

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

In accordance with IFRS 3 in respect of the settlement of the merger transaction, the Group, as an acquirer, has the possibility of recognising indemnification assets. Those assets may result from specific agreements with the seller, who commits himself to compensate any loss incurred by the acquirer due to the unknown results of a contingent event or uncertainty connected with the entirety or part of the particular assets' or liabilities' component. The acquirer recognises the component of indemnification assets at the same time as it recognises the indemnified item (as at the acquisition date) and measures that component using the same method as for underlying assets, mostly fair value measurement method.

As part of the work connected with the settlement of the transaction, the Group evaluated the Special Indemnity Agreement based on a probability analysis of the cash flows resulting from the Agreement. The estimated expected value amounts to zero.

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

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

Restatements in the consolidated statement of financial position

	30.06.2013 before restatement	changes due to bancassurance	reclassification of liabilities due to UOKiK	30.06.2013 restated
Assets				
Loans and advances to customers	149 100 583	(416 138)	-	148 684 445
Deferred income tax asset	650 752	62 462	-	713 214
Other items of assets	48 467 814	-	-	48 467 814
TOTAL ASSETS	198 219 149	(353 676)	-	197 865 473
Liabilities				
Other liabilities	4 854 281	(87 382)	(23 442)	4 743 457
Provisions	278 453	-	23 442	301 895
Other items of liabilities	169 420 814	-	-	169 420 814
TOTAL LIABILITIES	174 553 548	(87 382)	-	174 466 166
Equity				
Share capital	1 250 000	-	-	1 250 000
Other capital	21 044 504	-	-	21 044 504
Currency translation differences from foreign operations	(109 817)	-	-	(109 817)
Undistributed profits	(55 915)	(271 242)	-	(327 157)
Net profit	1 534 231	4 948	-	1 539 179
TOTAL EQUITY	23 665 601	(266 294)	-	23 399 307
TOTAL LIABILITIES AND EQUITY	198 219 149	(353 676)	-	197 865 473

(IN PLN THOUSAND)

Restatements in the consolidated income statement

	01.01 – 30.06.2013 before restatement	changes due to bancassurance	01.01 – 30.06.2013 restated
Interest and similar income	5 585 770	114 271	5 700 041
Interest expense and similar charges	(2 319 540)	-	(2 319 540)
Net interest income	3 266 230	114 271	3 380 501
Fee and commission income	1 973 589	(128 850)	1 844 739
Fee and commission expense	(431 011)	20 688	(410 323)
Net fee and commission income	1 542 578	(108 162)	1 434 416
Dividend income	5 295	-	5 295
Net income from financial instruments measured at fair value	3 298	-	3 298
Gains less losses from investment securities	61 353	-	61 353
Net foreign exchange gains (losses)	74 943	-	74 943
Other operating income	250 583	-	250 583
Other operating expense	(204 472)		(204 472)
Net other operating income and expense	46 111	-	46 111
Net impairment allowance and write-downs	(866 919)	-	(866 919)
Administrative expenses	(2 225 494)	-	(2 225 494)
Operating profit	1 907 395	6 109	1 913 504
Share of profit (loss) of associates and joint ventures	(14 653)	-	(14 653)
Profit before income tax	1 892 742	6 109	1 898 851
Income tax expense	(358 785)	(1 161)	(359 946)
Net profit (including non-controlling shareholders)	1 533 957	4 948	1 538 905
Profit (loss) attributable to non-controlling shareholders	(274)	-	(274)
Net profit attributable to equity holders of the parent company	1 534 231	4 948	1 539 179

Restatements in the consolidated statement of comprehensive income

	01.01 – 30.06.2013 before restatement	changes due to bancassurance	01.01 – 30.06.2013 restated
Net profit	1 533 957	4 948	1 538 905
Other comprehensive income	(326 006)	-	(326 006)
Total net comprehensive income	1 207 951	4 948	1 212 899

All adjustments described above have an impact only on the retail segment.

4. Information on the segments of activities and information about geographical areas

4.1. Information on the segments of activities

The PKO Bank Polski SA Group's segment reporting scheme is primarily based on the criteria of the group of clients – recipients of the products and services offered by the parent company and the PKO Bank Polski SA Group entities. Every operating business segment comprises activities of providing products and services that are characterised by similar risk and income – different from other business segments. The segment note below is recognised in an internal reporting system, i.e. information presented to the Management Board of PKO Bank Polski SA, used to assess achieved results and to allocate resources.

The segment report below presents an internal organisational structure of the PKO Bank Polski SA Group. At present, the PKO Bank Polski SA Group comprises four basic segments: retail, corporate, investment segment and transfer centre:

1. The retail segment comprises transactions of the parent company and Nordea Bank Polska SA with retail clients, clients of small and medium enterprises and housing market clients. This segment comprises, i.a., the following products and services: current and saving accounts, term deposits, private banking services, investment products, credit and debit cards, consumer and mortgage loans, corporate loans for small and medium enterprises and housing market clients.

(IN PLN THOUSAND)

2. The corporate segment includes transactions of the parent company and Nordea Bank Polska SA concluded with large corporate clients. This segment comprises, i.a., the following products and services: current accounts, term deposits, depositary services, currency and derivative products, sell-buy-back and buy-sell-back transactions, corporate loans, leases and factoring. Within this segment, PKO Bank Polski SA also enters, individually or in a consortium with other banks, into loan agreements financing large investment projects and issuance of non-Treasury securities.

3. The investment segment comprises transactions of the parent company and Nordea Bank Polska SA with financial institutions' clients and the Bank's portfolio activity on its own account i.e. investing and brokerage activities, interbank transactions, derivative instruments and debt securities transactions and activities of other PKO Bank Polski SA's subsidiaries.

4. The transfer centre comprises the result on internal settlements related to funds transfer pricing, the result on long-term sources of financing and the result on positions classified for hedge accounting. Internal funds transfer is based on transfer pricing dependant on market rates. The transactions between business segments are conducted on arm's length. Long-term external financing includes the issuance of securities, subordinated liabilities and amounts due to financial institutions.

The PKO Bank Polski SA Group typically settles inter-segment transactions as if they were concluded between unrelated parties, using internal settlement rates. The transactions between business segments are conducted at arm's length.

Accounting policies applied in the segment report are consistent with accounting policies described in Note 3 of these financial statements.

Disclosed values of assets and liabilities are operating assets and liabilities applied by segment in operating activities. Values of assets, liabilities, income and expenses of a particular segments are based on internal management information. Assets and liabilities as well as income and costs related to these assets and liabilities are assigned to particular segments.

The current income tax expense in respect of the presentation of the financial result, and deferred income tax asset, current income tax receivables, current income tax liabilities and deferred income tax liability in respect of the statement of financial position presentation were recognised at the Group level.

As a result of the acquisition, the PKO Bank Polski SA Group recognised the assets and liabilities of Nordea Bank Polska and of the so called Swedish Portfolio in the retail and corporate segment, whereas the assets and liabilities of the remaining acquired Entities in the investment segment.

The tables below present data relating to income and results of individual business segments of the PKO Bank Polski SA Group for the six-month periods ended 30 June 2014 and 30 June 2013 and assets and liabilities as at 30 June 2014 and as at 31 December 2013.

For the period ended 30 June 2014	Continuing operations				
	Retail segment	Corporate segment	Investment segment	Transfer centre	Total activity of the PKO Bank Polski SA Group
Net interest income	3 089 016	365 151	145 157	79 538	3 678 862
Net fee and commission income	1 152 056	149 709	188 157	(893)	1 489 029
Other net income	108 746	58 154	175 325	(11 556)	330 669
Net result from financial operations	7 955	5 110	81 611	(3 167)	91 509
Net foreign exchange gains (losses)	80 353	60 625	2 832	(8 389)	135 421
Dividend income	-	-	6 091	-	6 091
Net other operating income and expense	7 419	5 438	84 791	-	97 648
Income/expenses relating to internal customers	13 019	(13 019)	-	-	-
Net impairment allowance and write-downs	(609 336)	(255 762)	(106 043)	-	(971 141)
Administrative expenses, of which:	(1 978 858)	(158 755)	(330 901)	-	(2 468 514)
amortisation and depreciation	(291 787)	(20 514)	(46 666)	-	(358 967)
Share of profit (loss) of associates and joint ventures	-	-	-	-	7 313
Segment gross profit	1 761 624	158 497	71 695	67 089	2 066 218
Income tax expense (tax burden)	-	-	-	-	(417 606)
Profit (loss) attributable to non-controlling shareholders	-	-	-	-	(9 516)
Net profit attributable to equity holders of the parent company	**1 761 624**	**158 497**	**71 695**	**67 089**	**1 658 128**

(IN PLN THOUSAND)

As at 30 June 2014	Continuing operations				
	Retail segment	Corporate segment	Investment segment	Transfer centre	Total activity of the PKO Bank Polski SA Group
Assets	133 286 821	54 256 734	59 638 090	(5 705 608)	241 476 037
Unallocated assets	-	-	-	-	813 390
Total assets	133 286 821	54 256 734	59 638 090	(5 705 608)	242 289 427
Liabilities	136 446 067	29 087 118	28 806 389	21 869 720	216 209 294
Unallocated liabilities	-	-	-	-	66 485
Total liabilities	136 446 067	29 087 118	28 806 389	21 869 720	216 275 779

For the period ended 30 June 2013	Continuing operations* (restated)				
	Retail segment	Corporate segment	Investment segment	Transfer centre	Total activity of the PKO Bank Polski SA Group
Net interest income	2 678 898	295 059	124 099	282 445	3 380 501
Net fee and commission income	1 075 306	150 837	209 521	(1 248)	1 434 416
Other net income	68 972	39 268	133 759	(50 999)	191 000
Net result from financial operations	(5 682)	10 201	65 729	(5 597)	64 651
Net foreign exchange gains (losses)	60 011	41 297	19 037	(45 402)	74 943
Dividend income	-	-	5 295	-	5 295
Net other operating income and expense	1 624	789	43 698	-	46 111
Income/expenses relating to internal customers	13 019	(13 019)	-	-	-
Net impairment allowance and write-downs	(517 566)	(321 849)	(27 504)	-	(866 919)
Administrative expenses, of which:	(1 788 633)	(128 660)	(308 201)	-	(2 225 494)
amortisation and depreciation	(234 624)	(14 597)	(34 766)	-	(283 987)
Share of profit (loss) of associates and joint ventures	-	-	-	-	(14 653)
Segment gross profit	1 516 977	34 655	131 674	230 198	1 898 851
Income tax expense (tax burden)	-	-	-	-	(359 946)
Profit (loss) attributable to non-controlling shareholders	-	-	-	-	(274)
Net profit attributable to equity holders of the parent company	1 516 977	34 655	131 674	230 198	1 539 179

*Data for the first half of 2013 has been brought to comparability. Restatements include changes in accounting policies as regards to the recognition of income and expenses related to the sale of insurance products associated with loan agreements and comprise retail segment (detailed description has been presented in the Note 3.7 'Explanation of differences between the previously published financial statements and these financial statements').

As at 31 December 2013	Continuing operations				
	Retail segment	Corporate segment	Investment segment	Transfer centre	Total activity of the PKO Bank Polski SA Group
Assets	111 712 993	40 628 974	39 710 644	6 409 677	198 462 288
Unallocated assets	-	-	-	-	768 822
Total assets	111 712 993	40 628 974	39 710 644	6 409 677	199 231 110
Liabilities	127 700 088	17 622 539	21 501 703	7 197 754	174 022 084
Unallocated liabilities	-	-	-	-	54 701
Total liabilities	127 700 088	17 622 539	21 501 703	7 197 754	174 076 785

(IN PLN THOUSAND)

4.2. Information about geographical areas

As a complementary, the PKO Bank Polski SA Group applies geographical areas distribution. The PKO Bank Polski SA Group conducts activities in the Republic of Poland and in Ukraine through the KREDOBANK SA Group, 'Inter-Risk Ukraina' Additional Liability Company and Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o., as well as in Sweden through subsidiaries: PKO Finance AB and PKO Leasing Sverige AB. For presentation purposes, the results of companies operating in Sweden are included in the segment of Poland.

For the period ended 30 June 2014	Poland	Ukraine	Total
Net interest income	3 652 091	26 771	3 678 862
Net fee and commission income	1 465 745	23 284	1 489 029
Other net income	343 831	(13 162)	330 669
Administrative expenses	(2 413 029)	(55 485)	(2 468 514)
Net impairment allowance	(937 215)	(33 926)	(971 141)
Share of profit (loss) of associates and joint ventures	-	-	7 313
Profit (loss) before income tax	2 111 423	(52 518)	2 066 218
Income tax expense (tax burden)	-	-	(417 606)
Profit (loss) attributable to non-controlling shareholders	-	-	(9 516)
Net profit (loss) attributable to equity holders of the parent company	2 111 423	(52 518)	1 658 128

As at 30 June 2014	Poland	Ukraine	Total
Assets of which:	240 985 950	1 303 477	242 289 427
non-financial fixed assets	6 019 484	100 926	6 120 410
deferred tax assets and current income tax receivable	798 385	15 005	813 390
Liabilities	214 996 819	1 278 960	216 275 779

For the period ended 30 June 2013 (restated)	Poland	Ukraine	Total
Net interest income*	3 358 552	21 949	3 380 501
Net fee and commission income*	1 404 341	30 075	1 434 416
Other net income	191 473	(473)	191 000
Administrative expenses	(2 161 010)	(64 484)	(2 225 494)
Net impairment allowance and write-downs	(848 777)	(18 142)	(866 919)
Share of profit (loss) of associates and joint ventures	-	-	(14 653)
Profit (loss) before income tax	1 944 579	(31 075)	1 898 851
Income tax expense (tax burden)	-	-	(359 946)
Profit (loss) attributable to non-controlling shareholders	-	-	(274)
Net profit (loss) attributable to equity holders of the parent company	1 944 579	(31 075)	1 539 179

* Data for the first half of 2013 has been brought to comparability. Restatements include changes in accounting policies as regards to the recognition of income and expenses related to the sale of insurance products associated with loan agreements and comprise Poland retail area (detailed description has been presented in the Note 3.7 'Explanation of differences between the previously published financial statements and these financial statements').

As at 31 December 2013	Poland	Ukraine	Total
Assets, of which:	197 625 058	1 606 052	199 231 110
non-financial fixed assets	4 695 955	145 500	4 841 455
deferred tax assets and current income tax receivable	751 802	17 020	768 822
Liabilities	172 517 523	1 559 262	174 076 785

(IN PLN THOUSAND)

NOTES TO THE CONSOLIDATED INCOME STATEMENT

5. Interest income and expense

Interest and similar income

	01.01 - 30.06.2014	01.01 - 30.06.2013 restated
Interest income calculated using the effective interest rate method, with respect to financial assets, which are not measured at fair value through profit and loss, of which:	4 836 600	5 129 534
Income from loans and advances to customers, of which:	4 469 967	4 749 623
from impaired loans	224 622	256 824
Income from loans to banks	11 219	984
Income from investment securities available for sale	261 422	281 220
Income from placements with banks	72 801	94 866
Income from investment securities held to maturity	18 612	1 312
Other	2 579	1 529
Other income, of which:	408 039	570 507
Income from financial assets designated upon initial recognition at fair value through profit and loss	208 935	265 214
Income from derivative hedging instruments	171 114	270 344
Income from trading assets	27 990	34 949
Total	5 244 639	5 700 041

Interest expense and similar charges

	01.01 - 30.06.2014	01.01 - 30.06.2013
Interest expense calculated using the effective interest rate method, with respect to financial liabilities, which are not measured at fair value through profit and loss, of which:	(1 560 078)	(2 312 564)
Interest expense on amounts due to customers	(1 264 589)	(2 026 771)
Interest expense on loans from banks	(26 748)	(14 745)
Interest expense on debt securities in issue and subordinated liabilities	(248 259)	(245 287)
Premium expense on debt securities available for sale	(14 880)	(16 581)
Interest expense on deposits from banks	(5 602)	(9 180)
Other expense	(5 699)	(6 976)
Interest expense on financial assets designated upon initial recognition at fair value through profit and loss	(3 131)	(2 903)
Interest expense on trading assets	(2 568)	(4 073)
Total	(1 565 777)	(2 319 540)

(IN PLN THOUSAND)

6. Fee and commission income and expense

Fee and commission income

	01.01 - 30.06.2014	01.01 - 30.06.2013 restated
Income from financial assets, which are not measured at fair value through profit and loss, of which:	285 025	298 473
income from loans and advances granted	285 025	298 473
Other commissions from:	1 758 011	1 544 171
payment cards	714 943	588 999
maintenance of bank accounts	465 246	430 895
maintenance of investment and open pension funds (including management fees)	201 756	183 009
loans insurance	138 629	132 149
cash transactions	57 219	63 696
securities transactions	44 344	35 450
servicing foreign mass transactions	31 570	24 965
providing services of an agent for the issue of Treasury bonds	11 516	11 265
sale and distribution of court fee stamps	2 500	3 918
insurance operations	21 806	-
Other*	68 482	69 825
From fiduciary activities	1 636	2 095
Total	2 044 672	1 844 739

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

	01.01 - 30.06.2014	01.01 - 30.06.2013
Income from insurance operations, of which:		
Income from insurance intermediary	724	-
Income from policies administration	1 856	-
Income from fund management	14 247	-
Other	4 979	-
Total	21 806	-

(IN PLN THOUSAND)

Fee and commission expense

	01.01 - 30.06.2014	01.01 - 30.06.2013 restated
payment cards	(370 712)	(243 354)
acquisition services	(56 664)	(51 347)
loans insurance	(53 177)	(45 623)
settlement services	(13 870)	(13 497)
fee and commissions for operating services provided by banks	(6 860)	(5 848)
other*	(54 360)	(50 654)
Total	(555 643)	(410 323)

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

7. Net income from financial instruments measured at fair value

	01.01 - 30.06.2014	01.01 - 30.06.2013
Change in fair value of financial instruments measured at fair value through profit and loss determined using the valuation techniques	6 000	7 686
Derivative instruments, of which:	11 734	20 908
an ineffective portion related to cash flow hedges	6 494	497
Structured bank securities measured at fair value through profit and loss	(5 734)	(13 222)
Debt securities	45 767	(2 485)
Equity instruments	895	(1 903)
Other	301	-
Total	52 963	3 298

01.01 -30.06.2014	Gains	Losses	Net result
Trading assets	8 435 506	(8 416 727)	18 779
Financial assets designated upon initial recognition at fair value through profit and loss	106 517	(72 333)	34 184
Total	8 542 023	(8 489 060)	52 963

01.01 -30.06.2013	Gains	Losses	Net result
Trading assets	10 249 630	(10 229 526)	20 104
Financial assets designated upon initial recognition at fair value through profit and loss	70 725	(87 531)	(16 806)
Total	10 320 355	(10 317 057)	3 298

(IN PLN THOUSAND)

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

	01.01-30.06.2014	01.01-30.06.2013
Gain/loss due to change in value of assets available for sale recognised directly in other comprehensive income during the period	72 584	(229 301)
Gain/loss derecognised from other comprehensive income recognised in the income statement in the position 'Gains less losses from investment securities' on:	38 546	61 353
gain from sale derecognised from other comprehensive income	40 636	91 615
loss on sale derecognised from other comprehensive income	(2 090)	(30 262)
Impact on other comprehensive income (gross), position 'Unrealised net gains on financial assets available for sale (gross)'	111 130	(167 948)

9. Other operating income and expense

	01.01 - 30.06.2014	01.01 - 30.06.2013
Net income from sale of products and services	113 247	137 987
Sale, disposal of tangible fixed assets, intangible assets and assets held for sale	60 309	42 938
Damages, penalties and fines received	39 423	30 307
Sundry income	9 332	9 910
Recovery of expired and written-off receivables	5 892	2 515
Net income from insurance operations	2 145	-
Other	43 246	26 926
Total other operating income	273 594	250 583

Other operating expense

	01.01 - 30.06.2014	01.01 - 30.06.2013
Costs of sale of products and services	(64 406)	(109 976)
Costs of sale, disposal of tangible fixed assets, intangible assets and assets held for sale	(47 363)	(45 603)
Sundry expenses	(2 428)	(2 789)
Donations	(6 324)	(7 562)
Other	(55 425)	(38 542)
Total other operating expense	(175 946)	(204 472)

(IN PLN THOUSAND)

10. Net impairment allowance and write-downs

For the period ended 30 June 2014	Note	Value at the beginning of the period	Increases			Decreases				Value at the end of the period	Net – impact on the income statement
			increases of allowances due to acquisition of Nordea Polska's entities and so called 'Swedish Portfolio'	Recognised during the period	Other	Derecognition of assets and settlement	Reversed during the period	Currency translation differences	Other		
Investment securities available for sale	22	33 455	-	91	-	-	-	31	12 455	21 060	(91)
Debt securities available for sale		3 296	-	91	-	-	-	-	-	3 387	(91)
Equity securities		30 159	-	-	-	-	-	31	12 455	17 673	-
Amounts due from banks	16	28 583	1	282	666	-	-	-	-	29 532	(282)
Loans and advances to customers measured at amortised cost	21	6 650 780	551 981	2 967 220	16 140	706 371	2 039 200	33 762	344	7 406 444	(928 020)
Non-financial sector		6 501 046	546 877	2 924 921	12 365	703 169	2 015 895	33 737	344	7 232 064	(909 026)
corporate loans		3 329 352	273 898	1 541 008	1 622	491 943	896 125	24 804	-	3 733 008	(644 883)
consumer loans		1 413 349	4 036	645 578	1 354	142 926	538 374	3 866	-	1 379 151	(107 204)
housing loans		1 731 258	267 944	725 729	9 389	68 300	581 318	5 067	-	2 079 635	(144 411)
debt securities		27 087	999	12 606	-	-	78	-	344	40 270	(12 528)
Financial sector		5 524	867	4 537	3 371	337	9 730	25	-	4 207	5 193
corporate loans		5 524	867	4 537	3 371	337	9 730	25	-	4 207	5 193
Public sector		11 527	3 036	148	404	54	710	-	-	14 351	562
corporate loans		10 549	1 616	137	61	54	697	-	-	11 612	560
debt securities		978	1 420	11	343	-	13	-	-	2 739	2
Finance lease receivables		132 683	1 201	37 614	-	2 811	12 865	-	-	155 822	(24 749)
Non-current assets held for sale	25	365 340	-	24 488	-	14 847	12 597	111 902	236	250 246	(11 891)
Tangible fixed assets	27	12 084	-	-	-	16	-	3 686	-	8 382	-
Intangible assets	27	153 011	-	39 589	-	39	1 781	86	-	190 694	(37 808)
Investments in associates and joint ventures	24	116 532	-	766	-	6 235	-	-	-	111 063	(766)
Inventories	26	53 805	-	6 401	-	5 770	82	-	-	54 354	(6 319)
Other receivables		158 752	1 755	20 372	-	682	10 375	1 126	414	168 282	(9 997)
Provision for legal claims, loan commitments and guarantees granted	34	151 603	20 271	191 124	899	246	212 699	105	-	150 847	21 575
Provision for future liabilities		6 945	3 329	1 252	8 679	504	3 710	-	-	15 991	2 458
Total		7 730 890	577 337	3 251 585	26 384	734 710	2 280 444	150 698	13 449	8 406 895	(971 141)

(IN PLN THOUSAND)

For the period ended 30 June 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	Currency translation differences	Other	Derecognition of assets and settlement	Reversed during the period	Other		
Investment securities available for sale		23 243	-	5	-	5 536	-	-	17 712	-
Debt securities available for sale		5 536	-	5	-	5 536	-	-	5	-
Equity securities		17 707	-	-	-	-	-	-	17 707	-
Amounts due from banks		29 382	486	-	2 667	-	-	-	32 535	(486)
Loans and advances to customers measured at amortised cost	21	6 776 265	3 026 210	26 650	63 553	553 119	2 093 775	-	7 245 784	(932 435)
Non-financial sector		6 606 755	2 997 490	25 334	63 048	551 263	2 076 973	-	7 064 391	(920 517)
corporate loans		3 458 562	1 603 723	20 196	16 876	329 158	986 128	-	3 784 071	(617 595)
consumer loans		1 431 689	752 545	820	11 551	155 442	562 559	-	1 478 604	(189 986)
housing loans		1 714 698	640 084	4 318	34 621	66 663	528 286	-	1 798 772	(111 798)
debt securities		1 806	1 138	-	-	-	-	-	2 944	(1 138)
Financial sector		25 376	825	1 316	459	-	789	-	27 187	(36)
corporate loans		25 376	825	1 316	459	-	789	-	27 187	(36)
Public sector		21 990	219	-	46	126	6 659	-	15 470	6 440
corporate loans		19 640	219	-	46	126	6 635	-	13 144	6 416
debt securities		2 350	-	-	-	-	24	-	2 326	24
Finance lease receivables		122 144	27 676	-	-	1 730	9 354	-	138 736	(18 322)
Non-current assets held for sale	25	2 906	963	-	-	21	-	-	3 848	(963)
Tangible fixed assets		13 943	462	703	-	1 278	6	-	13 824	(456)
Intangible assets		142 313	3 936	16	-	-	-	-	146 265	(3 936)
Investments in associates and joint ventures		113 226	1 350	-	-	-	10 370	-	104 206	9 020
Inventories		31 504	2 999	-	4 193	2 097	11	-	36 588	(2 988)
Other receivables		121 601	32 613	230	330	16 681	20 933	-	117 160	(11 680)
Provision for legal claims, loan commitments and guarantees granted	34	240 527	107 480	12	779	309	179 131	1 658	167 700	71 651
Provision for future liabilities		11 961	1 893	-	-	280	7 247	-	6 327	5 354
Total		7 506 871	3 178 392	27 616	71 522	579 321	2 311 473	1 658	7 891 949	(866 919)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014 (IN PLN THOUSAND)

11. Administrative expenses

	01.01 - 30.06.2014	01.01 - 30.06.2013
Employee benefits	(1 267 865)	(1 179 672)
Overheads	(683 340)	(648 066)
Amortisation and depreciation, of which:	(358 967)	(283 987)
tangible fixed assets	(153 354)	(157 849)
intangible assets	(204 879)	(126 133)
investment properties	(734)	(5)
Taxes and other charges	(45 498)	(36 898)
Contribution and payments to the Bank Guarantee Fund	(112 844)	(76 871)
Total	(2 468 514)	(2 225 494)

Employee benefits

	01.01 - 30.06.2014	01.01 - 30.06.2013
Wages and salaries*, of which:	(1 052 050)	(953 808)
expenses on employee pension programme	(17 522)	(22 800)
Social Insurance, of which:	(180 084)	(190 402)
contributions to retirement pay and pensions	(158 057)	(161 632)
Other employee benefits	(35 731)	(35 462)
Total	(1 267 865)	(1 179 672)

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

12. Income tax expense

	01.01 - 30.06.2014	01.01 - 30.06.2013 restated
Current income tax expense	(487 564)	(363 834)
Deferred income tax related to creating and reversal of temporary differences	69 958	3 888
Tax expense in the consolidated income statement	(417 606)	(359 946)
Deferred tax expense in other comprehensive income related to creating and reversal of temporary differences	(50 087)	78 297
Total	(467 693)	(281 649)

Deferred income tax asset/liability

	30.06.2014	31.12.2013	30.06.2013 restated
Deferred income tax asset	782 648	562 421	713 214
Deferred income tax liability	44 164	32 106	44 192
Total	738 484	530 315	669 022

In 2014 KREDOBANK SA conducted proceedings related to legal claims described below with the tax authority in Ukraine.

1. The legal claim concerned recognition of the costs related to the transaction of selling loans in 2011, including factoring transactions between KREDOBANK SA and Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. as tax deductible expenses by KREDOBANK SA (the tax authority questioned the legal basis treating the above mentioned costs as tax deductible).
   On 5 October 2012, KREDOBANK SA filed a claim against the basis of the inspection by the tax authority and applying for annulling the decision to pay income tax based on the inspection protocol. On 6 December 2012, the court of the first instance granted the complaint of KREDOBANK SA. On 21 March 2013, KREDOBANK SA obtained a legally valid judgment of the court of the second instance confirming the correctness of KREDOBANK SA's position.

   The tax authority filed a motion for cassation of this judgment to the Higher Administrative Court.

   On 19 November 2013, the Higher Administrative Court awarded the elimination of tax loss of KREDOBANK SA in the amount of UAH 1 084 316 thousand (PLN 277 802 thousand[1]) within the factoring operations between KREDOBANK SA and Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. On the other hand, within the transaction of sale of loans to legal entities and individuals (assignment agreement), the Court recognised the right of KREDOBANK SA to tax deductible costs resulting from the above

[1] All values in this information were translated into PLN using the average NBP exchange rate as at 30 June 2014 (0.2562 PLN/UAH).

mentioned transactions, recognised by the tax authority as invalid, maintaining the position of the lower courts on lack of competence of tax authorities to invalidate agreements. At the same time, the Court invalidated the tax decisions stating the tax liability occurrence.

The elimination of tax loss arising from the above mentioned judgment of the Higher Administrative Court resulted in recognition of income tax from legal entities in the amount of UAH 44 583 thousand (PLN 11 422 thousand) in the financial statements of the KREDOBANK SA Group for 2013, prepared in accordance with IFRS, and due to the need to resolve deferred tax asset, recognition in the net profit in the amount of UAH 116 882 thousand (PLN 29 945 thousand). As a result of the above mentioned, the total equity of the KREDOBANK SA Group was decreased by UAH 161 465 thousand (PLN 41 367 thousand).

Judgment of the Higher Administrative Court was based on the interpretation that the loans constitute material assets, i.e. goods, which, in the opinion of PKO Bank Polski SA and KREDOBANK SA, stands in clear contradiction with the law regulations in Ukraine and business practice, including international. Moreover, KREDOBANK SA and PKO Bank Polski SA hold legal opinions, clearly confirming the correctness of tax returns in this area, made by KREDOBANK SA.

On 18 February 2014, KREDOBANK SA filed a claim for cassation of the Higher Administrative Court's judgment to the Supreme Court of Ukraine. On 7 March 2014 KREDOBANK SA received refusal decision from the Higher Administrative Court regarding the admission of cassation case for consideration by the Supreme Court of Ukraine.

In May 2014, in connection with this dispute, KREDOBANK SA and PKO Bank Polski SA, filed compensation complaints on the Ukrainian authorities to the European Court of Human Rights.

2. The legal claim concerns the results of tax audit, which covered the period from 1 April 2011 to 30 September 2012. Legal claims mainly concern recognition of the costs related to the transaction of selling loans in the period covered by the inspection as tax deductible expenses, the adequacy of recognition of impairment allowances on loans, the correctness of the settlement of VAT on property sales and withholding tax for the payment of fees for services.

   The value of disputed claims amounted to UAH 877 thousand (PLN 225 thousand) and the amount of reducing tax loss from previous years – UAH 626 282 thousand (PLN 160 453 thousand). In February 2013, KREDOBANK SA paid a part of the legal claims in the total amount of UAH 439 thousand (PLN 112 thousand). This value is still included in subsequent appeal claims.

   KREDOBANK SA appealed against the above mentioned tax decision consecutive to the Regional State Tax Service and The Ministry of Revenue and Duties of Ukraine, and these appeals were rejected.

   On 2 August 2013, KREDOBANK SA filled a claim against the results of the inspection and applied for cancelation of the abovementioned tax decision. On 5 November 2013 the court of the first instance issued a favourable verdict for KREDOBANK SA, which accepted a position of the Company, except the correctness of calculation of tax depreciation on tangible fixed assets in the total amount of UAH 336 thousand (PLN 86 thousand).

   On 26 November 2013, the tax authority appealed to the court of the second instance. On 2 April 2014 the court of appeal upheld the decision of the court of first instance favourable for KREDOBANK SA. On 15 April 2014 the tax authority filed a motion for cassation of this judgment to the Higher Administrative Court. The motion for cassation has been accepted and is pending.

13. Earnings per share

Basic earnings per share

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

Earnings per share

	01.01 - 30.06.2014	01.01 - 30.06.2013 restated
Profit per ordinary shareholders (in PLN thousand)	1 658 128	1 539 179
Weighted average number of ordinary shares during the period (in thousand)	1 250 000	1 250 000
Earnings per share (in PLN per share)	1.33	1.23

Earnings per share from discontinued operations

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

Diluted earnings per share

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

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

Diluted earnings per share from discontinued operations

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

(IN PLN THOUSAND)

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

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

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

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

15. Cash and balances with the central bank

	30.06.2014	31.12.2013
Current account in the central bank	7 091 548	4 018 340
Cash	2 819 257	3 227 330
Other funds	103	450
Total	9 910 908	7 246 120

16. Amounts due from banks

	30.06.2014	31.12.2013
Deposits with banks	1 077 479	1 402 724
Current accounts	1 307 483	469 812
Receivables due from repurchase agreements	56 492	14 033
Loans and advances granted	45 458	34 338
Cash in transit	12 694	1 117
Total	2 499 606	1 922 024
Impairment allowances on receivables, of which:	(29 532)	(28 583)
impairment allowances on receivable from a foreign bank	(28 878)	(28 543)
Net total	2 470 074	1 893 441

Details on risk related to amounts due from banks were described in the Note 46 'Credit risk management'.

17. Trading assets

By carrying amount	30.06.2014	31.12.2013
Debt securities	**1 173 313**	**467 931**
issued by the State Treasury, of which:	1 099 169	395 202
Treasury bonds PLN	1 099 169	390 660
Treasury bonds EUR	-	4 542
issued by local government bodies, municipal bonds PLN	51 622	41 907
issued by non-financial institutions, corporate bonds PLN	8 320	23 892
issued by other financial institutions, of which:	4 613	6 762
bonds issued by WSE PLN	4 503	6 628
corporate bonds PLN	110	134
issued by banks, of which:	9 589	168
Shares in other entities – listed on stock exchanges	6 196	10 799
Investment certificates	4 711	1 151
Total	1 184 220	479 881

(IN PLN THOUSAND)

18. Derivative financial instruments

Derivative instruments used by the Group

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

	30.06.2014		31.12.2013	
	Assets	Liabilities	Assets	Liabilities
Hedging instruments	379 394	378 411	361 639	414 804
Other derivative instruments	3 006 501	3 188 749	2 639 221	2 913 407
Total	3 385 895	3 567 160	3 000 860	3 328 211

Type of contract	30.06.2014		31.12.2013	
	Assets	Liabilities	Assets	Liabilities
IRS	3 044 943	2 852 550	2 590 721	2 490 821
CIRS	122 811	459 308	252 941	545 073
Options	121 096	76 872	75 443	61 930
FX Swap	34 970	87 884	39 908	156 393
Forward	21 656	47 864	24 552	60 143
FRA	38 995	42 498	13 652	11 454
Other	1 424	184	3 643	2 397
Total	3 385 895	3 567 160	3 000 860	3 328 211

19. Derivative hedging instruments

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

- hedges against fluctuations in cash flows from mortgage loans in CHF and negotiated term deposits in PLN, resulting from the risk of fluctuations in interest rates and in foreign exchange rates, using CIRS transactions,
- hedges against fluctuations in cash flows from floating interest rate loans in PLN, resulting from the risk of fluctuations in interest rates, using IRS transactions,
- hedges against fluctuations in cash flows from floating interest rate loans in EUR, resulting from the risk of fluctuations in interest rates, using IRS transactions,
- hedges against fluctuations in cash flows from floating interest rate loans in CHF, resulting from the risk of fluctuations in interest rates, using IRS transactions,
- hedges against fluctuations in cash flows from floating interest rate loans in foreign currencies, resulting from the risk of fluctuations in interest rates and from foreign exchange rate risk, and hedges against fluctuations in cash flows from fixed interest rate financial liability in foreign currency, resulting from foreign exchange rate risk, using CIRS transactions.

A detailed description of hedging strategies applied was included in the consolidated financial statements of the PKO Bank Polski SA Group for the 12-month period ended 31 December 2013.

As at 30 June 2014 and as at 31 December 2013, the Group did not use the fair value hedge.

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

Hedge effectiveness is verified through the use of prospective and retrospective effectiveness tests. Tests are performed monthly.

In the first half of 2014 the Group did not establish new hedging strategies.

In the second quarter of 2014, due to the lack of fulfilment of the retrospective effectiveness test, the Group ceased to apply the hedge accounting for one of hedging relationships within strategy ‘Hedges against fluctuations in cash flows from floating interest rate loans in PLN, resulting from the risk of fluctuations in interest rates, using IRS transactions’.

(IN PLN THOUSAND)

Cash flow hedges

The fair value of derivative instruments constituting cash flow hedges related to the interest rate and/or foreign exchange rate as at 30 June 2014 and as at 31 December 2013:

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

The nominal value of hedging instruments by maturity.

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

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

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014 (IN PLN THOUSAND)

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

20. Financial instruments designated upon initial recognition at fair value through profit and loss

By carrying amount	30.06.2014	31.12.2013
Debt securities	14 267 963	15 204 756
issued by central banks, NBP money market bills	11 446 840	13 997 228
issued by the State Treasury, of which:	2 431 545	956 893
Treasury bonds PLN	2 405 452	931 325
Treasury bonds UAH	26 093	25 568
issued by local government bodies, of which:	249 710	250 635
municipal bonds EUR	140 041	136 700
municipal bonds PLN	109 669	113 935
issued by banks, structured bonds PLN	139 356	-
issued by non-financial institutions, corporate bonds PLN	512	-
Participation units	1 790 600	-
Total	16 058 563	15 204 756

21. Loans and advances to customers

	30.06.2014	31.12.2013	30.06.2013 restated
Loans and advances to customers, gross, of which:	185 400 403	156 274 042	155 930 229
financial sector	2 357 562	2 986 731	1 349 827
corporate, of which:	1 192 029	948 308	988 797
deposits of the Brokerage House of PKO Bank Polski SA in the Stock Exchange Guarantee Fund and initial deposit	21 348	19 339	14 492
receivables due from repurchase agreements	1 165 533	2 038 423	361 030
non-financial sector	172 896 917	146 067 840	146 883 587
housing	97 470 900	76 631 478	74 933 136
corporate	52 564 853	47 970 294	50 159 023
consumer	20 955 317	20 627 222	20 882 578
debt securities (corporate)	1 905 847	838 846	908 850
public sector	10 145 924	7 219 471	7 696 815
corporate	7 367 810	6 135 647	6 528 703
debt securities (municipal)	2 776 486	978 159	1 163 186
housing	1 628	-	4 926
receivables due from repurchase agreements	-	105 665	-
Impairment allowances on loans and advances	(7 406 444)	(6 650 780)	(7 245 784)
Loans and advances to customers, net	177 993 959	149 623 262	148 684 445

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

(IN PLN THOUSAND)

By client segment	30.06.2014	31.12.2013	30.06.2013 restated
Loans and advances granted, gross, of which:	185 400 403	156 274 042	155 930 229
mortgage banking	87 868 506	68 943 625	67 272 755
corporate	50 477 051	40 393 713	42 992 906
small and medium enterprises	24 909 153	24 146 055	24 406 469
retail and private banking	20 958 812	20 627 222	20 882 577
receivables due from repurchase agreements	1 165 533	2 144 088	361 030
other receivables	21 348	19 339	14 492
Impairment allowances on loans and advances	(7 406 444)	(6 650 780)	(7 245 784)
Loans and advances granted, net	177 993 959	149 623 262	148 684 445

The structure of loans and advances presented in the Note:

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

Loans and advances to customers by method of calculating allowances	30.06.2014	31.12.2013	30.06.2013 restated
Assessed on an individual basis	7 418 654	7 336 985	8 673 695
Impaired, of which:	5 604 236	5 532 429	6 601 577
finance lease receivables	195 885	134 027	154 765
Not impaired, of which:	1 814 418	1 804 556	2 072 118
finance lease receivables	254 667	193 560	156 671
Assessed on a portfolio basis	7 689 964	7 328 923	7 537 733
Impaired, of which:	7 689 964	7 328 923	7 537 733
finance lease receivables	107 654	115 883	146 220
Assessed on a group basis (IBNR), of which:	170 291 785	141 608 134	139 718 801
finance lease receivables	4 454 500	3 793 700	3 411 681
Loans and advances to customers, gross	185 400 403	156 274 042	155 930 229
Allowances on exposures assessed on an individual basis	(2 345 897)	(2 292 218)	(2 765 492)
Impaired, of which:	(2 329 768)	(2 276 093)	(2 695 619)
allowances on lease receivables	(63 646)	(46 430)	(43 545)
Allowances on exposures assessed on a portfolio basis, of which:	(4 429 728)	(3 772 723)	(3 788 887)
allowances on lease receivables	(78 857)	(75 355)	(82 225)
Allowances on exposures assessed on a group basis (IBNR), of which:	(630 819)	(585 839)	(691 405)
allowances on lease receivables	(13 319)	(10 898)	(12 966)
Allowances - total	(7 406 444)	(6 650 780)	(7 245 784)
Loans and advances to customers, net	177 993 959	149 623 262	148 684 445

A detailed description of changes in allowances is presented in the Note 10.

As at 30 June 2014, the share of impaired loans amounted to 7.2% (as at 31 December 2013: 8.2%), 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 55.7% (as at 31 December 2013: 51.7%).

As at 30 June 2014, the share of loans overdue by more than 90 days in the gross amount of loans and advances was 5.2% (as at 31 December 2013: 5.9%).

(IN PLN THOUSAND)

22. Investment securities available for sale

	30.06.2014	31.12.2013
Debt securities available for sale, gross	21 433 621	13 870 733
issued by the State Treasury	14 221 177	8 818 500
Treasury bonds PLN	14 130 828	8 616 517
Treasury bonds USD	90 309	181 823
Treasury bonds UAH	40	20 160
issued by local government bodies, municipal bonds PLN	4 213 790	3 440 753
issued by non-financial institutions	1 823 603	1 000 549
corporate bonds PLN	1 823 603	1 000 549
issued by banks, corporate bonds	1 175 051	610 931
corporate bonds PLN	1 062 180	558 814
corporate bonds EUR	88 436	-
corporate bonds UAH	24 435	52 117
Impairment allowances on debt securities available for sale	(3 387)	(3 296)
corporate bonds PLN	(3 387)	(3 296)
Total net debt securities available for sale	21 430 234	13 867 437
Equity securities available for sale, gross	252 891	235 800
Equity securities not admitted to public trading	193 301	161 514
Equity securities admitted to public trading	59 590	74 286
Impairment allowances on equity securities available for sale	(17 673)	(30 159)
Total net equity securities available for sale	235 218	205 641
Total net investment securities available for sale	21 665 452	14 073 078

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

As at 30.06.2014	nominal value	fair value	carrying amount
Municipal bonds	946 191	950 567	955 123
Corporate bonds	780 040	787 915	757 419
Total	1 726 231	1 738 482	1 712 542

As at 31.12.2013	nominal value	fair value	carrying amount
Municipal bonds	961 611	963 118	965 180
Corporate bonds	787 040	791 503	768 385
Total	1 748 651	1 754 621	1 733 565

Details on risk related to investment securities available for sale are described in Note 46 ‘Credit risk management’.

23. Investments securities held to maturity

	30.06.2014	31.12.2013
Debt securities		
issued by the State Treasury, of which:	206 816	26 886
issued by the Treasury State PLN	40 761	
issued by the Treasury State UAH	166 055	
issued by banks	-	11 119
Total	206 816	38 005

(IN PLN THOUSAND)

24. Investments in associates and joint ventures

1) the value of the Group's investments in joint ventures (i.e. the acquisition cost adjusted to share in the change in net assets after acquisition date and impairment allowances)

Entity name	30.06.2014	31.12.2013
The 'CENTRUM HAFFNERA' Sp. z o.o. Group *	-	-
Purchase price	-	44 371
Change in valuation with equity method	-	(38 136)
Impairment allowance	-	(6 235)
'Centrum Obsługi Biznesu' Sp. z o.o.	4 753	5 380
Purchase price	17 498	17 498
Change in valuation with equity method	(12 745)	(12 118)
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	194 768	197 592
Fair value of the remaining investment	197 592	197 592
Change in valuation with equity method	(2 552)	-
Other	(272)	-
Total	199 521	202 972

* On 20 January 2014 'CENTRUM HAFFNERA' Sp. z o.o. became a subsidiary of PKO Bank Polski SA.

2) the value of the PKO Bank Polski SA Group's investments in associates (i.e. the acquisition cost adjusted for share in the change in net assets and impairment allowances)

Entity name	30.06.2014	31.12.2013
The Bank Pocztowy SA Group	106 720	106 720
Purchase price	146 500	146 500
Change in valuation with equity method	65 585	65 013
Impairment allowance	(105 365)	(104 793)
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	-	-
Purchase price	1 500	1 500
Change in valuation with equity method	4 198	4 004
Impairment allowance	(5 698)	(5 504)
Total	106 720	106 720

	01.01 - 30.06.2014	01.01 - 30.06.2013
Investments in joint ventures at the beginning of the period	202 972	12 048
Share in profit/loss	6 849	(17 841)
Change in impairment allowances of investment	-	10 370
Dividend	(10 028)	-
Other	(272)	-
Investments in joint ventures at the end of the period	199 521	4 577

	01.01 - 30.06.2014	01.01 - 30.06.2013
Investments in associates at the beginning of the period	106 720	107 163
Share in profit/loss	464	3 188
Share in other comprehensive income of an associate	302	(1 838)
Change in impairment allowances of investments	(766)	(1 350)
Recognition of the Agencja Inwestycyjna CORP-SA SA's shares in non-current assets held for sale	-	(443)
Investment in associates at the end of the period	106 720	106 720

In the first half of 2014, in relation to decrease in share capital of 'CENTRUM HAFFNERA' Sp. z o.o. resulting from redemption of shares owned by the Shareholder – the City of Sopot, 'CENTRUM HAFFNERA' Sp. z o.o. became a subsidiary of PKO Bank Polski SA.

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

In the six-month period ended 30 June 2014, PKO Bank Polski SA did not make any direct investments in associates and joint ventures.

(IN PLN THOUSAND)

25. Non-current assets held for sale

	01.01-30.06.2014	01.01-30.06.2013
Gross value of non-current assets held for sale at the beginning of the period	537 559	23 316
Increases, of which:	6 989	9 415
reclassification from tangible fixed assets to non-current assets held for sale, of which	6 989	9 386
land and buildings	6 948	9 358
reclassification from subordinated entities to non-current assets held for sale - Agencja Inwestycyjna CORP-SA SA's shares	-	29
Decreases, of which:	(175 951)	(622)
sale	(13 806)	(622)
decrease in receivables of Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. and 'Inter Risk Ukraina' Sp. z d.o. classified to non-current assets held for sale	(152 010)	-
reclassification from non-current assets held for sale to tangible fixed assets	(10 135)	-
Gross value of non-current assets held for sale at the end of the period	368 597	32 109
Impairment allowances at the beginning of the period	(365 340)	(2 906)
Increases recognised during the period	(24 488)	(963)
Decreases, of which:	139 582	21
released during the period	12 597	-
derecognition of assets and settlement	14 847	21
currency translation differences and other decreases	112 138	-
Impairment allowances at the end of the period	(250 246)	(3 848)
Net carrying amount at the beginning of the period	172 219	20 410
Net carrying amount at the end of the period	118 351	28 261

Details on non-current assets held for sale are described in Note 43 'Changes to the entities of the Group'.

26. Inventories

Carrying amount of inventories by kind	30.06.2014	31.12.2013
Construction investments for sale	303 816	313 470
Supplies	228 389	212 970
Work-in-progress – construction investments	124 326	168 152
Materials	15 381	8 854
Impairment allowances on inventories	(54 354)	(53 805)
Total	617 558	649 641

Inventories in the Group relate mainly to expenses on real estate development incurred by the Group entities whose scope of activity relates to real estate development.

27. Intangible assets and tangible fixed assets

Intangible assets	30.06.2014	31.12.2013
Software	1 747 079	1 763 575
Goodwill acquired as a result of business combinations (including subsidiaries' goodwill)	1 096 373	218 850
Future profits on concluded insurance contracts	211 215	-
Relations with customers	79 557	-
Other, including capital expenditure	208 125	247 797
Total	3 342 349	2 230 222

The significant increase of intangible assets was a result of the purchase of assets of Nordea Polska Entities and so-called Swedish Portfolio and the settlement of the Transaction.

(IN PLN THOUSAND)

Net goodwill	30.06.2014	31.12.2013
Nordea Polska entities	881 259	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	149 564	149 564
PKO BP BANKOWY PTE SA	51 158	51 158
Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp.k.	6 607	10 343
Goodwill related to assets taken over from Centrum Finansowe Puławska Sp. z o.o.	7 785	7 785
Total	1 096 373	218 850

Tangible fixed assets	30.06.2014	31.12.2013
Land and buildings	1 814 484	1 627 309
Machinery and equipment	505 195	497 121
Means of transport	72 505	76 003
Assets under construction	72 829	140 907
Investment properties	133 177	114 589
Other	179 871	155 304
Total	2 778 061	2 611 233

In the first half of 2014, the Group received compensation from third parties for impairment or loss of tangible fixed assets in the amount of PLN 6 675 thousand recognised in the income statement (in 2013, the Group received compensation from third parties for impairment or loss of tangible fixed assets in the amount of PLN 12 896 thousand recognised in the income statement).

28. Amounts due to banks

	30.06.2014	31.12.2013
Loans and advances received	17 013 652	2 606 482
Nordea Bank AB (publ) *	14 441 997	-
Bank deposits	1 032 663	959 712
Amounts due from repurchase agreements	704 607	38 628
Current accounts	456 303	116 145
Other money market deposits	32 169	26 370
Total	19 239 394	3 747 337

* Information is described in the Note 2 'Acquisition of the Nordea Bank AB (publ) Group entities by PKO Bank Polski SA'.

29. Amounts due to customers

	30.06.2014	31.12.2013
Amounts due to retail clients	123 461 939	116 464 089
Term deposits	67 181 729	63 467 675
Current accounts and overnight deposits	56 050 382	52 776 151
Other liabilities	229 828	220 263
Amounts due to corporate entities	41 927 112	31 966 616
Current accounts and overnight deposits	16 917 290	13 076 978
Term deposits	19 980 360	13 426 892
Loans and advances received	3 373 229	2 863 651
Amounts due from repurchase agreements	603 320	1 647 950
Other liabilities	1 052 913	951 145
Amounts due to public entities	5 989 335	3 473 476
Current accounts and overnight deposits	3 269 893	3 018 628
Term deposits	2 706 797	430 639
Other liabilities	12 645	24 209
Total	171 378 386	151 904 181

(IN PLN THOUSAND)

By client segment	30.06.2014	31.12.2013
Amounts due to customers, of which:		
retail and private banking	118 665 118	111 290 272
corporate	32 944 500	21 062 058
small and medium enterprises*	15 785 326	15 040 250
loans and advances received	3 373 229	2 863 651
amounts due from repurchase agreements	603 320	1 647 950
other liabilities	6 893	-
Total	171 378 386	151 904 181

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

The structure of liabilities presented in the Note:

- 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 public entities include corporate client segment – public client.

30. Liabilities due to insurance operations

	30.06.2014	31.12.2013
Technical provisions	46 706	-
Liabilities due to insurer's investment contracts divided into:	2 494 548	-
Structured products	371 493	-
Products combining policy and deposit	7 820	-
Unit-linked insurance financial products	2 115 235	-
Total	2 541 254	-

	30.06.2014	31.12.2013
Insurance provisions and reinsurance assets		
Insurance provisions, gross, of which:		
Provisions for life insurance	250 617	-
Provisions for unpaid claims and benefits	30 089	-
Technical provisions for life insurance if the policyholder bears the deposit (investment) risk	2 240 057	-
Provisions for premiums and provisions for unexpired risk	-	-
Provisions for the bonuses and rebates for the insured	592	-
Other technical provisions defined in the memorandum	20 184	-
Total insurance provisions, gross	2 541 539	-
Reinsurer's share, of which:		
Provisions for life insurance	(122)	-
Provisions for unpaid claims and benefits	(152)	-
Provisions for premiums and provisions for unexpired risk	(11)	-
Reinsurer's share, total	(285)	-
Total	2 541 254	-

31. Debt securities in issue

	30.06.2014	31.12.2013
Financial instruments measured at amortised cost	12 556 496	10 255 937
bonds issued by PKO Finance AB	11 409 250	9 129 100
bonds issued by PKO Bank Polski SA	741 858	692 614
bonds issued by PKO Leasing SA	405 388	434 223
Financial instruments measured at fair value through profit and loss - bank securities issued by PKO Bank Polski SA	142 705	290 509
Total	12 699 201	10 546 446

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014 (IN PLN THOUSAND)

	30.06.2014	31.12.2013
Debt securities in issue by maturity:		
up to 1 month	500 679	59 874
from 1 month to 3 months	109 349	492 291
from 3 months to 1 year	764 558	831 798
from 1 year to 5 years	8 078 557	5 954 784
over 5 years	3 246 058	3 207 699
Total	12 699 201	10 546 446

Advances received from PKO Finance AB

Issuance date	Nominal value	Currency	Maturity date	Carrying amount as at 30.06.2014	Carrying amount as at 31.12.2013
21.10.2010 *	798 950	EUR	21.10.2015	3 406 186	3 337 380
07.07.2011	250 000	CHF	07.07.2016	884 159	853 657
25.07.2012	50 000	EUR	25.07.2022	211 695	206 677
21.09.2012	500 000	CHF	21.12.2015	1 731 396	1 690 110
26.09.2012	1 000 000	USD	26.09.2022	3 076 814	3 041 276
23.01.2014	500 000	EUR	23.01.2019	2 099 000	-
Total				11 409 250	9 129 100

* Elimination of bonds held in the Brokerage House of PKO Bank Polski SA portfolio was taken into consideration.

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

In the first half of 2014 PKO Leasing SA issued bonds at nominal value of PLN 1 130 000 thousand and redeemed bonds at nominal value of PLN 1 075 000 thousand. As at 30 June 2014, the Company's debt in respect of the bonds issued amounted to PLN 530 000 thousand (at nominal value) of which the debt due to the Bank amounted to PLN 122 160 thousand (at nominal value).

32. Subordinated liabilities

As at 30 June 2014

Subordinated liabilities	Nominal value	Currency	Interest rate (%)	Maturity date	Balance
Subordinated bonds	1 600 700	PLN	4.38%	14.09.2022	1 620 914
Subordinated bonds	767 110	CHF	3.23%	25.04.2022	767 559
Subordinated bonds*	282 873	CHF	3.13%	25.01.2019	236 075
TOTAL	2 650 683				2 624 548

* The loan was not ncluded in the Bank's own funds due to the repayment made on 28 July 2014

As at 31 December 2013

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

Change in subordinated liabilities	01.01-30.06.2014	01.01-30.06.2013
As at the beginning of the period	1 620 857	1 631 256
Increases (of which):	1 044 666	45 488
accrued interest	42 513	45 401
take of control over subsidiaries	1 000 115	-
currency translation differences	2 029	-
other	9	87
Decreases, of which:	(40 975)	(52 389)
repayment of interest	(40 975)	(52 389)
Subordinated liabilities as at the end of the period	2 624 548	1 624 355

(IN PLN THOUSAND)

33. Other liabilities

	30.06.2014	31.12.2013	30.06.2013 restated
Accounts payable	503 599	481 836	435 120
Deferred income	407 306	358 464	349 917
Other liabilities, of which:	2 921 777	1 706 937	3 958 420
dividend declared	937 500	-	2 250 000
payment of anniversary bonuses and retirement benefits	-	-	186 900
liabilities due to reinsurance	400	-	-
Total	3 832 682	2 547 237	4 743 457
of which financial liabilities	3 084 832	2 004 459	3 976 070

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

34. Provisions

For the period ended 30 June 2014	Provision for legal claims	Provisions for retirement benefits and anniversary bonuses	Provisions for loan commitments and guarantees granted	Other provisions*	Total
As at 1 January 2014, of which:	36 289	35 739	115 314	133 528	320 870
Short term provision	36 289	2 458	88 464	133 528	260 739
Long term provision	-	33 281	26 850	-	60 131
Take of control over subsidiary	11 798	12 570	8 473	3 329	36 170
Increase/reassessment of provision	1 710	1 618	189 414	2 722	195 464
Release of provision	(3 083)	(2)	(209 616)	(2 500)	(215 201)
Use of provision	(246)	(122)	-	(23 969)	(24 337)
Currency translation differences	(105)	-	-	-	(105)
Other changes and reclassifications	667	-	232	7 499	8 398
As at 30 June 2014, of which:	47 030	49 803	103 817	120 609	321 259
Short term provision	46 715	16 121	73 440	120 533	256 809
Long term provision	315	33 682	30 377	76	64 450

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

For the period ended 30 June 2013	Provision for legal claims	Provisions for retirement benefits and anniversary bonuses	Provisions for loan commitments and guarantees granted	Other provisions*	Total
As at 1 January 2013 (restated), of which:	29 523	431 210	211 004	72 314	744 051
Short term provision	6 081	36 233	145 066	72 314	259 694
Long term provision	-	394 977	65 938	-	460 915
Increase/reassessment of provision	712	537	106 768	12 829	120 846
Release of provision	(559)	(179 453)	(178 572)	-	(358 584)
Use of provision	(309)	(193 142)	-	(10 103)	(203 554)
Currency translation differences	12	-	-	-	12
Other changes and reclassifications	(1 658)	(25 380)	779	25 383	(876)
As at 30 June 2013 (restated), of which:	27 721	33 772	139 979	100 423	301 895
Short term provision	27 721	1 450	105 981	100 423	235 575
Long term provision	-	32 322	33 998	-	66 320

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

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

(IN PLN THOUSAND)

OTHER NOTES

35. Contingent liabilities and off-balance sheet liabilities received

35.1. Securities covered with underwriting agreements (maximum liability of the Group to acquire securities):

Issuer of securities underwritten	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreement	Contract period	Sub-issue type
As at 30 June 2014				
Company A	corporate bonds	1 490 000	15.06.2022	Bonds Issue Agreement*
Company B	corporate bonds	1 367 000	31.07.2015	Bonds Issue Agreement*
Company C	corporate bonds	68 707	31.12.2024	Bonds Issue Agreement*
Company D	corporate bonds	50 000	19.12.2022	Bonds Issue Agreement*
Company E	corporate bonds	34 896	31.12.2022	Bonds Issue Agreement*
Total		3 010 603		
As at 31 December 2013				
Company A	corporate bonds	1 633 000	15.06.2022	Bonds Issue Agreement*
Company B	corporate bonds	800 000	31.07.2015	Bonds Issue Agreement*
Company 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*
Total		2 554 648		

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

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

35.2. Contractual commitments

As at 30 June 2014 the amount of contractual commitments concerning intangible assets amounted to PLN 252 052 thousand (as at 31 December 2013, it amounted to PLN 347 636 thousand).

As at 30 June 2014 the amount of contractual commitments concerning tangible fixed assets amounted to PLN 26 975 thousand (as at 31 December 2013, it amounted to PLN 48 629 thousand).

35.3. Loan commitments granted

by nominal value	30.06.2014	31.12.2013
Credit lines and limits		
to financial entities	859 171	737 531
to non-financial entities	34 568 756	30 203 660
to State budget entities	3 350 139	3 269 584
Total	38 778 066	34 210 775
of which: irrevocable loan commitments	7 603 079	7 708 424

(IN PLN THOUSAND)

35.4. Guarantee liabilities granted

	30.06.2014	31.12.2013
Guarantees in domestic and foreign trading	8 187 107	6 227 396
to financial entities	138 730	64 444
to non-financial entities*	8 038 308	6 151 081
to State budget entities	10 069	11 871
Guarantees and pledges granted – domestic corporate bonds	4 001 603	3 466 648
to non-financial entities	4 001 603	3 466 648
Letters of credit granted	584 140	491 768
to non-financial entities	584 041	491 669
to State budget entities	99	99
Guarantees and pledges granted – payment guarantee	27 317	117 420
to financial entities	27 317	117 420
Guarantees and pledges granted – domestic municipal bonds	232 888	83 773
to State budget entities	232 888	83 773
Total	13 033 055	10 387 005

* Change in 'Guarantees in domestic and foreign trading to non-financial entities' resulted primarily from the acquisition of Nordea Polska Entities and so-called Swedish Portfolio as well as from guarantees liabilities granted to mining and power industry entities.

Information on provisions for off-balance sheet guarantees and financial liabilities is included in Note 34 'Provisions'.

35.5. Off-balance sheet liabilities received

By nominal value	30.06.2014	31.12.2013
Financial*	2 750 378	369 303
Guarantees**	3 775 169	2 570 701
Total	6 525 547	2 940 004

* An increase in the off-balance sheet liabilities received, results mainly from the acquisition of Nordea Bank Polska and relates to the lombard loan received from the National Bank of Poland in the amount of PLN 2 148 338 thousand.

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

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

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

Right to sell or pledge collateral established for the Group

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

36. Legal claims

As at 30 June 2014, the total value of court proceedings in which the PKO Bank Polski SA Group entities are a defendant was PLN 395 112 thousand, of which PLN 9 443 thousand refers to court proceedings in Ukraine (as at 31 December 2013 the total value of the above mentioned court proceedings was PLN 342 658 thousand), while as at 30 June 2014 the total value of court proceedings in which the PKO Bank Polski SA Group entities are the plaintiff was PLN 516 481 thousand, of which PLN 156 468 thousand referred to court proceedings in Ukraine, mainly related to collection of dues from loan agreements granted by KREDOBANK SA, (as at 31 December 2013 the total value of the above mentioned court proceedings was PLN 525 949 thousand). The information above does not include the legal claims of KREDOBANK SA concerning taxes described in Note 12 'Income tax expense'.

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

a) Unfair competition proceeding

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

The Bank appealed against the decision of the President of UOKiK to SOKiK. On 20 December 2011 a hearing was held during which no factual resolution of the appeals was reached. The Court obligated MasterCard to submit explanations concerning the issue and set the date for another sitting of the Court for 9 February 2012, which upon the application of the plaintiffs' attorney was postponed for 24 April 2012 and afterwards SOKiK postponed announcing the resolution on the request for suspension of the case until 8 May 2012. On 8 May 2012, SOKiK suspended proceedings until the final conclusion of proceedings before the European Union Court in the case MasterCard against the European Commission. On 24 May 2012, the European Union Court upheld the decision of the European Commission banning multilaterally agreed 'interchange' fees applied by MasterCard. On 28 May 2012 the participant to the proceedings, Visa Europe Ltd, and on 29 May 2012 the plaintiffs' attorney, including PKO Bank Polski SA, filed a complaint against the decision of SOKiK dated 8 May 2012. In August 2012, the European Court of Justice received the appeal of MasterCard against the verdict of the EU Court of 24 May 2012 rejecting the appeal of MasterCard. On 25 October 2012, the Court of Appeal in Warsaw changed the decision of 8 May 2012 and dismissed the motion of MasterCard for suspending the proceedings. 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 on behalf of the Bank and eight plaintiffs represented by the Bank's attorney. The judgement was also appealed by other participants of the proceeding, i.e. by the President of of the Competition and Consumer Protection Office (UOKiK) and of the Polish Trade and Distribution Organisation (POHiD) (appeals aimed to impose on the participants of the agreements stricter financial penalties), and: Visa Europe Limited, Bank Pocztowy S.A., Bank Gospodarki Żywnościowej S.A., mBank S.A. (formerly: BRE Bank S.A.), Deutsche Bank PBC S.A., HSBC Bank Polska S.A. (appeals aimed primarily to change the decision on the recognition of agreements as violating competition law and impose penalties on their participants). Copies of the appeals have been delivered to the Bank's attorney, who responded to them. As at 30 June 2014 the Bank has a provision in the amount of PLN 10 359 thousand (the position 'Provisions' in the statement of financial position).

At the same time, through the decision of SOKiK dated 21 November 2013 the financial penalty imposed on Nordea Bank Polska SA – subsidiary of the Bank being also a party to the above mentioned claim, was reduced to the amount of PLN 2.6 thousand and the entity decided not to appeal.

As at 30 June 2014 the Bank is a party to i.a. following proceedings:

<u>before SOKiK as a result of appeal against the decision of the President of UOKiK</u>

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

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

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

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

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

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

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

before SOKIK initiated by the individual

on the recognition as abusive the Tariff of fees and charges in sections providing the fees for the monitoring and collection activities in relation with customers delaying the repayment of current debt. The Bank responded to the lawsuit and retorted for another pleading of opponent's attorney. In this case there is no risk of imposing financial penalties on the Bank. There is a risk of entering the provisions relating to monitoring and collection fees into the Register of Prohibited Clauses kept by the President of UOKiK.

before the SOKiK in which the President of UOKiK is the plaintiff

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

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

before the Court of Appeal

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

before the President of UOKiK:

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

As at 30 June 2014, PKO Życie Towarzystwo Ubezpieczeń SA – a subsidiary of the Bank – is a party to:

- 5 proceedings before SOKiK initiated by the individual to determine some of provisions in the forms of life insurance agreements to be illegal; in all cases the Company responded to the lawsuit and applied for its dismiss due to bringing legal action after 6 months since the day of giving up their application, in this case there is no risk of imposing financial penalty on the Company.
- a proceeding before the President of UOKiK concerning liquidation charges and policy redemption value due to insurance agreement cancellation in some forms of life insurance agreements, as well as imprecise information on the total redemption value due to insurance agreement cancellation applied in these forms, the proceeding is in progress, the value of provision recognised as at 30 June 2014 amounts to PLN 1 507 thousand.

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

As at the date of these financial statements, six administrative and court-administrative proceedings are pending, of which one is suspended, to invalidate administrative decisions issued by public administration authorities with respect to properties held by the PKO Bank Polski SA Group entities (including the Bank). These proceedings, in the event of an unfavourable outcome for the Group may result in re-privatisation claims being raised and one administrative proceeding for the establishment of perpetual usufruct right to a property owned by the Bank, for which the date of hearing was not scheduled. Given the current status of these proceedings as regards stating the invalidity of decisions and verdicts of public administration bodies, it is not possible to assess their potential negative financial effects for the Group. Moreover, with respect to two properties of the Bank, claims pertaining to release or return the property and regulation of the legal status of the property, were submitted by their former owners (four court and administrative proceedings for release of the property, commercial premise located within the property, payment of fee for non-contractual use of property by the Bank are pending).

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

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

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

(IN PLN THOUSAND)

37. Supplementary information to the consolidated statement of cash flows

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 maturity up to 3 months from the date of acquisition.

	30.06.2014	31.12.2013	30.06.2013
Cash and balances with the central bank	9 910 908	7 246 120	5 658 046
Current amounts due from banks	2 547 844	1 638 619	1 779 698
Total	12 458 752	8 884 739	7 437 744

As at 1 April 2014, the value of cash and cash equivalents acquired, related to acquisition of Nordea Polska's entities, amounted to PLN 993 052 thousand.

Cash flows from interests and dividends, both received and paid

Interest income - received	01.01 – 30.06.2014	01.01 – 30.06.2013
Interest income from loans and advances granted	3 114 345	3 916 792
Interest income from securities designated upon initial recognition at fair value through profit and loss	194 707	274 898
Interest income from placements	109 600	104 766
Interest income from investment securities	295 510	328 084
Interest income from securities from held for trading portfolio	27 567	34 397
Interest income from hedging instruments	157 899	223 996
Other interest received	597 670	489 106
Total	4 497 298	5 372 039

Dividend income - received	01.01 – 30.06.2014	01.01 – 30.06.2013
Dividend income from joint ventures and associates	10 028	294
Dividend income from other entities	1 664	1 578
Total	11 692	1 872

Interest expense – paid	01.01 – 30.06.2014	01.01 – 30.06.2013
Interest expense on deposits – paid	(747 330)	(1 600 303)
Interest expense on loans and advances – paid	(38 138)	(37 296)
Interest expense on debt securities in issue – paid	(113 186)	(73 195)
Other interest paid (mainly interest expense on current accounts, premium from debt securities, interest expense on cash collateral liabilities)	(298 777)	(445 800)
Total	(1 197 431)	(2 156 594)

38. Transactions with the State Treasury and related parties

The State Treasury has control over the parent entity of the Group 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 Group'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, item 763 with subsequent amendments) PKO Bank Polski SA receives payments from the State budget in respect of interest receivable on housing loans.

(IN PLN THOUSAND)

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

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

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

Since 1 January 1996, the Bank is the general distributor of value marks and receives commissions in this respect from the State Treasury.

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

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

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

(IN PLN THOUSAND)

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

The transactions were concluded at arm's length.

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

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

* Entities do not appear in the first half of 2014

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

(IN PLN THOUSAND)

39. Related party transactions

Transactions of the parent company with associates and joint ventures valued with the equity method

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

30 June 2014

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

6 months ended 30 June 2014

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

31 December 2013

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

(IN PLN THOUSAND)

6 months ended 30 June 2013

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

40. Personal related party transactions

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

In the first half of 2014 and 2013, no intercompany transactions were concluded between these entities and the Group.

41. Remuneration – PKO Bank Polski SA key management

a) short-term employee benefits

Remuneration received and due from PKO Bank Polski SA

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

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

Remuneration received from related entities (other than the State Treasury and entities related to the State Treasury)	01.01 - 30.06.2014	01.01 - 30.06.2013
The Management Board	20	20
Total short- term benefits	20	20

The amount includes remuneration from associates.

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

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

b) other long-term benefits

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

As at 30 June 2014 and 2013 the value of liability due to other long-term benefits amounted to PLN 2 440 thousand and PLN 1 053 thousand respectively. In 2014, the value of deferred salary component paid in cash for 2013 amounted to PLN 1 321 thousand. In 2013, the value of deferred salary component paid in cash for 2012 amounted to PLN 1 053 thousand.

(IN PLN THOUSAND)

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

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

As at 30 June 2014 and 2013 the value of liability due to such benefits amounted to PLN 4 289 thousand and PLN 2 692 thousand respectively.

In 2014, the value of salary components (deferred and non-deferred) granted in the form of phantom shares for 2013 amounted to PLN 3 237 thousand. In 2013, the value of salary components (deferred and non-deferred) granted in the form of phantom shares for 2012 amounted to PLN 2 692 thousand.

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

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

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

Remuneration received by members of the Management Boards and the Supervisory Boards of the PKO Bank Polski SA Group subsidiaries

Short-term employee benefits	01.01-30.06.2014	01.01-30.06.2013
The Management Board	9 515	8 610
The Supervisory Board	205	93
Total	9 720	8 703

42. The principles for determining the variable salary components policy for key management personnel in the Group

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

As at 30 June 2014 the provision for variable salary components for the years 2014 - 2012 amounted to PLN 37.5 million, including PLN 19.4 million for persons holding managerial positions except the Bank's Management Board, PLN 11.9 million for the Bank's Management Board, and PLN 6.2 million for the Group entities (taking into account Nordea Bank, PKO Leasing Pro SA and PKO Życie Towarzystwo Ubezpieczeń SA recognising provisions based on their own principles).

As at 31 December 2013 a provision for variable salary components for 2012 and 2013 amounted to PLN 31.2 million, of which PLN 16 million for persons holding managerial positions except from the Bank's Management Board, PLN 9 million for the Bank's Management Board, and PLN 3.5 million for the Group entities.
Under current regulations, in the first half of 2014, non-deferred component resulting from bonuses for year 2013 and deferred component resulting from bonuses for year 2012 – cash in the amount of PLN 4.6 million was paid out to persons holding managerial positions except the Bank's Management Board. The amount paid out to entities of the Group amounted to PLN 0.6 million. Under current regulations, in 2013, non-deferred component was paid out - cash for persons holding managerial positions except for the Bank's Management Board in the amount of PLN 3.0 million, for the Bank's Management Board in the amount of PLN 1.6 million, and PLN 1 million for the entities of the Group.
In the first half of 2014, payment due to phantom shares was made in the amount of PLN 1.6 million for the Bank's Management Board and of PLN 0.7 million for the entities of the Group.
In 2013 payment due to phantom shares was made in the amount of PLN 3.3 million for persons holding managerial positions except the Bank's Management Board and of PLN 0.7 million for the entities of the Group.

43. Changes to the entities of the Group

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

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

The description of the acquisition transaction is disclosed in the Note 2.

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

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

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

3) concerning equity investments of Merkury – fiz an

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

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

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

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

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

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

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

5) concerning capital contribution to the KREDOBANK SA Group

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

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

6) concerning capital contribution to the PKO Bankowy Leasing Sp. z o.o.

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

7) concerning planned changes related to Inteligo Financial Services SA

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

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

44. Fair value of financial assets and financial liabilities

44.1 Categories of fair value valuation of financial assets and liabilities measured at fair value in the consolidated statement of financial position

The Group 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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014 (IN PLN THOUSAND)

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

Assets and liabilities measured at fair value as at 30.06.2014	Note	Carrying amount	Level 1	Level 2	Level 3
			Prices quoted on the active markets	Valuation techniques based on observable market data	Other valuation techniques
Trading assets	16	1 184 220	1 184 220	-	-
Debt securities		1 173 313	1 173 313	-	-
Shares in other entities		6 196	6 196	-	-
Investment certificates		4 711	4 711	-	-
Derivative financial instruments	17	3 385 895	1 122	3 384 773	-
Hedging instruments		379 394	-	379 394	-
Trade instruments		3 006 501	1 122	3 005 379	-
Financial instruments designated upon initial recognition at fair value through profit and loss	19	16 058 563	4 196 563	11 862 000	-
Debt securities		14 267 963	2 405 963	11 862 000	-
Participation units		1 790 600	1 790 600		
Investment securities available for sale	22	21 659 235	14 192 145	7 299 406	167 684
Debt securities		21 430 234	14 130 828	7 299 406	-
Equity securities		229 001	61 317	-	167 684
Financial assets at fair value - total		42 287 913	19 574 050	22 546 179	167 684
Derivative financial instruments	17	3 567 160	405	3 566 755	-
Hedging instruments		378 411	-	378 411	-
Trade instruments		3 188 749	405	3 188 344	-
Debt securities in issue	30	142 705	-	142 705	-
Financial instruments designated at fair value through profit and loss		142 705	-	142 705	-
Financial liabilities at fair value - total		3 709 865	405	3 709 460	-

Trading assets as at 30.06.2014	Carrying amount	Level 1	Level 2	Level 3
Debt securities	1 173 313	1 173 313	-	-
Treasury bonds PLN	1 099 169	1 099 169	-	-
Treasury bonds EUR	-	-	-	-
municipal bonds	51 622	51 622	-	-
corporate bonds	8 430	8 430	-	-
bonds issued by WSE	4 503	4 503	-	-
bonds issued by banks, of which:	9 589	9 589	-	-
Shares in other entities	6 196	6 196	-	-
Investment certificates	4 711	4 711	-	-
TOTAL	1 184 220	1 184 220	-	-

Financial instruments designated upon initial recognition at fair value through profit and loss as at 30.06.2014	Carrying amount	Level 1	Level 2	Level 3
Debt securities	14 267 963	2 405 963	11 862 000	-
NBP money market bills	11 446 840	-	11 446 841	-
Treasury bonds PLN	2 405 452	2 405 451	-	-
municipal bonds EUR	140 041	-	140 041	-
municipal bonds PLN	109 669	-	109 669	-
Treasury bonds UAH	26 093	-	26 093	-
structured bonds PLN	139 356	-	139 356	-
corporate bonds PLN	512	512	-	-
Participation units	1 790 600	1 790 600	-	-
TOTAL	16 058 563	4 196 563	11 862 000	-

Investment securities available for sale as at 30.06.2014	Carrying amount	Level 1	Level 2	Level 3
Debt securities available for sale	21 430 234	14 130 828	7 299 406	-
Treasury bonds PLN	14 130 828	14 130 828	-	-
Treasury bonds USD	90 309	-	90 309	-
Treasury bonds UAH	40	-	40	-
municipal bonds	4 213 790	-	4 213 790	-
corporate bonds PLN	2 882 396	-	2 882 396	-
corporate bonds EUR	88 436	-	88 436	-
corporate bonds UAH	24 435	-	24 435	-
Equity securities	229 001	61 317	-	167 684
TOTAL	21 659 235	14 192 145	7 299 406	167 684

(IN PLN THOUSAND)

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 Prices quoted on the active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Trading assets	16	479 881	475 339	4 542	-
Debt securities		467 931	463 389	4 542	-
Shares in other entities		10 799	10 799	-	-
Investment certificates		1 151	1 151	-	-
Derivative financial instruments	17	3 000 860	1 015	2 999 845	-
Hedging instruments		361 639	-	361 639	-
Trade instruments		2 639 221	1 015	2 638 206	-
Financial instruments designated upon initial recognition at fair value through profit and loss	19	15 204 756	931 325	14 273 431	-
Debt securities		15 204 756	931 325	14 273 431	-
Investment securities available for sale	22	14 067 356	8 679 109	5 250 921	137 326
Debt securities		13 867 437	8 616 516	5 250 921	-
Equity securities		199 919	62 593	-	137 326
Financial assets at fair value - total		32 752 853	10 086 788	22 528 739	137 326
Derivative financial instruments	17	3 328 211	912	3 327 299	-
Hedging instruments		414 804	-	414 804	-
Trade instruments		2 913 407	912	2 912 495	-
Debt securities in issue	30	290 509	-	290 509	-
Financial instruments designated at fair value through profit and loss		290 509	-	290 509	-
Financial liabilities at fair value - total		3 618 720	912	3 617 808	-

Trading assets as at 31.12.2013	Carrying amount	Level 1	Level 2	Level 3
Debt securities	467 931	463 389	4 542	-
Treasury bonds	390 660	390 660	-	-
Treasury bonds 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 banks, including BGK bonds	168	168	-	-
Shares in other entities	10 799	10 799	-	-
Investment certificates	1 151	1 151	-	-
TOTAL	479 881	475 339	4 542	-

Financial instruments designated upon initial recognition at fair value through profit and loss as at 31.12.2013	Carrying amount	Level 1	Level 2	Level 3
Debt securities	15 204 756	931 325	14 273 431	-
NBP money market bills	13 997 228	-	13 997 228	-
Treasury bonds PLN	931 325	931 325	-	-
municipal bonds EUR	136 700	-	136 700	-
municipal bonds PLN	113 935	-	113 935	-
Treasury bonds UAH	25 568	-	25 568	-
TOTAL	15 204 756	931 325	14 273 431	-

Investment securities available for sale as at 31.12.2013	Carrying amount	Level 1	Level 2	Level 3
Debt securities available for sale	13 867 437	8 616 517	5 250 920	-
Treasury bonds PLN	8 616 517	8 616 517	-	-
Treasury bonds USD	181 823	-	181 823	-
Treasury bonds UAH	20 160	-	20 160	-
municipal bonds	3 440 753	-	3 440 753	-
corporate bonds PLN	1 556 067	-	1 556 067	-
corporate bonds UAH	52 117	-	52 117	-
Equity securities	199 919	62 593	-	137 326
TOTAL	14 067 356	8 679 110	5 250 920	137 326

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

1) Level 1: Prices quoted on the active markets

Financial assets and liabilities whose fair value is stated directly at prices quoted (not adjusted) from active markets for identical assets and liabilities. The Group classifies to this category financial and equity instruments designated 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 with reference to market value which is a bid price:

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

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

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

Financial assets and liabilities measured at fair value	Valuation methods (technique)	Observable inputs
Trading assets - Treasury bonds in EUR	Market price of Polish Treasury securities in foreign currency is obtained from information services, in which quotations of such securities are included (Bloomberg or brokerage websites in the Reuters system). This is not a regulated market.	The market price of securities obtained from information services.
Derivative financial instruments - hedging instruments	Valuation of derivatives: CIRS, IRS is made in accordance with the discounted future cash flows model. Discounting is based on the yield curves.	Yield curves are built based on market rates, market data of the money market, market transactions of FRA, IRS, basis swap.
Derivative financial instruments - trade instruments	Valuation of derivatives: CIRS, IRS 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.
Financial assets designated upon initial recognition at fair value through profit and loss		
- NBP money market bills	Yield curve valuation method.	Yield curve for money market bills is built based on market prices, money market data and OIS 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 transactions market, volatility of interest rate options market.
- municipal bonds PLN	Valuation in accordance with a yield curve and a risk margin.	Yield curve is built based on market rates, money market data, IRS transactions market.
Investment securities available for sale		
- municipal bonds	Valuation in accordance with a yield curve and a risk margin.	Yield curve is built based on market rates, money market data, IRS transactions market.
- corporate bonds	Valuation in accordance with a yield curve and a risk margin.	Yield curve is built based on market rates, money market data, IRS transactions market.
Debt securities in issue - financial instruments designated 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.

(IN PLN THOUSAND)

Level 3: Other valuation techniques

The Group classified to that category shares in Marguerite fund, which are valued with internal valuation models. The fair value of these securities (the Fund) is determined based on the net asset value of the fund, i.e. the fair value of investment projects (of the companies) in the fund, which are subject to semi-annual examination by the registered auditor. If the Group 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 8 384 thousand higher or PLN 8 384 thousand lower as at 30 June 2014.

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

	Valuation technique	Unobservable factor	Impact on fair value	
			positive scenario (increase of 5% in fund's net assets value)	negative scenario (decrease of 5% in fund's net assets value)
	Net Asset Value (NAV) method	price for a participation unit	176 068	159 300

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

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

Investment securities available for sale – Level 3	1.01-30.06.2014
Opening balance at the beginning of the period	137 326
Total gains or losses	15 309
recognised in the income statement	-
recognised in other comprehensive income	15 309
Take up of shares in the Margeurite Fund and currency translation differences	15 049
Closing balance at the end of the period	167 684

In the period from 1 January 2014 to 30 June 2014 there were no changes in the methodology of fair value estimating.

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

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

	Level of fair value hierarchy	Valuation method	30.06.2014	
			carrying amount	fair value
Cash and balances with the central bank	n/a	value at cost to pay including impairment allowance	9 910 908	9 910 908
Amounts due from banks	3	discounted cash flows	2 470 074	2 470 064
Loans and advances to customers			177 993 959	175 165 113
housing loans	3	discounted cash flows	95 392 893	92 214 252
corporate loans	3	discounted cash flows	57 220 043	57 610 793
consumer loans	3	discounted cash flows	19 576 166	19 643 833
receivables due from repurchase agreements	3	discounted cash flows	1 165 533	1 165 533
debt securities	3	discounted cash flows	4 639 324	4 530 702
Investment securities held to maturity	3	discounted cash flows	206 816	214 813
Other financial assets	n/a	value at cost to pay including impairment allowance	955 670	955 670
Amounts due to the central bank	n/a	value at cost to pay including impairment allowance	3 739	3 739
Amounts due to other banks	3	discounted cash flows	19 239 394	19 246 119
Amounts due to customers			171 378 386	171 363 194
due to corporate entities	3	discounted cash flows	41 927 112	41 927 197
due to State budget entities	3	discounted cash flows	5 989 335	5 989 335
due to retail clients	3	discounted cash flows	123 461 939	123 446 662
Debt securities in issue	1,3	discounted cash flows	12 556 496	12 972 566
Subordinated debt	2	discounted cash flows	2 624 548	2 609 097
Other financial liabilities	n/a	value at cost to pay including impairment allowance	3 084 832	3 084 832

(IN PLN THOUSAND)

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

	Level of fair value hierarchy	Valuation method	31.12.2013 carrying amount	31.12.2013 fair value
Cash and balances with the central bank	n/a	value at cost to pay	7 246 120	7 246 120
Amounts due from banks	3	discounted cash flows	1 893 441	1 889 160
Loans and advances to customers			149 623 262	152 274 472
housing loans	3	discounted cash flows	74 900 220	75 060 086
corporate loans	3	discounted cash flows	51 576 141	53 836 616
consumer loans	3	discounted cash flows	19 213 873	19 444 847
receivables due from repurchase agreements	3	discounted cash flows	2 144 088	2 144 088
debt securities	3	discounted cash flows	1 788 940	1 788 835
Investment securities held to maturity	3	discounted cash flows	38 005	37 699
Other financial assets	n/a	value at cost to pay including impairment allowance	611 313	612 779
Amounts due to the central bank	n/a	value at cost to pay	4 065	4 065
Amounts due to other banks	3	discounted cash flows	3 747 337	3 747 311
Amounts due to customers			151 904 181	151 901 068
due to corporate entities	3	discounted cash flows	31 966 616	31 966 755
due to State budget entities	3	discounted cash flows	3 473 476	3 473 476
due to retail clients	3	discounted cash flows	116 464 089	116 460 837
Debt securities in issue	1,3	market quotations / discounted cash flows	10 255 937	10 485 677
Subordinated debt	2	discounted cash flows	1 620 857	1 605 265
Other financial liabilities	n/a	value at cost to pay	2 004 459	2 004 459

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

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS

45. Risk management in the Group

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

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

45.1. Elements of banking risk management process

The process of banking risk management in the Group 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 Group. Within the risk identification process, types of risk perceived as material in the Bank's activity, the Group entities or the whole Group's activity are identified,

- risk measurement and assessment:

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

- risk forecasting and monitoring:

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

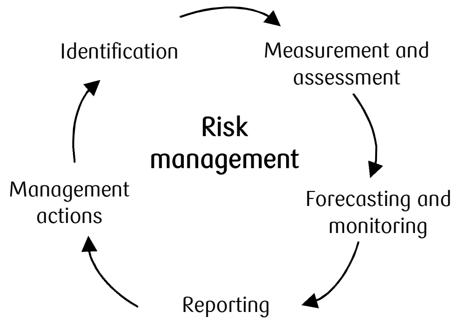
- risk reporting:

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

- management actions:

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

The risk management process is described on the chart below:



45.2. Main principles of risk management

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

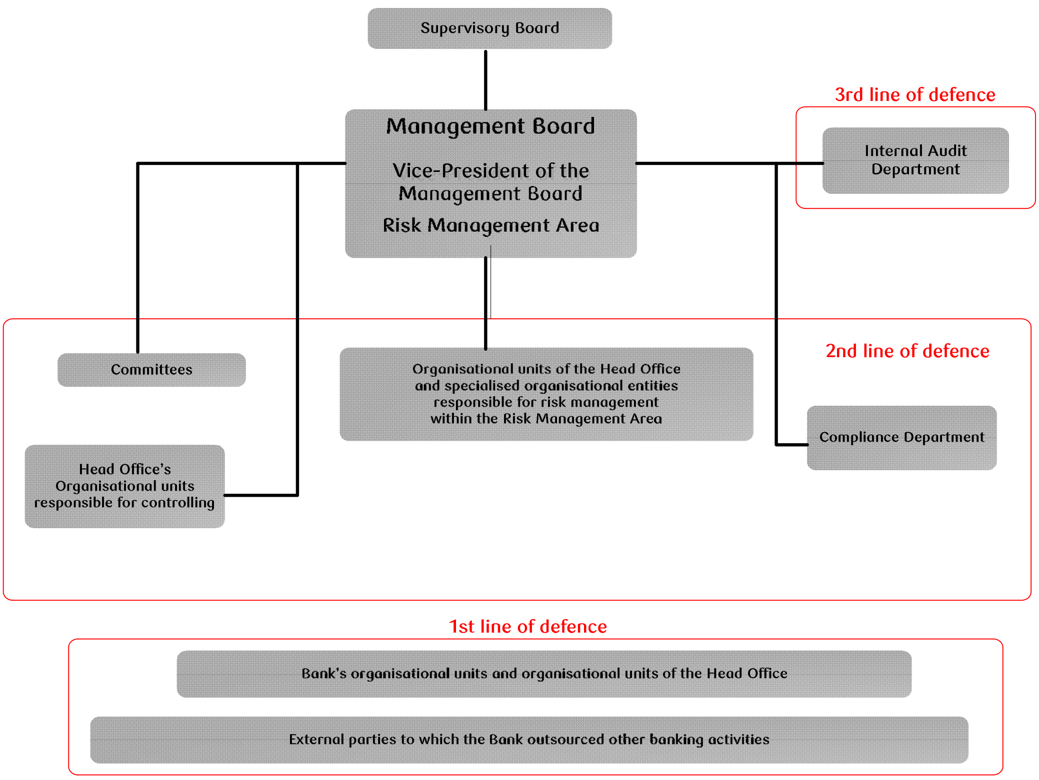
- the Group manages all of the identified types of banking risk,
- the risk management process is appropriate to the scale of the operations and to the materiality, scale and complexity of a given risk and tailored to new risk factors and sources on a current basis,
- the risk management methods (in particular the models and their assumptions) and the risk measurement systems are tailored to the scale and complexity of the risk and verified and validated on a periodical basis,
- the area of risk and debt 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 Group's strategy in compliance with the risk management strategy, in particular with regard to the level of tolerance of the risk,

45.3. 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 in the Bank and the PKO Bank Polski SA Group 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 level of the Bank and adopts internal regulations on managing risk.

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

1) the first line of defence, which is functional internal control that ensures using risk controls mechanisms and compliance of the activities with the generally applicable laws,
2) the second line of defence, which is the risk management system, including methods, tools, process and organisation of risk management,
3) the third line of defence, which is an internal audit.

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

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

The first line of defence is being performed, in particular, in the organisational units of the Bank, the organisational units of the Head Office and Group entities and concerns the activities of those units, cells and entities which may generate risk. The units, cells and Group entities are responsible for identifying risks, designing and implementing appropriate control mechanisms, unless control mechanisms have been implemented as part of the measures taken in the second line of defence. At the same time the Group entities are obliged to have comparable and cohesive systems of risk evaluation and control in the Bank and in the Group entities, taking into account the specific nature of the entity's activity and the market on which it operates.

The second line of defence is being performed, in particular, in the Risk Management Area, the organisational unit of the Head Office managing the compliance risk, reputation risk, respective committees as well as the organisational units of the Head Office responsible for controlling.

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

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

The Banking Risk Division is in particular responsible for:

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

The Department of Risk Integration is in particular responsible for:

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

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

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

The Restructuring and Debt Collection Centre is responsible particularly for:

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

Risk management is supported by the following committees:

The Risk Committee ('RC'):

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

The Assets & Liabilities Committee ('ALCO'):

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

The Bank's Credit Committee ('BCC'):

- makes loan decisions with regard to significant individual loan exposures,
- - take decisions regarding credit risk models, particularly in terms of models and parameters of the lending policy, models and credit risk parameters consistent with internal ratings method and other relevant credit risk models, with the exception of the models and parameters used to determine the portfolio write-offs and provisions,
- issues recommendations in the above mentioned respect to the Management Board.

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

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

The Operating Risk Committee ('ORC'):

- takes decisions, issues recommendations and opinions regarding i.a. strategic tolerance limits and loss limits for operational risk, key risk indicators (KRI), assumptions of stress-tests, results of validation of operational risk measurement models, changes in AMA approach and taking actions aiming at lowering the operational risk level in all areas of Group's activities,
- prepares operating risk management recommendations for entities of the PKO Bank Polski SA Group, which are submitted to the entities of the PKO Bank Polski SA Group as a part of the Bank's corporate governance over those entities.

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

45.4. Activities in the area of risk management in the Group

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

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

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

In this respect, the Bank took the following actions in the first half of 2014:

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

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

45.5. Identification of significant types of risk

The significance of the individual types of risk is established at the Bank's and Group entities' 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, Group entities and whole Group'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 or Group 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. Similar assessment is concluded periodically in the Group entities. Monitoring is in particular conducted if significant change in activities took place or the profile of the Bank or the Group changed.

46. 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 loan exposures threatened with impairment, while keeping expected level of profitability and value of credit portfolio at the same time.

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

- each loan transaction is a 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 the stage of loan request analysis and on a cyclical basis, during the monitoring process, taking into consideration changes in external conditions and in the financial standing of the borrowers,
- credit risk assessment of exposures which are significant due to their risk levels or the amount is subject to additional verification by credit risk assessment teams, which are independent of the business teams,
- terms of loan contracts that are offered to a client depend on the credit risk generated by the contract,
- loan granting decisions are made only by authorised persons,
- credit risk is diversified particularly by geographical location, by industry, by product and by clients,
- expected credit risk level is mitigated by collateral received by the Bank, credit margins from clients and allowances (provisions) for losses.

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

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

Any changes to the solutions used by the Group's subsidiaries are agreed every time with the Bank's units responsible for risk management. The Group entities measure credit risk regularly and the results of such measurements are submitted to the Bank.

The KREDOBANK SA Group, the PKO Leasing SA Group and the BTK SA Group and Nordea Bank Polska SA have units responsible for risk in their organisational structures, which are in particular responsible for:

- developing methods of credit risk assessment, recognising provisions and allowances,
- controlling and monitoring credit risk during the lending process,
- the quality and efficiency of restructuring and enforcement of the amounts due from clients.

In these entities, the credit decision limits depend particularly on: the amount of the exposure to a given client, the amount of an individual credit transaction and the period of credit transaction.

The process of credit decision-making in the Group entities is supported by credit committees, which are involved in the case of transactions which generate increased credit risk.

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

46.1. Measurement and assessment of credit risk

Credit risk measurement and assessment methods

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

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

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

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

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

Rating models for corporate clients

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

Rating models for corporate clients were prepared using 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. The client's risk assessment depends on the size of the enterprise for which analysis is made. In addition, the Bank has implemented a model for assessment of credited entrepreneurs in the formula of specialist financing, which allows adequate credit risk assessment of large projects involving real estate financing (e.g. office space, retail areas, industrial areas) and infrastructure projects (e.g. telecommunications, industrial, public utility infrastructure).

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

In order to examine the correctness of functioning of method applied in the Bank, the methodologies of credit risk assessment connected with individual credit exposures are subject to periodical reviews.

The evaluation of retail clients credit risk

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

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

Assessment of credit risk relating to the financing of corporate clients

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

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

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

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

(IN PLN THOUSAND)

46.2. Forecasting and monitoring of credit risk

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

Amounts due from banks	Exposure	
	30.06.2014	31.12.2013
Amounts due from banks impaired, of which:	29 228	28 891
assessed on an individual basis	28 878	28 543
Amounts due from banks not impaired, of which:	2 470 378	1 893 133
not past due	2 470 378	1 893 133
Gross total	2 499 606	1 922 024
Impairment allowances	(29 532)	(28 583)
Net total by carrying amount	2 470 074	1 893 441

Loans and advances to customers	Exposure		
	30.06.2014	31.12.2013	30.06.2013 restated
Loans and advances impaired, of which:	13 294 200	12 861 352	14 139 310
assessed on an individual basis	5 604 236	5 532 429	6 601 577
Loans and advances not impaired, of which:	172 106 203	143 412 690	141 790 919
not past due	166 666 978	139 700 612	137 887 838
past due	5 439 225	3 712 078	3 903 081
past due up to 4 days	2 213 608	1 081 196	883 818
past due over 4 days	3 225 617	2 630 882	3 019 263
Gross total	185 400 403	156 274 042	155 930 229
Impairment allowances	(7 406 444)	(6 650 780)	(7 245 784)
Net total by carrying amount	177 993 959	149 623 262	148 684 445

Investment securities available for sale – debt securities	Exposure	
	30.06.2014	31.12.2013
Debt securities impaired, of which:	6 160	6 160
assessed on an individual basis	6 160	6 160
Debt securities not impaired, of which:	21 427 461	13 864 573
not past due	21 427 461	13 864 573
with external rating	15 278 121	9 429 681
with internal rating	6 149 340	4 434 892
Gross total	21 433 621	13 870 733
Impairment allowances	(3 387)	(3 296)
Net total by carrying amount	21 430 234	13 867 437

Investment securities held to maturity – debt securities	Exposure	
	30.06.2014	31.12.2013
Debt securities impaired, of which:	-	-
assessed on an individual basis	-	-
Debt securities not impaired, of which:	206 816	38 005
not past due	206 816	38 005
with external rating	206 816	38 005
Gross total	206 816	38 005
Impairment allowances	-	-
Net total by carrying amount	206 816	38 005

(IN PLN THOUSAND)

Maximum exposure to credit risk

Items of the statement of financial position	30.06.2014	31.12.2013	30.06.2013 restated
Current account in the central bank	7 091 548	4 018 340	2 838 595
Amounts due from banks	2 470 074	1 893 441	3 243 295
Trading assets – debt securities	1 173 313	467 931	3 365 140
issued by the State Treasury	1 099 169	395 202	3 281 200
issued by local government bodies	51 622	41 907	43 441
issued by non-financial institutions	8 320	23 892	29 980
issued by financial institutions	4 613	6 762	9 308
issued by banks	9 589	168	1 211
Derivative financial instruments	3 385 895	3 000 860	3 324 374
Financial instruments designated upon initial recognition at fair value through profit and loss - debt securities	14 267 963	15 204 756	12 661 245
issued by central banks	11 446 840	13 997 228	10 394 854
issued by the State Treasury	2 431 545	956 893	2 011 806
issued by local government bodies	249 710	250 635	254 585
issued by banks	139 356	-	-
issued by non-financial institutions	512	-	-
Loans and advances to customers	177 993 959	149 623 262	148 684 445
financial sector (excluding banks)	2 353 355	2 981 207	1 322 640
corporate loans	1 187 822	942 784	961 610
Receivables due from repurchase agreements	1 165 533	2 038 423	361 030
non-financial sector	165 509 062	139 434 111	139 680 522
housing loans	95 391 265	74 900 220	73 134 364
corporate loans	48 676 054	44 508 259	46 236 278
consumer loans	19 576 166	19 213 873	19 403 974
debt securities	1 865 577	811 759	905 906
public sector	10 131 542	7 207 944	7 681 283
corporate loans	7 356 167	6 125 098	6 515 497
debt securities	2 773 747	977 181	1 160 860
housing loans	1 628	-	4 926
Receivables due from repurchase agreements	-	105 665	-
Investment securities - debt securities	21 430 234	13 867 437	13 515 542
issued by the State Treasury	14 221 177	8 818 500	9 777 979
issued by local government bodies	4 213 790	3 440 753	2 639 446
issued by non-financial institutions	1 820 216	997 253	1 031 194
issued by banks	1 175 051	610 931	66 923
Investment securities held to maturity	206 816	38 005	49 624
issued by the State Treasury	206 816	26 886	29 392
issued by banks	-	11 119	20 232
Other assets - other financial assets	955 670	611 313	556 273
Total	228 975 472	188 725 345	188 238 533

Off-balance sheet items	30.06.2014	31.12.2013
Irrevocable liabilities granted	7 603 079	7 708 424
Guarantees granted	8 214 424	6 344 816
Guarantees of issuance	4 234 491	3 550 421
Letters of credit granted	584 140	491 768
Total	20 636 134	18 095 429

Credit quality of financial assets - 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 groups of products which are assessed in a simplified manner).

(IN PLN THOUSAND)

Financial assets assessed on an individual basis for which individual impairment allowance has been recognised by carrying amount gross

	30.06.2014	31.12.2013	30.06.2013 restated
Amounts due from banks	28 878	28 543	31 438
Loans and advances to customers	5 604 236	5 532 429	6 601 577
Financial sector	575	3 927	38 336
corporate loans	575	3 927	38 336
Non-financial sector	5 597 018	5 522 293	6 557 032
corporate loans	4 080 438	4 049 698	4 632 407
housing loans	1 421 394	1 371 261	1 798 826
consumer loans	95 186	101 334	125 799
Public sector	6 643	6 209	6 209
corporate loans	6 643	6 209	6 209
Financial assets available for sale	6 229	6 260	109
issued by financial entities	6	8	9
issued by non-financial entities	6 223	6 252	100
Total	5 639 343	5 567 232	6 633 124

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.

46.3. Concentration of credit risk within the Group

The Group 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 Group analyses the risk of concentration in respect of:

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

Concentration by the largest business entities

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

As at 30 June 2014 and as at 31 December 2013, the concentration limits had not been exceeded.

As at 30 June 2014, the level of concentration risk in the Group with respect to individual exposures was low – the largest exposure to a single entity was equal to 11.6% of the Group's recognised equity.

Concentration by the largest capital groups

The greatest exposure concentration of the PKO Bank Polski SA Group towards a capital group of borrowers amounts to 1.86% of the Group's loan portfolio.

As at 30 June 2014 and 31 December 2013, the concentration risk level by the largest capital groups was low - the greatest exposure concentration of the Group amounted to 14.4% of the Group's recognised equity.

Concentration by industry

As compared with 31 December 2013, due to the inclusion of the Nordea Bank Polska entities in the Group, the exposure of the Group in industry sectors has increased by nearly PLN 12.8 billion (of which PLN 11.5 billion concerns exposure in the Nordea Bank Polska entities). The increase of the exposure in industry groups would have amounted to PLN 1.2 billion, if Nordea Bank Polska entities were not covered by analysis. The total exposure in the four largest industry sectors 'Industrial processing', 'Maintenance of real estate', 'Wholesale and retail trade (…)'and 'Public administration and national defence (…)' amounted to approx. 59% of the total value of loan portfolio covered by an analysis of the sector.

Concentration by geographical regions

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

The structure of the loan portfolio by geographic regions is identified in the Group due to the Bank's client area – a separate area for the retail client (ORD), a separate area for the corporate client (ORK).

Within ORD 11 geographical regions are distinguished. As at 30 June 2014, the largest concentration of the ORD loan portfolio occurs in the region of Katowice and Warsaw (approx. 23% of the ORD portfolio).

Within ORK, the Bank distinguishes 7 macro-regions and the headquarter. As at 30 June 2014, the largest concentration of the ORK loan portfolio occurs in the central macro-region and in the Bank's headquarter (33% and 21% of the ORK loan portfolio, respectively).

Concentration of credit risk by currency

As at 30 June 2014, the share of exposure in convertible currencies, other than PLN, in the total loan portfolio of the Group amounted to 25.7%. An observed increase, as compared to 31 December 2013, results from the inclusion in the Group of the Nordea Bank Polska SA entities, for which foreign currency loans are approx. 61% of their loan portfolio.

The greatest part of the Group's currency exposures are those in CHF (65%) and they relate mainly to the loan portfolio of the Bank and Nordea Bank Polska SA. For the rest of the Group entities the largest part of currency portfolio constitutes exposures in EUR.

Other types of concentration

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

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

46.4. Allowances for credit losses

The PKO Bank Polski SA Group performs a monthly review of loan exposures in order to identify loan exposures threatened with impairment, measure the impairment of loan exposures and recognition of impairment charges or provisions.
The process of determining the impairment charges and provisions consists of the following stages:

- identifying the indications of impairment and events significant from the point of view of identifying those indications,
- registering in the Group'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 forced by economic or legal considerations arising from its financial situation).

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.

46.5. Impairment estimating methods

The PKO Bank Polski SA Group applies three methods of estimating impairment:

- an individual basis applied in respect of individually significant loans, for which the objective evidence of impairment was identified or requiring individual assessment due to the transactions specifics and resulting from events determining the repayment of exposure,
- a portfolio basis applied in respect of individually insignificant loans, for which the objective evidence of impairment was identified,
- a group basis (IBNR) applied in respect of the loans for which the objective evidence of impairment was not identified, but there is a possibility of losses incurred but not recognised occurring.

Impairment allowances in respect of a loan exposure correspond to the difference between the carrying amount of the exposure and the present value of the expected future cash flows from a given exposure:

- while assessing impairment allowances on an individual basis, the expected future cash flows are estimated for each loan exposure individually, taking into account the possible scenarios relating to contract execution, weighted by the probability of their realisation,
- an impairment allowance in respect of loan exposures assessed on a portfolio basis or a group basis corresponds to the difference between the carrying amount of the exposures and the present value of the expected future cash flows estimated using statistical methods, based on historic observations of exposures from homogenous portfolios.

46.6. Off-balance sheet provisions

With regard to off-balance sheet credit 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 the off-balance sheet liability (from the date at which the assessment is performed till the date of overdue amounts due arising considered as constituting an indication of individual impairment) and the present value of the expected future cash flows obtained from the exposure in the statement of financial position arising out of the off-balance sheet liability.

When assessing a provision on an individual basis, the expected future cash flows are estimated for each loan exposure separately.

When assessing a provision on a portfolio basis or the group basis, the portfolio parameters are used, estimated using statistical methods, based on the historic observations of exposures with the same features.

The structure of the loan portfolio and loan impairment allowances of the PKO Bank Polski SA Group are presented in the Note 21 'Loans and advances to customers'.

46.7. Management of foreclosed collateral

Foreclosed collaterals as a result of restructuring or debt collection activities are either designated for sale or used by the Group for internal purposes. Details of the foreclosed assets are analysed in order to determine whether they can be sale or used by the Group for internal purposes. In the periods ended 30 June 2014 and 31 December 2013, respectively, all of the assets taken over as a result of restructuring and debt collection activities were designated for sale.

Activities undertaken by the Group are aimed at selling assets as soon as possible. In individual and justified cases, assets may be withheld from the sale. This occurs only if independent circumstances 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 unlimited tender. Other procedures are acceptable in cases when they provide a better chance of finding a buyer and generate higher proceeds for the Group.

The Group takes steps to disseminate broadly to the public the information about assets being sold by publishing it on the Group's website, placing announcements in the national press, using Iinternet portals i.a. Internet auctions and sending offers. In addition, the Group cooperates with external companies operating all over Poland in respect of collection, transportation, storage and intermediation in the sale of assets taken over by the Group as a result of restructuring and debt collection activities. The Group has also entered into cooperation agreements with external companies, which perform valuations of the movable and immovable properties that the Group has foreclosed or would like to foreclose in the course of realisation of collateral.

46.8. Credit risk reporting

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

46.9. Management actions concerning credit risk

Basic credit risk management tools used by the Group include:

- minimum transaction requirements (risk parameters) determined for a given type of transaction (e.g. minimum LTV amount, maximum loan amount, required collateral),
- the principles of defining credit availability, including cut-offs – the minimum number of points awarded in the process of creditworthiness assessment with the use of a scoring system (for retail clients) or the client's rating class or aggregate rating class (for corporate clients), which a client must obtain to receive a loan,
- concentration limits – the limits defined in the Article 71, item 1 of the Banking Law,
- industry-related limits – limits which reduce the risk level related to financing corporate clients that conduct business activities in industries characterised by high level of credit risk,
- limits on credit exposures related to the Group's customers – the limits defining the appetite for credit risk as result of i.a. the recommendations S and T,
- credit limits defining the Group's maximum Bank's credit 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 Group'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 and the Group entities collateral policy management is aimed at securing properly the credit risk to which the Group is exposed, including first of all the fact of establishing collateral that will ensure the highest possible level of recovery in the event of realisation of collateral.

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

- in the case of substantial loans (in terms of value), several types of collateral are established, if possible, personal guarantees are combined with collateral established on assets,
- liquid types of collateral i.e. collateral established on tangible assets, in which the disposal is possible without a substantial reduction in their prices at a time, which does not expose the Bank to change the value of the collateral due to of the appropriate prices fluctuation of a particular collateral are preferred,
- when an asset is accepted as collateral, an assignment of cash receivables from the insurance policy relating to this asset or the insurance policy issued to the Bank are accepted as additional collateral,
- collateral is assessed in terms of the actual possibility of their use as a potential source of the Bank's claim. The basis of the value assessment of the collateral established on 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 internal regulations of Group's subsidiaries.

The type of collateral depends on the product and the type of the client. With regard to loans for the financing the housing market, collateral is required to be established as mortgage on the property. Until an effective mortgage is established, the following types of collateral are used (depending on type and amount of loan): an increased credit margin or/and a collateral in the form of a cession of receivables related to the construction agreement, a cession of receivables related to the development contract and an open/closed fiduciary account/guarantee, bill of exchange or warranty.

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

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

When signing a lease agreement, the PKO Leasing SA Group, as a proprietor of leased objects, treats them as collateral.

47. Interest rate risk management

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

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

47.1. Measurement of interest rate risk

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

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

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

Stress-tests are used to estimate potential losses arising from a held structure of the statement of financial position and off-balance sheet items under market conditions that cannot be described in a standard manner using statistical measures. Two types of scenarios are used by the Bank:

1) hypothetical scenarios – which are based on arbitrary interest rate fluctuations: a parallel movement in interest rate of the curves for the particular currencies by ±50 b.p., ±100 b.p., ±200 b.p. and bend of yield curve scenarios (non-parallel fluctuations of peak and twist types),
2) historical scenarios – in which interest rate fluctuations are adopted based on the behaviour of interest rates in the past, including: the highest historical change, a bend of a yield curve along with portfolio positions, the largest historical non-parallel fluctuation of the interest rate curves for securities and derivative instruments that hedge them.

The repricing gap shows the difference between the present value of assets and liabilities exposed to interest rate risk, subject to revaluation in a given time range, and these balances are recognised on the transaction date.

As at 30 June 2014 and at the end of 2013 the Group had a positive cumulative gap in PLN in all time horizons.

47.2. Forecasting and monitoring of interest rate risk

As at 30 June 2014 and 31 December 2013, the exposure of the PKO Bank Polski SA Group to the interest rate risk comprised mainly of the exposure of the Bank. Interest rate risk with regard to USD was significantly altered by exposure of the Group entities, in which the biggest part has the exposure of KREDOBANK SA. Nordea Bank Polska SA has exposure to interest rate risk mainly in PLN, CHF and EUR. This item, as well as items of other Group's entities, does not impact on the risk profile of the entire Group.

VaR of the Bank and stress-tests analysis of the Group's exposure to the interest rate risk are presented in the table below:

Name of sensitivity measure	30.06.2014	31.12.2013
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)*	125 136	54 930
Parallel movement of interest rate curves by 200 b.p. (in PLN thousand) (stress-test)**	666 517	495 858

* The Group does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. KREDOBANK SA and Nordea Bank Polska SA use the 10-day interest rate VaR for main currencies. The value of VaR indicator in KREDOBANK SA was PLN 7 792 thousand as at 30 June 2014, and PLN 10 686 thousand as at 31 December 2013. As at 30 June 2014 the value of VaR indicator in Nordea Bank Polska was PLN 4 258 thousand.
** The table presents the value of the most adverse stress-test of the scenarios: movement of interest rate curves in PLN by 200 b.p. up and by 200 b.p. down.

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

47.3. Reporting of the interest rate risk

The Bank prepares daily, weekly, monthly and quarterly reports addressing interest rate risk. The quarterly reports are also applicable to the Group. Reports present the information on interest rate risk exposure and usages of available limits regarding the risk.

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

47.4. Management decisions as regards interest rate risk

The main tools used in interest rate risk management in the Group include:

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

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

Methods of interest rate risk management in the Group's subsidiaries are defined by internal regulations implemented by the entities which are characterised by the significant values of interest rate risk measures. These regulations are prepared after consultation with the Bank and include recommendations issued by the Bank to Group entities.

48. Currency risk management

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

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

48.1. Measurement of the currency risk

The Group measures currency risk using the Value at Risk (VaR) model and stress-tests.

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

Stress-tests and crash-tests are used to estimate potential losses arising from currency positions under extraordinary conditions on the currency market that cannot be described in a standard manner using statistical measures. Two types of scenarios are used by the Group:

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.

48.2. Forecasting and monitoring of currency risk

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

Name of sensitivity measure	30.06.2014	31.12.2013
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)*	1 804	2 443
Change in CUR/PLN by 20% (in PLN thousand) (stress-test)**	84 571	21 428

* Bank does not calculate consolidated VaR. These companies apply their own risk measures in the currency risk management. KREDOBANK SA and Nordea Bank Polska SA use the 10-day VaR. The value of indicator for KREDOBANK SA amounted to approx. PLN 2 762 thousand as at 30 June 2014, and approx. PLN 906 thousand as at 31 December 2013. The value of VaR indicator for Nordea Bank Polska SA was at the level of PLN 328 thousand as at 30 June 2014.

** The table presents the value of the most adverse stress-test of the scenarios: PLN appreciation by 20% and PLN depreciation by 20%.

The level of currency risk was low both as at 30 June 2014 and as at 31 December 2013.

The Group's currency positions are presented in the table below:

Currency position	30.06.2014	31.12.2013
EUR	(326 019)	(24 166)
USD	(164 896)	(203 081)
CHF	(4 781)	7 031
GBP	520	3 656
Other (Global Net)	170 763	6 576

The volume of currency positions is a key factor determining the level of currency risk on which the Group 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 Group, both in the statement of financial position and off-balance sheet transactions. The Bank's exposure to currency risk is low (with reference to own funds, VaR for a 10-day time horizon for the Bank's currency position as at 30 June 2014 amounted to ca. 0.01%).

48.3. Reporting of the currency risk

The Bank prepares daily, weekly, monthly, and quarterly reports addressing currency risk. The quarterly reports are also applicable to the Group. Reports gather the information on currency risk exposure and updates on available limits regarding the risk.

48.4. Management decisions concerning currency risk

Main tools used in currency risk management in the Group 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 Group has set limits and threshold values for currency risk for i.a.: currency positions, Value at Risk calculated for a 10-day time horizon and daily loss from transactions on currency market.

Methods of currency risk management in the Group's subsidiaries are defined by internal regulations implemented by the entities, which are characterised by the significant values of currency risk measures. These regulations are prepared after consultation with the Bank and include recommendations issued by the Bank to the entities.

49. Liquidity risk management

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

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

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

49.1. Measurement of the liquidity risk

The Group makes use of the following liquidity risk measures:

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

49.2. Forecasting and monitoring of liquidity risk

Liquidity gaps presented below include the sum of Bank's adjusted liquidity gap (adjusted in terms of the following: permanent balances on deposits of non-financial sector and their maturity, permanent balances on loans in current accounts for non-financial entities and their maturity and liquid securities and their maturity) and contractual liquidity gap of other Group entities.

	a'vista	0 - 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 24 months	24 - 60 months	over 60 months
30.06.2014								
The Group - adjusted gap in real terms	6 498 283	10 575 179	(1 241 979)	1 000 511	7 268 510	5 256 983	21 439 131	(50 796 618)
The Group - cumulative adjusted gap in real terms	6 498 283	17 073 462	15 831 483	16 831 994	24 100 504	29 357 487	51 796 618	-
31.12.2013								
The Group - adjusted gap in real terms	6 980 540	13 323 611	(10 261 085)	(843 470)	1 710 668	5 611 828	18 606 239	(35 128 331)
The Group - cumulative adjusted gap in real terms	6 980 540	20 304 151	10 043 066	9 199 596	10 910 264	16 522 092	35 128 331	-

In all time horizons, the Group's cumulative adjusted liquidity gap in real terms , which has been determined as a sum of adjusted liquidity gap in real terms of the Bank and of the Nordea Bank Polska SA as well as contractual liquidity gaps of the remaining entities of the Group, as at 30 June 2014 and as at 31 December 2013 was positive. This means a surplus of assets receivable over liabilities payable.

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

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

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

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

49.3. Reporting of the liquidity risk

The Bank prepares daily, weekly, monthly, and quarterly reports addressing liquidity risk. The quarterly reports are also applicable to the Group. Reports present the information on liquidity risk exposure and usages of available limits regarding the risk.

49.4. Management decisions concerning liquidity risk

The main tools for liquidity risk management in the PKO Bank Polski SA Group 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 Bank's lending activities.

To ensure an adequate liquidity level, the Bank and subsidiaries of the PKO Bank Polski SA Group have accepted limits and thresholds for liquidity risk. The limits and thresholds were set for short- medium-,and long-term liquidity measures.

Methods of liquidity risk management in subsidiaries of the Group are defined by internal regulations implemented by the entities which are characterised by the significant value of liquidity risk measures.

These regulations are prepared after consultation with the Bank and include recommendations issued by the Bank to the entities.

50. Commodities price risk management

Commodity price risk is the risk of incurring a loss due to changes in commodity prices, generated by maintaining open positions on particular types of goods.

The objective of commodity price risk management is to reduce potential losses resulting from changes in commodity prices to the acceptable level by shaping the structure of statement of financial position and off-balance sheet commodity items.

Commodity price risk is managed by imposing limits on instruments generating the commodity price risk, monitoring their use and reporting the risk level.

The effect of commodity price risk on the Group's financial position is immaterial.

51. Equity securities price risk management

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

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

Managing the equity securities risk is aimed at limiting possible losses due to changes in the prices of equity securities on the public market or stock exchange indices to a level acceptable to the Bank, by optimising the positions taken in instruments sensitive to changes in these market parameters.

The risk is managed by imposing limits on the activities of the Brokerage House of PKO Bank Polski SA and by monitoring the utilisation thereof.

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

The Bank prepares monthly and quarterly reports addressing equity securities price risk. Reports contain the information on equity securities price risk exposure and usage of available limits regarding the risk.

52. Other price risks

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

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

53. Derivative instruments risk management

The risk of derivative instruments is a risk resulting from taking up a position in financial instruments, which meet all of the following conditions:

1) the value of an instrument changes with the change of the underlying instrument,
2) it does not require any initial net investment or requires only a small initial net investment compared with other types of contracts which similarly respond to changes in market terms,
3) it is to be settled at a future date.

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

53.1. 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 currency risk, depending on the risk factor which affects the value of the instrument.

In the respect of the measurement of the derivative instruments risk of other Group entities, information on the entities' positions in specific derivative instruments is used, as indicated by the Bank.

53.2. Forecasting and monitoring of the derivative instruments risk

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

53.3. Reporting of the derivative instruments risk

The Bank prepares daily, weekly, monthly, and quarterly reports addressing the risk of derivative instruments. The quarterly reports are also applicable to the Group. Reports present the information on the derivative risk exposure and updates on available limits regarding the risk.

53.4. Management decisions concerning risk of derivative instruments

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

- procedures for derivative risk management,
- limits and thresholds set for the risk related to derivative instruments,
- master agreements specifying, i.a. settlement mechanisms.

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

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

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

Positions taken by the other Group entities in particular derivative instruments are determined using similar methods to those used for positions taken by the Bank in such derivative instruments, taking into account the specific nature of the business conducted by the Group entities.

54. Operational risk management

Operational risk is defined as the risk of occurrence of a loss due to non-compliance or unreliability of internal processes, people and systems or external events. Operational risk takes into consideration legal risk yet does not comprise reputation risk and business risk.

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

The Group entities manage operational risk according to principles of these risk management in PKO Bank Polski SA, considering their specific nature and scale of activities of particular entities.

54.1 Measurement of the operational risk

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

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

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

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

54.2 Forecasting and monitoring of operational risk

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

The Bank regularly monitors:

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

In the first half of the 2014, the dominant impact on the operational risk profile of the Group was exercised by the following 4 entities: PKO Bank Polski SA, the PKO Leasing SA Group, KREDOBANK SA and Nordea Bank Polska SA. Other Group entities, considering their significantly smaller scale and type of activity, generate only reduced operational risk.

54.3 Reporting of operational risk

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

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

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

- the results of measuring and monitoring of operational risk,
- the operational risk profile of the Bank resulting from the process of identifying and assessing the threats for products, processes and applications of the Bank,
- actions taken to reduce operational risk and evaluate the effectiveness of actions taken to reduce the operational risk level,
- recommendation and decision of the ORC or the Management Board.

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

54.4 Management decisions as regards operational risk

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

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

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

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

Management actions are taken under the following cases:

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

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

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

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

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

55. Compliance risk management

Compliance risk is defined as the risk of legal sanctions, incurring financial losses or losing reputation or reliability due to failure of the Group, its employees or entities acting on its behalf to comply with the provisions of the law, internal regulations, standards adopted by the Group, 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 Group, as a result of failure to comply or improper application the provisions of the law, internal regulations, standards adopted by the Bank, including ethical standards,
3) preventing the risk of occurring financial losses or legal sanction risk, which may result from breach of the above mentioned regulations and standards of conduct.

Appropriate organisational units or designated employees are responsible for finding systemic solutions in the area of ensuring the functioning of Group entities compliance with the binding regulations and operating standards. The Compliance Department is responsible for finding such solutions and development of the methods for evaluation, monitoring and reporting the compliance risk. The Compliance Department is a unit which was granted independence and which, in the area of compliance risk management, reports directly to the President of the Bank's Management Board.

In all entities in the PKO Bank Polski SA Group consistent principles of compliance risk management exist.

Identification and assessment of compliance risk is carried out cyclically by the entities of the Group, in collaboration with the Compliance Department and includes in particular:

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

55.1. Monitoring of compliance risk

Monitoring of compliance risk includes:

1) the results of the identification and assessment of compliance risk,
2) instances of non-compliance – their origins and effects caused,
3) actions undertaken by the Companies 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 Bank,
4) assessment of the effectiveness of control mechanisms associated with reducing the compliance risk.

Compliance risk management in the Group 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 entities of the Group have adopted a zero tolerance policy against compliance risk, which means that the entities of the Group focus their actions on preventing cases of materialisation of this risk.

56. Business risk management

Business risk is understood as 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.

56.1. 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).

The internal capital for covering business risk of the Group entities is determined as the product of:

- ratio of internal capital calculation for covering business risk, and
- result on banking activities.

A ratio of internal capital calculation for covering business risk for the Group entities is determined as the relation of internal capital for covering business risk of the Bank to total internal capital of the Bank.

56.2. Forecasting and monitoring of business risk

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

Monitoring of business risk includes in particular:

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

56.3. Reporting of business risk

Business risk reporting of the Group is conducted quarterly. 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.

56.4. Management decisions as regards business risk

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

57. Reputation risk management

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

Reputation risk management in the Bank involves in particular:

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

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

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

The reports on the level of reputation risk are 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.

58. 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 operating models.

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

Within the Group, model risk is managed both on the part of a given company (an owner of a model) and at the level of the Bank. Since 1 January 2014, a new department - one of which tasks is to ensure greater standardisation and integration of management methods of model risk within the Group - was appointed by a resolution of the Management Board. Within action plan the defined for 2014, in the first half of the year works on implementing the selected elements of model risk management, which function in the Bank, have been started in key entities of the Group. The priorities of actions and the most important standards, the implementation of which will occur before the end of 2014, were defined.

58.1. Identification and assessment of model risk

Identification of model risk 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.

The model risk evaluation is aimed at determining the scale of threats associated with the occurrence of the model risk. The assessment of the risk level is performed on the level of a single model and aggregate assessment of the model risk.

Ratings may be aggregated mainly at the level of the Bank or a company, 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 or a company.

58.2. 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.

58.3. Model risk reporting

Cyclical model risk reporting includes 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.

58.4. Management decisions as regards model risk

The purpose of management actions is to form a model risk management process and a level of this risk.

Management actions in particular consist of:

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

59. 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.

59.1. 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.

59.2. Macroeconomic changes risk monitoring

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

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

59.3. Macroeconomic changes risk reporting

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

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

59.4. 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.

60. Insurance risk management

Insurance risk is a risk of loss or of adverse change in value of insurance liabilities, due to inadequate pricing and provisioning assumptions (in particular for technical provisions).

The objective of insurance risk management is to maintain insurance risk on an acceptable level and to limit potential loss from adverse change in the value of insurance liabilities.

60.1. Identification and assessment of insurance risk

Exposure to insurance risk exists in PKO Życie Towarzystwo Ubezpieczeń S.A. (PKO Życie) and concerns the following sub-types of risk:

- mortality risk
- morbidity risk
- contracts withdrawal risk
- cost increase risk
- catastrophic risk

Assessment of exposure to insurance risks in PKO Życie is as follows:

- mortality and morbidity risk (in a current solvency regime risk of claims) is assessed at a low level due to the small share of insurance policies relating to this risk in the whole Company's insurance portfolio and reinsurance applied,
- the catastrophic risk is limited by i.a. regional diversity,
- the contracts withdrawal risk relates primarily to insurance products with Insurance Capital Funds. Based on data from 2013 and data from the first quarter of 2014 the level of contracts withdrawal is assessed as stable.

Insurance risk measurement in PKO Życie is carried out as a part of contracts withdrawal analysis, claims analysis, analysis of assets covering technical provisions (APR) and annual analysis of shock scenarios – stress-tests, on the basis of methodology required by the PFSA Office. In preparation for implementation of the new Solvency II system, PKO Życie performs analyses of exposure to insurance risks in the process of Quantitative Impact Studies (QIS) supervised by the PFSA Office.

60.2. Monitoring of the insurance risk

Assets covering technical provisions (APR) were at a sufficient level (above 100%), as well as had the appropriate structure (in line with regulatory requirements). The total provisions cover ratio amounted to 101% as at 30 June 2014. For insurance products with Insurance Capital Funds and for structured products, which comprise the greater part of the portfolio of PKO Życie, surplus of assets is not required, hence the total level of ratios remains at the level slightly above 100%.

60.3. Insurance risk reporting

Insurance risk reporting is performed in PKO Życie in the form of monthly report for the Management Board and the quarterly report for the Assets & Liabilities Committee and for Risk Committee.

60.4. Management actions covering insurance risk

As to mitigate the insurance risk exposure, PKO Życie uses among others:

- reinsurance of risks (mortality, morbidity risks),
- grace periods,
- exemptions,
- retention activities.

Passive reinsurance of the Company is performed on the basis of:

- obligatory - facultative, quota share - surplus treaties, on the basis of risk - premium,
- facultative reinsurance agreements, on the basis of risk – premium,
- obligatory, proportional reinsurance agreements, on the basis of risk – premium.

Facultative reinsurance is applied for all insurance agreements and risks covered by obligatory – facultative reinsurance agreements, in which the sum on the gross risk exceeds agreed amount.

In case of the new products and the risks, PKO Życie choses reinsurer, level of protection, conditions of the reinsurance, changes in concluded reinsurance contracts and concluding new reinsurance contracts in relation to the newly introduced to offer or modified insurance products and new risks.

61. 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-test-specific to particular types of risks.

Complex stress-tests collectively include the following risks considered by the the PKO Bank Polski SA Group 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 PKO Bank Polski SA Group, in particular on:

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

Complex stress-tests for the own use of the Group 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.

62. Capital adequacy

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

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

The process of managing the Group'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 Group entities in connection with profitability analyses,
- using tools affecting the capital adequacy level (including: tools affecting the level of own funds, the scale of own funds reductions and the level of the loan portfolio).

The fundamental regulation applicable in the capital adequacy assessment process as at 30 June 2014 is the Regulation (EU) No. 575/2013 of the European Parliament and of the Council as of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending the Regulation (EU) No. 648/2012, hereinafter called 'CRR Regulation'.

The CRR Regulation constitutes a part of so called CRD IV/CRR package, which apart from the Regulation comprises CRD IV Directive - Directive 2013/36/EU of the European Parliament and of the Council as of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (hereinafter called 'CRD Directive'. In contrast to the CRR Regulation which is directly applicable, the CRD Directive must be implemented within the national law. As at 30 June 2014 the Banking Law has not been amended yet and the work on amending the Act implementing CRD IV regulation is currently ongoing. As a result of the above, in case of conflict between provisions of CRR Regulation and national regulations, precedence is given to the CRR Regulation.

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

In accordance with the CRR Regulation for the purposes of capital adequacy a prudential consolidation is applied, which unlike the consolidation consistent with International Financial Reporting Standards, comprises Bank's subsidiaries being institutions and financial institutions which are their subsidiaries. Non-financial and insurance entities are excluded from prudential consolidation.

In accordance with the CRR Regulation, for the purpose of prudential consolidation the Group comprises:

- PKO Bank Polski SA
- PKO Leasing SA
- PKO BP Faktoring SA
- PKO BP BANKOWY PTE SA
- PKO Towarzystwo Funduszy Inwestycyjnych SA
- KREDOBANK SA
- PKO Finance AB
- Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.
- Nordea Bank Polska SA
- PKO Leasing Pro SA (formerly Nordea Finance Polska SA).

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

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

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

62.1. Own funds for capital adequacy purposes

Own funds of the Group for the purposes of capital adequacy were calculated as at 30 June 2014 in accordance with the provisions of the CRR Regulation.

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

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

1) principal funds comprising: share capital, other reserves (supplementary capital, reserve capital),
2) Accumulated other comprehensive income (excluding of gains and losses on cash flow hedges, whereas in respect of unrealised gains and losses on instruments classified to available for sale portfolio only losses of 80% of their carrying amount are recognised),
3) general banking risk fund,
4) retained earnings (undistributed profits from previous years),
5) net profit prior to approval and net profit for the current reporting period, calculated based on appropriate accounting standards, decreased by any expected charges and dividends, in amounts not exceeding amounts audited by certified auditor, whereas the term for inclusion of the above mentioned net profit within Bank's own funds is its approval by the General Shareholders' Meeting, or prior to the approval by GSM, obtaining consent from the PFSA to its inclusion within own funds.

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Tier 1 basic funds are reduced by the following items:

1) losses for the current financial year,
2) intangible assets stated at carrying amount less any associated deferred income tax liability, the deducted amount includes goodwill taken into account in measurement of the Bank's significant investments,
3) additional value adjustments of assets measured at fair value,
4) deferred income tax assets based on future profitability and not arising from temporary differences
5) deferred income tax assets based on future profitability and arising from temporary differences which exceed 10% of Tier 1 basic funds (without considering deductions due to equity exposures and deferred income tax assets),
6) the Bank's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies, expressed as shares, constituting structural foreign exchange positions, in accordance with the Article 3 of the CRR Regulation,
7) the Bank's significant direct and indirect equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies, expressed as shares or other Tier 1 basic funds instruments of these entities (apart from exposures constituting structural positions), which total amount exceeds 10% of Tier 1 Basic funds (without considering deductions due to equity exposures and deferred income tax assets),
8) the amount by which the sum of:
    a) deferred income tax assets based on future profitability and arising from temporary differences, up to 10% of Tier 1 basic funds (without considering deductions due to equity exposures and deferred tax assets),
    b) the Bank's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies, expressed as Tier 1 basic funds instruments of these entities, up to 10% of Tier basic funds (without considering deductions due to equity exposures and deferred income tax assets).

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

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

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

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

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

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

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

Information on the structure of the Group's own funds included in prudential consolidation, set out for purposes of capital adequacy as at 30 June 2014, according to the CRR Regulation, is presented in the table below:

GROUP'S OWN FUNDS*	30.06.2014
Basic funds (Tier 1)	21 491 184
Share capital	1 250 000
Other reserves	22 126 414
General banking risk fund for unidentified banking activities risk	1 070 000
Undistributed profits from previous years	172 251
Cumulative other comprehensive income	(254 718)
Deferred income tax assets dependent on future profitability, not derived from temporary differences	(7 775)
Goodwill	(1 065 607)
Other intangible assets	(1 790 573)
Equity exposures decreasing own funds	-
Additional adjustments of assets measured at fair value	(8 808)
Supplementary funds (Tier 2)	2 367 810
Subordinated liabilities classified as supplementary funds	2 367 810
Equity exposures decreasing own funds	-
TOTAL OWN FUNDS	23 858 994

* Selected items include adjustments required in the transition period

In the Tier 2 supplementary funds the Group included the subordinated loan granted to Nordea Bank Polska SA by Nordea Bank AB (Publ) in the amount of CHF 224 000 thousand (PLN 767 110 thousand).

(IN PLN THOUSAND)

As at 31 December 2013 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 (Official Journal of PFSA of 30 December 2011 No. 13, item 49).

Information on the structure of the Group's own funds set out for purposes of capital adequacy as at 31 December 2013 is presented in the table below:

GROUP'S OWN FUNDS	31.12.2013
Basic funds (Tier 1)	19 611 274
Share capital	1 250 000
Reserve capital	16 760 686
Other reserves	3 469 107
General banking risk fund for unidentified banking activities risk	1 070 000
Undistributed profits from previous years	(306 230)
Unrealised losses on debt and equity instruments and other receivables classified as available for sale	(141 815)
Assets valuation adjustments in trading portfolio	(5 656)
Intangible assets, of which:	(2 230 222)
goodwill of subordinated entities	(218 850)
Equity exposures	(121 930)
Negative currency translation differences from foreign operations	(134 175)
Non-controlling interest	1 509
Supplementary funds (Tier 2)	1 539 670
Subordinated liabilities classified as supplementary funds	1 600 700
Unrealised losses on debt and equity instruments classified as available for sale (80% of their value before the tax)	56 145
Positive currency translation differences from foreign operations	4 755
Equity exposures	(121 930)
Short-term equity (Tier 3)	154 112
Total own funds	21 305 056

62.2. Requirements as regard own funds (Pillar 1)

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

- in respect of credit risk – using the standardised method,
- in respect of operational risk for the Bank – using the advanced measurement approach (AMA), and for the Group entities - the basic index approach (BIA)
- in respect of position risk (market) – using basic methods.

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

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

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

(IN PLN THOUSAND)

Requirements in respect of own funds	30.06.2014	31.12.2013
Credit risk	14 139 197	11 593 995
Market risk	338 173	327 321
Credit valuation adjustment risk	209 178	-
Settlement/delivery risk	9 349	-
Operational risk	790 834	630 884
Total capital requirement	15 486 731	12 552 200
Capital adequacy ratio	12.32%	13.58%

The increase in own funds requirements in respect of credit risk was mainly due to implementation of changes resulting from coming into force of regulations consistent with so called Basel III, implemented into the European law through so called CRR/CRD IV Package, as well as due to finalising the Nordea Bank Polska purchase transaction.

The Group calculates requirements as regard own funds on account of credit risk according to the following formula:

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

62.3. Capital requirements for insurance companies

The PKO Bank Polski SA Group comprises an insurance company, PKO Życie TU, which, as an entity covered with separate supervision in accordance with the Solvency Directive, is excluded from the prudential consolidation.

In accordance with the Act as of 22 May 2003 on Insurance Activity (with subsequent amendments) an insurance company is obliged to possess own funds in the amount not lower than the required solvency margin and not lower than the guarantee fund. The guarantee fund is equal to the value higher of: 1) one third of the solvency margin, 2) the minimum amount of the guarantee fund.

The principles on calculation of the required solvency margin and the minimum amount of the guarantee fund is determined by the Regulation as of 28 November 2003 on calculation of the required solvency margin and the minimum amount of the guarantee fund (with subsequent amendments).

Selected items concerning capital adequacy of this entity:

CAPITAL ADEQUACY OF PKO ŻYCIE TU	30.06.2014
Own funds	93 601
Solvency margin	48 658
Guarantee fund:	16 219
Minimum amount of the guarantee fund	15 403
One third of solvency margin	16 219
Surplus/deficit of own funds to cover the solvency margin	44 943
Surplus/deficit of own funds to cover the guarantee fund	77 382

62.4. Internal capital (Pillar 2)

The Group calculates internal capital in accordance with the Resolution No. 258/2011 of the PFSA of 4 October 2011 on detailed principles for functioning of risk management system and internal control system and detailed terms of estimating internal capital by banks and reviewing the process of estimating and maintaining internal capital and the principles for determining the variable salary components policy for persons holding managerial positions in the Bank (Official Journal of PFSA No. 11, item 42 as at 23 November 2011). Internal capital is the amount of estimated capital that is necessary to cover all of the identified significant risks characteristics of the Group's activities and the effect of changes in the business environment, taking account of the anticipated risk level.

The internal capital in the PKO Bank Polski SA Group is calculated to cover each of the significant risk types:

- credit risk (including default and concentration risk),
- currency risk,
- interest rate risk,
- liquidity risk,
- operational risk,
- business risk (taking into consideration strategic risk).

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

The Bank regularly monitors the significance of the individual risk types relating to the activities of the Bank and other Group subsidiaries.

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 each entity of the Group is the sum of internal capital amount necessary to cover all of the significant risks for the entity. The total internal capital of the Group is the sum of internal capital amount of the Bank and all Group entities. The correlation coefficient between particular types of risk and particular Group entities used in the internal capital calculation is equal to 1.

In the first half of the 2014, the relation of the Group's own funds to its internal capital remained on a level exceeding both the threshold set by the law and the Group's internal limits.

62.5. Disclosures (Pillar 3)

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

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

EVENTS AFTER THE REPORTING PERIOD

63. Events after the reporting period

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

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

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

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

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

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

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

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

(IN PLN THOUSAND)

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

Signatures of all Members of the Management Board of the Bank

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

Signature of person responsible for
maintaining the books of account

26.08.2014

Danuta Szymańska
Director of the Accounting Division

....
(signature)