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

We have audited the accompanying consolidated financial statements of Powszechna Kasa Oszczędności Bank Polski SA Group (hereinafter called 'the Group'), of which Powszechna Kasa Oszczędności Bank Polski SA is the parent company (hereinafter called 'the Parent Company'), with its registered office in Warsaw, 15 Puławska Street, which comprise of the consolidated statement of financial position as at 31 December 2012, showing total assets and total equity and liabilities of PLN 193,479,628 thousand; the consolidated income statement for the financial year from 1 January to 31 December 2012, showing a net profit attributable to equity holders of the Parent Company of PLN 3,748,621 thousand; the consolidated statement of comprehensive income for the financial year from 1 January to 31 December 2012, showing a total comprehensive income of PLN 3,472,272 thousand; the consolidated statement of changes in equity, the consolidated statement of cash flows for the financial year and additional information on accounting policies and other relevant matters.

The Management Board of the Parent Company is responsible for preparing the consolidated financial statements and a Directors' Report for the Group in accordance with the applicable regulations. The Management Board and Members of the Supervisory Board of the Parent Company are required to ensure that the consolidated financial statements and the Director's Report for the Group meet the requirements set out in the Accounting Act of 29 September 1994 (uniform text, Journal of Laws of 2009, No. 152, item 1223 with further amendments, hereinafter referred to as 'the Act').

Our responsibility was to perform an audit of the accompanying consolidated financial statements and to express an opinion on whether in all material respects the consolidated financial statements comply with the applicable accounting policies and whether they present fairly the financial position and results of the Group.

We conducted our audit in accordance with the following:

(a) the provisions of Chapter 7 of the Act;

(b) national auditing standards as issued by the National Chamber of Registered Auditors;

(c) International Standards on Auditing.

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

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

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

(a) present fairly the Group's financial position as at 31 December 2012 and the results of its operations for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union;

(b) comply in form and content with the relevant laws applicable to the Group;

(c) have been prepared on the basis of properly maintained consolidation documentation.

The information in the Directors' Report for the Group for the year ended 31 December 2012 has been prepared in accordance with the provisions of the Decree of the Minister of Finance of 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equivalent information required by the laws of another state not being a member state ('*the Decree*' – Journal of Laws of 2009, No. 33, item 259, with further amendments) and is consistent with the information presented in the audited consolidated financial statements.

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

Antoni F. Reczek
President of the Management Board

Principal Registered Auditor
No. 90011

PricewaterhouseCoopers Sp. z o.o.

Warsaw, 27 February 2013

The Powszechna Kasa Oszczędności Bank Polski SA Group

Auditor's Report on the consolidated financial statements As at and for the year ended 31 December 2012

pwc

Independent registered auditor's report on the consolidated financial statements for the year ended 31 December 2012 to the General Meeting of Shareholder and the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski SA

This report contains 58 consecutively numbered pages and consists of:

Page

I. General information about the Group

(a) Powszechna Kasa Oszczędności Bank Polski SA (the Parent Company, the Bank) was established in 1919 as Pocztowa Kasa Oszczędnościowa (Postal Savings Bank).

In 1950, the Bank started operating as Powszechna Kasa Oszczędności Bank Państwowy (state-owned bank). On 18 January 2000, on the basis of a Decree of the Council of Ministers, Powszechna Kasa Oszczędności Bank Państwowy was transformed into a joint-stock company wholly owned by the State Treasury, under the name of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna. On 12 April 2000, the Bank was entered in the Business Register maintained by the District Court for the City of Warsaw, Business Court, 16th Registration Division. Currently, the Bank is registered under the number KRS0000026438, and the District Court for the City of Warsaw, 13th Business Division of the National Court Register is the competent registration court.

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

(b) As at 31 December 2012, the Parent Company's registered share capital amounted to PLN 1,250,000 thousand and consisted of 1,250,000,000 ordinary shares, each of PLN 1 par value, including:

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

(c) In the audited period, the Group's operations comprised i.a.:

- performing activities typical of a universal bank;
- brokerage activities;
- managing pension funds;
- managing investment funds;
- managing real estate;
- services in the area of technical assistance for electronic banking;
- services in the area of card transaction processing and settlement;
- leasing.

(d) During the year, the following people were on the Parent Company's Management Board:

Zbigniew Jagiełło	President of the Management Board	throughout the year
Piotr Alicki	Vice-President of the Management Board	throughout the year
Bartosz Drabikowski	Vice-President of the Management Board	throughout the year
Jarosław Myjak	Vice-President of the Management Board	throughout the year
Jacek Obłękowski	Vice-President of the Management Board	throughout the year
Jakub Papierski	Vice-President of the Management Board	throughout the year
Andrzej Kołatkowski	Vice-President of the Management Board	to 13 July 2012

On 26 September 2012 the Supervisory Board of PKO Bank Polski SA appointed as of 1 January 2013 Mr Piotr Mazur to the position of the Vice-President of the Management Board of the Bank.

I. General information about the Group (cont.)

(e) As at 31 December 2012, the Powszechna Kasa Oszczędnościowa Bank Polski SA Group was composed of the following entities:

Company name	Description of equity relationship (interest in %)	Consolidation method	Auditor of the financial statements	Type of opinion	Balance date of the financial statements
Powszechna Kasa Oszczędności Bank Polski SA	Parent company	Not applicable	Pricewaterhouse-Coopers Sp. z o.o.	unqualified	31 December 2012
Bankowe Towarzystwo Kapitałowe SA	Subsidiary (100%)	Acquisition accounting	Pricewaterhouse-Coopers Sp. z o.o.	unqualified	31 December 2012
Bankowy Fundusz Leasingowy SA	Subsidiary (100%)	Acquisition accounting	Pricewaterhouse-Coopers Sp. z o.o.	unqualified	31 December 2012
Centrum Elektronicznych Usług Płatniczych "eService" SA	Subsidiary (100%)	Acquisition accounting	Pricewaterhouse-Coopers Sp. z o.o.	unqualified	31 December 2012
"Inter-Risk Ukraina" spółka z dodatkową odpowiedzialnością (additional liability company)	Subsidiary (100%)	Acquisition accounting	LLC AF Pricewaterhouse-Coopers (Audit)	audit in progress[1]	31 December 2012
Fort Mokotów Inwestycje Sp. z o.o.	Subsidiary (99.99%)	Acquisition accounting	Pricewaterhouse-Coopers Sp. z o.o.	unqualified	31 December 2012
Inteligo Financial Services S.A.	Subsidiary (100%)	Acquisition accounting	Pricewaterhouse-Coopers Sp. z o.o.	unqualified	31 December 2012
KREDOBANK SA	Subsidiary (99.57%)	Acquisition accounting	LLC AF Pricewaterhouse-Coopers (Audit)	unqualified	31 December 2012
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	Subsidiary (100%)	Acquisition accounting	Pricewaterhouse-Coopers Sp. z o.o.	unqualified	31 December 2012
PKO BP Finat Sp. z o.o.	Subsidiary (100%)	Acquisition accounting	Pricewaterhouse-Coopers Sp. z o.o.	unqualified	31 December 2012
PKO Finance AB	Subsidiary (100%)	Acquisition accounting	Öhrlings Pricewaterhouse-Coopers AB	audit in progress[1]	31 December 2012
PKO Towarzystwo Funduszy Inwestycyjnych SA	Subsidiary (100%)	Acquisition accounting	Pricewaterhouse-Coopers Sp. z o.o.	unqualified	31 December 2012
Qualia Development Sp. z o.o.	Subsidiary (100%)	Acquisition accounting	Pricewaterhouse-Coopers Sp. z o.o.	unqualified	31 December 2012

and the subsidiaries of Bankowe Towarzystwo Kapitałowe SA, Bankowy Fundusz Leasingowy SA, Qualia Development Sp. z o.o., KREDOBANK SA and "Inter-Risk Ukraina" additional liability company.

1 Consolidation conducted based on the Company's consolidation package.

I. General information about the Group (cont.)

The key financial data of the companies covered by consolidation (presented on a consolidated basis) as at 31 December 2012 and 2011 are presented below:

	Total assets PLN'000	**Total revenue PLN'000**	**Equity PLN'000**	**Net profit (loss) PLN'000**
Powszechna Kasa Oszczędności Bank Polski SA	191,017,712	16,965,563	24,646,059	3,592,617
Bankowe Towarzystwo Kapitałowe SA	260,701	26,222	6,633	816
Bankowy Fundusz Leasingowy SA	4,031,980	287,720	139,448	11,615
Centrum Elektronicznych Usług Płatniczych "eService" SA	147,293	265,072	102,083	25,156
Centrum Finansowe Puławska Sp. z o.o. – in liquidation[2]	-	7,805	-	2,244
"Inter-Risk" sp z d.o.	189,546	39,747	(16,000)	(33,426)
data in UAH'000	*495,544*	*99,344*	*(41,828)*	*(83,543)*
Fort Mokotów Inwestycje Sp. z o.o.	141,925	397	126,200	(572)
Inteligo Financial Services S.A.	187,750	106,396	153,149	20,435
KREDOBANK SA	1,741,838	216,646	258,392	(54,633)
data in UAH'000	*4,435,982*	*541,480*	*675,534*	*(136,549)*
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	291,675	66,071	259,358	16,801
PKO BP Finat Sp. z o.o.	15,431	19,648	12,283	1,375
PKO Finance AB	9,169,560	213,733	1,741	933
data in EUR'000	*2,242,933*	*51,195*	*426*	*224*
PKO Towarzystwo Funduszy Inwestycyjnych SA	78,936	233,364	47,902	23,845
Qualia Developement Sp. z o.o.	583,027	151,711	243,415	(2,309)
Total	**207,857,374**	**18,600,095**	**25,980,663**	**3,604,897**
Eliminations and consolidation adjustments	(14,377,746)	(750,442)	(1,273,013)	142,546
Total	**193,479,628**	**17,849,653**	**24,707,650**	**3,747,443**

(f) The parent company also had jointly controlled entities and associates accounted for under the equity method:

Centrum Haffnera Sp. z o.o.	-	jointly controlled entity
Centrum Obsługi Biznesu Sp. z o.o.	-	jointly controlled entity
Bank Pocztowy SA	-	associate
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	associate
Agencja Inwestycyjna CORP-SA SA	-	associate

[2] *Centrum Finansowe Puławska Sp. z o.o. in liquidation was removed from the National Court Register on 8 May 2012*

I. General information about the Group (cont.)

(g) The Parent Company is an issuer of securities admitted to trading on the Warsaw Stock Exchange and in accordance with the Accounting Act it prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

II. Information about the audit

(a) The audit of the consolidated financial statements as at and for the year ended 31 December 2012 was conducted by PricewaterhouseCoopers Sp. z o.o. having its seat in Warsaw, Al. Armii Ludowej 14, registered audit firm no. 144. The audit was conducted on behalf of the registered audit firm under the supervision of the principal registered auditor Antoni F. Reczek (register no. 90011).

(b) PricewaterhouseCoopers Sp. z o.o. was appointed a registered auditor to the Group by Resolution No. 15/2011 of the Supervisory Board dated 28 March 2011, in accordance with section 15, subsection 1, item 3 of the Parent Company's Memorandum of Association.

(c) PricewaterhouseCoopers Sp. z o.o. and the principal registered auditor conducting the audit are independent of the Group entities within the meaning of art. 56, clause 2-4 of the Act on registered auditors and their council, entities entitled to provide audit of financial statements and public supervision of 7 May 2009 (Journal of Laws 2009, No. 77, item 649, with subsequent amendments).

(d) The audit was conducted in accordance with an agreement dated 14 April 2011, in the following periods:

- interim audit from 26 October to 21 December 2012;
- final audit from 7 January to 27 February 2013.

III. The Group's results and financial position

The consolidated financial statements do not take account of the impact of inflation. The consumer price index (on a December to December basis) amounted to 2.4% in the audited year (4.6% in 2011).

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

Powszechna Kasa Oszczędności Bank Polski SA is the parent company of the Group, which as at 31 December 2012 comprised 12 direct subsidiaries and 19 indirect subsidiaries. The data of three direct subsidiaries and the data of two joint ventures were disclosed in the consolidated financial statements under the equity method. In 2011, the Group consisted of 13 direct subsidiaries and 15 indirect subsidiaries, three direct associates and two companies classified as jointly controlled entities.

- As at 31 December 2012, the total assets amounted to PLN 193,479,628 thousand and increased by PLN 2,731,591 thousand (i.e. by 1%) compared with the balance as at 31 December 2011.

- The increase was mainly financed with an increase in liabilities in respect of an issue of securities of PLN 2,499,004 thousand (i.e. 32%), and in equity of PLN 1,885,666 thousand (i.e. 8%). The increase was reduced by a decrease in the balance of amounts due to banks of PLN 2,505,217 thousand (i.e. 40%).

- The main source of financing assets in 2012 were amounts due to customers (similarly to the prior year). The balance of amounts due to customers amounted to PLN 146,193,570 thousand as at the balance date and represented 76% of the total liabilities and equity (a decrease of 1 pp. compared with the balance as at 31 December 2011). The structure of the amount as at the balance date changed compared with 31 December 2011. As a result of the decrease of amounts due to corporate entities (decrease by PLN 6,600,309 thousand, i.e. by 17%) as compared to the balance as at 31 December 2011, the share of this balance in total amounts due to customers decreased by 4 pp. (to 22% as at the balance date). On the contrary, the balance of amounts due to retail clients increased by PLN 6,683,328 thousand (i.e. by 6%) and its share increased by 5 pp. to 76% of the total balance (Note 14).

- The balance of debt securities in issue as at the balance date amounted to PLN 10,270,783 thousand (PLN 7,771,779 thousand as at 31 December 2011), of which PLN 9,169,937 thousand related to bonds issued to international markets (PLN 4,476,996 thousand as at 31 December 2011). The increase in the balance as at 31 December 2012 was mainly a result of issuing, in 2012, Eurobonds at nominal amounts of USD 1,000,000 thousand, CHF 500,000 thousand and EUR 50,000 thousand, and also the issue by the Bank of short-term bonds to the Polish market (which were valued at PLN 497,283 thousand as at the balance date) and structured bank securities based on stock exchange indices or commodity prices of PLN 368,622 thousand (Note 15).

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

- The decrease in amounts due to banks resulted mainly from the repayment of a consortium loan of CHF 950,000 thousand (PLN 3,443,872 thousand as at 31 December 2011), which had been obtained by the Parent Company. The loan was replaced with another liability of CHF 410,000 thousand (PLN 1,393,048 thousand as at 31 December 2012) due in 2015. As a result, the balance of amounts due to banks was PLN 3,733,947 thousand and apart from the above-mentioned loan it comprised loans and advances received by the Bankowy Fundusz Leasingowy Group of PLN 1,149,313 thousand (PLN 899,536 thousand as at 31 December 2011) and bank deposits of PLN 1,086,956 thousand (PLN 1,372,635 thousand as at 31 December 2011).

- The aforementioned balances represented 83 of liabilities as at 31 December 2012 (91% as at the previous balance date). Other material balances as at the end of 2012 were: subordinated liabilities (1% of the total liabilities as at the end of 2012 and 2011 respectively) and liabilities in respect of the negative valuation of derivatives (2% and 1% of the total liabilities as at the end of 2012 and 2011 respectively).

- Subordinated liabilities amounted to PLN 1,631,256 thousand as at the balance date (PLN 1,614,377 thousand as at 31 December 2011) and comprised the valuation of bonds issued by the Bank in 2012 in the nominal amount of PLN 1,600,700 thousand with a redemption date on 14 September 2022. They replaced bonds issued by the Bank at the same nominal amount in 2007 and redeemed in 2012 (Note 16).

- As at 31 December 2012, the liabilities in respect of the negative valuation of derivatives amounted to PLN 3,964,098 thousand (PLN 2,645,281 thousand as at 31 December 2011). The increase in the balance as at the balance date was mainly the result of a higher valuation of IRS transactions whose balance increased by PLN 1,258,583 thousand (i.e. 65%) compared with the balance as at 31 December 2011 (Note 4).

- The balance of consolidated equity as at 31 December 2012 was PLN 24,707,650 thousand (PLN 22,821,984 thousand as at 31 December 2011) and was higher by PLN 1,885,666 thousand (i.e. 8%). The increase in the balance was mainly brought about by a profit generated by the Group in 2012 of PLN 3,748,621 thousand. At the same time, the shareholders of the Parent Company made a decision to earmark PLN 1,587,500 thousand out of the profit for 2011 for payment of dividend. The remaining portion of the profit for 2011 was earmarked for increasing reserve capital (by PLN 2,322,284 thousand) and other reserves (by PLN 66,122 thousand) (Note 19).

- The balance of own funds calculated on the regulatory basis was PLN 20,490,992 thousand as at 31 December 2012 (PLN 18,342,916 thousand as at 31 December 2011) and it was PLN 7,949,837 thousand higher than the total capital requirement (PLN 6,478,224 thousand as at the end of 2011). The capital adequacy ratio calculated as at the balance date based on the banking portfolio and the trading portfolio was 13.07% and increased by 0.7 pp. compared with the end of the prior year.

- The higher level of financing mainly translated into an increase in the balance of amounts due from banks (an increase of PLN 996,259 thousand, i.e. 42%), a positive valuation of derivatives (an increase of PLN 795,828 thousand, i.e. 26%), other assets (an increase of PLN 316,859 thousand, i.e. 43%), financial instruments designated at fair value through profit or loss (an increase of PLN 162,510 thousand, i.e. 1%) and non-current assets (an aggregate increase of PLN 243,272 thousand, i.e. 6%).

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

- Amounts due from banks amounted to PLN 3,392,486 thousand as at the balance date (PLN 2,396,227 thousand as at the end of 2011). The increase in the balance related mainly to current accounts and term deposits (an aggregate increase of PLN 912,734 thousand, i.e. 39%) – Note 2.

- The increase in the positive valuation of derivatives to PLN 3,860,561 thousand resulted mainly from a higher valuation of interest rate swaps (up by PLN 1,255,015 thousand, i.e. 52%) than in the prior year. It was partly offset by a PLN 414,615 thousand (i.e. 74%) decrease in the valuation of currency forwards.

- The balances of other assets and tangible fixed assets amounted to PLN 1,054,129 thousand and PLN 4,584,597 thousand respectively (PLN 737,270 thousand and PLN 4,341,325 thousand as at the end of 2011). The increase resulted mainly from higher receivables in respect of settlements of payment card transactions (Note 12) and capital expenditure on tangible fixed assets (Notes 10 and 11).

- The balance of loans and advances to customers was PLN 143,875,644 thousand, it was the largest component of total assets (74% as in the previous year) and it increased by PLN 2,241,150 thousand (i.e. 2%) compared with the end of 2011. The increase resulted mainly from the reclassification of debt securities previously classified as available for sale, in connection with a change in the Group's intentions with respect to maintaining these securities in the portfolio. The balance of these securities recorded as part of loans and advances as at 31 December 2012 was PLN 2,073,951 thousand (Note 6). At the same time, the reclassification resulted in a drop in the balance of available-for-sale investment securities, which amounted to PLN 12,205,130 thousand as at 31 December 2012 (a decrease of PLN 2,188,146 thousand, i.e. 15%) – Note 7.

- The gross amount of the loan portfolio as at 31 December 2012 amounted to PLN 150,651,909 thousand and increased by PLN 3,359,172 thousand (i.e. by 2%) compared with the balance as at 31 December 2011. Apart from the aforementioned reclassification, the change in the gross balance was due to a PLN 2,480,153 thousand, i.e. 5%) increase in gross corporate loans and a PLN 1,122,878 thousand (i.e. 2%) increase in gross mortgage loans, accompanied by a decrease in gross consumer loans of PLN 2,321,966 thousand (i.e. 10%). Additionally, the balance of impairment allowances on loans and advances to customers increased by PLN 1,118,022 thousand (i.e. by 20%); the increase was mainly related to corporate loans (Notes 6 and 26).

- The quality of the portfolio of loans and advances and lease receivables in the Group as at the balance date measured with the ratio of impaired loans to the total balance of gross loans and advances to customers deteriorated compared with the end of 2011 (an increase in the ratio from 8.0% to 8.9%). At the same time, the coverage ratio of impairment allowances to impaired loans and advancews to customers amounted to 45.8% as at 31 December 2012 and was 3.5 pp. higher than as at the end of 2011 (Note 6).

- The structure of liquid assets changed as at the balance date. A decrease of PLN 1,033,523 thousand (i.e. 79%) in trading assets financed an increase of PLN 1,147,283 thousand (i.e. 13%) in cash and balances with the central bank.

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

- Trading assets amounted to PLN 277,566 thousand as at 31 December 2012. The decrease in the assets was mainly due to a decrease in the Group's exposure in Polish Treasury bonds – between the end of 2011 and the end of 2012 the related balance drecreased by PLN 1,002,548 thousand (i.e. 82%) (Note 3).

- Cash and balances with the central bank amounted to PLN 10,289,451 thousand as at the balance date. There was an increase in both the balance of cash with the central bank (of PLN 705,139 thousand, i.e. 10%) and the balance of cash in hand and in vaults (of PLN 443,234 thousand, i.e. 19%).

- The balance of financial instruments designated upon initial recognition at fair value through profit and loss amounted to PLN 12,629,711 thousand as at the balance date. The increase (of PLN 162,510 thousand, i.e. 1%) resulted mainly from the increased exposure of the Group in short-term securities – compared with the end of 2011, the balance of NBP bills increased by PLN 1,401,509 thousand (i.e. 16%), which was partly offset by a decrease in the balance of Treasury bills (of PLN 1,139,285 thousand, i.e. 52%) (Note 5).

- The Group's cumulative liquidity gaps up to 1 month and up to 3 months calculated based on data on the maturities of assets and liabilities according to real terms maturity dates amounted to PLN 17,243,750 thousand and PLN 17,268,874 thousand respectively (PLN 19,393,513 thousand and PLN 17,793,708 thousand as at the end of 2011).

- The share of interest-bearing assets in total assets dropped slightly compared with the balance as at 31 December 2011 and amounted to 93.0% as at the end of 2012 (a decrease of 0.9 pp.). The loans to deposits ratio (L/D) amounted to 98.4% as at the end of 2012 (96.7% as at the end of 2011).

- Profit before income tax for 2012 was PLN 4,645,261 thousand and it was PLN 135,599 thousand (i.e. 3%) higher than in 2011. The profit before income tax comprised mainly: net interest income of PLN 7,882,786 thousand, net fee and commission income of PLN 3,071,202 thousand, net foreign exchange gains of PLN 256,137 thousand and other operating income of PLN 563,369 thousand. At the same time, the operating profit was reduced by administrative expenses of PLN 4,618,397 thousand, net impairment allowance and write-downs of PLN 2,325,228 thousand and other operating expenses of PLN 385,715 thousand.

- Net interest income of the Group in 2012 was PLN 273,670 thousand (i.e. 4%) higher than the net interest income generated in 2011. The increase was mainly due to higher interest income on loans and advances to customers (an increase of PLN 596,416 thousand, i.e. 6%), which was primarily a result of the growth of the loan portfolio (a gross growth of PLN 3,359,172 thousand, i.e. 2%), accompanied by lower growth dynamics of interest expense (an increase of PLN 680,305 thousand, i.e. 15%) compared with the prior year. In 2012, the interest margin calculated as the ratio of net interest income to interest income dropped by 2 pp. compared with 63% in 2011 and amounted to 61% (Note 21). The interest spread, calculated as the difference between the profitability ratio on interest-bearing assets and the cost of borrowings was 4.0% and did not change significantly (a decrease of 0.2 pp.) compared with 2011.

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

- Net fee and commission income in 2012 was lower than in 2011 (a decrease of PLN 30,242 thousand, i.e. 1%), which was mainly due to low growth dynamics of commission income compared with the growth dynamics of commission expense. Compared with 2011, fee and commission income increased slightly by PLN 138 thousand (to PLN 3,837,303 thousand). At the same time, fee and commission expense increased by PLN 30,380 thousand, i.e. by 4%, to PLN 766,101 thousand (Note 22).

- Other operating income of the Group amounted to PLN 563,369 thousand in 2012 (PLN 451,723 thousand in 2011) and related mainly to net income from sale of products and services, which comprised mainly income from development activities conducted the Qualia Development Group (PLN 144,485 thousand, i.e. 26% of the balance and PLN 102,983 thousand, i.e. 40% respectively in 2011) and the activities of Centrum Elektronicznych Usług Płatniczych eService (PLN 173,782 thousand, i.e. 31% of the balance and PLN 124,390 thousand, i.e. 49% of the balance in 2011). The balance of other operating income for 2012 was PLN 111,646 thousand (i.e. 25%) higher than the balance in 2011.

- In the audited year, net foreign exchange gains amounted to PLN 256,137 thousand and were PLN 81,159 thousand (i.e. 24%) lower than in 2011 – Note 23.

- In 2012, administrative expenses were PLN 207,040 thousand (i.e. 5%) higher than in the prior year and amounted to PLN 4,618,397 thousand. The increase was mainly related to the increase in staff costs (up by PLN 104,311 thousand, i.e. 4%), overheads (up by PLN 75,944 thousand, i.e. 6%) and depreciation and amortization (up by PLN 21,128 thousand, i.e. 4%) (Note 27). The overall business effectiveness calculated as the costs to income ratio (the C/I ratio) changed slightly in 2012 (the ratio deteriorated by 0.3 pp. to 39.9%). The change in the ratio was mainly due to higher administrative expenses than in 2011.

- Net impairment allowance in 2012 amounted to PLN 2,325,228 thousand (PLN 1,930,447 thousand in 2011). The increase in net impairment allowance was mainly related to corporate and mortgage loans to customers – an increase of PLN 319,518 thousand (i.e. 42%) and PLN 67,897 thousand (i.e. 17%), which was offset by a decrease in net impairment allowance on consumer loans – a decrease of PLN 92,204 thousand (i.e. 14%) (Note 26). The cost of risk amounted to 1.4% in 2012 (1.3% in 2011).

- Other operating expense amounted to PLN 385,715 thousand in 2012 (PLN 309,186 thousand in 2011) and comprised mainly costs of sale of products and services, which were mainly related to costs of development activities conducted by the Qualia Development Group (PLN 104,941 thousand, i.e. 46% of the balance of the costs of sale of products and services in 2012 and PLN 73,370 thousand, i.e. 43% respectively of the balance in 2011) and activities of Centrum Elektronicznych Usług Płatniczych eService (PLN 120,066 thousand, i.e. 54% of the balance of the costs of sale of products and services in 2012 and PLN 98,173 thousand, i.e. 57% of the balance in 2011).

- Gross profitability (calculated as profit before income tax to total income) amounted to 26.0% in the audited year and it dropped by 2.6 pp. compared with the prior year.

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

- Income tax expense in 2012 amounted to PLN 897,818 thousand (PLN 976,115 thousand in 2011). The effective tax rate amounted to 19.3% in 2012 and was 1.1 pp. lower than in 2011.

- As a result, in 2012 the Group generated a net profit of PLN 3,748,621 thousand which was PLN 57,302 thousand (i.e. by 2%) lower than the net profit for 2011. Net profitability (calculated as net profit to total income) amounted to 21.0% in 2012 (22.8% in 2011).

- The return on assets (calculated as net profit to average total assets) amounted to 2.0% in 2012 and dropped by 0.1 pp. compared with 2011. In the audited year, the return on equity amounted to 15.8% and was 1.5 pp. higher than in 2011.

The consolidated financial statements have been prepared on the going concern basis.

IV. Discussion of consolidated financial statements components

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2012

ASSETS	Note	31.12.2012 PLN'000	31.12.2011 PLN'000	Change PLN'000	Change (%)	31.12.2012 Structure (%)	31.12.2011 Structure (%)
Cash and balances with the central bank	1.	10,289,451	9,142,168	1,147,283	13	5	5
Amounts due from banks	2.	3,392,486	2,396,227	996,259	42	2	1
Trading assets	3.	277,566	1,311,089	(1,033,523)	(79)	-	1
Derivative financial instruments	4.	3,860,561	3,064,733	795,828	26	2	2
Financial assets designated upon initial recognition at fair value through profit and loss	5.	12,629,711	12,467,201	162,510	1	7	7
Loans and advances to customers	6.	143,875,644	141,634,494	2,241,150	2	74	74
Investment securities available for sale	7.	12,205,130	14,393,276	(2,188,146)	(15)	6	8
Securities held to maturity		46,971	-	46,971	100	-	-
Investments in associates and jointly controlled entities	8.	119,211	123,119	(3,908)	(3)	-	-
Non-current assets held for sale		20,410	20,410	-	-	-	-
Inventories	9.	553,534	566,846	(13,312)	(2)	-	-
Intangible assets	10.	1,934,000	1,800,008	133,992	7	1	1
Tangible fixed assets	11.	2,650,597	2,541,317	109,280	4	2	1
Current income tax receivables	28.	5,713	5,957	(244)	(4)	-	-
Deferred income tax asset	28.	564,514	543,922	20,592	4	-	-
Other assets	12.	1,054,129	737,270	316,859	43	1	-
Total assets		**193,479,628**	**190,748,037**	**2,731,591**	**1**	**100**	**100**

IV. Discussion of consolidated financial statements components (cont.)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2012 (cont.)

LIABILITIES AND EQUITY	Note	31.12.2012 PLN'000	31.12.2011 PLN'000	Change PLN'000	Change (%)	31.12.2012 Structure (%)	31.12.2011 Structure (%)
Amounts due to the central bank		3,128	3,454	(326)	(9)	-	-
Amounts due to banks	13.	3,733,947	6,239,164	(2,505,217)	(40)	2	4
Derivative financial instruments	4.	3,964,098	2,645,281	1,318,817	50	2	1
Amounts due to customers	14.	146,193,570	146,473,897	(280,327)	-	76	77
Debt securities in issue	15.	10,270,783	7,771,779	2,499,004	32	5	4
Subordinated liabilities	16.	1,631,256	1,614,377	16,879	1	1	1
Other liabilities	17.	2,057,707	2,450,763	(393,056)	(16)	1	1
Current income tax liabilities		155,580	78,810	76,770	97	-	-
Deferred income tax liability		41,300	29,364	11,936	41	-	-
Provisions	18.	720,609	619,164	101,445	16	-	-
Total liabilities		**168,771,978**	**167,926,053**	**845,925**	**1**	**87**	**88**
Share capital		1,250,000	1,250,000	-	-	1	1
Other capital		19,933,012	17,881,264	2,051,748	11	10	9
Currency translation differences from foreign operations		(120,305)	(92,023)	(28,282)	31	-	-
Unappropriated profits		(103,340)	(23,162)	(80,178)	346	-	-
Net profit for the year		3,748,621	3,807,195	(58,574)	(2)	2	2
Capital and reserves attributable to equity holders of the parent company	19.	**24,707,988**	**22,823,274**	**1,884,714**	**8**	**13**	**12**
Non-controlling interests		(338)	(1,290)	952	(74)	-	-
Total equity		**24,707,650**	**22,821,984**	**1,885,666**	8	**13**	**12**
Total liabilities and equity		**193,479,628**	**190,748,037**	**2,731,591**	**1**	**100**	**100**

IV. Discussion of consolidated financial statements components (cont.)

CONSOLIDATED INCOME STATEMENT
for the financial year ended 31 December 2012

	Note	2012 PLN'000	2011 PLN'000	Change PLN'000	Change (%)	2012 Structure (%)	2011 Structure (%)
Interest and similar income		12,991,737	12,037,762	953,975	8	73	72
Interest expense and similar charges		(5,108,951)	(4,428,646)	(680,305)	15	39	37
Net interest income	21.	**7,882,786**	**7,609,116**	**273,670**	**4**		
Fee and commission income		3,837,303	3,837,165	138	-	21	23
Fee and commission expense		(766,101)	(735,721)	(30,380)	4	6	6
Net fee and commission income	22.	**3,071,202**	**3,101,444**	**(30,242)**	**(1)**		
Dividend income		8,081	6,800	1,281	19	-	-
Net income from financial instruments designated at fair value		94,188	(75,056)	169,244	(225)	1	1
Gains less losses from investment securities		79,813	20,179	59,634	296	1	-
Net foreign exchange gains	23.	256,137	337,296	(81,159)	(24)	1	2
Other operating income	24.	563,369	451,723	111,646	25	3	3
Other operating expense	25.	(385,715)	(309,186)	(76,529)	25	3	3
Net impairment allowance and write-downs	26.	(2,325,228)	(1,930,447)	(394,781)	20	18	16
Administrative expenses	27.	(4,618,397)	(4,411,357)	(207,040)	5	35	37
Operating profit		**4,626,236**	**4,800,512**	**(174,276)**	**(4)**		
Share of profits and losses of associates and jointly controlled entities		19,025	(19,652)	38,677	(197)	-	-
Profit before income tax		**4,645,261**	**4,780,860**	**(135,599)**	**(3)**		

IV. Discussion of consolidated financial statements components (cont.)

CONSOLIDATED INCOME STATEMENT
for the financial year ended 31 December 2012 (cont.)

	Note	2012 PLN'000	2011 PLN'000	Change PLN'000	Change (%)	2012 Structure (%)	2011 Structure (%)
Profit before income tax		**4,645,261**	**4,780,860**	**(135,599)**	**(3)**		
Income tax expense	28.	(897,818)	(976,115)	78,297	(8)		
Net profit		**3,747,443**	**3,804,745**	**(57,302)**	**(2)**		
including:							
Net profit attributable to the parent company		3,748,621	3,807,195	(58,574)	(2)		
Profits (loss) attributable to non-controlling shareholders		(1,178)	(2,450)	1,272	(52)		
Total income		17,849,653	16,690,925	1,158,728	7	**100**	**100**
Total expense		(13,204,392)	(11,910,065)	(1,294,327)	11	**100**	**100**
Profit before income tax		**4,645,261**	**4,780,860**	**(135,599)**	**(3)**		

IV. Discussion of consolidated financial statements components (cont.)

Selected ratios characterizing the Group's financial position and results

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

	2012	2011
Profitability ratios		
Gross profitability (profit before income tax/total income)	26.0%	28.6%
Net profitability (net profit / total income)	21.0%	22.8%
Return on equity (net profit /average net assets) (2)	15.8%	17.2%
Return on assets (net profit /average total assets) (2)	2.0%	2.1%
Profitability ratio on interest-bearing assets (interest income / average interest-bearing assets) (2)	7.2%	7.1%
Cost to income ratio (administrative expenses / profit on banking activities (3)	39.9%	39.6%
Cost of borrowings (interest expense / average interest-bearing liabilities) (2)	3.2%	2.9%
Asset quality ratios		
Interest-bearing assets to total assets (4)	93.0%	93.9%
Impaired loans to total gross loans and advances to customers	8.9%	8.0%
Coverage with impairment allowances of impaired loans and advances to customers	45.8%	42.3%
Cost of risk (5)	1.4%	1.3%
Liquidity ratios		
Liquidity up to 1 month (6)	17,243,750	19,393,513
Liquidity up to 3 months (6)	17,268,874	17,793,708
Loans to deposits	98.4	96.7
Other ratios		
Capital adequacy ratio	13.07%	12.37%
Regulatory equity (PLN'000)	20,490,992	18,342,916
Total capital requirement (PLN'000)	12,541,155	11,864,692

(1) The values of the individual ratios may differ from those presented in the consolidated financial statements due to a different calculation method.
(2) The average balances of balance sheet items were calculated based on the balances of individual items at the beginning and end of the current and prior financial year.
(3) The profit on banking activities defined as operating profit less administrative expenses and net impairment allowances.
(4) Interest-bearing assets are defined as balances with the central bank (excluding cash), amounts due from banks and customers, investment securities, securities designated at fair value through profit and loss and held for trading.
(5) The cost of risk is calculated by dividing net impairment allowances on loans and advances to customers for the year by the average balance of gross loans and advances to customers.
(6) Liquidity ratios are defined as the ratio of assets receivable to liabilities payable at real term maturities as at the balance date.

IV. Discussion of consolidated financial statements components (cont.)

Consolidated statement of financial position as at 31 December 2012

1. Cash and balances with the central bank

As at 31 December 2012, "Cash and balances with the central bank" amounted to PLN 10,289,451 thousand (PLN 9,142,168 thousand as at the end of 2011), of which 99% (PLN 10,229,230 thousand) related to the Bank. Nearly three quarters of the total balance (PLN 7,550,898 thousand) was represented by cash maintained by the Bank in an account with the National Bank of Poland (PLN 6,845,759 thousand as at 31 December 2011).

At the balance date, the Bank calculated and maintained the mandatory reserve in accordance with Resolution No. 15/2004 of the Management Board of the National Bank of Poland dated 13 April 2004 on the principles and method of calculation and maintenance of the mandatory reserve by banks. The declared mandatory reserve to be maintained with the NBP as at 31 December 2012 amounted to PLN 4,999,918 thousand (PLN 4,975,268 thousand as at 31 December 2011).

2. Amounts due from banks

As at the balance date, the balance of amounts due from banks was PLN 3,392,486 thousand, of which PLN 3,111,227 thousand (i.e. 92%) related to the Bank (PLN 2,189,913 thousand, i.e. 91% as at 31 December 2011). The balance of amounts due from banks as at the respective balance dates and the movements therein are presented in the table below:

	31.12.2012 PLN'000	31.12.2011 PLN'000	Change PLN'000	Change (%)
Deposits with banks	2,369,774	1,912,647	457,127	24
Current accounts	861,331	405,724	455,607	112
Receivables due to repurchase agreements	149,284	-	149,284	100
Receivables from unsettled transactions	29,373	32,385	(3,012)	(9)
Loans and advances granted	8,777	76,483	(67,706)	(89)
Cash in transit	3,329	1,800	1,529	85
Total	**3,421,868**	**2,429,039**	**992,829**	**41**
Impairment allowances on receivables	(29,382)	(32,812)	3,430	(10)
Total, net	**3,392,486**	**2,396,227**	**996,259**	**42**

Compared with the balance as at 31 December 2011, the increase in amounts due from banks (of PLN 996,259 thousand, i.e. 42%) was mainly due to the increase in the balance of current accounts and deposits with banks of PLN 912,734 thousand (i.e. 39%).

IV. Discussion of consolidated financial statements components (cont.)

2. Amounts due from banks (cont.)

As at the balance date, amounts due denominated in foreign currencies represented an equivalent of PLN 2,804,824 thousand, i.e. 82% of the gross balance (PLN 2,062,246 thousand, i.e. 85% of the gross balance as at 31 December 2011).

The impairment allowance on receivables of PLN 29,382 thousand (PLN 32,812 thousand as at 31 December 2011) was mainly related to amounts due from a foreign bank in respect of transactions in derivatives not yet settled but declared due, in the amount of PLN 29,373 thousand (PLN 32,385 thousand as at 31 December 2011).

3. Trading assets

As at 31 December 2012, "Trading assets" amounted to PLN 277,566 thousand and comprised solely the Bank's balance. The balance comprised the following assets:

	31.12.2012	31.12.2011	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Treasury bonds (PLN)	216,521	1,219,069	(1,002,548)	(82)
Other	61,045	42,618	18,427	43
Treasury bills	-	49,402	(49,402)	(100)
Total	**277,566**	**1,311,089**	**(1,033,523)**	**(79)**

The decrease in the valuation of trading assets of PLN 1,033,523 thousand (i.e. 79%) as at the balance date was due to a decrease in the Bank's exposure in Polish Treasury bonds (down PLN 1,002,548 thousand, i.e. 82%), in Treasury bills (down PLN 49,402 thousand, none in the portfolio as at 31 December 2012). The said decrease was partly offset by an increase in the valuation of other securities (an increase of PLN 18,427 thousand, i.e. 43%). The portfolio of trading assets was subject to significant fluctuations as at the end of the individual months of the audited period, reaching the highest balance as at the end of August 2012 (PLN 2,750,193 thousand).

As at 31 December 2012, Polish Treasury bonds represented 78% of the balance of all trading assets.

IV. Discussion of consolidated financial statements components (cont.)

4. Derivative financial instruments

The balance of receivables in respect of the positive valuation of derivatives increased by PLN 795,828 thousand (i.e. by 26%) compared with the end of 2011 and amounted to PLN 3,860,561 thousand as at 31 December 2012. The liabilities in respect of the negative valuation of derivatives amounted to PLN 3,964,098 thousand and increased by PLN 1,318,817 thousand (i.e. by 50%) compared with the end of 2011. The Bank's share in both balances was nearly 100% and comprised the following transactions:

	31.12.2012 Assets PLN'000	31.12.2012 Liabilities PLN'000	31.12.2011 Assets PLN'000	31.12.2011 Liabilities PLN'000
Interest rate swaps	3,654,081	3,632,480	2,399,066	2,378,165
- including CIRS:	*357,675*	*370,043*	*419,640*	*421,039*
Currency forwards	143,009	268,280	557,624	195,991
Options	63,301	61,932	106,492	70,112
Other	170	1,406	1,551	1,013
Total	**3,860,561**	**3,964,098**	**3,064,733**	**2,645,281**

The changes in the above-mentioned balances as at 31 December 2012 compared with the balances as at 31 December 2011 are presented in the table below:

	Change Assets PLN'000	Change Assets %	Change Liabilities PLN'000	Change Liabilities %
Interest rate swaps	1,255,015	52	1,254,315	53
- including CIRS	*(61,965)*	*(15)*	*(50,996)*	*(12)*
Currency forwards	(414,615)	(74)	72,289	37
Options	(43,191)	(41)	(8,180)	(12)
Other	(1,381)	(89)	393	39
Total	**795,828**	**26**	**1,318,817**	**50**

In 2012, there was an increase in both the positive and negative valuation of derivatives. The most significant change related to an increase in the positive and negative valuation of interest rate swap transactions (an increase in the positive valuation of PLN 1,280,489 thousand, i.e. 66% and in the negative valuation of PLN 1,258,583 thousand, i.e. 65% compared with the balances as at 31 December 2011) and was partly offset on the assets side by a decrease in the valuation of currency forwards, mainly currency swaps, of PLN 328,512 thousand, i.e. 75%).

IV. Discussion of consolidated financial statements components (cont.)

4. Derivative financial instruments (cont.)

Since 2009, the Group has applied hedge accounting (a macro cash flow hedge) in accordance with IAS 39 F6.2 – F6.3. In 2012, the Group did not establish any new hedging relationships and used the hedging relationships created in the previous years:

- a hedge of the cash flow volatility on mortgage loans denominated in CHF and negotiated deposits in PLN, as a result of the interest rate risk and the exchange risk, using CIRS transactions – due to the strategy being pursued in 2012, a net amount of PLN (350,414) thousand was recognized in the statement of comprehensive income;
- a hedge of the cash flow volatility on floating interest rate loans in EUR, as a result of the interest rate risk, using IRS transactions – due to the strategy being pursued in 2012, a net amount of PLN 27,024 thousand was recognized in the statement of comprehensive income;
- a hedge of the cash flow volatility on floating interest rate loans in PLN, as a result of the interest rate risk, using IRS transactions – due to the strategy being pursued in 2012, a net amount of PLN 15,609 thousand was recognized in the statement of comprehensive income;
- a hedge of the cash flow volatility on floating interest rate loans in CHF, as a result of the interest rate risk, using IRS transactions – due to the strategy being pursued in 2012, a net amount of PLN (2,505) thousand was recognized in the statement of comprehensive income.

In total, as a result of the application of hedge accounting, the Group recognized PLN (310,286) thousand net of deferred income tax (PLN 144,261 thousand net of deferred income tax in 2011) in the statement of comprehensive income. At the same time, the Group recognized the ineffective portion of cash flow hedges of PLN 7,938 thousand in the income statement (PLN (64,342) thousand in 2011).

The amount of PLN (1,296,830) thousand was taken to the income statement from comprehensive income (PLN 1,112.235 thousand in 2011).

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

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

IV. Discussion of consolidated financial statements components (cont.)

4. Derivative financial instruments (cont.)

As at the balance date, the net valuation of derivative transactions designated for hedge accounting as part of two hedging relationships applied by the Group based on these instruments amounted to PLN 273,757 thousand:

	Assets 31.12.2012 PLN'000	**Liabilities 31.12.2012 PLN'000**	**Net 31.12.2012 PLN'000**
Fair value measurement, including:	**24,566**	**(56,038)**	**(31,472)**
- measurement until the date of introduction of hedge accounting (net income/loss from financial instruments measured at fair value)	68,100	(82,315)	(14,215)
- measurement from the date of introducing hedge accounting (revaluation reserve)	(43,534)	26,277	(17,257)
Foreign exchange differences on revaluation of the nominal amount (net foreign exchange gains/losses)	298,714	(185,049)	113,665
Interest accrued (net interest income)	174,850	16,714	191,564
Total	**498,130**	**(224,373)**	**273,757**

As at 31 December 2011, the net valuation of derivative transactions designated for hedge accounting amounted to PLN 174,327 thousand:

	Assets 31.12.2011 PLN'000	**Liabilities 31.12.2011 PLN'000**	**Net 31.12.2011 PLN'000**
Fair value measurement, including:	**313,182**	**67,845**	**381,027**
- measurement until the date of introducing hedge accounting (net income/loss from financial instruments measured at fair value)	111,117	(100,373)	10,744
- measurement from the date of introducing hedge accounting (revaluation reserve)	202,065	168,218	370,283
Foreign exchange differences on the revaluation of the nominal amount (net foreign exchange gains/losses)	74,732	(453,863)	(379,131)
Interest accrued (net interest income)	129,011	43,420	172,431
Total	**516,925**	**(342,598)**	**174,327**

IV. Discussion of consolidated financial statements components (cont.)

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

The balance of "Financial assets designated upon initial recognition at fair value through profit and loss" increased by PLN 162,510 thousand, i.e. 1%) compared with the end of 2011. As at 31 December 2012, it amounted to PLN 12,629,711 thousand, and as in the previous year, comprised almost solely the Bank's balance. The portfolio comprised the following categories of securities:

	31.12.2012 PLN'000	31.12.2011 PLN'000	Change PLN'000	Change (%)
NBP bills	9,995,300	8,593,791	1,401,509	16
Polish Treasury bonds (PLN)	1,322,226	1,318,278	3,948	-
Polish Treasury bills	1,040,863	2,180,148	(1,139,285)	(52)
Polish Municipal bonds (EUR)	145,343	143,973	1,370	-
Polish Municipal bonds (PLN)	111,185	108,922	2,263	2
Ukrainian Treasury bonds (UAH)	14,794	-	14,794	100
Polish Treasury bonds (EUR)	-	122,089	(122,089)	(100)
Total	**12,629,711**	**12,467,201**	**162,510**	**1**

The increase in the balance of financial assets designated upon initial recognition at fair value through profit and loss resulted mainly from a change in the Group's exposure in short-term securities – compared with the end of 2011 the balance of NBP bills increased by PLN 1,401,509 thousand (i.e. 16%) and was offset by a fall in the Group's exposure in Treasury bills (a decrease of PLN 1,139,285 thousand, i.e. 52%) and Treasury bonds denominated in EUR (a decrease of PLN 122,089 thousand, there were none in the portfolio as at 31 December 2012).

As at 31 December 2012, the portfolio of financial instruments designated at fair value through profit and loss comprised assets constituting hedges of liabilities in respect of sell-buy-back transactions (their carrying amount as at 31 December 2012 was PLN 850,232 thousand, there were none as at 31 December 2011).

All of the financial assets designated upon initial recognition at fair value through profit and loss were issued by Polish entities and the Ukrainian State Treasury. As at the balance date, instruments quoted on organized stock exchanges represented 10% of the balance (11% as at the end of 2011).

6. Loans and advances to customers

The portfolio of loans and advances to customers, measured by reference to the gross value of loans granted, increased in 2012 by PLN 3,359,172 thousand (i.e. 2%) compared with the balance as at 31 December 2011 and amounted to PLN 150,651,909 thousand.

IV. Discussion of consolidated financial statements components (cont.)

6. Loans and advances to customers (cont.)

This increase was mainly due to the reclassification, in September and December 2012, of debt securities from the portfolio of investment securities available for sale in the amount of PLN 2,073,951 thousand (there were no corporate or municipal bonds in the portfolio of loans and advances as at the end of 2011) to the portfolio of loans and advances to customers, in accordance with IAS 39.50E.

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

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

As at the balance date, the loan portfolio comprised:

	31.12.2012 PLN'000	31.12.2011 PLN'000	Change PLN'000	Change (%)
Financial sector (excluding banks)	**746,320**	**1,252,368**	**(506,048)**	**(40)**
corporate loans	746,320	1,252,368	(506,048)	(40)
Non-financial sector	**142,218,959**	**140,973,940**	**1,245,019**	**1**
mortgage loans	72,279,131	71,156,253	1,122,878	2
corporate loans	47,021,975	45,480,936	1,541,039	3
consumer loans	22,014,785	24,336,751	(2,321,966)	(10)
debt securities	903,068	-	903,068	100
Public sector	**7,686,630**	**5,066,429**	**2,620,201**	**52**
corporate loans	6,511,591	5,066,429	1,445,162	29
debt securities	1,175,039	-	1,175,039	100
Total loans and advances, gross	**150,651,909**	**147,292,737**	**3,359,172**	**2**
Impairment allowance	(6,776,265)	(5,658,243)	(1,118,022)	20
Total loans and advances, net	**143,875,644**	**141,634,494**	**2,241,150**	**2**

As at the balance date, loans and advances to customers, net, amounted to PLN 143,875,644 thousand, of which PLN 139,155,752 thousand, i.e. 97%) related to the Bank (PLN 137,548,973 thousand, i.e. 97% as at 31 December 2011). The remaining 3% comprised, among other things, lease receivables of the Bankowy Fundusz Leasingowy SA Group of PLN 3,450,235 thousand (PLN 2,886,287 thousand as at 31 December 2011) and loans and advances granted by Kredobank SA of PLN 850,920 thousand (PLN 775,708 thousand as at 31 December 2011).

As at 31 December 2012, 21% (i.e. PLN 31,712,613 thousand) out of the balance of loans and advances was related to loans and advances granted in foreign currencies (of which 68% was denominated in the Swiss franc). As at 31 December 2011, amounts due in foreign currencies represented 24% of the balance i.e. PLN 35,679,608 thousand (of which 69% related to the Swiss franc).

IV. Discussion of consolidated financial statements components (cont.)

6. Loans and advances to customers (cont.)

b) Structure of the Group's loan portfolio in terms of quality

	31.12.2012 PLN'000	31.12.2011 PLN'000	31.12.2012 Structure %	31.12.2011 Structure %
Impaired loans and advances	13,179,203	11,547,179	8.7	7.8
Not impaired loans and advances, gross	133,900,327	132,749,417	88.9	90.1
Impaired lease receivables	266,606	250,053	0.2	0.2
Not impaired lease receivables, gross	3,305,773	2,746,088	2.2	1.9
Total loans and advances, gross	**150,651,909**	**147,292,737**	**100.0**	**100.0**
Allowances on impaired loans and advances	(6,055,342)	(4,893,392)	89.4	86.5
Allowances on incurred but not reported losses (IBNR) on loans and advances	(598,779)	(656,478)	8.8	11.6
Allowances on impaired lease receivables	(108,688)	(96,271)	1.6	1.7
Allowances on incurred but not reported losses (IBNR) on lease receivables	(13,456)	(12,102)	0.2	0.2
Total impairment allowances on loans and advances	**(6,776,265)**	**(5,658,243)**	**100.0**	**100.0**
Total loans and advances, net	**143,875,644**	**141,634,494**		

As at the end of 2012, the share of impaired loans in the total loan portfolio decreased compared with the end of 2011 and amounted to 8.7%. At the same time, the coverage ratio of impairment allowances to impaired loans and advances increased and amounted to 45.9% (42.4% as at 31 December 2011).

The total gross carrying amount of the sold impaired loans was PLN 981,400 thousand (the net amount was PLN 272,969 thousand).

The share of allowances on incurred but not reported losses (IBNR) in the total allowances was lower than in the prior year – as at the balance date, the allowance amounted to PLN 612,235 thousand (9.0% of the total allowances), whereas in the prior year it amounted to PLN 668,580 thousand (11.8% of the total allowances).

IV. Discussion of consolidated financial statements components (cont.)

6. Loans and advances to customers (cont.)

b) Structure of the Group's loan portfolio in terms of quality (cont.)

The reconciliation of the change in the balance of impairment allowances for loans and advances to customers in the balance sheet and the net impairment allowances as at 31 December 2012 is presented below (in PLN'000):

	consumer loans	mortgage loans	corporate loans*	Total
Impairment allowances for loans and advances to customers in the statement of financial position as at 31 December 2012	(1,463,843)	(1,323,830)	(2,870,570)	**(5,658,243)**
Net impairment allowances on loans and advances recognised	(568,828)	(460,003)	(1,109,666)	**(2,138,497)**
Other changes	(10,702)	41,446	55,407	**86,151**
Decrease in impairment allowances due to the derecognition of assets, not affecting the income statement	611,684	27,689	294,951	**934,324**
Impairment allowances on loans and advances to customers in the statement of financial position as at 31 December 2012	**(1,431,689)**	**(1,714,698)**	**(3,629,878)**	**(6,776,265)**

**including debt securities and lease receivables*

"Other changes" comprised mainly foreign exchange differences related to impairment allowances for amounts due in foreign currencies.

IV. Discussion of consolidated financial statements components (cont.)

7. Investment securities available for sale

As at 31 December 2012, the balance of “Investment securities available for sale” amounted to PLN 12,205,130 thousand, of which PLN 11,906,465 thousand (i.e. 98%) related to the Bank (PLN 14,016,676 thousand, i.e. 97% as at 31 December 2011). The breakdown of the balance as at the balance date is provided in the table below:

	31.12.2012 PLN’000	31.12.2011 PLN’000	Change PLN’000	Change (%)
Debt securities available for sale, gross				
issued by the State Treasury	7,902,479	8,679,028	(776,549)	(9)
issued by local government bodies	2,780,212	3,458,356	(678,144)	(20)
issued by non-financial institutions	1,315,490	2,137,215	(821,725)	(38)
issued by banks	50,892	50,870	22	-
Impairment on debt securities available-for-sale	(5,536)	(17,944)	12,408	(69)
Total debt securities available for sale, net	**12,043,537**	**14,307,525**	**(2,263,988)**	**(16)**
Equity securities available for sale, gross	179,300	88,370	90,930	103
Impairment on equity securities available-for-sale	(17,707)	(2,619)	(15,088)	576
Total equity securities available for sale, net	**161,593**	**85,751**	**75,842**	**88**
Total, net	**12,205,130**	**14,393,276**	**(2,188,146)**	**(15)**

The change in the balance as at the balance date was mainly due to a decrease in the Group’s exposure in securities issued by the Polish State Treasury (a decrease of PLN 776,549 thousand, i.e. 9%) and a decrease in corporate bonds in PLN and UAH and bills of exchange (of PLN 821,725 thousand, i.e. 38%) and municipal bonds (a decrease of PLN 678,144 thousand, i.e. 20%). A change in the balance as at the balance date resulted mainly from the reclassification of corporate and municipal bonds of PLN 2,078,107 thousand to the portfolio of loans and advances to customers.

The said decrease was partly offset by an increase in the Group's exposure in equity securities available for sale (an increase of PLN 90,930 thousand, i.e. 103% compared with the balance as at 31 December 2011), which was mainly related to the Group’s increased exposure in the Marguerite Fund.

IV. Discussion of consolidated financial statements components (cont.)

7. Investment securities available for sale (cont.)

The impairment allowance on debt securities of PLN 5,536 thousand comprised an allowance recorded in connection with impairment of corporate debt securities. The impairment allowance on equity securities of PLN 17,707 thousand (PLN 2,619 thousand as at 31 December 2011) comprised mainly an allowance recorded in connection with equity securities not admitted for trading.

8. Investments in associates and jointly controlled entities

As at 31 December 2012, the balance of investments in associates and jointly controlled entities amounted to PLN 119,211 thousand and it decreased by PLN 3,908 thousand, i.e. 3% compared with the end of 2011.

	31.12.2012 PLN'000	31.12.2011 PLN'000	Change PLN'000	Change (%)
Jointly controlled entities	**22,594**	**15,972**	**6,622**	**41**
Centrum Haffnera Sp. z o.o. Group	16,481	10,665	5,816	55
Centrum Obsługi Biznesu Sp. z o.o.	6,113	5,307	806	15
Associates	**209,843**	**196,100**	**13,743**	**7**
Bank Pocztowy S.A.	203,928	190,698	13,230	7
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	5,472	4,975	497	10
Agencja Inwestycyjna Corp SA	443	427	16	4
Investments in associates and jointly controlled entities, gross	**232,437**	**212,072**	**20,365**	**10**
Impairment allowances	(113,226)	(88,953)	(24,273)	27
Investments in associates and jointly controlled entities, net	**119,211**	**123,119**	**(3,908)**	**(3)**

The decrease in net investments in jointly controlled entities and associates was mainly due to recording an impairment allowance on shares in Bank Pocztowy SA of PLN 13,230 thousand and an impairment allowance on shares in Centrum Obsługi Biznesu Sp. z o.o. of PLN 10,546 thousand, which was partly offset by an increase in the valuation of these entities of PLN 13,230 thousand and PLN 5,816 thousand respectively.

IV. Discussion of consolidated financial statements components (cont.)

9. Inventories

Inventories as at the balance date amounted to PLN 553,534 thousand, of which PLN 414,970 thousand, i.e. 75% was related to the Qualia Development Group (PLN 440,429 thousand, i.e. 78% as at 31 December 2011). The balance comprised:

	31.12.2012 PLN'000	31.12.2011 PLN'000	Change PLN'000	Change (%)
Construction investments for sale	317,593	216,851	100,742	46
Work in progress	154,056	271,709	(117,653)	(43)
Supplies	104,739	102,412	2,327	2
Materials	8,650	8,962	(312)	(3)
Impairment allowances on inventories	(31,504)	(33,088)	1,584	(5)
Total	**553,534**	**566,846**	**(13,312)**	**(2)**

The largest part of the remaining balance comprised assets of the Bankowy Fundusz Leasingowy SA Group of PLN 84,554 thousand (i.e. 15%) related to fixed assets waiting to be leased and previously leased assets currently recovered – shown in the balance of supplies.

Impairment allowances of PLN 31,504 thousand as at 31 December 2012 related mainly to impairment allowances on previously leased assets currently recovered in the Bankowy Fundusz Leasingowy SA Group of PLN 5,896 thousand (PLN 7,480 thousand as at 31 December 2011) and allowances in the Qualia Development Group of PLN 25,608 thousand (no change compared with the balance as at 31 December 2011), mainly due to impairment of land and capitalized capital expenditure.

IV. Discussion of consolidated financial statements components (cont.)

10. Intangible assets

As at the balance date, intangible assets amounted to PLN 1,934,000 thousand, of which PLN 1,649,082 thousand, i.e. 85%) related to the Bank (PLN 1,508,310 thousand, i.e. 84% as at 31 December 2011). An analytical breakdown of the balance is presented in the table below.

	31.12.2012 PLN'000	31.12.2011 PLN'000	Change PLN'000	Change (%)
Computer software	2,805,760	2,859,020	(53,260)	(2)
Goodwill recognised on business combination	346,993	344,865	2,128	1
PKO Towarzystwo Funduszy Inwestycyjnych SA	149,564	149,564	-	-
KREDOBANK SA	79,762	79,762	-	-
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	51,158	51,158	-	-
Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp.k.	49,412	49,412	-	-
Centrum Finansowe Puławska Sp. z o.o.	7,785	7,785	-	-
Sarnia Dolina Sp. z o.o.	7,014	7,014	-	-
"Inter-Risk Ukraina" ALC	1,839	-	1,839	-
Finansowa Kompania "Idea Kapitał" Sp. z o.o.	289	-	289	-
Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o.	170	170	-	-
Other intangible assets (including capitalized expenditures)	373,266	228,444	144,822	63
Total gross	**3,526,019**	**3,432,329**	**93,690**	**3**
Accumulated amortization	(1,449,706)	(1,497,026)	47,320	(3)
Impairment allowance	(142,313)	(135,295)	(7,018)	5
Total, net	**1,934,000**	**1,800,008**	**133,992**	**7**

The impairment allowance of PLN 142,313 thousand as at the balance date comprised mainly an allowance on goodwill recognised on business combination: an impairment allowance on goodwill concerning KREDOBANK SA in the amount of PLN 79,762 thousand, an impairment allowance on goodwill concerning Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp.k. in the amount of PLN 35,481 thousand, an impairment allowance on goodwill concerning Sarnia Dolina Sp. z o.o. in the amount of PLN 7,014 thousand, an impairment allowance on goodwill concerning "Inter-Risk Ukraina" additional liability company in the amount of PLN 1,839 thousand, an impairment allowance on goodwill concerning Finansowa Kompania "Idea Kapitał" Sp. z o.o. in the amount of PLN 289 thousand and an impairment allowance on goodwill concerning Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o. in the amount of PLN 170 thousand.

IV. Discussion of consolidated financial statements components (cont.)

10. Intangible assets (cont.)

In accordance with the IAS36.10, as at the balance date the Group carried out an impairment test of goodwill, which did not show the need to record any allowances in this area as at the balance date.

The wear and tear of intangible assets, measured as the ratio of accumulated amortization to gross intangible assets subject to amortization was 52% as at the balance date (no change compared with 31 December 2011).

11. Tangible fixed assets

As at the balance date, the net book value of the balance of "Tangible fixed assets" was PLN 2,650,597 thousand and 89% of the balance related to the Bank (79% as at 31 December 2011). An analytical breakdown of the balance is presented in the table below.

	31.12.2012	**31.12.2011**	**Change**	**Change**
	PLN'000	**PLN'000**	**PLN'000**	**(%)**
Land and buildings	2,591,395	2,514,959	76,436	3
Machines and equipment	2,204,711	2,262,764	(58,053)	(3)
Means of transport	85,590	89,587	(3,997)	(4)
Investment properties	793	793	-	-
Other	480,999	437,268	43,731	10
Assets under construction	269,339	149,975	119,364	80
Tangible fixed assets, gross	**5,632,827**	**5,455,346**	**177,481**	**3**
Accumulated depreciation	(2,968,287)	(2,907,641)	(60,646)	2
Impairment allowances	(13,943)	(6,388)	(7,555)	118
Tangible fixed assets, net	**2,650,597**	**2,541,317**	**109,280**	**4**

As at the balance date, the gross value of tangible fixed assets increased slightly compared with the prior year by PLN 177,481 thousand (i.e. 3%). The increase in assets under construction of PLN 119,364 thousand (i.e. 80%), land and buildings of PLN 76,436 thousand (i.e. 3%) and other fixed assets of PLN 43,731 thousand (i.e. 10%) was offset by a decrease in the balance of machinery and equipment of PLN 58,053 thousand (i.e. 3%) and means of transport of PLN 3,997 thousand (i.e. 4%).

The balance of tangible fixed assets also included assets rented out under operating leases of PLN 15,797 thousand (PLN 24,715 thousand as at 31 December 2011).

The wear and tear of tangible fixed assets, excluding assets under construction, measured as the ratio of accumulated depreciation to gross value was 55% as at the balance date (no change compared with the ratio as at 31 December 2011).

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

IV. Discussion of consolidated financial statements components (cont.)

12. Other assets

In 2012, the balance of other assets increased by PLN 316,859 thousand (i.e. 43%) and amounted to PLN 1,054,129 thousand as at the balance date, of which the largest balance – PLN 759,871 thousand (i.e. 72%) related to the Bank and PLN 171,893 thousand (i.e. 16%) related to PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA (PLN 448,971 thousand, i.e. 61% and PLN 179,314 thousand, i.e. 24% respectively as at 31 December 2011). The balance comprised the following categories of assets:

	31.12.2012 PLN'000	31.12.2011 PLN'000	Change PLN'000	Change (%)
Settlements of payment cards transactions	426,893	161,552	265,341	164
Prepayments and deferred costs	223,414	209,379	14,035	7
Settlements of financial instruments	123,077	143,845	(20,768)	(14)
Trade receivables	106,851	87,995	18,856	21
Receivables from other transactions with financial, non-financial institutions	59,282	26,538	32,744	123
Receivables and settlements of securities turnover	25,453	1,730	23,723	1.371
Receivables from unsettled transactions related to derivatives	8,451	6,134	2,317	38
Receivables from the State budget due to distribution of court fee stamps by the Bank	8,412	3,350	5,062	151
Other	72,296	96,747	(24,451)	(25)
Total	**1,054,129**	**737,270**	**316,859**	**43**

As at the balance date, prepayments and deferred costs comprised mainly deferred acquisition costs of PLN 164,978 thousand (PLN 172,843 thousand as at 31 December 2011) incurred by PKO BP Bankowy Powszechne Towarzystwo Emerytalne SA in respect of fund membership agreements, which will result in the future in an inflow of income from the management fee or fee on contributions.

IV. Discussion of consolidated financial statements components (cont.)

13. Amounts due to banks

As at 31 December 2012, amounts due to banks amounted to PLN 3,733,947 thousand (PLN 6,239,164 thousand as at the end of 2011), of which 67% related to the Bank (85% as at 31 December 2011). Apart from the Bank, the Bankowy Fundusz Leasingowy SA Group also had material amounts due to banks constituting 33% of the total balance (14% as at 31 December 2011). The balance comprised the following items:

	31.12.2012 PLN'000	31.12.2011 PLN'000	Change PLN'000	Change (%)
Loans and advances received	2,542,361	4,360,878	(1,818,517)	(42)
Bank deposits	1,086,956	1,372,635	(285,679)	(21)
Current accounts	72,676	422,707	(350,031)	(83)
Other money market deposits	31,954	82,944	(50,990)	(61)
Total	**3,733,947**	**6,239,164**	**(2,505,217)**	**(40)**

The balance of loans and advances received related mainly to the Bank's liability in respect of the syndicated loan in Swiss francs of PLN 1,393,048 thousand (PLN 3,443,872 thousand as at 31 December 2011) granted to the Bank by a consortium of Polish and foreign banks in 2012 for three years and loans from banks received by the Bankowy Fundusz Leasingowy SA Group of PLN 1,149,313 thousand (PLN 899,536 thousand as at 31 December 2011).

The decrease in the balance of loans and advances received as at 31 December 2012 resulted mainly from the repayment of the loan granted to the Group in the amount of CHF 950,000 thousand by a consortium of Polish and foreign banks, which was partly replaced by drawing another consortium loan for a period of three years of CHF 410,000 thousand.

As at the balance date, 74% of amounts due to banks comprised amounts denominated in foreign currencies (no change compared with the balance as at 31 December 2011).

IV. Discussion of consolidated financial statements components (cont.)

14. Amounts due to customers

As at the balance date, amounts due to customers amounted to PLN 146,193,570 thousand, of which PLN 145,011,132 thousand, i.e. 99%) related to the Bank (PLN 145,283,767 thousand, i.e. 99% as at 31 December 2011).

	31.12.2012 PLN'000	31.12.2011 PLN'000	Change PLN'000	Change (%)
Amounts due to retail clients	**110,866,422**	**104,183,094**	**6,683,328**	**6**
term deposits	63,517,469	55,523,745	7,993,724	14
current accounts and overnight deposits	47,143,802	48,187,307	(1,043,505)	(2)
other money market deposits	205,151	472,042	(266,891)	(57)
Amounts due to corporate entities	**31,868,251**	**38,468,560**	**(6,600,309)**	**(17)**
term deposits	17,171,300	23,949,758	(6,778,458)	(28)
current accounts and overnight deposits	11,621,112	11,399,925	221,187	2
loans and advances received	1,557,653	1,988,013	(430,360)	(22)
amounts due from repurchase agreements	851,416	644,005	207,411	32
other money market deposits	666,770	486,859	179,911	37
Amounts due to state budget entities	**3,458,897**	**3,822,243**	**(363,346)**	**(10)**
current accounts and overnight deposits	2,870,735	2,241,333	629,402	28
term deposits	562,397	1,516,981	(954,584)	(63)
other money market deposits	25,765	63,929	(38,164)	**(60)**
Total	**146,193,570**	**146,473,897**	**(280,327)**	-

In 2012, the structure of amounts due to customers did not change significantly – the share of term deposits decreased by 1 pp. (56% as at 31 December 2012 compared with 55% as at the end of the prior year) and the share of current accounts and overnight deposits represented 42% of the total amounts due to customers (no change compared with the end of 2011).

The decrease in amounts due to customers of PLN 280,327 thousand resulted from a decrease in amounts due to corporate and state budget entities (a decrease of PLN 6,600,309 thousand, i.e. 17% and PLN 363,346 thousand, i.e. 10% respectively), which was offset by an increase in amounts due to retail clients (an increase of PLN 6,683,328 thousand, i.e. 6%).

As at the balance date, amounts due denominated in foreign currencies accounted for 8% of the balance (there were none as at 31 December 2011).

As at the balance date, the loans to deposits ratio amounted to 98.4% (96.7% as at 31 December 2011).

IV. Discussion of consolidated financial statements components (cont.)

15. Debt securities in issue

	31.12.2012 PLN'000	31.12.2011 PLN'000	Change PLN'000	Change (%)
Financial instruments measured at amortized cost	**9,902,161**	**7,596,164**	**2,305,997**	30
bonds issued by PKO Finance AB	*9,169,937*	*4,476,996*	*4,692,941*	*105*
bank bonds issued by PKO Bank Polski SA	*497,283*	*2,929,973*	*(2,432,690)*	*(83)*
bonds issued by BFL SA	*234,941*	*189,195*	*45,746*	*24*
Financial instruments designated at fair value through profit and loss – bank securities issued by PKO Bank Polski SA	368,622	175,615	193,007	110
Total	**10,270,783**	**7,771,779**	**2,499,004**	**32**

The balance related to PKO Finance AB (of PLN 9,169,937 thousand) resulted from issues of bonds to international markets of USD 1,000,000 thousand, CHF 500,000 thousand and EUR 50,000 thousand as at the balance date, including accrued interest, carried out on behalf of the Bank by PKO Finance AB. PKO Finance AB is a special purpose vehicle of the Parent covered by consolidation under the acquisition accounting method.

In 2012, under the Bond Issue Program (the issue limit was set at PLN 5 bn) the Bank issued three-month zero-coupon bonds denominated in PLN. As at 31 December 2012, the Bank had liabilities in respect of the bonds in the nominal amount of PLN 500,000 thousand, at a discount rate of 4.76%, issued in November 2012.

Moreover, in 2012, the Bank offered its customers structured bank securities based on the value of the S&P500 index, the NASDAQ100 index, a basket of shares of American companies, the price of copper and gold, and a basket of assets (oil, silver, and copper). As at 31 December 2012, the Bank's liability in respect of the securities issued amounted to PLN 368,622 thousand (PLN 175,615 thousand as at 31 December 2011). In accordance with IAS 39.11A (a) the Bank does not separate the embedded derivative from its host contract and measures the entire instrument at fair value through profit and loss.

In the case of the Bankowy Fundusz Leasingowy Group, the balance resulted from issued corporate bonds with the redemption date falling in 2013. The interest rate on the bonds is a variable-coupon rate.

IV. Discussion of consolidated financial statements components (cont.)

16. Subordinated liabilities

The balance of subordinated liabilities as at 31 December 2012 in the amount of PLN 1,631,256 thousand (PLN 1,614,377 thousand as at 31 December 2011), of which 100% related to the Bank, comprised 10-year bonds issued by the Bank in 2012 with a total nominal value of PLN 1,600,700 thousand and maturing on 14 September 2022 (with an option of early redemption in 2017).

In October 2012, the Bank performed a premature redemption of bonds with a total nominal value of PLN 1,600,700 thousand, which were issued by the Bank in 2007 (the call option was exercised).

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

17. Other liabilities

The balance of other liabilities as at the balance date was PLN 2,057,707 thousand, of which PLN 1,745,130 thousand (i.e. 85%) related to the Bank (PLN 2,145,743 thousand, i.e. 88% as at 31 December 2011). Apart from the Bank, the Bankowy Fundusz Leasingowy Group had a material share in the balance of other liabilities (PLN 151,826 thousand, i.e. 7% and PLN 122,301 thousand, i.e. 5% as at 31 December 2011) and the Qualia Development Group (PLN 50,321 thousand, i.e. 2% and PLN 68,318 thousand, i.e. 3% as at 31 December 2011).

IV. Discussion of consolidated financial statements components (cont.)

17. Other liabilities (cont.)

The balance comprised:

	31.12.2012 PLN'000	31.12.2011 PLN'000	Change PLN'000	Change (%)
Accounts payable	376,150	291,040	85,110	29
Deferred income	366,410	305,372	61,038	20
Other liabilities relating to:	**1,315,147**	**1,854,351**	**(539,204)**	**(29)**
interbank settlements	280,633	580,998	(300,365)	(52)
liabilities due to suppliers	219,711	195,740	23,971	12
liabilities relating to investing activities and internal operations	197,695	182,964	14,731	8
liabilities relating to settlements of security transactions	148,572	279,204	(130,632)	(47)
liabilities due to legal settlements	107,821	147,009	(39,188)	(27)
liabilities arising from foreign currency activities	81,306	140,546	(59,240)	(42)
liabilities relating to payment cards	78,353	27,981	50,372	180
financial instruments settlements	59,547	82,861	(23,314)	(28)
liabilities relating to interest on interest temporarily redeemed from the State budget	26,599	21,764	4,835	22
liabilities to insurance companies	19,554	24,821	(5,267)	(21)
settlement of acquisition of machinery and equipment, materials, works and services regarding construction and operation of tangible fixed assets	19,236	10,265	8,971	87
liabilities arising from transactions with financial and non-financial institutions	18,391	11,949	6,442	54
liabilities due to UOKiK (the Competition and Consumer Protection Office)	16,597	16,597	-	-
liabilities due to distribution of court fee stamps	11,816	12,626	(810)	(6)
Other	29,316	119,026	(89,710)	(75)
Total	**2,057,707**	**2,450,763**	**(393,056)**	**(16)**

As at the balance date, the largest components of the balance of other liabilities were: deferred income (over 18%) of PLN 376,150 thousand, accounts payable (almost 18%) of PLN 366,410 thousand and interbank settlements (14%) of PLN 280,633 thousand. The balance of interbank settlements dropped by PLN 300,365 thousand (i.e. by 52%) compared with 31 December 2011, and the balances of deferred income and accounts payable increased accordingly by PLN 85,110 thousand (i.e. by 29%) and by PLN 61,038 thousand (i.e. by 20%).

IV. Discussion of consolidated financial statements components (cont.)

17. Other liabilities (cont.)

The drop in the balance of other liabilities resulted mainly from a decrease in the balance of interbank settlements of PLN 300,365 thousand (i.e. 52%) due to a smaller balance of transfers awaiting settlement, ordered by customers after the end of the session, which will be completed on the following business day.

18. Provisions

As at the balance date, the balance of provisions was PLN 720,609 thousand, of which PLN 714,448 thousand (i.e. 99%) related to the Bank (PLN 615,489 thousand, i.e. 99% as at 31 December 2011). The balance of provisions as at 31 December 2012 comprised the following items:

	31.12.2012 PLN'000	31.12.2011 PLN'000	Change PLN'000	Change (%)
Provision for retirement benefits and anniversary bonuses	431,210	428,299	2,911	1
Provision for liabilities and guarantees granted	211,004	111,970	99,034	88
Provisions for legal claims	6,081	3,638	2,443	67
Other provisions	72,314	75,257	(2,943)	(4)
Total	**720,609**	**619,164**	**101,445**	**16**

The increase in the balance of provisions as at the end of 2012 was mainly due to an increase in the level of provisions for liabilities and guarantees granted of PLN 99,034 thousand (i.e. 88%), provision for retirement benefits and anniversary bonuses of PLN 2,911 thousand (i.e. 1%) and provisions for legal claims of PLN 2,443 thousand (i.e. 67%). The increase in provisions for liabilities and guarantees granted resulted mainly from the valuation of guarantees granted to corporate entities.

As at the balance date, the provision for retirement benefits and anniversary bonuses related mainly to the Bank (PLN 429,728 thousand as at the end of 2012 and PLN 426,973 thousand as at the end of 2011) and it was based on the calculation performed by an independent actuary and presented in a report prepared in February 2013. The report was prepared on the basis of the balances as at the balance date.

As at 31 December 2012, other provisions comprised mainly a restructuring provision of PLN 57,655 thousand (PLN 63,636 thousand as at 31 December 2011). The restructuring provision covers future liabilities in respect of compensation and severance pay to employees whose employment contracts will be terminated for reasons unrelated to the employees. In accordance with IAS 37.72, the Bank's employment restructuring plan is the basis for creating this provision.

IV. Discussion of consolidated financial statements components (cont.)

19. Equity

The balance of equity as at 31 December 2012 was PLN 24,707,650 thousand (PLN 22,821,984 thousand as at 31 December 2011). Changes in equity in the audited year are presented in the table below:

		As at 31.12.2011	***Gains recorded directly in other comprehensive income***	***Net profit for 2012***	***Transfer of unappropriated profits***	***Distribution of profit - earmarking to equity***	***Distribution of profit - earmarking for dividend***	***Other***	**As at 31.12.2012**
		PLN'000	***PLN'000***	***PLN'000***	***PLN'000***	***PLN'000***	***PLN'000***	***PLN'000***	***PLN'000***
	Share capital	1,250,000	-	-	-	-	-	-	1,250,000
	Other capital, of which:	17,881,264	(249,179)	-	-	2,388,406	-	(87,479)	19,933,012
Other capital	Reserve capital	13,041,390	-	-	-	2,322,284	-	1,054	15,364,728
	Other reserves	3,460,368	-	-	-	66,122	-	(88,533)	3,437,957
	General banking risk fund	1,070,000	-	-	-	-	-	-	1,070,000
	Share in other comprehensive income of an associate	(257)	1,587	-	-	-	-	-	1,330
	Financial assets available for sale	(52,422)	59,520	-	-	-	-	-	7,098
	Cash flow hedges	362,185	(310,286)	-	-	-	-	-	51,899
	Currency translation differences from foreign operations	(92,023)	(26,103)	-	-	-	-	(2,179)	(120,305)
	Unappropriated profits	(23,162)	-	-	3,807,195	(2,388,406)	(1,587,500)	88,533	(103,340)
	Net profit	3,807,195	-	3,748,621	(3,807,195)	-	-	-	3,748,621
	Total	**22,823,274**	**(275,282)**	**3,748,621**	**-**	**-**	**(1,587,500)**	**(1,125)**	**24,707,988**
	Non-controlling interests	(1,290)	111	(1,178)	-	-	-	2,019	(338)
	Total equity	**22,821,984**	**(275,171)**	**3,747,443**	**-**	**-**	**(1,587,500)**	**894**	**24,707,650**

IV. Discussion of consolidated financial statements components (cont.)

19. Equity (cont.)

As at 31 December 2012, the Bank's share capital amounted to PLN 1,250,000 thousand and consisted of 1,250,000,000 ordinary shares with a par value of PLN 1 each, including:
- 312,500,000 A-series registered shares;
- 197,500,000 A-series bearer shares;
- 105,000,000 B-series bearer shares;
- 385,000,000 C-series bearer shares;
- 250,000,000 D-series bearer shares.

On 6 June 2012, the General Meeting of Shareholders of Powszechna Kasa Oszczędności Bank Polski SA adopted a resolution on the appropriation of the profit for 2011 in the amount of PLN 3,953,622 thousand, earmarking PLN 2,300,000 thousand for increasing the reserve capital, PLN 66,122 thousand for increasing other reserves and PLN 1,587,500 thousand for paying a dividend.

On 15 May 2012, the General Meeting of Shareholders of Bankowy Leasing Sp. z o.o. passed a resolution on appropriation of profit for 2011 of PLN 8,574 thousand, and earmarked it for increasing reserve capital.

On 21 May 2012, the General Meeting of Shareholders of Centrum Elektronicznych Usług Płatniczych eService SA passed a resolution on appropriation of profit for 2011 of PLN 13,710 thousand, and earmarked it for increasing reserve capital.

As a result of the liquidation of a subsidiary Centrum Finansowe Puławska Sp. z o.o., on 1 March 2012 the Bank took over the liquidating assets of the company. By a decision dated 7 May 2012 issued by the District Court for the Capital City of Warsaw, 13th Business Department of the National Court Register, on 28 May 2012, the company was deleted from the National Court Register. The effect of the liquidation of the company was reflected in the Group's equity by transferring the balance of other reserves relating to the company of PLN 88,533 thousand to undistributed profits (which was recognized at the Bank as a result of the transaction). The transfer was performed in order to ensure comparability with the Bank's separate financial statements.

The Group's equity calculated in accordance with the Banking Laws Act and the Resolution 325/2011 of the Polish Financial Supervision Authority amounted to PLN 20,490,992 thousand as at the balance date (PLN 18,342,916 thousand as at 31 December 2011) and was PLN 7,949,837 thousand higher than the total capital requirement, which amounted to PLN 12,541,155 thousand as at the balance date (PLN 11,864,692 thousand as at 31 December 2011). The capital adequacy ratio calculated as at the balance date amounted to 13.07% (12.37% as at 31 December 2011).

IV. Discussion of consolidated financial statements components (cont.)

20. Reconciliation of net assets of the consolidated entities with the Group's consolidated net assets

The reconciliation of net assets of consolidated entities with the net assets of the Group as at the balance date is as follows:

	31.12.2012 PLN'000	31.12.2011 PLN'000
Net assets of companies / groups:		
Powszechna Kasa Oszczędności Bank Polski SA	24,646,059	22.802.375
Bankowe Towarzystwo Kapitałowe SA	6,633	5318
Bankowy Fundusz Leasingowy SA	139,448	108.177
Centrum Elektronicznych Usług Płatniczych "eService" SA	102,083	86 927
Centrum Finansowe Puławska Sp. z o.o. – w likwidacji	-	261.918
Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o.	-	1.414
Fort Mokotów Inwestycje Sp. z o.o.	126,200	105.087
Inteligo Financial Services SA	153,149	152.612
"Inter-Risk Ukraina" spółka z d.o.	(16,000)	-
Kredobank SA	258,392	282.116
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	259,358	240.450
PKO BP Finat Sp. z o.o.	12,283	11.878
PKO Finance AB	1,741	892
PKO Towarzystwo Funduszy Inwestycyjnych SA	47,902	61.034
Qualia Developement Sp. z o.o.	243,415	208.355
Total net assets	**25.980.663**	**24.241.626**
Eliminations and consolidation adjustments:		
- of share capitals of subsidiaries	(1.386.965)	(1.544.158)
- of other equity items of subsidiaries	238.507	242.032
- impairment allowances for goodwill	(124.555)	(117.516)
Total eliminations	**(1.273.013)**	**(1.419.642)**
Consolidated net assets	**24.707.650**	**22.821.984**

IV. Discussion of consolidated financial statements components (cont.)

Consolidated income statement for the year ended 31 December 2012

21. Net interest income

Net interest income generated by the Group in 2012 amounted to PLN 7,882,786 thousand, of which PLN 7,829,928 thousand (i.e. 99%) related to the Bank (PLN 7,528,168 thousand, i.e. 99% in 2011). The balance comprised the following items:

	2012 PLN'000	2011 PLN'000	Change PLN'000	Change (%)
Interest income:	**12,991,737**	**12,037,762**	**953,975**	**8**
Income from loans and advances to customers	10,378,884	9,782,468	596,416	6
Income from hedging instruments	870,450	814,275	56,175	7
Income from financial assets designated upon initial recognition at fair value through profit and loss	730,864	561,826	169,038	30
Income from investment securities available for sale	695,326	576,630	118,696	21
Income from placements with banks	250,184	218,731	31,453	14
Income from trading assets	59,264	74,847	(15,583)	(21)
Income from investment securities held to maturity	176	-	176	100
Other	6,589	8,985	(2,396)	(27)
Interest expense:	**(5,108,951)**	**(4,428,646)**	**(680,305)**	**15**
Interest expense on amounts due to customers	(4,637,605)	(4,101,578)	(536,027)	13
Interest expense on debt securities in issue	(431,010)	(278,178)	(152,832)	55
Interest expense on deposits from banks	(27,239)	(45,684)	18,445	(40)
Premium expense on debt securities available for sale	(9,911)	(1,322)	(8,589)	650
Other	(3,186)	(1,884)	(1,302)	69
Net interest income	**7,882,786**	**7,609,116**	**273,670**	**4**

IV. Discussion of consolidated financial statements components (cont.)

21. Net interest income (cont.)

The increase in interest income of PLN 953,975 thousand (i.e. 8%) in 2012 was mainly due to interest income on loans and advances to customers, income from financial assets designated upon initial recognition at fair value through profit and loss, and income from investment securities available for sale being higher than in 2011 (up PLN 596,416 thousand, i.e. 6%, PLN 169,038 thousand, i.e. 30% and PLN 118,696 thousand, i.e. 21% respectively). The increase in interest income on loans and advances to customers was mainly the result of an increase in the portfolio of loans (a gross increase of PLN 3,359,172 thousand, i.e. 2%) (Notes 6) and an increase in reference interest rates in Poland (average annual 1M WIBOR rate in 2012 was 4.77% compared with 4.37% in 2011).

The dynamics of interest expense was higher and amounted to 15%, which translated into an increase in interest expense of PLN 680,305 thousand in 2012. This resulted mainly from higher interest expense on amounts due to customers and interest expense on debt securities in issue (up PLN 536,027 thousand, i.e. 13% and PLN 152,832 thousand, i.e. 55% respectively). The increase resulted mainly from an increase in amounts due from debt securities in issue (up PLN 2,499,004 thousand, i.e. 32%) – Note 15).

As a result, the interest margin calculated as the ratio of net interest income to interest income decreased compared with 63% in 2011 and amounted to 61% in 2012. The interest spread, calculated as the difference between the profitability ratio on interest-bearing assets and the cost of borrowings, amounted to 4.0% and did not change significantly (a decrease of 0.2 pp.) compared with 2011.

IV. Discussion of consolidated financial statements components (cont.)

22. Net fee and commission income

Net fee and commission income generated by the Group in 2012 amounted to PLN 3,071,202 thousand, of which PLN 2,703,472 thousand, i.e. 88%) related to the Bank (PLN 2,730,653 thousand, i.e. 88% in 2011) and PLN 227,157 thousand (i.e. 7%) to PKO Towarzystwo Funduszy Inwestycyjnych SA (PLN 263,894 thousand, i.e. 9% in 2011). The net fee and commission income comprised the following items:

	2012 PLN'000	2011 PLN'000	Change PLN'000	Change (%)
Fee and commission income	**3,837,303**	**3,837,165**	**138**	-
Income from payment cards	1,186,733	1,048,720	138,013	13
Income from maintenance of bank accounts	881,286	916,484	(35,198)	(4)
Income from loans and advances	578,521	582,100	(3,579)	(1)
Income from loan insurance	415,339	515,499	(100,160)	(19)
Income from maintenance of investment funds and OFE	318,208	340,751	(22,543)	(7)
Income from cash transactions	136,451	160,451	(24,000)	(15)
Income from securities transactions	82,855	70,344	12,511	18
Income from foreign mass transactions	48,785	47,966	819	2
Income from sale and distribution of court fee stamps	25,624	18,625	6,999	38
Income from fiduciary activities	3,699	2,806	893	32
Other	159,802	133,419	26,383	20
Fee and commission expense	**(766,101)**	**(735,721)**	**(30,380)**	**4**
Expenses on payment cards	(420,264)	(320,592)	(99,672)	31
Expenses on acquisition services	(107,140)	(140,216)	33,076	(24)
Expenses on loan insurance	(111,320)	(133,488)	22,168	(17)
Expenses on settlement services	(24,058)	(20,977)	(3,081)	15
Expenses on fee and commissions for operating services rendered by banks	(10,756)	(11,435)	679	(6)
Expense on asset management	(9,971)	(16,158)	6,187	(38)
Other	(82,592)	(92,855)	10,263	(11)
Net fee and commission income	**3,071,202**	**3,101,444**	**(30,242)**	**(1)**

IV. Discussion of consolidated financial statements components (cont.)

22. Net fee and commission income (cont.)

In 2012, the fee and commission income increased slightly by PLN 138 thousand. This resulted, among other things, from an increase of PLN 138,013 thousand (i.e. 13%) in income from payment cards, which was offset by a PLN 100,160 thousand, (i.e. 19%) decrease in income from loan insurance. The decrease in the income from loan insurance resulted mainly from a decrease in the volume of consumer loans granted (a drop in the volume of consumer loans of PLN 2,321,966 thousand, i.e. 10% - Note 6) and the reimbursement of commission to customers due to the early repayment of loans or the renouncement of insurance. The increase in income from payment cards resulted mainly from an increase in the number of payment card transactions compared with the previous year (a 2% increase compared with 2011) and an increase in the average transaction value (a 9% increase compared with the previous year).

In 2012, the balance of fee and commission expense increased by PLN 30,380 thousand (i.e. 4%). The increase resulted mainly from an increase in expenses on payment cards (up PLN 99,672 thousand, i.e. 31%). This increase was partly offset by a decrease in commission expenses on loan insurance (a decrease of PLN 22,168 thousand, i.e. 17%) and in expenses on acquisition services (a decrease of PLN 33,076 thousand, i.e. 24%).

23. Net foreign exchange gains

In 2012, net foreign exchange gains amounted to PLN 256,137 thousand (PLN 337,296 thousand), of which PLN 254,125 thousand (i.e. 99%) related to the Bank (PLN 331,367 thousand, i.e. 98% in 2011). Net foreign exchange gains contain gains and losses on revaluation and transactions in assets and liabilities in foreign currencies, as well as fair value measurement of foreign exchange derivative instruments (FX forward, FX swap, CIRS and currency options).

IV. Discussion of consolidated financial statements components (cont.)

24. Other operating income

Other operating income in 2012 amounted to PLN 563,369 thousand (PLN 451,723 thousand in 2011). The largest share in the balance was represented by the Bankowy Fundusz Leasingowy Group (PLN 169,323 thousand, i.e. 30%), Centrum Elektronicznych Usług Płatniczych eService SA (PLN 156,768 thousand, i.e. 28%) and the Qualia Development Group (PLN 139,553 thousand, i.e. 25%). The balance comprised:

	2012	2011	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Net income from sale of products and services	331,224	256,051	75,173	29
Sales and disposal of tangible fixed assets, intangible assets and assets held for sale	92,680	76,636	16,044	21
Recovery of expired and written-off receivables	35,368	19,219	16,149	84
Damages, penalties and fines received	21,692	20,630	1,062	5
Sundry income	3,118	-	3,118	-
Sale of shares in subsidiaries, jointly controlled entities and associates	3,062	5,336	(2,274)	(43)
Other	76,225	73,851	2,374	3
Total	**563,369**	**451,723**	**111,646**	**25**

In 2012, net income from sale of products and services related mostly to income from development activities of the Qualia Development Group (PLN 144,485 thousand, i.e. 44% of the balance and PLN 102,983 thousand, i.e. 40% respectively in 2011) and the activities of Centrum Elektronicznych Usług Płatniczych eService (PLN 154,176 thousand, i.e. 47% of the balance and PLN 124,390 thousand, i.e. 49% respectively in 2011).

IV. Discussion of consolidated financial statements components (cont.)

25. Other operating expense

Other operating expense in 2012 amounted to PLN 385,715 thousand, of which PLN 121,052 thousand (i.e. 32%) was related to Centrum Elektronicznych Usług Płatniczych eService SA (PLN 98,924 thousand, i.e. 32%, in 2011), PLN 101,599 thousand (i.e. 27%) was related to the Qualia Development Group (PLN 72,150 thousand, i.e. 23% in 2011) and PLN 119,025 thousand (i.e. 31%) to the Bankowy Fundusz Leasingowy SA Group (PLN 71,983 thousand, i.e. 23% in 2011). The balance comprised the following items:

	2012 PLN'000	2011 PLN'000	Change PLN'000	Change (%)
Costs of sale of products and services	(221,007)	(171,543)	(49,464)	29
Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(99,733)	(69,946)	(29,787)	43
Donations	(12,815)	(11,571)	(1,244)	11
Sundry expenses	(5,879)	(4,696)	(1,183)	25
Other	(46,281)	(51,430)	5,149	(10)
Total	**(385,715)**	**(309,186)**	**(76,529)**	**25**

In 2012, the costs of sale of products and services related mostly to costs of development activities conducted by the Qualia Development Group (PLN 104,941 thousand, i.e. 46% of the balance in 2012 and PLN 73,370 thousand, i.e. 43% respectively in 2011) and activities of Centrum Elektronicznych Usług Płatniczych eService (PLN 120,066 thousand, i.e. 54% of the balance in 2012 and PLN 98,173 thousand, i.e. 57% respectively in 2011).

IV. Discussion of consolidated financial statements components (cont.)

26. Net impairment allowance and write-downs

In 2012, the net impairment allowance and write-downs were negative (an excess of allowances and write-downs recognised over those reversed) and amounted to PLN 2,325,228 thousand. The negative balance increased by PLN 394,781 thousand (i.e. 20%) compared with 2011. The cost of impairment allowances recorded by the Bank of PLN 2,223,236 thousand, i.e. 96%, was the largest component of the balance (PLN 1,826,739 thousand, i.e. 95% in 2011). The remaining balance comprised mainly the negative net impairment allowance in Kredobank SA of PLN 28,392 thousand, i.e. 1% (PLN 69,755 thousand, i.e. 4% in 2011) and of the Bankowy Fundusz Leasingowy SA Group of PLN 30,243 thousand, i.e. 1% (PLN 30,001 thousand, i.e. 2% in 2011) and "Inter-Risk Ukraina" additional liability company of PLN 32,410 thousand, i.e. 1%.

	2012	2011	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Loans and advances to customers	(2,138,497)	(1,838,805)	(299,692)	16
Investments in entities measured using equity method	(24,273)	(28,815)	4,542	(16)
Investment securities available for sale	(13,536)	1,330	(14,866)	(1.118)
Intangible assets	(11,337)	(2,561)	(8,776)	343
Tangible fixed assets	(11,799)	(4,549)	(7,250)	159
Amounts due from banks	338	68	270	397
Other, including:	(126,124)	(57,115)	(69,009)	121
Liabilities and guarantees granted	(99,563)	(29,365)	(70,198)	239
Net impairment allowance and write-downs	**(2,325,228)**	**(1,930,447)**	**(394,781)**	**20**

Other net impairment allowance and write-downs of PLN 126,124 thousand in 2012 comprised mainly liabilities and guarantees granted of PLN 99,563 thousand and a negative result on provisions for legal claims of PLN 3,242 thousand.

The change in the balance in 2012 was mostly due to an increase in net impairment allowance on corporate loans of PLN 319,518 thousand (i.e. 42%) and housing loans – an increase of PLN 67,897 thousand (i.e. 17%), which was offset by a decrease in net impairment allowances on consumer loans (a decrease of PLN 92,204 thousand, i.e. 14%). The cost of risk amounted to 1.4% in 2012 (1.3% in 2011). Detailed information concerning the quality of the loan portfolio is provided in Note 6.

IV. Discussion of consolidated financial statements components (cont.)

27. Administrative expenses

Administrative expenses incurred by the Group in 2012 amounted to PLN 4,618,397 thousand and were PLN 207,040 thousand (i.e. 5%) higher than the expenses incurred in 2011. The Bank's expenses represented 90% of the Group's total administrative expenses (no change compared with 2011).

	2012 PLN'000	2011 PLN'000	Change PLN'000	Change (%)
Staff costs	(2,508,055)	(2,403,744)	(104,311)	4
Overheads	(1,352,530)	(1,276,586)	(75,944)	6
Depreciation and amortization	(541,289)	(520,161)	(21,128)	4
Contribution and payments to Bank Guarantee Fund	(143,988)	(136,737)	(7,251)	5
Taxes and other charges	(72,535)	(74,129)	1,594	(2)
Total	**(4,618,397)**	**(4,411,357)**	**(207,040)**	**5**

The increase in the Group's administrative expenses in 2012 was mainly due to an increase in staff costs (an increase of PLN 104,311 thousand, i.e. 4%), overheads (an increase of PLN 75,944 thousand, i.e. 6%) and depreciation and amortization (an increase of PLN 21,128 thousand, i.e. 4%). The increase in employee costs was mainly due to PLN 60,247 thousand (i.e. 3%) increase in wages and salaries, which amounted to PLN 2,092,588 thousand in 2012 (PLN 2,032,341 thousand).

In the audited year, the Group's effectiveness ratios were as follows:

	2012 PLN'000	2011 PLN'000	Change PLN'000	Change (%)
Administrative expenses	(4,618,397)	(4,411,357)	(207,040)	5
Average annual number of full-time employees	28,740	29,352	(612)	(2)
Administrative expenses per employee	(161)	(150)	(11)	7
Net profit per employee	130	130	-	-

The cost to income ratio for the audited year amounted to 39.9% (39.6% in 2011). The deterioration in the C/I ratio was mainly caused by an increase in administrative expenses. At the same time, administrative expenses per employee increased as a result of a decrease in the number of employees (612 on the annual average), i.e. 2%. At the same time, net profit per employee remained at a similar level as in 2011.

IV. Discussion of consolidated financial statements components (cont.)

28. Income tax expense

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

	2012	2011	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Deferred income tax	(49,971)	(18,039)	(31,932)	177
Current income tax expense	(847,847)	(958,076)	110,229	(12)
Income tax expense recognized in the income statement	**(897,818)**	**(976,115)**	**78,297**	**(8)**
Income tax expense recognized in other comprehensive income	58,627	(27,441)	86,068	(314)
Total	**(839,191)**	**(1,003,556)**	**164,365**	**(16)**

The effective tax rate was 19.3% in 2012 and was 1.1 pp. lower than in the previous year.

IV. Discussion of consolidated financial statements components (cont.)

28. Income tax expense (cont.)

(a) Deferred income tax

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

	Balance sheet 2012 PLN'000	Balance sheet 2011 PLN'000	Income statement PLN'000
Deferred income tax liability			
Temporary positive differences – Bank			
Capitalized interest on performing mortgage loans	169,830	190,844	21,014
Interest accrued on receivables	193,308	176,076	(17,232)
Interest on securities	14,567	58,187	43,620
Valuation of derivative financial instruments, of which:	**18.450**	**94,471**	**-**
- transferred to income statement	6,276	9,514	3,238
- transferred to other comprehensive income	12,174	84,957	-
Valuation of securities, of which:	**6.037**	**16,414**	**-**
- transferred to income statement	3,889	15,443	11,554
- transferred to other comprehensive income	2,148	971	-
Difference between book value and tax value of tangible fixed assets	333,554	293,318	(40,236)
Temporary positive differences – Bank	**735,746**	**829,310**	**-**
- transferred to income statement	721,424	743,382	21,958
- transferred to other comprehensive income	14,322	85,928	-
Temporary positive differences – Group entities	**41,300**	**29,363**	**-**
- transferred to income statement	40,749	29,307	(11,442)
- transferred to other comprehensive income	551	56	-

IV. Discussion of consolidated financial statements components (cont.)

28. Income tax expense (cont.)

(a) Deferred income tax (cont.)

	Balance sheet 2012 PLN'000	Balance sheet 2011 PLN'000	Income statement PLN'000
Deferred tax asset			
Temporary negative differences – Bank			
Interest accrued on liabilities	235,244	391,527	(156,283)
Valuation of securities, of which:	**-**	**24,550**	**-**
- transferred to income statement	-	11,580	(11,580)
- transferred to other comprehensive income	-	12,970	-
Adjustment to EIR valuation	187,166	211,011	(23,845)
Impairment allowances on credit exposure	494,933	414,558	80,375
Provisions for employee benefits	131,770	126,714	5,056
Valuation of derivative financial instruments	10,661	16,093	(5,432)
Other temporary negative differences	44,979	28,991	15,988
Temporary negative differences – Bank	**1,104,753**	**1,213,444**	**-**
- transferred to income statement	1,104,753	1,200,474	(95,721)
- transferred to other comprehensive income	-	12,970	-
Temporary negative differences – Group entities	**195,507**	**159,787**	**-**
- transferred to income statement	194,445	159,211	35,234
- transferred to other comprehensive income	1,062	576	-
Total deferred tax impact, of which:	**523,214**	**514,558**	**-**
- transferred to income statement	537,025	586,996	(49,971)
- transferred to other comprehensive income	(13,811)	(72,438)	-
Of which:			
- deferred tax assets in the balance sheet – total Bank and Group entities	**564,514**	**543,922**	**-**
- transferred to income statement	577,774	616,303	(38,529)
- transferred to other comprehensive income	(13,260)	(72,382)	-
- deferred tax liability in the balance sheet – Group entities	**41,300**	**29,364**	**-**
- transferred to income statement	40,749	29,307	(11,442)
- transferred to other comprehensive income	551	56	-
Net deferred tax impact on the income statement	**-**	**-**	**(49,971)**

IV. Discussion of consolidated financial statements components (cont.)

28. Income tax expense (cont.)

(a) Deferred income tax (cont.)

In connection with net temporary negative differences in the Bank and negative differences in Group entities, the statement of financial position as at the end of 2012 shows a deferred tax asset of PLN 564,514 thousand (PLN 543,922 thousand at the end of 2011). The deferred income tax provision in connection with temporary positive differences in Group entities presented in the statement of financial position was PLN 41,300 thousand (PLN 29,364 thousand as at the end of 2011).

(b) Current income tax expense

	2012	2011	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Profit before income tax	**4,645,261**	**4,780,860**	**(135,599)**	**(3)**
Corporate income tax calculated using the enacted tax rate 19% in force in Poland	(882,600)	(908,363)	25,763	(3)
Effect of other tax rates	1,422	(2,504)	3,926	(157)
Permanent differences, of which:	**(63,833)**	**(73,996)**	**10,163**	**(14)**
Reversal of provisions and revaluation not constituting taxable income	(42.388)	(51,399)	9,011	(18)
Other non-tax-deductible expenses	(18,627)	203	(18,830)	(9,276)
Other	(2,818)	(22,800)	19,982	(88)
Other differences, including donations	45,940	8,508	37,432	440
Tax loss settlement	1,253	240	1,013	422
Total income tax expense	**(897.818)**	**(976,115)**	**78,297**	**(8)**
Effective tax rate	19,3%	20,4%	1,1 pp.	(5)
Less temporary differences resulting from deferred income tax, presented in the income statement	49,971	18,039	31,932	177
Current income tax expense	**(847,847)**	**(958,076)**	**110,229**	**(12)**

In the audited year, corporate income tax for Group entities was calculated at a rate of 19% (for Poland) and 16% (for Ukraine), based on profit before tax determined on the basis of IFRS regulations as adopted by the EU, adjusted for non-taxable income and non-tax-deductible expenses. Corporate income tax for the year constitutes the sum of current income tax calculated by Group entities (including the Bank – PLN 797,131 thousand).

IV. Discussion of consolidated financial statements components (cont.)

29. Reconciliation of the net profits/losses of the entities covered by consolidation with the Group's consolidated net profit/loss

Reconciliation of the net profits/(losses) of consolidated entities with the consolidated net profit/(loss) of the Group for the audited year is presented below:

	2012	2011
	PLN'000	PLN'000
Net profit/(loss):		
Powszechna Kasa Oszczędności Bank Polski SA	3,592,617	3,953,622
Bankowe Towarzystwo Kapitałowe SA	816	(2,806)
Bankowy Fundusz Leasingowy SA	11,615	8,412
Centrum Elektronicznych Usług Płatniczych "eService" SA	25,156	23,710
Centrum Finansowe Puławska Sp. z o.o. – w likwidacji	2,244	12,619
"Inter-Risk Ukraina" spółka z d.o.	(33,426)	-
Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o.	-	81
Fort Mokotów Inwestycje Sp. z o.o.	(572)	(522)
Inteligo Financial Services SA	20,435	19,898
Kredobank SA	(54,633)	(93,815)
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	16,801	4,714
PKO BP Finat Sp. z o.o.	1,375	970
PKO Finance AB	933	393
PKO Towarzystwo Funduszy Inwestycyjnych SA	23,845	37,821
Qualia Developement Sp. z o.o.	(2,309)	(4,555)
Total net profit of the consolidated entities	**3,604,897**	**3,960,542**
Consolidation adjustments		
including:		
- dividends	(85,119)	(87,228)
- impairment allowances	220,908	(2,561)
- share of losses of associates and jointly controlled entities	(18,850)	19,652
- other	25,607	(85,660)
Net profit of the Group	**3,747,443**	**3,804,745**

IV. Discussion of consolidated financial statements components (cont.)

30. Off-balance sheet items

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

	31.12.2012 PLN'000	31.12.2011 PLN'000	Change PLN'000	Change (%)
Off-balance sheet liabilities granted, including:	**42,890,559**	**36,890,388**	**6,000,171**	**16**
Financing granted	32,513,424	30,455,658	2,057,766	7
Guarantees and warranties granted – nominal value	10,377,135	6,434,730	3,942,405	61
Off-balance sheet liabilities received, including:	**3,611,662**	**2,801,398**	**810,264**	**29**
Guarantees and warranties received	1,780,305	1,918,281	(137,976)	(7)
Other	1,831,357	883,117	948,240	107

The increase in off-balance sheet liabilities granted (of PLN 6,000,171 thousand) was caused by an increase in the nominal amount of guarantees and warranties granted of PLN 3,942,405 thousand, i.e. 61%) and an increase in off-balance-sheet liabilities related to financing of PLN 2,057,766 thousand (i.e. 7%).

The item "Guarantees and warranties received" relates mainly to guarantees of loan repayment received, including PLN 1,380,228 thousand relating to a State Treasury guarantee of repayment of housing loans of the so-called "old portfolio" in accordance with the Act of 29 November 2000 on the State Treasury guaranteeing the repayment of specific housing loans (PLN 1,609,472 thousand as at 31 December 2011).

V. Statements of the independent registered auditor

(a) The Management Board of the Parent Company provided all the information, explanations, and representations required by us in the course of the audit and provided us with a representation letter confirming the completeness of the information included in the consolidation documentation and the disclosure of all contingent liabilities and subsequent events which occurred up to the date on which that letter was signed.

(b) The scope of the audit was not limited.

(c) The accounting policies of the Group specified by the Parent Company's Management complied with the International Financial Reporting Standards as adopted by the European Union in all material respects. There were no changes in the accounting policies and methods compared with the previous year.

(d) The calculation of goodwill and its recognition in the consolidated financial statements complied with IFRS as adopted by the European Union in all material respects.

(e) The consolidation of equity items and the determination of non-controlling interest were carried out properly in all material respects.

(f) The elimination of intercompany balances (receivables and payables) and transactions (revenue and costs) of the consolidated entities were carried out in accordance with the IFRS as adopted by the European Union in all material respects.

(g) Eliminations of gains/losses unrealized by the consolidated entities included in the value of assets and in respect of dividends were conducted in accordance with the IFRS as adopted by the European Union in all material respects.

(h) The impact of the disposal or partial disposal of shares in subordinated entities was accounted for properly in all material respects.

(i) The consolidation documentation was complete and accurate and it is stored in a manner ensuring its proper safeguarding.

(j) The consolidated financial statements of the Group for the year ended 31 December 2011 were approved by Resolution no. 5/2012 passed by the General Meeting of Shareholders on 6 June 2012, filed with the National Court Register in Warsaw on 15 June 2012 and published in Monitor Polski B no. 2405 on 8 October 2012.

(k) The consolidated financial statements for the previous year were audited by PricewaterhouseCoopers Sp z o.o. The registered auditor issued an unqualified opinion.

(l) The Notes to the consolidated financial statements present all the material information required by the IFRS as adopted by the European Union.

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

(m) The information in the Group Directors' Report for the year ended 31 December 2012 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (Journal of Laws No. 33, item 259).

(n) We determined the materiality levels at the planning stage. Materiality levels specify the limits up to which identified irregularities may be left unadjusted without any detriment to the quality of the financial statements and to the correctness of the underlying books of account, since failing to make such adjustments will not be misleading for the readers of the financial statements. Materiality measures both the quantity and quality of audited items and that is why it varies for different statement of financial position and income statement items. Due to the complexity and quantity of the materiality levels adopted for audit purposes, they are included in the audit documentation.

(o) The total capital requirement, calculated on the consolidated basis, amounted to PLN 12,541,155 thousand as at the balance date. The capital adequacy ratio, calculated on the consolidated basis, as at 31 December 2011 amounted to 13.07%. As at the balance date, the Group complied with the prudence principle in all material respects.

VI. Final information and comments

This report has been prepared in connection with our audit of the consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski SA Group, of which Powszechna Kasa Oszczędności Bank Polski SA is the Parent Company with its registered office at 15 Puławska Street, in Warsaw. The consolidated financial statements were signed by the Management Board of the Parent Company on 26 February 2013.

This report should be read in conjunction with the Independent Registered Auditor's unqualified Opinion to the General Meeting of Shareholder and the Supervisory Board of Powszechna Kasa Oszczędnościowa Bank Polski SA dated 27 February 2013, concerning the said consolidated financial statements. The opinion on the financial statements expresses a general conclusion drawn from the audit. This assessment involves estimating the materiality of individual audit findings rather than being a sum of all the evaluations of individual consolidated financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the consolidated financial statements as a whole.

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

Antoni F. Reczek
President of the Management Board

Principal Registered Auditor
No. 90011

PricewaterhouseCoopers Sp. z o.o.

Warsaw, 27 February 2013