Bank Polski

Condensed interim financial statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna for the six-month period ended 30 June 2013

Report publication date:
29 August 2013

Bank Polski

SELECTED FINANCIAL DATA DERIVED FROM THE FINANCIAL STATEMENTS

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	period from 01.01.2013 to 30.06.2013	period from 01.01.2012 to 30.06.2012	period from 01.01.2013 to 30.06.2013	period from 01.01.2012 to 30.06.2012
Net interest income	3 206 339	3 986 735	760 878	943 695
Net fee and commission income	1 382 708	1 379 188	328 122	326 466
Operating profit	1 895 609	2 493 070	449 836	590 132
Profit before income tax	**1 895 609**	**2 493 070**	**449 836**	**590 132**
Net profit	**1 548 519**	**2 005 686**	**367 470**	**474 764**
Earnings per share for the period – basic (in PLN/EUR)	**1.24**	**1.60**	**0.29**	**0.38**
Earnings per share for the period – diluted (in PLN/EUR)	**1.24**	**1.60**	**0.29**	**0.38**
Net comprehensive income	**1 214 281**	**1 825 639**	**288 154**	**432 145**
Net cash flow from / used in operating activities	(3 474 098)	(68 959)	(824 418)	(16 323)
Net cash flow from / used in investing activities	(1 202 088)	2 318 533	(285 261)	548 817
Net cash flow from / used in financing activities	(133 948)	(2 116 168)	(31 786)	(500 916)
Total net cash flows	(4 810 134)	133 406	(1 141 465)	31 578

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	as at 30.06.2013	as at 31.12.2012	as at 30.06.2013	as at 31.12.2012
Total assets	195 543 656	191 017 712	45 168 543	46 724 160
Total equity	23 610 340	24 646 059	5 453 742	6 028 584
Share capital	1 250 000	1 250 000	288 737	305 758
Number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Book value per share (in PLN/EUR)	18.89	19.72	4.36	4.82
Diluted number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Diluted book value per share (in PLN/EUR)	18.89	19.72	4.36	4.82
Capital adequacy ratio	13.34%	12.93%	13.34%	12.93%
Basic funds (Tier 1)	19 853 013	18 657 980	4 585 839	4 563 862
Supplementary funds (Tier 2)	1 050 312	1 087 104	242 611	265 913
Short-term equity (Tier 3)	81 942	129 641	18 928	31 711

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

- income statement, statement of comprehensive income and statement of cash flows items – the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month of the six-month period ended 30 June 2013 and 2012, respectively: EUR 1 = PLN 4.2140 and EUR 1 = PLN 4.2246,
- statement of financial position items – average NBP exchange rate as at 30 June 2013: EUR 1 = PLN 4.3292 and as at 31 December 2012: EUR 1 = PLN 4.0882.

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INCOME STATEMENT

for the six-month periods ended 30 June 2013 and 30 June 2012 respectively

	Note	01.01-30.06.2013	01.01-30.06.2012
Continuing operations			
Interest and similar income	3	5 449 843	6 375 077
Interest expense and similar charges	3	(2 243 504)	(2 388 342)
Net interest income		**3 206 339**	**3 986 735**
Fee and commission income	4	1 846 047	1 749 918
Fee and commission expense	4	(463 339)	(370 730)
Net fee and commission income		**1 382 708**	**1 379 188**
Dividend income		78 567	91 196
Net income from financial instruments measured at fair value	5	3 851	14 796
Gains less losses from investment securities		60 773	5 574
Net foreign exchange gains (losses)		73 235	142 973
Other operating income	6	33 165	33 030
Other operating expense	6	(27 903)	(25 670)
Net other operating income and expense		**5 262**	**7 360**
Net impairment allowance and write-downs	7	(883 682)	(1 092 039)
Administrative expenses	8	(2 031 444)	(2 042 713)
Operating profit		**1 895 609**	**2 493 070**
Profit before income tax		**1 895 609**	**2 493 070**
Income tax expense	9	(347 090)	(487 384)
Net profit		**1 548 519**	**2 005 686**
Earnings per share	10		
- basic earnings per share for the period (PLN)		1.24	1.60
- diluted earnings per share for the period (PLN)		1.24	1.60
Weighted average number of ordinary shares during the period (in thousand)		1 250 000	1 250 000
Weighted average diluted number of ordinary shares during the period (in thousand)		1 250 000	1 250 000

Discontinued operations

In the first half of 2013 and in the first half of 2012 PKO Bank Polski SA did not have discontinued operations.

STATEMENT OF COMPREHENSIVE INCOME

for the six-month periods ended 30 June 2013 and 30 June 2012 respectively

	Note	01.01-30.06.2013	01.01-30.06.2012
Net profit		**1 548 519**	**2 005 686**
Other comprehensive income		**(334 238)**	**(180 047)**
Items that may be reclassified to the income statement		**(334 238)**	**(180 047)**
Cash flow hedges (gross)	15	(245 054)	(241 976)
Deferred tax on cash flow hedges	15	46 560	45 975
Cash flow hedges (net)		(198 494)	(196 001)
Unrealised net gains on financial assets available for sale (gross)		(167 583)	19 696
Deferred tax on unrealised net gains on financial assets available for sale		31 839	(3 742)
Unrealised net gains on financial assets available for sale (net)		(135 744)	15 954
Total net comprehensive income		**1 214 281**	**1 825 639**

STATEMENT OF FINANCIAL POSITION

as at 30 June 2013 and as at 31 December 2012

	Note	30.06.2013	31.12.2012
Assets			
Cash and balances with the central bank		5 591 688	10 229 230
Amounts due from banks	12	3 407 933	3 456 391
Trading assets	13	3 381 881	282 230
Derivative financial instruments	14	3 325 276	3 861 456
Financial assets designated upon initial recognition at fair value through profit and loss	16	12 633 327	12 614 917
Loans and advances to customers	17	147 148 433	142 084 858
Investment securities available for sale	18	13 643 366	12 061 406
Investments in subsidiaries, jointly controlled entities, associates	19	1 159 233	1 171 005
Non-current assets held for sale		28 261	20 410
Intangible assets	21	1 669 047	1 681 120
Tangible fixed assets, of which:	21	2 392 390	2 382 658
investment properties		193	238
Current income tax receivable		40 232	-
Deferred income tax asset	9	434 896	369 007
Other assets		687 693	803 024
Total assets		**195 543 656**	**191 017 712**
Liabilities and equity			
Liabilities			
Amounts due to the central bank		3 858	3 128
Amounts due to banks	22	3 003 348	2 502 888
Derivative financial instruments	14	3 685 073	3 964 170
Amounts due to customers	23	157 875 777	154 740 574
Debt securities in issue	24	917 780	865 905
Subordinated liabilities	25	1 624 355	1 631 256
Other liabilities	26	4 549 390	1 799 363
Current income tax liabilities		-	145 274
Provisions	27	273 735	719 095
Total liabilities		**171 933 316**	**166 371 653**
Equity			
Share capital		1 250 000	1 250 000
Other capital		20 811 821	19 803 442
Net profit for the year		1 548 519	3 592 617
Total equity		**23 610 340**	**24 646 059**
Total liabilities and equity		**195 543 656**	**191 017 712**
Capital adequacy ratio	39	13.34%	12.93%
Book value (in PLN thousand)		23 610 340	24 646 059
Number of shares (in thousand)	1	1 250 000	1 250 000
Book value per share (in PLN)		18.89	19.72
Diluted number of shares (in thousand)		1 250 000	1 250 000
Diluted book value per share (in PLN)		18.89	19.72

(IN PLN THOUSAND)

STATEMENT OF CHANGES IN EQUITY

for the six-month periods ended 30 June 2013 and 30 June 2012 respectively

for the six-month period ended 30 June 2013	Share capital	Other capital						Unappropriated profits	Net profit for the period	Total equity
		Reserves			Other comprehensive income		Total other Capital			
		Reserve capital	General banking risk fund	Other reserves	Financial assets available for sale	Cash flow hedges				
As at 1 January 2013	1 250 000	15 198 111	1 070 000	3 385 743	9 156	51 899	19 714 909	88 533	3 592 617	24 646 059
Transfer of net profit from previous years	-	-	-	-	-	-	-	3 592 617	(3 592 617)	-
Total comprehensive income, of which:	-	-	-	-	(135 744)	(198 494)	(334 238)	-	1 548 519	1 214 281
Net profit	-	-	-	-	-	-	-	-	1 548 519	1 548 519
Other comprehensive income	-	-	-	-	(135 744)	(198 494)	(334 238)	-	-	(334 238)
Transfer from unappropriated profits	-	1 400 000	-	31 150	-	-	1 431 150	(1 431 150)	-	-
Dividends declared	-	-	-	-	-	-	-	(2 250 000)	-	(2 250 000)
As at 30 June 2013	1 250 000	16 598 111	1 070 000	3 416 893	(126 588)	(146 595)	20 811 821	-	1 548 519	23 610 340

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

(IN PLN THOUSAND)

STATEMENT OF CASH FLOWS

for the six-month periods ended 30 June 2013 and 30 June 2012 respectively

	Note	01.01-30.06.2013	01.01-30.06.2012
Net cash flow from operating activities			
Profit before income tax		**1 895 609**	**2 493 070**
Adjustments:		**(5 369 707)**	**(2 562 029)**
Amortisation and depreciation	8	254 671	237 659
(Gains) losses from investing activities		1 473	1 657
Interest and dividends		(372 726)	(521 284)
Change in amounts due from banks		(125 858)	(83 453)
Change in trading assets and financial assets designated upon initial recognition at fair value through profit and loss		(3 118 061)	(1 546 530)
Change in derivative financial instruments (asset)		536 180	207 594
Change in loans and advances to customers		(5 501 834)	15 077
Change in other assets and non-current assets held for sale		107 480	(216 845)
Change in amounts due to banks		501 190	(534 454)
Change in derivative financial instruments (liability)		(279 097)	114 439
Change in amounts due to customers		3 135 203	466 525
Change in impairment allowances and provisions		(83 777)	385 628
Change in other liabilities and subordinated liabilities		659 363	(96 613)
Income tax paid		(519 245)	(503 067)
Other adjustments		(564 669)	(488 362)
Net cash from / used in operating activities		**(3 474 098)**	**(68 959)**
Net cash flow from investing activities			
Inflows from investing activities		**28 597 397**	**10 165 850**
Proceeds from sale of a subsidiary		-	1 482
Proceeds from sale and interest of investment securities available for sale		28 536 870	10 088 247
Proceeds from sale of intangible assets and tangible fixed assets		5 818	383
Other investing inflows (dividends)		54 709	75 738
Outflows from investing activities		**(29 799 485)**	**(7 847 317)**
Purchase / increase in equity of a subsidiary		(4 193)	(19 713)
Purchase of investment securities available for sale		(29 528 703)	(7 644 271)
Purchase of intangible assets and tangible fixed assets		(266 589)	(183 333)
Net cash from / used in investing activities		**(1 202 088)**	**2 318 533**
Net cash flow from financing activities			
Proceeds from debt securities in issue		1 429 385	4 462 910
Redemption of debt securities in issue		(1 397 096)	(4 853 501)
Dividends paid		-	(1 587 500)
Repayment of interest from issued debt securities and subordinated loans		(72 167)	(111 010)
Repayment of long-term borrowings		(94 070)	(27 067)
Net cash generated from financing activities		**(133 948)**	**(2 116 168)**
Net cash flow		**(4 810 134)**	**133 406**
of which currency translation differences on cash and cash equivalents		142 433	(54 891)
Cash and cash equivalents at the beginning of the period		12 235 414	11 160 666
Cash and cash equivalents at the end of the period	30	**7 425 280**	**11 294 072**
of which restricted		11 694	4 041

NOTES TO THE FINANCIAL STATEMENTS

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(IN PLN THOUSAND)

NOTES TO THE FINANCIAL STATEMENTS

1. General information

The financial statement of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ('PKO Bank Polski SA', 'the Bank') have been prepared for the six-month period ended 30 June 2013 and include comparative data for the six-month period ended 30 June 2012 (as regards income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows) and include comparative data as at 31 December 2012 (as regards statement of financial position). Financial data have been presented in Polish zloty (PLN), rounded to thousand zloty, unless indicated otherwise.

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

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

According to information available as at 30 June 2013 the Bank's shareholding structure is as follows:

Name of entity	Number of shares	Number of votes %	Nominal value of 1 share	Share in equity %
As at 30 June 2013				
The State Treasury	392 406 277	31.39	PLN 1	31.39
AVIVA Otwarty Fundusz Emerytalny *	83 952 447	6.72	PLN 1	6.72
ING Otwarty Fundusz Emerytalny **	64 594 448	5.17	PLN 1	5.17
Other shareholders	709 046 828	56.72	PLN 1	56.72
Total	**1 250 000 000**	**100.00**	---	**100.00**
As at 31 December 2012				
The State Treasury	417 406 277	33.39	PLN 1	33.39
Bank Gospodarstwa Krajowego	128 102 731	10.25	PLN 1	10.25
ING Otwarty Fundusz Emerytalny	64 594 448	5.17	PLN 1	5.17
Other shareholders	639 896 544	51.19	PLN 1	51.19
Total	**1 250 000 000**	**100.00**	---	**100.00**

* According to information provided by the shareholder on 1 February 2013.
** According to information provided by the shareholder on 27 July 2012.

On 31 January 2013, PKO Bank Polski SA received notifications from Bank Gospodarstwa Krajowego ('BGK') and the Minister of the State Treasury of selling off a considerable block of the Bank's shares as a result of which the total number of votes held by BGK and the State Treasury at the General Shareholders' Meeting of the Bank has changed. On 24 January 2013, according to the notifications received, through the Warsaw Stock Exchange (WSE) in block transactions:

- BGK sold 128 102 731 Bank's shares held, which amounted to 10.25% of the share capital and the total number of votes at the General Shareholders' Meeting of the Bank,
- the State Treasury sold 25 000 000 Bank's shares held, which amounted to 2.00% of the share capital and the total number of votes at the General Shareholders' Meeting of the Bank.

Prior to conclusion and settlement of the above mentioned transactions, BGK and the State Treasury held 128 102 731 and 417 406 277 Bank's shares, respectively. After the transaction settlement on 29 January 2013, BGK did not hold any Bank's shares, and the State Treasury held 392 406 277 shares, which represent 31.39% of the share capital and total number of votes at the General Shareholders' Meeting of the Bank.

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

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

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

(IN PLN THOUSAND)

The structure of PKO Bank Polski SA share capital:

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

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

Business activities of the Bank

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

(IN PLN THOUSAND)

Structure of the PKO Bank Polski SA Group

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

Subsidiaries

PKO Bank Polski SA

Direct subsidiaries

Entity	*	**
Qualia Development Sp. z o.o.[1] (real estate development, Warsaw)	100.00*	100.00**
PKO Leasing SA[2] (leasing services, Łódź)	100.00*	100.00**
Centrum Elektronicznych Usług Płatniczych eService SA (servicing and settlement of card transactions, Warsaw)	100.00*	100.00**
Inteligo Financial Services SA (Internet banking, Warsaw)	100.00*	100.00**
Bankowe Towarzystwo Kapitałowe SA (services, Warsaw)	100.00*	100.00**
PKO BP BANKOWY PTE SA (pension fund management, Warsaw)	100.00*	100.00**
PKO Towarzystwo Funduszy Inwestycyjnych SA (investment fund management, Warsaw)	100.00*	100.00**
KREDOBANK SA (banking activities, Lviv Ukraine)	99.5655*	99.5655**
PKO BP Finat Sp. z o.o. (transfer agent services, Warsaw)	100.00*	100.00**
PKO Finance AB (financial services, Stockholm Sweden)	100.00*	100.00**
Fort Mokotów Inwestycje Sp. z o.o.[3] (real estate development, Warsaw)	99.9884*	99.9891**
'Inter-Risk Ukraina' Additional Liability Company (debt collection services, Kiev Ukraine)	100.00*	100.00**

Indirect subsidiary

Entity (parent)	*	**
PKO Bankowy Leasing Sp. z o.o.[4] (leasing services, Łódź) – of PKO Leasing SA	100.00*	100.00**
PKO BP Faktoring SA[5] (factoring, Warsaw) – of Bankowe Towarzystwo Kapitałowe SA	99.9889*	99.9889**
Finansowa Kompania 'Idea Kapitał' Sp. z o.o. (financial services, Kiev Ukraine) – of KREDOBANK SA	100.00*	100.00**
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.[5] (factoring, Kiev Ukraine) – of 'Inter-Risk Ukraina' Additional Liability Company	93.408*	93.408**

Indirect subsidiaries (of Qualia Development Sp. z o.o.)

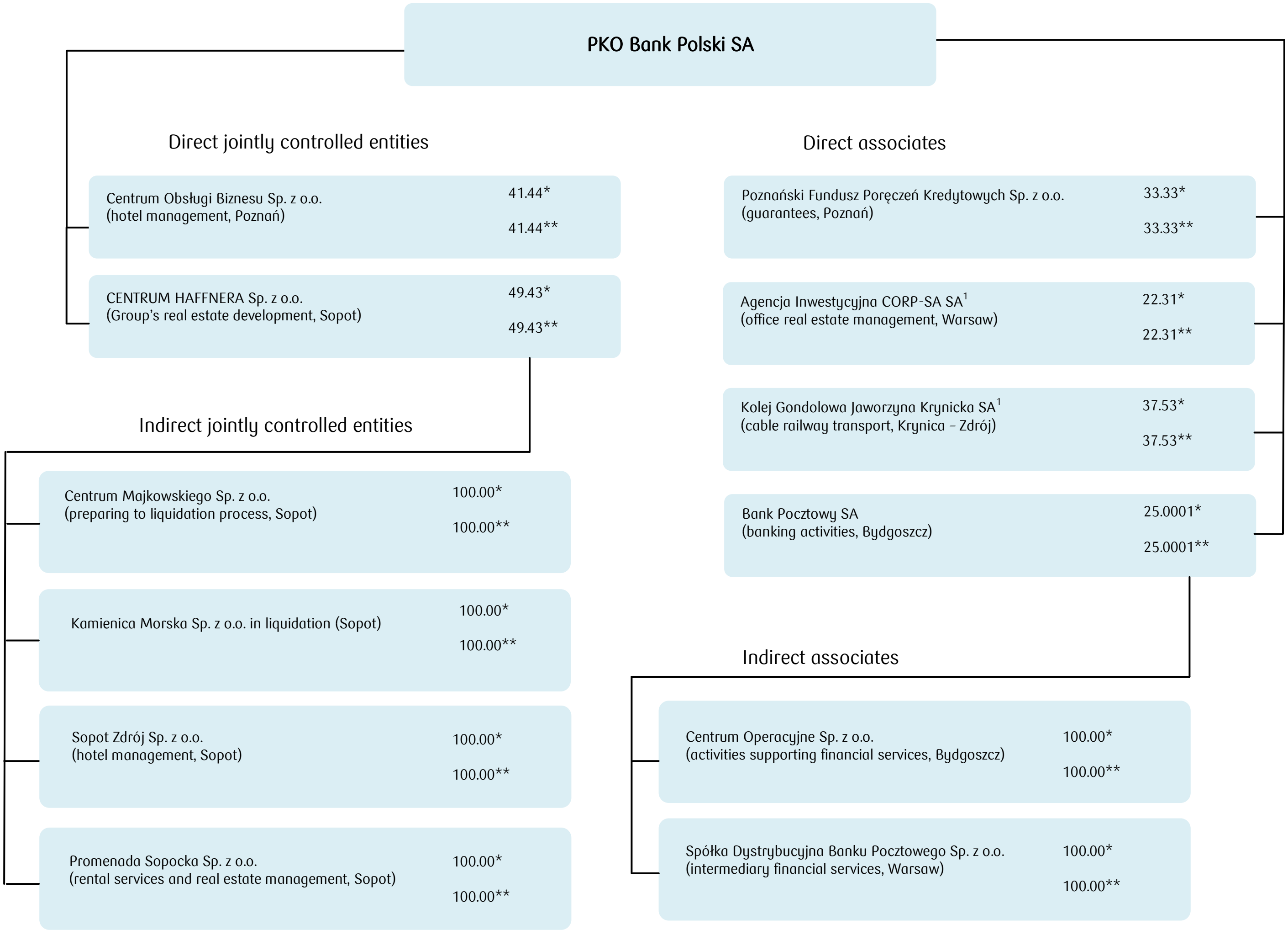
Entity	*	**
Qualia Sp. z o.o. (general partner in limited partnerships of the Qualia Development Group entities, Warsaw)	100.00*	100.00**
Qualia spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k. (real estate development, Warsaw)	99.9975*	99.9975**
Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k. (real estate development, Warsaw)	99.9750*	99.9750**
Qualia sp. z o.o. – Sopot Sp. k. (real estate development, Warsaw)	99.9787*	99.9787**
Qualia spółka z ograniczoną odpowiedzialnością – Pomeranka Sp. k. (real estate development, Warsaw)	99.8951*	99.8951**
Qualia spółka z ograniczoną odpowiedzialnością – Projekt 1 Sp. k. (real estate development , Warsaw)	50.00*	50.00**
Qualia – Rezydencja Flotylla Sp. z o.o. (real estate development, Warsaw)	100.00*	100.00**
Sarnia Dolina Sp. z o.o. (real estate development, Warsaw)	100.00*	56.00**
Fort Mokotów Sp. z o.o. in liquidation (Warsaw)	51.00*	51.00**
Qualia - Residence Sp. z o.o. (real estate development, Warsaw)	100.00*	100.00**
Qualia Hotel Management Sp. z o.o. (real estate development, Warsaw)	100.00*	100.00**
Qualia spółka z ograniczoną odpowiedzialnością – Władysławowo Sp. k. (real estate development, Warsaw)	50.00*	50.00**
Qualia spółka z ograniczoną odpowiedzialnością – Zakopane Sp. k. (real estate development, Warsaw)	99.7738*	50.00**
Qualia spółka z ograniczoną odpowiedzialnością – Jurata Sp. k. (real estate development, Warsaw)	99.9608*	50.00**
Giełda Nieruchomości Wartościowych Sp. z o.o.[6] (intermediation in the sale of real estate, Warsaw)	99.00*	- **

* % share in equity as at 30.06.2013
** % share in equity as at 31.12.2012

1) in limited partnerships of the Qualia Development Group the limited partner is Qualia Development Sp. z o.o. and the general partner is Qualia Sp. z o.o.; in the position of share capital, the total contributions made by the limited partner is presented,
2) formerly Bankowy Fundusz Leasingowy SA,
3) the second shareholder of the Entity is Qualia Development Sp. z o.o.,
4) formerly Bankowy Leasing Sp. z o.o.
5) the second shareholder of the Entity is PKO Bank Polski SA,
6) the second shareholder of the Entity is Qualia Sp. z o.o.

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

Jointly controlled entities and associates



* % share in equity as at 30.06.2013
** % share in equity as at 31.12.2012

1) Shares of the Entities are recognised in assets held for sale.

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

Internal organisational units of the Bank

The financial statements of the Bank comprising financial data for the six-month period ended 30 June 2013 and comparative financial data, were prepared on the basis of financial data submitted by all organisational units of the Bank through which the Bank performs its activities. As at 30 June 2013, these organisational units included: the Bank's Head Office in Warsaw, the Brokerage House of PKO Bank Polski SA, 11 specialised units, 11 regional retail branches, 7 regional corporate branches, 32 corporate centres, 1127 operational branches and 1149 agencies. None of the organisational units listed above prepares separate financial statements.

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

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

Seasonality or cyclicality in the interim period

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

CONDENSED INTERIM FINANCIAL STATEMENTS OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2013 (IN PLN THOUSAND)

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

As at 30 June 2013, the Bank's Management Board consisted of:

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

As at 30 June 2013, the Bank's Supervisory Board consisted of:

• Cezary Banasiński	Chairman of the Supervisory Board
• Tomasz Zganiacz	Deputy-Chairman of the Supervisory Board
• Mirosław Czekaj	Secretary of the Supervisory Board
• Zofia Dzik	Member of the Supervisory Board
• Krzysztof Kilian	Member of the Supervisory Board
• Piotr Marczak	Member of the Supervisory Board
• Elżbieta Mączyńska – Ziemacka	Member of the Supervisory Board
• Marek Mroczkowski	Member of the Supervisory Board
• Ryszard Wierzba	Member of the Supervisory Board

On 20 June 2013 the Ordinary General Shareholders' Meeting of PKO Bank Polski SA dismissed as of the day the member of the Supervisory Board – Mr Jan Bossak from the Supervisory Board of PKO Bank Polski SA and appointed as of the day Mrs Elżbieta Mączyńska – Ziemacka.

Approval of financial statements

These financial statements, reviewed by the Bank's Supervisory Board's Audit Committee on 28 August 2013, have been approved for issue by the Bank's Management Board on 26 August 2013.

These condensed interim financial statements are published together with condensed interim consolidated financial statements of the PKO Bank Polski SA Group for the six-month period ended 30 June 2013.

2. Summary of significant accounting policies and estimates and judgements

2.1. Compliance with accounting standards

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

The accounting policies and calculations applied in these condensed financial statements are consistent to those, which were applied in the annual financial statements of PKO Bank Polski SA for the year ended 31 December 2012.

These condensed financial statements for the six-month period ended 30 June 2013 should be read together with financial statements of PKO Bank Polski SA for 2012 prepared in accordance with International Financial Reporting Standards, as approved by the European Union and they are published together with the condensed consolidated financial statements of the PKO Bank Polski SA Group for the six-month period ended 30 June 2013.

2.1.1. Standards and interpretations issued and approved in 2013 after the date of publishing financial statements for the year 2012

In 2013, after the publication date of the annual financial statements, i.e. after 4 March 2013, the European Union, by the Regulation of the European Union Commission No. 301/2013 dated 27 March 2013, approved 'Improvements to IFRS, 2009-2011 Cycle', concerning the modification of five standards, i.e. IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34. The amendments have mainly organisational character. Amendments to IAS 1 result in less information from prior reporting periods which the entity is required to repeat when changing the accounting principles, i.e. no requirement to prepare notes to the statement of financial position at the beginning of the previous reporting period.

In addition, the European Union, by the European Union Commission Regulation No 313/2013 of 4 April 2013, approved the organisational changes of IFRS 10, IFRS 11 and IFRS 12, which will have possible use for the first time to the financial statements of the Bank for the year 2014.

2.2. Critical estimates and judgements

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

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

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

(IN PLN THOUSAND)

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

2.2.1 Impairment of loans and advances

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

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

In the case of a -/+ 10% change in the present value of estimated cash flows for the loans and advances portfolio individually determined to be impaired, the estimated impairment allowances on loans and advances would increase by PLN 532 million or decrease by PLN 326 million respectively. This estimate was made for the loans and advances portfolio assessed for impairment on an individual analysis of future cash flows arising both from own payments and recoveries from the collateral, i.e. the exposures for which an individual method is applied.

In the case of a +/- 10% change in the PD ratio (probability of default), the estimated impairment allowances on loans and advances assessed by a group method would increase or decrease respectively by approximately PLN 78 million. The change in recovery rates (RR - recovery rate) of + / - 10% respectively translates into a decrease in impairment allowances on loans and advances by PLN 561 million or increase in impairment allowances by PLN 563 million.

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

The fair value of non-option derivatives and debt securities available for sale not listed on an active market is determined using valuation models based on discounted cash flows expected to be received from the given financial instrument. Options are valued using option pricing models. The variables and assumptions used in a valuation include any available data derived from observable markets.

In the valuation of non-listed debt securities available for sale, assumptions are also made about the contractor's credit risk, which may have an impact on the pricing of the instruments. Any change in these assumptions could affect the valuation of the above mentioned financial instruments.

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

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

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

Estimated change in valuation due to parallel movement of yield curve	30.06.2013		31.12.2012	
	+50 pp. scenario	-50 pp. scenario	+50 pp. scenario	-50 pp. scenario
IRS	(45 920)	40 307	(45 124)	45 852
CIRS	(89 273)	79 426	(93 837)	98 908
other derivatives	819	(1 810)	1 679	(1 698)
Total	**(134 374)**	**117 923**	**(137 282)**	**143 062**

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

Estimated change in valuation due to parallel movement of yield curve	30.06.2013		31.12.2012	
	+50 pp. scenario	-50 pp. scenario	+50 pp. scenario	-50 pp. scenario
IRS	(50 158)	44 652	(49 664)	50 656
CIRS	(89 927)	80 064	(94 439)	99 543
Total	**(140 085)**	**124 716**	**(144 103)**	**150 199**

2.2.3 Calculation of provisions for employee benefits

In May 2013 the Bank introduced changes in the Collective Labour Agreement by removing the provisions on the entitlement to anniversary bonuses and on retirement bonuses not arising from the Labour Code. A one-time policy on payment of awards and retirement bonuses providing rules for payment of certain awards and retirement bonuses to be implemented in July 2013 was launched.

The provision for severance payment arising from the Labour Code was created individually for each employee on the basis of an actuarial valuation performed by an external independent actuary. In the valuation, a list of people including all the necessary details of employees, in particular the length of their service, age and gender was used. Calculated amount of the provision is equal to discounted future payments, taking into account staff turnover.

A contribution of an increase/decrease in the financial discount rate to a decrease/increase in the amount of the provision for retirement and pension benefits is presented in the table below (in PLN millions):

Estimated change in provision	30.06.2013		31.12.2012	
	+0.25 pp. scenario	-0.25 pp. scenario	+0.25 pp. scenario	-0.25 pp. scenario
Provision for retirement and pension benefits*	(1)	1	(4)	4
Total	**(1)**	**1**	**(4)**	**4**

* As at 31 December 2012 the estimates included also anniversary bonuses

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

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

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

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

When the period of use of a given asset results from a contract term, the useful life of such an asset corresponds to the period defined in these contract terms. If, however, the estimated useful life is shorter than the period defined in the contract terms, the estimated useful life is applied. If the useful life of assets being subject to depreciation and classified as land and buildings was changed by +/- 10 years, it would influence the financial result as follows: a decrease in depreciation costs by PLN 14 million or an increase in depreciation costs by PLN 183 million respectively.

NOTES TO THE INCOME STATEMENT

3. Interest income and expense

Interest and similar income

	01.01-30.06.2013	01.01-30.06.2012
Interest income calculated using the effective interest rate method, with respect to financial assets, which are not measured at fair value through profit and loss, of which:	**4 880 644**	**5 517 104**
Income from loans and advances to customers, of which:	4 512 469	5 032 078
from impaired loans	256 824	224 030
Income from investment securities available for sale	271 730	361 892
Income from placements with banks	94 948	119 794
Other	1 497	3 340
Other income, of which:	**569 199**	**857 973**
Income from derivative hedging instruments (Note 15)	270 344	466 217
Income from financial assets designated upon initial recognition at fair value through profit and loss	263 906	359 288
Income from trading assets	34 949	32 468
Total	**5 449 843**	**6 375 077**

Interest expense and similar charges

	01.01-30.06.2013	01.01-30.06.2012
Interest expense calculated using the effective interest rate method, with respect to financial liabilities, which are not measured at fair value through profit and loss, of which:	**(2 236 528)**	**(2 387 527)**
Interest expense on amounts due to customers	(2 152 552)	(2 260 428)
Interest expense on debt securities in issue and subordinated liabilities	(57 698)	(107 728)
Premium expense on debt securities available for sale	(16 581)	(4 992)
Interest expense on deposits from banks	(9 697)	(14 379)
Other expense, of which:	**(6 976)**	**(815)**
Interest expense on trading assets	(4 073)	(682)
Interest expense on financial assets designated upon initial recognition at fair value through profit and loss	(2 903)	(133)
Total	**(2 243 504)**	**(2 388 342)**

CONDENSED INTERIM FINANCIAL STATEMENTS OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2013 (IN PLN THOUSAND)

4. Fee and commission income and expense

Fee and commission income

	01.01-30.06.2013	01.01-30.06.2012
Income from financial assets, which are not measured at fair value through profit and loss, of which:	**291 877**	**280 505**
Income from loans and advances granted	291 877	280 505
Other commissions	**1 552 075**	**1 467 593**
Income from payment cards	580 661	539 293
Income from maintenance of bank accounts	422 266	439 586
Income from loan insurance	260 999	202 821
Income from maintenance of investment funds (including management fees)	99 212	83 349
Income from cash transactions	57 457	61 994
Income from securities transactions	35 425	35 246
Income from servicing foreign mass transactions	24 965	24 124
Income from providing the services of an agent for the issue of Treasury bonds	11 265	21 856
Income from sale and distribution of court fee stamps	3 918	10 267
Other*	55 907	49 057
Income from fiduciary activities	**2 095**	**1 820**
Total	**1 846 047**	**1 749 918**

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

Fee and commission expense

	01.01-30.06.2013	01.01-30.06.2012
Expenses on payment cards	(288 627)	(213 419)
Expenses on loan insurance	(66 066)	(54 820)
Expenses on acquisition services	(45 714)	(47 960)
Expenses on settlement services	(13 496)	(11 025)
Expenses on fee and commissions for operating services rendered by banks	(5 366)	(5 040)
Other*	(44 070)	(38 466)
Total	**(463 339)**	**(370 730)**

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

5. Net income from financial instruments measured at fair value

	01.01-30.06.2013	01.01-30.06.2012
Change in fair value of financial instruments measured at fair value through profit and loss determined using the valuation techniques:	7 525	(2 019)
Derivative instruments, of which:	20 747	(1 496)
an ineffective portion related to cash flow hedges	497	(12 187)
Structured bank securities measured at fair value through profit and loss	(13 222)	(523)
Debt securities	(1 771)	16 625
Equity instruments	(1 903)	190
Total	**3 851**	**14 796**

(IN PLN THOUSAND)

01.01.2013-30.06.2013	Gains	Losses	Net result
Trading assets	10 250 100	(10 230 156)	19 944
Financial assets designated upon initial recognition at fair value through profit and loss	70 725	(86 818)	(16 093)
Total	**10 320 825**	**(10 316 974)**	**3 851**

01.01.2012-30.06.2012	Gains	Losses	Net result
Trading assets	8 304 581	(8 303 354)	1 227
Financial assets designated upon initial recognition at fair value through profit and loss	80 698	(67 129)	13 569
Total	**8 385 279**	**(8 370 483)**	**14 796**

6. Other operating income and expense

	01.01-30.06.2013	01.01-30.06.2012
Other operating income		
Sundry income	9 896	9 383
Sales and disposal of tangible fixed assets, intangible assets and assets held for sale	5 818	9 401
Recovery of expired and written-off loans	2 515	1 487
Other	14 936	12 759
Total	**33 165**	**33 030**

	01.01-30.06.2013	01.01-30.06.2012
Other operating expense		
Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(8 025)	(2 050)
Donations	(7 502)	(7 919)
Sundry expenses	(2 789)	(2 673)
Other	(9 587)	(13 028)
Total	**(27 903)**	**(25 670)**

(IN PLN THOUSAND)

7. Net impairment allowance and write-downs

For the six-month period ended 30 June 2013	Note	Value at the beginning of the period	Increases: Recognised during the period	Increases: Other	Decreases: Decrease due to derecognition of assets and settlement	Decreases: Reversed during the period	Value at the end of the period	Net – impact on the income statement
Investment securities available for sale	18	24 592	-	-	5 536	-	19 056	-
Equity securities not admitted to public trading		19 056	-	-	-	-	19 056	-
Debt securities available for sale		5 536	-	-	5 536	-	-	-
Amounts due from banks	12	30 792	405	2 113	-	794	32 516	389
Loans and advances to customers measured at amortised cost	17	6 228 629	2 991 311	64 200	548 043	2 069 209	6 666 888	(922 102)
Non-financial sector		6 161 413	2 973 572	63 695	547 917	2 061 832	6 588 931	(911 740)
corporate loans		3 102 026	1 586 606	17 523	326 227	975 775	3 404 153	(610 831)
housing loans		1 639 861	635 909	34 621	66 351	524 830	1 719 210	(111 079)
consumer loans		1 417 720	749 919	11 551	155 339	561 227	1 462 624	(188 692)
debt securities		1 806	1 138	-	-	-	2 944	(1 138)
Financial sector, corporate loans		45 226	17 520	459	-	718	62 487	(16 802)
Public sector		21 990	219	46	126	6 659	15 470	6 440
corporate loans		19 640	219	46	126	6 635	13 144	6 416
debt securities		2 350	-	-	-	24	2 326	24
Non-current assets held for sale		1 226	963	-	21	-	2 168	(963)
Tangible fixed assets		34	-	-	-	-	34	-
Intangible assets		17 154	-	-	-	-	17 154	-
Investments in subsidiaries, jointly controlled entities and associates	19	683 817	35 936	-	-	-	719 753	(35 936)
Other, of which:		379 383	133 681	1 110	16 894	208 611	288 669	74 930
provisions for legal claims, loan commitments and guarantees granted	27	217 873	106 699	778	-	182 399	142 951	75 700
Total		7 365 627	3 162 296	67 423	570 494	2 278 614	7 746 238	(883 682)

(IN PLN THOUSAND)

For the six-month period ended 30 June 2012	Note	Value at the beginning of the period	Increases		Decreases			Value at the end of the period	Net – impact on the income statement
			Recognised during the period	Other	Decrease due to derecognition of assets and settlement	Reversed during the period	Other		
Investment securities available for sale	**18**	**15 502**	**9 696**	**-**	**5 898**	**1 564**	**-**	**17 736**	**(8 132)**
Debt securities available for sale		12 998	-	-	5 898	1 564	-	5 536	1 564
Equity securities not admitted to public trading		2 504	9 696	-	-	-	-	12 200	(9 696)
Amounts due from banks	**12**	**33 710**	**409**	**-**	**-**	**281**	**388**	**33 450**	**(128)**
Loans and advances to customers measured at amortised cost	**17**	**4 982 790**	**2 900 896**	**31 397**	**604 375**	**1 881 673**	**23 552**	**5 405 483**	**(1 019 223)**
Non-financial sector		4 958 486	2 896 983	30 932	604 273	1 878 534	23 552	5 380 042	(1 018 449)
corporate loans		2 272 444	1 168 124	8 612	159 571	678 527	8 751	2 602 331	(489 597)
consumer loans		1 451 068	1 222 086	19 151	431 821	898 814	2 519	1 359 151	(323 272)
housing loans		1 234 974	506 773	3 169	12 881	301 193	12 282	1 418 560	(205 580)
Financial sector, corporate loans		8 525	2 565	160	102	2 178	-	8 970	(387)
Public sector, corporate loans		15 779	1 348	305	-	961	-	16 471	(387)
Non-current assets held for sale		**1 278**	**-**	**-**	**3**	**-**	**-**	**1 275**	**-**
Tangible fixed assets		**143**	**2 804**	**-**	**-**	**-**	**-**	**2 947**	**(2 804)**
Intangible assets		**18 017**	**3 695**	**-**	**-**	**-**	**-**	**21 712**	**(3 695)**
Investments in subsidiaries, jointly controlled entities and associates	**19**	**475 669**	**16 705**	**-**	**-**	**-**	**-**	**492 374**	**(16 705)**
Other, of which:		**293 282**	**108 577**	**-**	**26 139**	**67 225**	**264**	**308 231**	**(41 352)**
provisions for legal claims, loan commitments and guarantees granted	27	114 023	91 691	-	-	58 086	**220**	147 408	(33 605)
Total		5 820 391	3 042 782	31 397	636 415	1 950 743	24 204	6 283 208	(1 092 039)

8. Administrative expenses

	01.01-30.06.2013	01.01-30.06.2012
Staff costs	(1 076 520)	(1 114 517)
Overheads	(592 640)	(588 081)
Amortisation and depreciation	(254 671)	(237 659)
Taxes and other charges	(30 742)	(30 462)
Contribution and payments to the Bank Guarantee Fund	(76 871)	(71 994)
Total	**(2 031 444)**	**(2 042 713)**

Wages and salaries/employee benefits

	01.01-30.06.2013	01.01-30.06.2012
Wages and salaries*	(869 787)	(919 213)
Social insurance, of which:	(172 935)	(161 913)
contributions for retirement pay and pensions**	(146 010)	(134 948)
Other employee benefits	(33 798)	(33 391)
Total	**(1 076 520)**	**(1 114 517)**

* In line 'Wages and salaries' in the first half of 2013 the effect of release of provision for anniversary bonuses and retirement benefits in the amount of PLN 179 million was included.
** Total expense incurred by the Bank related to contributions for retirement pay and pensions.

9. Income tax expense

	01.01-30.06.2013	01.01-30.06.2012
Income statement		
Current income tax expense	(334 580)	(492 188)
Deferred income tax related to creating and reversal of temporary differences	(12 510)	4 804
Tax expense in the income statement	**(347 090)**	**(487 384)**
Deferred tax expense in other comprehensive income related to creating and reversal of temporary differences	78 399	42 233
Total	**(268 691)**	**(445 151)**

Deferred income tax asset

	30.06.2013	31.12.2012
Deferred income tax asset	434 896	369 007
Total	**434 896**	**369 007**

10. Earnings per share

Basic earnings per share

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

Earnings per share

	01.01-30.06.2013	01.01-30.06.2012
Profit per ordinary shareholder (in PLN thousand)	1 548 519	2 005 686
Weighted average number of ordinary shares during the period (in thousand)	1 250 000	1 250 000
Earnings per share (in PLN per share)	1.24	1.60

Earnings per share from discontinued operations

In the periods ended 30 June 2013 and 30 June 2012 respectively, there were no expenses or income from discontinued operations.

(IN PLN THOUSAND)

Diluted earnings per share

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

In the Bank there were no dilutive instruments in the first half of 2013 as well as in the first half of 2012.

Diluted earnings per share from discontinued operations

In the periods ended 30 June 2013 and 30 June 2012, the Bank did not report any expenses or income from discontinued operations.

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

In accordance with the Resolution No. 7/2013 and the Resolution No. 8/2013 of the Ordinary General Shareholders' Meeting of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna dated 20 June 2013, the dividend for 2012 was set in the amount of PLN 2 250 000 thousand, i.e. PLN 1.80 per share.

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

NOTES TO THE STATEMENT OF FINANCIAL POSITION

12. Amounts due from banks

	30.06.2013	31.12.2012
Receivables due from repurchase agreements	1 450 637	149 284
Deposits with banks	1 440 819	2 445 915
Current accounts	340 081	589 139
Loans and advances granted	203 867	299 516
Cash in transit	5 045	3 329
Total	**3 440 449**	**3 487 183**
Impairment allowances on receivables, of which:	(32 516)	(30 792)
impairment allowances on exposure to a foreign bank	(31 456)	(30 782)
Net total	**3 407 933**	**3 456 391**

Details on risk related to amounts due from banks were presented in Note 38 'Credit risk management in PKO Bank Polski SA'.

13. Trading assets

	30.06.2013	31.12.2012
Debt securities	**3 370 030**	**278 240**
issued by the State Treasury, of which:	3 281 200	216 521
Treasury bonds	2 688 910	216 521
Treasury bills	592 290	-
issued by local government bodies, municipal bonds	43 441	26 673
issued by non-financial institutions, corporate bonds	29 980	15 064
issued by other financial institutions, of which:	14 198	18 611
bonds issued by WSE	9 145	13 880
bonds issued by PKO Finance AB	4 890	4 664
corporate bonds	163	67
issued by banks, of which:	1 211	1 371
BGK bonds	1 211	1 361
Shares in other entities listed on stock exchange	**10 998**	**3 237**
Investment certificates	**853**	**713**
Rights issues	**-**	**40**
Total	**3 381 881**	**282 230**

As at 30 June 2013, in the trading assets portfolio, the carrying amount of assets pledged as collateral for liabilities due to sell-buy-back transactions was PLN 1 540 718 thousand (as at 31 December 2012, in the trading assets portfolio, there were no liabilities due to sell-buy-back transactions).

As at 30 June 2013 and as at 31 December 2012 the portfolio did not include Treasury securities denominated in foreign currencies.

(IN PLN THOUSAND)

14. Derivative financial instruments

Derivative instruments used by the Bank

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

As at 30 June 2013 and as at 31 December 2012, the Bank held the following types of derivative instruments:

	30.06.2013		31.12.2012	
	Assets	Liabilities	Assets	Liabilities
Hedging instruments	224 780	660 870	498 130	224 373
Other derivative instruments	3 100 496	3 024 203	3 363 326	3 739 797
Total	**3 325 276**	**3 685 073**	**3 861 456**	**3 964 170**

Type of contract	30.06.2013		31.12.2012	
	Assets	Liabilities	Assets	Liabilities
IRS	2 883 265	2 719 522	3 222 693	3 183 816
CIRS	190 218	791 493	357 675	370 043
FX Swap	83 417	32 103	109 819	207 538
Options	56 789	40 928	63 301	61 932
Forward	39 613	32 000	33 190	60 742
FRA	67 780	62 580	74 608	78 693
Other	4 194	6 447	170	1 406
Total	**3 325 276**	**3 685 073**	**3 861 456**	**3 964 170**

(IN PLN THOUSAND)

15. Derivative hedging instruments

As at 30 June 2013, the Bank applies the following hedging strategies:

Hedging strategy:	**Hedges against fluctuations in cash flows from mortgage loans in CHF and negotiated term deposits in PLN, resulting from the risk of fluctuations in interest rates and in foreign exchange rates, using CIRS transactions**	**Hedges against fluctuations in cash flows from floating interest rate loans in PLN, resulting from the risk of fluctuations in interest rates, using IRS transactions**	**Hedges against fluctuations in cash flows from floating interest rate loans in EUR, resulting from the risk of fluctuations in interest rates, using IRS transactions**	**Hedges against fluctuations in cash flows from floating interest rate loans in CHF, resulting from the risk of fluctuations in interest rates, using IRS transactions**	**Hedges against fluctuations in cash flows from floating interest rate loans in foreign currencies, resulting from the risk of fluctuations in interest rates and from foreign exchange rate risk, and hedges against fluctuations in cash flows from fixed interest rate financial liability in foreign currencies, resulting from foreign exchange rate risk , using CIRS transactions**
Description of hedge relationship	Elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in CHF and negotiated term deposits in PLN resulting from fluctuations in reference interest rates in CHF and PLN, and changes in foreign exchange rates CHF/PLN during the hedged period.	Elimination of the risk of cash flow fluctuations generated by floating interest rate PLN loan portfolio resulting from the interest rate risk in the period covered by the hedge.	Elimination of the risk of cash flow fluctuations generated by floating interest rate EUR loan portfolio resulting from the interest rate risk in the period covered by the hedge.	Elimination of the risk of cash flow fluctuations generated by floating interest rate CHF loan portfolio resulting from the interest rate risk in the period covered by the hedge.	Elimination of the risk of cash flow fluctuations of floating interest rate loans in foreign currencies, resulting from the risk of fluctuations in interest rates and from foreign exchange rate risk, and elimination of the risk of cash flow fluctuations of fixed interest rate financial liability in foreign currency, resulting from foreign exchange rate risk, using CIRS transactions.
Hedged risk	Currency risk and interest rate risk.	Interest rate risk.	Interest rate risk.	Interest rate risk.	Currency risk and interest rate risk.
Hedging instrument	CIRS transactions where the Bank pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal value defined in CHF and PLN respectively.	IRS transactions where the Bank pays coupons based on floating 3M WIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded.	IRS transactions where the Bank pays coupons based on floating 3M EURIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded.	IRS transactions where the Bank pays coupons based on floating 3M CHF LIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded.	CIRS transactions where the Bank pays coupons based on floating 3M CHF LIBOR rate, and receives coupons based on a fixed USD rate on the nominal value for which they were concluded.
Hedged position	1) The portfolio of floating interest rate mortgage loans denominated in CHF. 2) The portfolio of short-term negotiated term deposits, including renewals in the future (high probability of occurrence). The Bank designated the hedged position according to the regulations of IAS 39.AG.99C as adopted by the European Union.	The portfolio of loans in PLN indexed to the floating 3M WIBOR rate.	The portfolio of loans in EUR indexed to the floating EURIBOR rate.	The portfolio of loans in CHF indexed to the floating 3M CHF LIBOR rate.	1) The portfolio of floating interest rate mortgage loans denominated in CHF 2) Fixed interest rate financial liability denominated in USD.
Periods in which cash flows are expected and in which they should have an impact on the financial result	July 2013 to October 2026	July 2013 to March 2016	July 2013 to June 2016	July 2013 to July 2016	July 2013 to September 2022

As at 30 June 2013 and as at 31 December 2012, the Bank did not use the fair value hedge. All types of hedging relationships applied by the Bank are cash flow hedge accounting (macro cash flow hedge). Hedge effectiveness is verified through the use of prospective and retrospective effectiveness. Tests are performed monthly.

Cash flow hedges

The fair value of derivative instruments constituting cash flow hedges related to the interest rate and/or foreign exchange rate as at 30 June 2013 and as at 31 December 2012 amounted respectively to:

Type of instrument:	Carrying amount/fair value			
	30.06.2013		31.12.2012	
	Assets	Liabilities	Assets	Liabilities
IRS	212 529	362	256 223	54
CIRS	12 251	660 508	241 907	224 319
Total	**224 780**	**660 870**	**498 130**	**224 373**

The nominal value of hedging instruments by maturity as at 30 June 2013 and as at 31 December 2012.

Type of instrument:	Nominal value as at 30 June 2013					
	up to 1 month	1 - 3 months	3 months – 1 year	1 – 5 years	over 5 years	Total
IRS in PLN thousand	738 000	-	3 632 000	250 000	-	**4 620 000**
IRS						
in PLN thousand	-	-	-	2 043 382	-	**2 043 382**
in EUR thousand	-	-	-	472 000	-	**472 000**
IRS						
in PLN thousand	-	-	-	876 950	-	**876 950**
in CHF thousand	-	-	-	250 000	-	**250 000**
CIRS						
in PLN thousand	504 990	2 080 965	2 323 168	6 625 723	2 010 240	**13 545 085**
in CHF thousand	150 000	600 000	675 000	2 000 000	575 000	**4 000 000**
CIRS						
in USD thousand	-	-	-	-	750 000	**750 000**
in CHF thousand	-	-	-	-	695 419	**695 419**

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

(IN PLN THOUSAND)

Other comprehensive income as regards cash flow hedges	01.01-30.06.2013	01.01-30.06.2012
Other comprehensive income at the beginning of the period, gross	64 073	447 142
Gains transferred to other comprehensive income in the period	(433 333)	47 656
Amount transferred from other comprehensive income to income statement, of which:	188 279	(289 632)
-interest income	(270 344)	(466 217)
-net foreign exchange gains (losses)	458 623	176 585
Accumulated other comprehensive income at the end of the period, gross	**(180 981)**	**205 166**
Tax effect	**34 386**	**(38 982)**
Accumulated other comprehensive income at the end of the period, net	**(146 595)**	**166 184**
Ineffective part of cash flow hedges recognised through profit and loss	**497**	**(12 187)**
Effect on other comprehensive income in the period, gross	**(245 054)**	**(241 976)**
Deferred tax on cash flow hedges	**46 560**	**45 975**
Effect on other comprehensive income in the period, net	**(198 494)**	**(196 001)**

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

	30.06.2013	31.12.2012
Debt securities	**12 633 327**	**12 614 917**
issued by central banks, NBP money market bills	10 394 854	9 995 300
issued by the State Treasury, of which:	1 983 888	2 363 089
Treasury bonds PLN	1 761 214	1 322 226
Treasury bills	222 674	1 040 863
issued by local government bodies, of which:	254 585	256 528
municipal bonds EUR	147 416	145 343
municipal bonds PLN	107 169	111 185
Total	**12 633 327**	**12 614 917**

17. Loans and advances to customers

	30.06.2013	31.12.2012
Loans and advances to customers, gross, of which::	**153 815 321**	**148 313 487**
financial sector	3 979 660	3 177 999
corporate, of which:	3 979 660	3 177 999
receivables due from repurchase agreements	361 030	-
deposits of the Brokerage House of PKO Bank Polski SA in the Stock Exchange Guarantee Fund and initial deposit	14 492	8 779
non-financial sector	142 218 988	137 530 488
Housing	74 873 331	72 059 644
corporate, of which:	45 501 019	42 719 131
contributions to equity of subsidiaries	215 460	214 209
Consumer	20 935 788	21 848 645
debt securities	908 850	903 068
public sector	7 616 673	7 605 000
Corporate	6 448 561	6 429 961
Housing	4 926	-
debt securities	1 163 186	1 175 039
Impairment allowances on loans and advances to customers	**(6 666 888)**	**(6 228 629)**
Loans and advances to customers, net	**147 148 433**	**142 084 858**

(IN PLN THOUSAND)

	30.06.2013	31.12.2012
Loans and advances to customers		
Assessed on an individual basis, of which:	7 623 808	7 100 715
impaired	5 601 831	5 552 524
not impaired	2 021 977	1 548 191
Assessed on a portfolio basis, impaired	7 372 742	6 764 251
Assessed on a group basis (IBNR)	138 818 771	134 448 521
Loans and advances to customers, gross	**153 815 321**	**148 313 487**
Allowances on exposures assessed on an individual basis, of which:	(2 301 806)	(2 261 663)
impaired	(2 172 366)	(2 165 236)
Allowances on exposures assessed on a portfolio basis	(3 684 854)	(3 424 393)
Allowances on exposures assessed on a group basis (IBNR)	(680 228)	(542 573)
Allowances - total	**(6 666 888)**	**(6 228 629)**
Loans and advances to customers, net	**147 148 433**	**142 084 858**

A detailed description of changes in allowances has been presented in the Note 7 'Net impairment allowance and write-downs'.

By client segment	30.06.2013	31.12.2012
Loans and advances granted, gross, of which:	**153 815 321**	**148 313 487**
mortgage banking	67 031 644	63 960 739
corporate	43 652 113	41 351 050
retail and private banking	20 935 788	21 848 645
small and medium enterprises	15 013 067	14 309 022
housing market clients	6 591 727	6 621 043
contributions to equity of subsidiaries	215 460	214 209
receivables due from repurchase agreements	361 030	-
other receivables	14 492	8 779
Impairment allowances on loans and advances	**(6 666 888)**	**(6 228 629)**
Loans and advances granted, net	**147 148 433**	**142 084 858**

As at 30 June 2013, the share of impaired loans amounted to 8.4% (as at 31 December 2012: 8.3%), whereas the coverage ratio of impaired loans (calculated as total impairment allowances on loans and advances to customers divided by gross carrying amount of impaired loans) amounted to 51.4% (as at 31 December 2012: 50.6%).

As at 30 June 2013, the share of loans overdue by more than 90 days in the gross amount of loans and advances was 5.7% (as at 31 December 2012: 5.6%).

18. Investment securities available for sale

	30.06.2013	31.12.2012
Debt securities available for sale, gross	**13 455 378**	**11 922 509**
issued by the State Treasury, Treasury bonds	9 453 074	7 619 522
issued by local government bodies, municipal bonds	2 639 446	2 780 212
issued by non-financial institutions, corporate bonds	1 031 194	1 315 490
issued by other financial institutions, corporate bonds	280 948	156 393
issued by banks, corporate bonds	50 716	50 892
Impairment allowances of debt securities available for sale	-	**(5 536)**
corporate bonds	-	(5 536)
Total net debt securities available for sale	**13 455 378**	**11 916 973**
Equity securities available for sale, gross	**207 044**	**163 489**
Equity securities not admitted to public trading	170 756	130 991
Equity securities admitted to public trading	36 288	32 498
Impairment allowances of equity securities available for sale	**(19 056)**	**(19 056)**
Total net equity securities available for sale	**187 988**	**144 433**
Total net investment securities available for sale	**13 643 366**	**12 061 406**

CONDENSED INTERIM FINANCIAL STATEMENTS OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2013 (IN PLN THOUSAND)

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

As at 30 June 2013	nominal value	fair value	carrying amount
municipal bonds	1 144 520	1 163 573	1 160 860
corporate bonds	885 540	888 830	887 398
Total	**2 030 060**	**2 052 403**	**2 048 258**

*Relates to portfolios reclassified in the third and the fourth quarter of 2012.

19. Investments in subsidiaries, jointly controlled entities and associates

As at 30 June 2013, the Bank's investments in subsidiaries, jointly controlled entities and associates have been recognised at acquisition cost adjusted by impairment allowances.

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

As at 30 June 2013	Gross value	Impairment	Carrying amount
Subsidiaries			
KREDOBANK SA	935 619	(603 723)	331 896
PKO BP BANKOWY PTE SA	205 786	-	205 786
PKO Towarzystwo Funduszy Inwestycyjnych SA	186 989	-	186 989
PKO Leasing SA [1]	90 000	-	90 000
Fort Mokotów Inwestycje Sp. z o.o.	77 474	-	77 474
Inteligo Financial Services SA	59 602	-	59 602
Centrum Elektronicznych Usług Płatniczych eService SA	55 500	-	55 500
Bankowe Towarzystwo Kapitałowe SA	22 066	(10 666)	11 400
'Inter Risk Ukraina' Additional Liability Company	19 713	(19 713)	-
PKO BP Finat Sp. z o.o.	11 693	-	11 693
Qualia Development Sp. z o.o. [2]	4 503	-	4 503
PKO Finance AB	172	-	172
Jointly controlled entities			
CENTRUM HAFFNERA Sp. z o.o.	44 371	(44 371)	-
Centrum Obsługi Biznesu Sp. z o.o.	17 498	-	17 498
Associates			
Bank Pocztowy SA	146 500	(39 780)	106 720
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	(1 500)	-
Total	**1 878 986**	**(719 753)**	**1 159 233**

1) Formerly Bankowy Fundusz Leasingowy SA; change in name was registered with the National Court Register on 27 March 2013.
2) Value does not include capital contributions of PKO Bank Polski SA, presented in the item 'Loans and advances to customers' in the total amount of PLN 215 460 thousand.

In the first half of 2013, on the basis of the conducted valuation, PKO Bank Polski SA increased impairment allowances on shares of KREDOBANK SA by the amount of PLN 30 million and increased impairment allowances on shares of CENTRUM HAFFNERA Sp. z o.o. by the amount of PLN 5 936 thousand, and also reclassified (in accordance with IFRS 5) all of its shares of Agencja Inwestycyjna CORP-SA SA to assets held for sale.

Impairment allowances on shares of KREDOABNK SA were recognised on the basis of an estimate of value in use calculated based on the present value of current adjusted, estimated future cash flows, in accordance with the methodology adopted for the evaluation at the end of 2012.

(IN PLN THOUSAND)

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

1) Value does not include capital contributions of PKO Bank Polski SA for taking up shares in the increased share capital of the Company in the amount of PLN 20 000 thousand presented in the item 'Other assets'.
2) Value does not include capital contributions of PKO Bank Polski SA, presented in the item 'Loans and advances to customers' in the total amount of PLN 214 209 thousand.

Selected information on associates

	Total assets	Total liabilities	Total revenue	Net Profit	% share
30.06.2013					
The Bank Pocztowy SA Group	6 903 607	6 526 313	289 283	11 517	25.0001
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	20 514	4 062	119	37	33.33
Total	**6 924 121**	**6 530 375**	**289 402**	**11 554**	X
31.12.2012					
The Bank Pocztowy SA Group	7 132 308	6 759 184	589 264	45 386	25.0001
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	19 770	3 356	402	1 492	33.33
Agencja Inwestycyjna CORP-SA SA	3 976	1 990	12 587	1 180	22.31
Total	**7 156 054**	**6 764 530**	**602 253**	**48 058**	X

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

As at 30 June 2013 and as at 31 December 2012 the Bank had no share in contingent liabilities of associates acquired jointly with other investors.

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

1) **Changes in names of the Bankowy Fundusz Leasingowy SA Group entities**

In March 2013 the Bankowy Fundusz Leasingowy SA Group entities changed their names, including:

- Bankowy Fundusz Leasingowy SA changed its name to PKO Leasing SA; the above mentioned change was registered with the National Court Register on 27 March 2013,
- Bankowy Leasing Sp. z o.o. changed its name to PKO Bankowy Leasing Sp. z o.o.; the above mentioned change was registered with the National Court Register on 28 March 2013.

2) **Increase in the share capital of PKO Leasing SA**

On 19 March 2013 an increase in the share capital of PKO Leasing SA of PLN 20 000 thousand was registered with the National Court Register. As a result of the above mentioned increase, the Company's share capital amounts to PLN 90 000 thousand and consists of 9 000 000 shares, each of PLN 10 nominal value.

All the shares in the increased Company's share capital were acquired by PKO Bank Polski SA for a price equal to the nominal value of the shares taken up.

As a result of the above mentioned transactions PKO Bank Polski SA still remains the sole shareholder of PKO Leasing SA.

3) **Increase in the share capital of Fort Mokotów Inwestycje Sp. z o.o.**

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

The shares in the increased share capital were acquired by the present shareholders, of which PKO Bank Polski SA acquired 4 193 shares with the total nominal value of PLN 4 193 thousand, and Qualia Development Sp. z o.o. acquired 1 share.

4) **Changes in the Qualia Development Sp. z o.o. Group**

In the first half of 2013 in the Qualia Development Sp. z o.o. Group:

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

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

c) on 12 April 2013 all the terms and conditions of the agreement relating to the purchase of 44% of shares in the share capital of Sarnia Dolina Sp. z o.o. by Qualia Development Sp. z o.o. from Przedsiębiorstwo Robót Inżynieryjnych 'Pol-Aqua' SA were met; thus Qualia Development Sp. z o.o. became the sole shareholder of Sarnia Dolina Sp. z o.o. The above mentioned change was registered with the National Court Register on 16 May 2013.

d) On 17 April 2013 Giełda Nieruchomości Wartościowych Sp. z o.o. was registered with the National Court Register; the Company's share capital amounts to PLN 5 thousand and consists of 100 shares at nominal value of PLN 50 each. 99 shares at total nominal value of PLN 4 950 were taken up by Qualia Development Sp. z o.o., and 1 share was taken up by Qualia Sp. z o,o,

e) On 16 May 2013 an increase in the share capital of Sarnia Dolina Sp. z o.o. of PLN 6 924 thousand was registered with the National Court Register. As a result of the above mentioned increase, the share capital of the Company amounts to PLN 6 974 thousand and consists of 13 948 shares, each of PLN 500 nominal value. The shares in the increased Company's share capital were acquired by Qualia Development SA (from 12 April 2013 the sole shareholder of the Company).

f) the following additional payments were made:

- PKO Bank Polski SA made additional payment to Qualia Development Sp. z o.o. in the amount of PLN 1 251 thousand,
- Qualia Development Sp. z o.o. made additional payment to Sarnia Dolina Sp. z o.o . in the amount of PLN 157.5 thousand,
- Qualia Development Sp. z o.o. made additional payment to Qualia - Residence Sp. z o.o. in the amount of PLN 73 thousand.

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

On 12 June 2013 PKO Bank Polski SA and Nordea Bank AB (publ) signed an agreement setting out the terms of an acquisition from Nordea Bank AB (publ) and other entities from the Nordea Group of:

- shares of Nordea Bank Polska SA representing 99.21% of the share capital of the Company together with a portfolio of corporate loans to customers of Nordea Bank AB (publ) at nominal value of PLN 3 604 million as at 31 December 2012,
- shares of Nordea Polska Towarzystwo Ubezpieczeń na Życie SA representing 100% of the share capital of the Company,
- shares of Nordea Finance Polska SA representing 100% of the share capital of the Company.

The above mentioned transaction depends on approval of the Polish Financial Supervision Authority and the President of the Competition and Consumers Protection Office in Poland, as well as of consent of the Ukrainian Antimonopoly Committee. Following the closing of the transaction it is intended to buy-out the remaining shares of minority shareholders of Nordea Bank Polska SA.

Detailed information regarding above mentioned agreement is included in Note 20 'The acquisition of the Nordea Bank AB (publ) Group entities by PKO Bank Polski SA'..

In 2013 the Bank continued work related to developing and creating a strategic alliance model in the area of payments realised by the Bank and its subsidiary Centrum Elektronicznych Usług Płatniczych eService SA. The above mentioned project takes into account the possibility of the Bank's selling the control package of the above mentioned Company. By the end of June 2013, no binding decisions concerning transactions were taken.

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

1) **Changes to the CENTRUM HAFFNERA Sp. z o.o. Group**

In connection with the completion of the project on 10 May 2013, the Extraordinary General Shareholders' Meeting of Kamienica Morska Sp. z o.o. passed the resolution to dissolve the Company and commence its liquidation on 1 June 2013.

2) **Reclassification of shares of Agencja Inwestycyjna CORP-SA SA to assets held for sale**

In April 2013, PKO Bank Polski SA, taking into account the status of work related to the sale of Agencja Inwestycyjna CORP-SA SA's shares reclassified all its shares in above mentioned Company to assets held for sale (in accordance with IFRS 5).

So far, the Company was an associate of the Bank, consolidated using the equity method.

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

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

1) Nordea Bank Polska SA

The transaction concerns the acquisition of 55 061 403 shares of the Company at nominal value of PLN 5 each, representing 99.21% of the share capital of the Company which will be acquired in a public tender offer for the sale of shares. The purchase price set out in the Agreement is PLN 2 642 million and will be subject to adjustment related to the financial performance of Nordea Bank Polska SA.

2) Nordea Polska Towarzystwo Ubezpieczeń na Życie SA

The transaction concerns the acquisition of 1 725 329 shares of the Company at nominal value of PLN 111.59 each, representing 100% of the share capital of the Company. The purchase price set out in the Agreement is PLN 180 million and will be subject to adjustment related to the financial performance of Nordea Polska Towarzystwo Ubezpieczeń na Życie SA.

3) Nordea Finance Polska SA

The transaction concerns the acquisition of 4 100 000 shares of the Company at nominal value of PLN 1 each, representing 100% of the share capital of the Company. The purchase price set out in the Agreement is PLN 8 million and will not be subject to any adjustment.

The agreement also provides for the acquisition of the portfolio of corporate loans to customers of Nordea Bank AB (publ) at nominal value of PLN 3 604 million as at 31 December 2012.

One of the elements of the above mentioned transaction (the 'Transaction') is that the Nordea Group will keep financing the mortgage loans portfolio granted by Nordea Bank Polska SA ('Mortgage Portfolio'). The financing will be provided by granting by Nordea Bank AB (publ) a funding facility for PKO Bank Polski SA up to CHF 3 869.4 million, EUR 501 million and USD 4.5 million for a period of up to seven years, with a three-year grace period of the repayment ('Funding Facility'). The Funding Facility agreement is to be concluded between Nordea Bank AB (publ) and PKO Bank Polski SA on the Transaction closing date. The Funding Facility is to be secured with a security assignment of the Mortgage Portfolio loans executed in favour of Nordea Bank AB (publ) by Nordea Bank Polska SA. The average effective margin in the maximum funding period under the Funding Facility is set at 63 basis points above the relevant reference rate. No fees for granting funding are provided under the Funding Facility.

PKO Bank Polski SA will on-lend the funds received under the Funding Facility to Nordea Bank Polska SA in the form of a push-down facility amounting to CHF 3 869.4 million, EUR 501 million and USD 4.5 million for a period of up to seven years, with a three-year grace period of the repayment . The push-down facility will be unsecured. The financial terms of the push-down facility (credit margin, commission) are established at arm's length.

Additionally, as part of the Transaction the Nordea Group agrees to share the agreed portion of default risk of the Mortgage Portfolio on the terms set out in the credit risk sharing agreement that will be signed by Nordea Bank AB (publ) and PKO Bank Polski SA on the Transaction closing date (the 'Risk Sharing Agreement'). In line with the Risk Sharing Agreement for a period of four years following the closing of the Transaction Nordea Bank AB (publ) will bear 50% of the excess of the Mortgage Portfolio risk cost over an annual risk cost level set at 40 basis points for each year of the said four-year duration of the Risk Sharing Agreement.

Nordea Bank AB (publ) agrees to maintain subordinated loans granted for the Nordea Bank Polska SA amounting to CHF 68 million and CHF 224 million with maturity dates in 2019 and 2022, respectively (the 'Subordinated Loans'). According to the Agreement, the Subordinated Loans shall be repaid five years before the maturity date specified in the relevant Subordinated Loan agreements, subject to obtaining all necessary regulatory approvals for each repayment.

Additionally, within the framework of the Transaction, Nordea Bank AB (publ) undertook to procure that Nordea Bank Polska SA offers to PKO Bank Polski SA, on the day of closing of the Transaction, subscription warrants authorizing PKO Bank Polski SA to acquire shares of a new issue of Nordea Bank Polska SA (the 'New Shares') at the issue price offered in the public tender offer for the sale of Nordea Bank Polska SA's shares. The purpose of the acquisition of the New Shares by PKO Bank Polski SA is to ensure a proper level of capital adequacy of that Bank in connection with the Transaction.

The closing of the Transaction depends on the terms of closing of the Transaction specified in the Agreement (suspensive conditions) which include, among other things, the following:

- PKO Bank Polski SA obtains a clearance for taking control over Nordea Bank Polska SA, Nordea Polska Towarzystwo Ubezpieczeń na Życie SA and Nordea Finance Polska SA from the President of the Competition and Consumer Protection Office;
- PKO Bank Polski SA obtains a clearance for taking control over Nordea Bank Polska SA, Nordea Polska Towarzystwo Ubezpieczeń na Życie S.A and Nordea Finance Polska SA from the Ukrainian Antimonopoly Committee,
- the Polish Financial Supervision Authority issues approval decisions confirming that there is no objection to the acquisition by PKO Bank Polski SA of Nordea Bank Polska SA shares and Nordea Polska Towarzystwo Ubezpieczeń na Życie SA shares in a number resulting in exceeding a 50% share in the share capital and the total number of votes at the General Shareholders' Meeting of these companies,
- the Nordea Group provides within an outsourcing agreement the IT support that enable safe functioning of Nordea Bank Polska SA in the period prior to migration to PKO Bank Polski SA's IT systems,
- the competent registry court registers the conditional share capital increase of Nordea Bank Polski SA in order to enable PKO Bank Polski SA to subscribe for the New Shares.

(IN PLN THOUSAND)

Following the closing of the Transaction, PKO Bank Polski SA intends to buy-out the remaining shares of minority shareholders of Nordea Bank Polska SA in order to acquire the remaining shares of Nordea Bank Polska SA, and then to take actions necessary to re-dematerialise and de-list the shares of Nordea Bank Polska SA from the regulated market operated by the Warsaw Stock Exchange. Then the merger of Nordea Bank Polska SA with PKO Bank Polski SA by transferring the whole asset of Nordea Bank Polska SA into PKO Bank Polski SA (merger by acquisition).

The Transaction is aligned with the Strategy of PKO Bank Polski SA for the years 2013 – 2015 and is intended to strengthen the position of PKO Bank Polski SA as the leader of the Polish banking sector, broaden its distribution channels and contribute to the quality of services. The implementation of the Transaction will significantly improve the position of PKO Bank Polski SA in a segment of affluent retail clients, enhance its competence in the corporate banking segment and contribute to a growth of the bancassurance business.

On 19 June 2013 PKO Bank Polski SA submitted - through the Brokerage House of PKO Bank Polski, to Polish Financial Supervision Authority, Warsaw Stock Exchange and Polish Press Agency, the content of the public tender offer for the sale of 55 498 700 shares in Nordea Bank Polska SA with a registered office in Gdynia, representing 100 % votes at the General Shareholders' Meeting of this entity. The Public Tender Offer was announced pursuant to Art. 74.1 of the Act on Public Offering in connection with the agreement relating to the acquisition by the Bank of 99.21% of the shares in Nordea Bank Polska SA from Nordea Bank AB (publ). Information regarding the Transaction and the announcement of a public tender offer were communicated in current reports (respectively No. 37/2013 of 12 June 2013 and No. 40/2013 of 19 June 2013).

21. Intangible assets and tangible fixed assets

Intangible assets	30.06.2013	31.12.2012
Software	1 507 301	1 418 873
Other, of which:	161 746	262 247
capital expenditure	142 401	244 042
goodwill related to assets acquired from subsidiary	7 785	7 785
Total	**1 669 047**	**1 681 120**

Tangible fixed assets	30.06.2013	31.12.2012
Land and buildings	1 676 432	1 629 368
Machinery and equipment	435 013	390 331
Assets under construction	139 830	251 065
Means of transport	243	253
Investment properties	193	238
Other	140 679	111 403
Total	**2 392 390**	**2 382 658**

In the six-month period ended 30 June 2013, there were no significant transactions of purchase and sale of tangible fixed assets and significant liabilities due to purchase of tangible fixed assets.

22. Amounts due to banks

	30.06.2013	31.12.2012
Loans and advances received	1 441 618	1 393 048
Bank deposits	1 401 426	1 006 347
Amounts due from repurchase agreements	65 618	-
Current accounts	48 116	71 539
Other money market deposits	46 570	31 954
Total	**3 003 348**	**2 502 888**

In the six-month period ended 30 June 2013, loans and advances received were paid on a timely manner and with no significant violations of loans or advances agreements.

(IN PLN THOUSAND)

23. Amounts due to customers

	30.06.2013	31.12.2012
Amounts due to retail clients	**115 993 090**	**110 127 352**
Term deposits	65 745 360	62 895 895
Current accounts and overnight deposits	50 007 836	47 026 306
Other money market deposits	239 894	205 151
Amounts due to corporate entities	**37 431 427**	**41 154 325**
Term deposits	14 034 351	17 381 502
Loans and advances received, of which:	11 398 859	10 709 239
- received from PKO Finance AB*	9 794 747	9 171 845
Current accounts and overnight deposits	9 852 768	11 545 398
Amounts due from repurchase agreements	1 478 050	851 416
Other money market deposits	667 399	666 770
Amounts due to State budget entities	**4 451 260**	**3 458 897**
Current accounts and overnight deposits	2 911 134	2 870 735
Term deposits	1 471 261	562 397
Other money market deposits	68 865	25 765
Total	**157 875 777**	**154 740 574**

* In 'Loans and advances received' there are included received loans of EUR 850 000 thousand and CHF 750 000 thousand and USD 1 000 000 thousand respectively from PKO Finance AB, the Bank's subsidiary, as funds gathered through Eurobonds issue.

In the six-month period ended 30 June 2013, loans and advances received were paid in a timely manner and with no significant violations of loans or advances agreements.

By client segment	30.06.2013	31.12.2012
Amounts due to customers, of which:		
retail and private banking	111 714 709	105 799 406
corporate	20 355 643	23 967 961
loans and advances received	11 398 859	10 709 239
small and medium enterprises	8 426 685	8 766 193
housing market clients	4 501 831	4 646 359
amounts due from repurchase agreements	1 478 050	851 416
Total	**157 875 777**	**154 740 574**

24. Debt securities in issue

	30.06.2013	31.12.2012
Debt securities in issue		
Financial instruments measured at fair value through profit and loss - bank securities issued by PKO Bank Polski SA	423 193	368 622
Financial instruments measured at amortised cost – bank bonds issued by PKO Bank Polski SA	494 587	497 283
Total	**917 780**	**865 905**

	30.06.2013	31.12.2012
Debt securities in issue by remaining maturity:		
from 1 month to 3 months	70 507	497 283
from 3 months to 1 year	707 664	182 150
from 1 year to 5 years	139 609	186 472
Total	**917 780**	**865 905**

In the six-month period of 2013, the Bank issued bank securities and bank bonds at nominal value of PLN 1 444 258 thousand classified respectively as liabilities measured at fair value through profit and loss, in accordance with IAS 39.11A.a and measured at amortised cost. In the first half of 2013, bank securities and bank bonds at nominal value of PLN 1 397 096 thousand were redeemed.

(IN PLN THOUSAND)

25. Subordinated liabilities

As at 30 June 2013

Subordinated liabilities	Nominal value	Currency	Interest rate (%)	Maturity date	Carrying Amount
Subordinated bonds	1 600 700	PLN	5.12	14.09.2022	1 624 355

As at 31 December 2012

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

Change in subordinated liabilities

For the period ended	01.01-30.06.2013	01.01-30.06.2012
Subordinated liabilities as at the beginning of the period	**1 631 256**	**1 614 377**
Increases, of which:	**45 488**	**47 503**
accrued interest	45 401	47 360
Other	87	143
Decreases, of which:	**(52 389)**	**(47 511)**
repayment of interest	(52 389)	(47 511)
Subordinated liabilities as at the end of the period	**1 624 355**	**1 614 369**

26. Other liabilities

	30.06.2013	31.12.2012
Accounts payable	365 404	318 690
Deferred income	401 972	343 366
Other liabilities, of which:	3 782 014	1 137 307
dividends declared	2 250 000	-
payment of anniversary bonuses and retirement benefits	186 900	-
Total	**4 549 390**	**1 799 363**

As at 30 June 2013 and as at 31 December 2012, PKO Bank Polski SA had no overdue contractual liabilities.

27. Provisions

For the six-month period ended 30 June 2013	Provision for legal claims	Provisions for retirement benefits and anniversary bonuses	Provisions for loan commitments and guarantees granted	Other provisions*	Total
Provisions as at the beginning of the period, of which:	**2 254**	**429 728**	**215 619**	**71 494**	**719 095**
Short term provision	**2 254**	**36 068**	**149 681**	**71 494**	**259 497**
Long term provision	**-**	**393 660**	**65 938**	**-**	**459 598**
Increase/reassessment of provision	-	537	106 699	11 640	**118 876**
Use of provision	-	(193 142)	-	(10 044)	**(203 186)**
Release of provision	-	(179 429)	(182 399)	-	**(361 828)**
Transfers and other changes	-	(25 380)	778	25 380	**778**
Provisions as at the end of the period, of which:	**2 254**	**32 314**	**140 697**	**98 470**	**273 735**
Short term provision	**2 254**	**1 285**	**106 699**	**98 470**	**208 708**
Long term provision	**-**	**31 029**	**33 998**	**-**	**65 027**

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

(IN PLN THOUSAND)

In May 2013 the Bank introduced changes in the Collective Labour Agreement by removing the provisions on the entitlement to anniversary bonuses and on retirement bonuses not arising from the Labour Code. A one-time policy on payment of awards and retirement bonuses providing rules for payment of certain awards and retirement bonuses to be implemented in July 2013 was launched.

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

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

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

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

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

OTHER NOTES

28. Contingent liabilities

Underwriting programmes

As at 30 June 2013 and as at 31 December 2012, the Bank's underwriting agreements covered the following securities:

Issuer of securities underwritten	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreement	Contract period	Sub-issue type
As at 30 June 2013				
Company A	corporate bonds	1 633 000	15.06.2022	Bonds Issue Agreement*
Company B	corporate bonds	800 000	31.07.2015	Bonds Issue Agreement*
Company C	corporate bonds	102 700	31.10.2013	Bonds Issue Agreement*
Company D	corporate bonds	71 205	31.12.2024	Bonds Issue Agreement*
Company E	corporate bonds	50 000	19.12.2022	Bonds Issue Agreement*
Company F	corporate bonds	34 000	31.12.2022	Bonds Issue Agreement*
Total		**2 690 905**		
As at 31 December 2012				
Company A	corporate bonds	1 633 000	15.06.2017	Bonds Issue Agreement*
Company B	corporate bonds	537 000	31.07.2013	Bonds Issue Agreement*
Company C	corporate bonds	102 700	31.10.2013	Bonds Issue Agreement*
Company D	corporate bonds	89 749	31.12.2024	Bonds Issue Agreement*
Company G	corporate bonds	67 070	31.10.2017	Bonds Issue Agreement*
Company E	corporate bonds	50 000	19.12.2022	Bonds Issue Agreement*
Company F	corporate bonds	34 000	31.12.2022	Bonds Issue Agreement*
Total		**2 513 519**		

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

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

(IN PLN THOUSAND)

Contractual commitments

As at 30 June 2013, the amount of contractual commitments concerning intangible assets amounted to PLN 159 731 thousand (as at 31 December 2012, it amounted to PLN 155 452 thousand) and concerning tangible fixed assets amounted to PLN 32 884 thousand (as at 31 December 2012, it amounted to PLN 71 580 thousand).

Loan commitments granted

by nominal value	30.06.2013	31.12.2012
Financial entities	964 319	1 401 646
Non-financial entities	29 782 323	28 612 603
State budget entities	3 293 705	2 462 680
Total	**34 040 347**	**32 476 929**
of which: irrevocable loan commitments	8 342 733	8 397 676

Guarantees issued

	30.06.2013	31.12.2012
Financial entities	1 127 080	1 222 752
Non-financial entities	9 914 848	10 193 861
State budget entities	378 011	135 943
Total	**11 419 939**	**11 552 556**

As at 30 June 2013 and as at 31 December 2012 the Bank did not issue any guarantees in respect of loans or advances and did not issue any guarantees to a subsidiary or other entity thereof with a total value accounting for at least 10% of the Bank's equity.

Information on provisions for off-balance sheet financial and guarantees liabilities is included in Note 27 'Provisions'.

Off-balance sheet liabilities received (by nominal value)

	30.06.2013	31.12.2012
Financial	1 119 459	1 256 389
Guarantees	1 811 136	1 707 143
Total	**2 930 595**	**2 963 532**

Assets pledged as collateral for contingent liabilities

As at 30 June 2013 and as at 31 December 2012 the Bank had no assets pledged as collateral.

29. Legal claims

As at 30 June 2013, the total value of court proceedings in which the Bank is a defendant was PLN 351 980 thousand (as at 31 December 2012 it was PLN 387 046 thousand), while the total value of court proceedings in which the Bank is the plaintiff was PLN 251 766 thousand as at 30 June 2013 (as at 31 December 2012 it was PLN 143 051 thousand).

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

a) **Unfair competition proceedings**

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

On 20 December 2011 a hearing was held during which no factual resolution of the appeals was reached. The Court obligated MasterCard to submit explanations concerning the issue until 31 January 2012 and set the date for another sitting of the Court for 9 February 2012. Upon the application of the plaintiffs' attorney, the date of hearing was postponed for 24 April 2012, on which the attorney's request for deferment of the case until the end of September 2012 was dismissed. The Court postponed announcing the resolution on the request for suspension of the case until 8 May 2012. On 8 May 2012, the District Court in Warsaw, the Court for Competition and Consumer Protection (Sąd Ochrony Konkurencji i Konsumentów - SOKiK), suspended proceedings until the final conclusion of proceedings before the European Union Court in the case MasterCard against the European Commission. On 24 May 2012, the European Union Court upheld the decision of the European Commission banning multilaterally agreed interchange fees applied by MasterCard. On 28 May 2012 the participant to the proceedings, Visa Europe Ltd, and on 29 May 2012 the plaintiffs' attorney, including PKO Bank Polski SA, filed a complaint against the decision of the District Court in Warsaw, the Court for Competition and Consumer Protection dated 8 May 2012. In August 2012, the European Court of Justice received the appeal of MasterCard against the verdict of the Court of 24 May 2012 rejecting the appeal of MasterCard. On 25 October 2012, the Court of Appeal in Warsaw changed the decision of 8 May 2012 and dismissed the motion of MasterCard for suspending the proceedings.

The court's decision in this case was delivered to the plaintiff's attorney in January 2013. In February 2013, court files were transferred to the court of first instance. Currently, the case is subject to re-examination by SOKiK. The date of the hearing has been set for 29 October 2013. As at 30 June 2013 the Bank has a liability in the amount of PLN 16 597 thousand.

Additionally, as at 30 June 2013 the Bank is i.a. a party to appeal proceedings against the decision of the President of UOKiK before the Court for the Competition and Consumer Protection with the possibility of the use of unfair contractual provisions in forms of Individual Pension Accounts ('IKE') agreements and a party to unfair proceedings on collective interests of consumers in the presentation in advertising campaigns of consumer loan under the marketing name 'Max pożyczka Mini Ratka', information that might not be clear for the average consumer and mislead as to the availability of loans on promoted conditions. In respect of the first of proceedings, on 19 December 2012, the President of UOKiK imposed a fine on the Bank in the amount of PLN 14 697 thousand, including:

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

As at 30 June 2013 the Bank had a liability on the above mentioned amounts in the amount of PLN 4 000 thousand.

In respect of the second of proceedings, on 28 December 2012, the President of UOKiK imposed a fine on the Bank in the amount of PLN 2 845 thousand, on which the Bank recognised a liability in the same amount on 30 June 2013.
Both appeal proceedings are pursued on behalf of the Bank by reputable law offices. The Bank appealed against both decisions of the President of UOKiK, on 2 and 16 January 2013, respectively. As at 30 June 2013 proceedings are in progress.

Moreover, the Bank is a party to:

1) a proceeding initiated by the President of UOKiK to determine the provisions in the form of consumer loan agreements to be abusive. Bank responded to the lawsuit. The proceeding is in progress;
2) 3 proceedings initiated by an individual - on recognition of provisions of mortgage loan agreements concluded with the Bank in 2001 and 2003 and the Rules of current account of the 1997, modified in 1998 to be abusive. The Bank responded to the lawsuit. The first hearing was held on 2 July 2013. Court judgment of 9 July 2013 dismissed the claim against the Bank in all three cases;
3) a proceeding initiated by an individual - on recognition as abusive of the Tariff of fees and charges in sections providing for fees for the monitoring and collection activities in relation with customers delaying the repayment of current debt by customers. The Bank is preparing an answer to the lawsuit.

In those cases, there is no risk of imposing financial penalties on the Bank.

Moreover the Bank is a party to three proceedings before the President of UOKiK. Administrative proceedings relate to using prohibited contractual provisions in form of consumer loan agreements, with the exclusion of credit card agreements. The proceedings were suspended until 30 September 2013. The other two preliminary proceedings relate to initial determination as to whether the Bank violated the Act on competition and consumer protection with its actions consisting of collecting fees for the disbursement of cash in its agencies and whether the manner of offering mortgage loans by the Bank under the 'Autumn promotion of mortgage loans' ('Jesienna promocja kredytów hipotecznych') may constitute a practice which violates the collective interests of consumers. The proceedings are in progress.

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

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

The proceedings concerning a complaint brought by Centrum Finansowe Puławska Sp. z o.o. (CFP) concerning the use of a property located at Puławska and Chocimska Streets in Warsaw on which the Bank's office is currently located, are pending before the Regional Administrative Court in Warsaw.
The proceedings concern rendering invalid the decision of the Local Government Court of Appeal of 10 April 2001, which stated that the decision of the Council of Warsaw of 1 March 1954 was issued in gross violation of the law. Due to the liquidation of CFP, removing it from the register of companies and distribution of its assets, including the transfer of the right to perpetual usufruct of said plot, a motion for participation in the proceedings was filed on 23 May 2012 on behalf of the Bank. During the hearing on 18 December 2012, the Regional Administrative Court in Warsaw granted the Bank the right to participate in the proceedings due to the fact that the rights to the property in question had been transferred to the Bank. After the hearing on 7 May 2013, the Court dismissed the complaint. The judgement may be appealed against to the Supreme Administrative Court. A copy of the judgment together with the explanation was served for the Bank on 20 June 2013. A cassation complaint was prepared and filed.

In the opinion of the Management Board of PKO Bank Polski SA, in 2013 the probability of significant claims arising against the Bank in relation to the above mentioned proceedings is remote.

(IN PLN THOUSAND)

30. Supplementary information to the statement of cash flows

Cash and cash equivalents

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

	30.06.2013	31.12.2012	30.06.2012
Cash and balances with the central bank	5 591 688	10 229 230	8 766 337
Current receivables from banks	1 833 592	2 006 184	2 527 735
Total	**7 425 280**	**12 235 414**	**11 294 072**

Cash flow from interests and dividends, both received and paid

Interest and similar income – received	01.01-30.06.2013	01.01-30.06.2012
Interest income from loans and advances granted	3 807 826	4 298 595
Interest income from investment securities	318 017	445 546
Interest income from securities designated upon initial recognition at fair value through profit and loss	274 259	426 757
Interest income from placements	104 836	138 731
Interest income from securities from held for trading portfolio	34 397	32 462
Other interest received	709 824	715 606
Total	**5 249 159**	**6 057 697**

Dividend income - received	01.01-30.06.2013	01.01-30.06.2012
Dividend income from subsidiaries, jointly controlled entities and associates	53 131	74 149
Dividend income from other entities	1 578	1 589
Total	**54 709**	**75 738**

Interest expense and similar charges – paid	01.01-30.06.2013	01.01-30.06.2012
Interest expense on deposits – paid	(1 557 542)	(1 657 671)
Interest expense on loans and advances – paid	(94 070)	(27 067)
Interest expense on debt securities in issue – paid	(66 403)	(111 232)
Other interest paid (mainly premium from debt securities, interest expense on cash collateral liabilities, interest expense on current account of special purpose funds)	(445 696)	(518 623)
Total	**(2 163 711)**	**(2 314 593)**

31. Transactions with the State Treasury and related entities

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

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

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

	01.01-30.06.2013	01.01-30.06.2012
Income due to temporary redemption by the State budget of interest on housing loans from the 'old' portfolio recognised for this period	65 902	94 874
Income due to temporary redemption by the State budget of interest on housing loans from the 'old' portfolio received in cash	22 052	48 603
Difference between income recognised for this period and income received in cash – 'Loans and advances to customers'	43 850	46 271

(IN PLN THOUSAND)

The Act on the coverage of repayment of certain housing loans by State Treasury (Journal of Laws, 2000, No. 122 item 1310 with subsequent amendments) guarantees was passed on 29 November 2000 and came into force on 1 January 2001. In execution of the provisions of the Act, on 3 August 2001 PKO Bank Polski SA signed an agreement with the Minister of Finance acting on behalf of the State Treasury under which the Bank was granted a pledge of repayment of debt arising from housing loans in the so-called 'old' portfolio. On 29 December 2011, the validity period of the agreement (originally until 31 December 2011) was extended until 31 December 2017. The coverage of the so-called 'old' portfolio housing loan receivables by the guarantees of the State Treasury results in the neutralisation of the default risk on these loans.

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

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

	01.01-30.06.2013	01.01-30.06.2012
Fee and commission income	2 473	2 304

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

	01.01-30.06.2013	01.01-30.06.2012
Fee and commission income	3 918	10 267

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

	01.01-30.06.2013	01.01-30.06.2012
Fee and commission income	11 265	21 856

(IN PLN THOUSAND)

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

The transactions were concluded at arm's length.

Entity	30.06.2013			01.01.-30.06.2013		
	Total receivables	Total Liabilities	Off-balance sheet liabilities granted – guarantee and financial	Interest income	Fee and commission income	Interest expense
Entity 1	-	-	2 080 000	-	-	-
Entity 2	400 105	216	477 879	2 463	155	(1 018)
Entity 3	-	53 776	500 000	(1)	1	(86)
Entity 4	-	96	481 109	-	2	(168)
Entity 5	251 535	79	202 665	4 408	884	(309)
Entity 6	47 415	53 545	335 000	803	243	(426)
Entity 7	-	125 255	300 000	-	210	(1 088)
Entity 8	195 307	15 948	204 693	4 656	196	(115)
Entity 9	-	6	400 000	-	152	-
Entity 10	31 099	68 804	238 764	1 611	6	(591)
Entity 11	242 928	66 232	20 500	5 381	57	(523)
Entity 12	108 939	49 658	136 995	3 839	941	(807)
Entity 13	119 249	13 161	133 498	2 894	45	(64)
Entity 14	-	2 194	238 650	-	26	(398)
Entity 15	31 890	4 638	200 000	912	232	(55)
Other entities	460 363	603 536	328 342	8 499	2 023	(8 818)
Total	**1 888 830**	**1 057 144**	**6 278 095**	**35 465**	**5 173**	**(14 466)**

Entity	31.12.2012			2012		
	Total receivables	Total Liabilities	Off-balance sheet liabilities granted – guarantee and financial	Interest income	Fee and commission income	Interest expense
Entity 1	-	-	2 080 000	-	-	-
Entity 14	-	160	1 953 687	-	93	(938)
Entity 7	-	70 879	1 933 000	-	334	(7 707)
Entity 2	-	412	792 344	343	235	(24 291)
Entity 9	-	33	400 000	-	246	(3 819)
Entity 6	199 718	40 754	359 487	5 382	426	(1 584)
Entity 13	118 919	9 342	266 864	8 244	283	(131)
Entity 10	174 441	47 445	243 054	4 974	15	(7 396)
Entity 11	240 340	27 642	19 000	13 872	69	(2 479)
Entity 4	11	1 887	222 800	631	34	-
Entity 21	-	194 771	-	50	1 248	(4 031)
Entity 5	78 916	32 554	190 500	2 924	95	(2 985)
Entity 12	150 671	79 299	142 499	9 106	2 188	(2 967)
Entity 20	103 321	5 011	16 712	7 007	393	(13)
Entity 15	38 283	8 986	100 000	4 075	404	(334)
Other entities	464 658	436 083	375 437	90 468	10 062	(152 587)
Total	**1 569 278**	**955 258**	**9 095 384**	**147 076**	**16 125**	**(211 262)**

As at 30 June 2013 and as at 31 December 2012, no significant impairment allowances were recognised for above mentioned receivables.

(IN PLN THOUSAND)

32. Related party transactions

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

30 June 2013

Entity	Receivables	including loans	Liabilities	Total income	including interest and fee and commission	Total expense	including interest and fee and commission	Off-balance sheet liabilities granted
Direct subsidiaries								
Bankowe Towarzystwo Kapitałowe SA	2	-	332	12	1	3	3	7 000
PKO Leasing SA [1)]	314 576	32 629	240 489	7 863	6 641	9 413	3 007	1 465 110
Centrum Elektronicznych Usług Płatniczych eService SA	1 867	-	41 920	15 655	15 303	49 781	39 500	5 000
Fort Mokotów Inwestycje Sp. z o.o.	-	-	2 435	2	2	306	306	-
Inteligo Financial Services SA	57 027	-	128 649	2 008	10	36 635	2 280	-
KREDOBANK SA	260 861	150 380	3 846	1 213	1 213	-	-	134 326
PKO BP BANKOWY PTE SA	146	-	2 327	433	4	538	538	-
PKO BP Finat Sp. z o.o.	-	-	2 461	80	10	72	55	593
PKO Finance AB	-	-	9 799 406	-	-	178 513	178 513	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	17 252	-	18 733	84 564	83 832	642	626	-
Qualia Development Sp. z o.o.	215 460	-	11 112	9	9	183	183	13 911
Indirect subsidiaries								
PKO Bankowy Leasing Sp. z o.o [2)]	2 169 218	2 168 930	213	50 133	49 394	22	1	171 066
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	142 954	142 954	-	4 042	2 362	-	-	-
Fort Mokotów Sp. z o.o. in liquidation	-	-	4 009	1	1	67	67	-
PKO BP Faktoring SA	264 533	264 533	784	5 227	5 003	-	-	235 175
Qualia - Residence Sp. z o.o.	1	-	188	10	6	3	3	-
Qualia - Rezydencja Flotylla Sp. z o.o.	76 974	76 974	19	1 587	1 552	12	12	-
Qualia Hotel Management Sp. z o.o.	-	-	457	6	6	1	1	-
Qualia Sp. z o.o.	-	-	3	1	1	-	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Jurata Spółka komandytowa	-	-	2 135	2	2	31	31	-
Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Spółka komandytowa	50 041	50 041	5 438	1 746	1 693	77	77	1 855
Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Spółka komandytowa	70 991	70 991	7 106	2 514	2 438	132	132	-
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Spółka komandytowa	73 243	73 243	2 548	2 077	2 049	13	13	9 027
Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Spółka komandytowa	-	-	1	1	1	-	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Sopot Spółka komandytowa	7 020	7 020	2 636	196	195	34	34	1 015
Qualia spółka z ograniczoną odpowiedzialnością - Władysławowo Spółka komandytowa	-	-	2	1	1	-	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Zakopane Spółka komandytowa	-	-	48	2	2	3	3	-
Sarnia Dolina Sp. z o. o.	17 524	17 524	-	412	412	2 024	-	-
Direct jointly controlled entities								
CENTRUM HAFFNERA Sp. z o.o.	-	-	442	4	4	-	-	-
Centrum Obsługi Biznesu Sp z o.o.	31 158	31 158	17 263	650	650	210	210	146
Indirect jointly controlled entities								
Centrum Majkowskiego Sp. z o.o.	-	-	81	3	3	-	-	-
Kamienica Morska Sp. z o.o. in liquidation	-	-	815	3	3	-	-	-
Promenada Sopocka Sp. z o.o.	46 512	46 512	2 694	585	585	31	31	-
Sopot Zdrój Sp. z o.o.	223 943	223 943	5 147	2 832	2 832	42	42	-
Direct associates								
Bank Pocztowy SA	-	-	198	32	26	355	-	3 561
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	20 168	1	1	144	144	-
Direct associate held for sale								
Kolej Gondolowa Jaworzyna Krynicka SA	3 526	3 526	3 982	104	104	60	60	-
Agencja Inwestycyjna CORP-SA SA	69	-	-	319	-	47	-	-
Indirect associate								
Centrum Operacyjne Sp. z o.o.	-	-	22	1	1	-	-	-
TOTAL	**4 044 898**	**3 360 358**	**10 328 109**	**184 331**	**176 352**	**279 394**	**225 872**	**2 047 785**

1) formerly Bankowy Fundusz Leasingowy SA
2) formerly Bankowy Leasing Sp. z o.o.

CONDENSED INTERIM FINANCIAL STATEMENTS OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2013 (IN PLN THOUSAND)

31 December 2012

Entity	Receivables	including loans	Liabilities	Total income	including interest and fee and commission	Total expense	including interest and fee and commission	Off-balance sheet liabilities granted
Direct subsidiaries								
Bankowe Towarzystwo Kapitałowe SA	-	-	501	23	3	11	11	-
Bankowy Fundusz Leasingowy SA	176 577	19 547	279 165	9 623	6 986	16 041	297	1 446 637
Centrum Elektronicznych Usług Płatniczych eService SA	2 411	-	69 842	18 984	18 984	73 724	73 710	5 000
Fort Mokotów Inwestycje Sp. z o.o.	-	-	19 793	4	4	336	336	-
Inteligo Financial Services SA	31 882	-	126 269	2 502	21	54 212	6 199	-
KREDOBANK SA	352 374	260 544	1 888	5 923	5 923	855	-	5 001
PKO BP BANKOWY PTE SA	8	-	47 248	633	14	725	725	-
PKO BP Finat Sp. z o.o.	-	-	2 842	38	20	266	135	593
PKO Finance AB	-	-	9 176 447	-	-	210 978	209 498	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	13 470	-	19 418	150 749	148 991	1 188	1 188	-
Qualia Development Sp. z o.o.	214 209	-	12 456	34	18	801	794	2 411
Indirect subsidiaries								
Bankowy Leasing Sp. z o.o.	2 008 357	1 996 581	2 802	111 012	110 921	6 874	12	254 186
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	155 285	155 285	-	10 318	10 318	35 980	-	-
Fort Mokotów Sp. z o.o. in liquidation	-	-	4 270	3	3	192	192	-
PKO BP Faktoring SA	243 309	243 309	3 241	15 931	15 686	1 306	9	255 935
Qualia - Residence Sp. z o.o.	-	-	862	35	35	708	15	-
Qualia - Rezydencja Flotylla Sp. z o.o.	76 994	76 894	1 974	5 100	5 100	276	13	-
Qualia Hotel Management Sp. z o.o.	-	-	287	7	7	7	7	-
Qualia Sp. z o.o.	-	-	5	3	3	-	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Jurata Spółka komandytowa	-	-	-	2	2	-	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Spółka komandytowa	60 389	60 389	7 244	5 334	5 334	257	257	1 855
Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Spółka komandytowa	83 809	83 809	11 491	7 478	324	299	299	-
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Spółka komandytowa	47 502	47 502	65	2 649	2 649	807	-	35 756
Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Spółka komandytowa	-	-	1	3	3	-	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Sopot Spółka komandytowa	4 069	4 069	2 120	145	145	26	13	373
Qualia spółka z ograniczoną odpowiedzialnością - Władysławowo Spółka komandytowa	-	-	-	2	2	-	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Zakopane Spółka komandytowa	-	-	5	2	2	-	-	-
Sarnia Dolina Sp. z o.o.	15 149	15 149	-	1 012	1 012	1 982	-	-
Direct jointly controlled entities								
CENTRUM HAFFNERA Sp. z o.o.	-	-	296	7	7	-	-	-
Centrum Obsługi Biznesu Sp z o.o.	30 010	30 010	18 975	1 015	1 015	626	569	144
Indirect jointly controlled entities								
Centrum Majkowskiego Sp. z o.o.	-	-	593	6	6	-	-	-
Kamienica Morska Sp. z o.o.	-	-	11	6	6	-	-	-
Promenada Sopocka Sp. z o.o.	43 857	43 857	5 225	1 205	1 205	721	152	-
Sopot Zdrój Sp. z o.o.	212 691	212 691	1 816	5 911	5 911	2 785	3	-
Direct associates								
Agencja Inwestycyjna CORP-SA SA	61	-	-	690	-	86	-	-
Bank Pocztowy SA	-	-	91	93	78	1 160	285	1 409
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	19 402	2	2	299	299	-
Direct associate held for sale								
Kolej Gondolowa Jaworzyna Krynicka SA	4 235	4 235	343	291	291	50	43	-
Indirect associate								
Centrum Operacyjne Sp. z o.o.	-	-	21	3	3	-	-	-
TOTAL	**3 776 648**	**3 253 871**	**9 837 009**	**356 778**	**341 034**	**413 578**	**295 061**	**2 009 300**

(IN PLN THOUSAND)

33. Personal related party transactions

As at 30 June 2013 and as at 31 December 2012, three entities were related to the Bank through the key management personnel of PKO Bank Polski SA or the close family members of the key management personnel.

As at 30 June 2013 and as at 31 December 2012, no intercompany transactions were concluded between these entities and the Bank.

34. Remuneration – PKO Bank Polski SA key management

a) short-term employee benefits

Remuneration received from PKO Bank Polski SA

Short-term employee benefits	01.01 – 30.06.2013	01.01 – 30.06.2012
The Management Board of the Bank	4 950	7 694
The Supervisory Board of the Bank	613	621
Total	**5 563**	**8 315**

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

Short-term employee benefits	01.01 – 30.06.2013	01.01 – 30.06.2012
The Management Board of the Bank	20	20
Total	**20** *	**20** *

* The amount includes remuneration from associates.

b) post-employment benefits

In the six-month periods ended 30 June 2013 and 30 June 2012 respectively, no post-employment benefits were paid.

c) other long-term benefits

In the six-month periods ended 30 June 2013 and 30 June 2012 respectively, no 'other long-term benefits' were paid.

d) benefits due to termination of employment

In the six-month periods ended 30 June 2013 and 30 June 2012 respectively, no benefits due to termination of employment were paid.

e) share-based payments

In the six-month periods ended 30 June 2013 and 30 June 2012 respectively, benefits in the form of share-based payments were not paid out.

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

	30.06.2013	31.12.2012
The Management Board members	97	149
The Bank's Supervisory Board members	2 283	2 314
Total	**2 380**	**2 463**

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

35. The principles for determining the variable salary components policy for key management personnel at the Bank

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

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

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

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

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

Component of salary in the form of a financial instrument is converted into shares after granting a particular component - including the median of the daily average prices of the Bank's shares on the Warsaw Stock Exchange from the period of fourth quarter of the calendar year preceding the date of the calculation, published in the Thomson Reuters information system. Next, after a period of retention and possible deferral period, including the median of the daily average prices of the Bank's shares on the Warsaw Stock Exchange from the period of a quarter preceding the calculation and payment, published in the Thomson Reuters information system.

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

As at 30 June 2013, the provision for variable salary components for persons holding managerial positions amounted to PLN 13 million, of which PLN 5 million related to remuneration of the Bank's Management Board. Under current regulations, in the first half of 2013, not deferred component was paid out - cash for persons holding managerial positions except for the Bank's Management Board in the amount of PLN 3 million.

Payment of phantom shares, in accordance with law provisions, will be made in November 2013 for persons holding managerial positions except for the Management Board, and in January 2014 for the Management Board of the Bank. The amount of phantom shares vested accounts for PLN 3 million.

36. Fair value of financial assets and financial liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

36.1. Categories of valuation at fair value of financial assets and liabilities measured at fair value in the statement of financial position

The Bank classifies particular components of financial assets and liabilities measured at fair value to the following categories, using various methods of valuation at fair value:

1)Level 1: Prices quoted on the active markets

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

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

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

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

a) equity instruments measured at fair value through profit and loss and available for sale and whose fair value is estimated in the following manner:
   - price of the last transaction concluded on the market, unless in the period between the date of the transaction and the balance date there were significant changes in market conditions which might affect the price,
   - at valuation performed by a specialised external entity providing services of this kind,

b) debt instruments measured at fair value through profit and loss and whose fair value is estimated in the following manner:
   - the method based on market prices of securities (the market value method),
   - the method based on market interest rate quotation (the yield curve method),
   - the method based on market prices of securities with similar financial characteristics (the reference asset value method),

c) debt instruments available for sale, whose fair value is estimated in the following manner:
   - the method based on market prices of securities (the market value method),
   - the method based on market interest rate quotation (the yield curve method), adjusted for a risk margin equal to the margin specified in the issue terms. Material change in the market interest rates is reflected in the change in the fair value of such instruments,
   - the method based on market prices of securities with similar financial characteristics (the reference asset value method),
   - in case of securities whose fair value cannot be established with the use of the methods mentioned above, the fair value is determined based on the internal valuation model,

(IN PLN THOUSAND)

d) derivative instruments for which fair value is estimated using techniques based on i.a. discounted cash flows models, options and yield curves models,

e) debt securities in issue – financial instruments measured at fair value through profit and loss.

This group includes:

- debt securities valuated to the curve or those whose price comes from Bloomberg platform or brokerage websites in Reuters system but for which market is not active,
- non-treasury debt securities issued by other financial entities, local government bodies, non-financial entities traded on a regulated market and not traded on a regulated market,
- derivative instruments.

3)Level 3: Other valuation techniques

Financial assets and liabilities whose fair value is determined with use of valuation models, for which available entry data are not derived from observable markets (unobservable entry data). The Bank classified to that category shares not listed on WSE, which are measured at acquisition cost, less impairment allowances, as the best value estimate.

The table below presents a classification of financial assets and liabilities presented in the financial statements at fair value divided into 3 levels as at 30 June 2013 and as at 31 December 2012:

Assets and liabilities measured at fair value as at 30.06.2013	Carrying amount	Level 1 Prices quoted on active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Trading assets	**3 381 881**	**2 789 592**	**592 289**	**-**
Debt securities	3 370 030	2 777 741	592 289	-
Shares in other entities	10 998	10 998	-	-
Investment certificates	853	853	-	-
Derivative financial instruments	**3 325 276**	**6 044**	**3 319 232**	**-**
Hedging instruments	224 780	-	224 780	-
Trade instruments	3 100 496	6 044	3 094 452	-
Financial assets designated upon initial recognition at fair value through profit and loss	**12 633 327**	**1 761 214**	**10 872 113**	**-**
Debt securities	12 633 327	1 761 214	10 872 113	-
Investment securities available for sale	**13 643 366**	**9 489 364**	**3 995 024**	**158 978**
Debt securities	13 455 378	9 453 074	3 995 024	7 280
Equity securities	187 988	36 290	-	151 698
Financial assets measured at fair value – total	**32 983 850**	**14 046 214**	**18 778 658**	**158 978**
Derivative financial instruments	**3 685 073**	1 655	3 683 418	-
Hedging instruments	660 870	-	660 870	-
Trade instruments	3 024 203	1 655	3 022 548	-
Debt securities in issue	**423 193**	**-**	**423 193**	**-**
Financial instruments measured at fair value through profit and loss	423 193	-	423 193	-
Financial liabilities measured at fair value – total	**4 108 266**	**1 655**	**4 106 611**	**-**

In the period from 1 January 2013 to 30 June 2013, there were no transfers between levels in the fair value hierarchy used in fair value valuation of financial instruments.

(IN PLN THOUSAND)

Assets and liabilities measured at fair value as at 31.12.2012	Carrying amount	Level 1 Prices quoted on active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Trading assets	**282 230**	**282 230**	**-**	**-**
Debt securities	278 240	278 240	-	-
Shares in other entities	3 237	3 237	-	-
Investment certificates	713	713	-	-
Rights issues	40	40	-	-
Derivative financial instruments	**3 861 456**	**1 486**	**3 859 970**	**-**
Hedging instruments	498 130	-	498 130	-
Trade instruments	3 363 326	1 486	3 361 840	-
Financial assets designated upon initial recognition at fair value through profit and loss	**12 614 917**	**1 322 226**	**11 292 691**	**-**
Debt securities	12 614 917	1 322 226	11 292 691	-
Investment securities available for sale	**12 061 406**	**7 668 556**	**4 290 171**	**102 679**
Debt securities	11 916 973	7 619 522	4 290 171	7 280
Equity securities	144 433	49 034	-	95 399
Financial assets measured at fair value – total	**28 820 009**	**9 274 498**	**19 442 832**	**102 679**
Derivative financial instruments	**3 964 170**	**696**	**3 963 474**	**-**
Hedging instruments	224 373	-	224 373	-
Trade instruments	3 739 797	696	3 739 101	-
Debt securities in issue	**368 622**	**-**	**368 622**	**-**
Financial instruments measured at fair value through profit and loss	368 622	-	368 622	-
Financial liabilities measured at fair value – total	**4 332 792**	**696**	**4 332 096**	**-**

The table below presents a reconciliation during the period of measurement: from 1 January 2013 to 30 June 2013 of fair value in level 3 of fair value hierarchy:

01.01 – 30.06.2013	Investment securities available for sale
As at the beginning of the period	102 679
Total gains or losses	5 159
total in other comprehensive income	5 159
taking up shares in the Company's increased share capital of Marguerite Fund and currency translation differences	51 140
As at the end of the period	158 978

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

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

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

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

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

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

(IN PLN THOUSAND)

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

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

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

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

The table below shows a summary of the carrying amounts and fair values for particular groups of financial instruments which have not been presented at fair value in the Bank's statement of financial position as at 30 June 2013 and as at 31 December 2012:

	30.06.2013		31.12.2012	
	carrying amount	fair value	carrying amount	fair value
Cash and balances with the central bank	5 591 688	5 591 688	10 229 230	10 229 230
Amounts due from banks	3 407 933	3 406 964	3 456 391	3 455 422
Loans and advances to customers	147 148 433	141 835 431	142 084 858	139 769 032
housing loans	73 159 059	69 861 582	70 419 783	69 528 042
corporate loans	52 449 445	51 488 143	49 160 199	48 893 658
consumer loans	19 473 163	18 420 029	20 430 925	19 276 648
debt securities	2 066 766	2 065 677	2 073 951	2 070 684
Other financial assets	481 703	481 703	716 136	716 136
Amounts due to the central bank	3 858	3 858	3 128	3 128
Amounts due to banks	3 003 348	3 001 714	2 502 888	2 502 639
Amounts due to customers	157 875 777	158 063 377	154 740 574	155 202 623
due to corporate entities	37 431 427	37 630 935	41 154 325	41 621 664
due to State budget entities	4 451 260	4 451 260	3 458 897	3 458 897
due to retail clients	115 993 090	115 981 182	110 127 352	110 122 062
Debt securities in issue	494 587	494 686	497 283	497 587
Subordinated debt	1 624 355	1 607 752	1 631 256	1 638 663
Other financial liabilities	3 971 476	3 971 476	1 312 362	1 312 362

37. Differences between previously published financial statements and these financial statements

In the first half of 2013 there were no changes in relation to previously published financial statements.

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS

38. Risk management in PKO Bank Polski SA

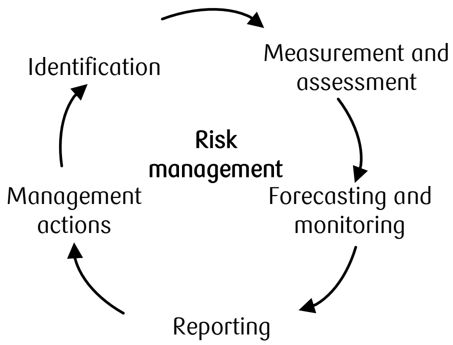
Risk management is one of the most important internal processes in PKO Bank Polski SA. Risk management aims at ensuring an appropriate level of security and profitability of business activity in the changing legal and economic environment and the level of the risk plays an important role in the planning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

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

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

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

The risk management process is described on the chart below:



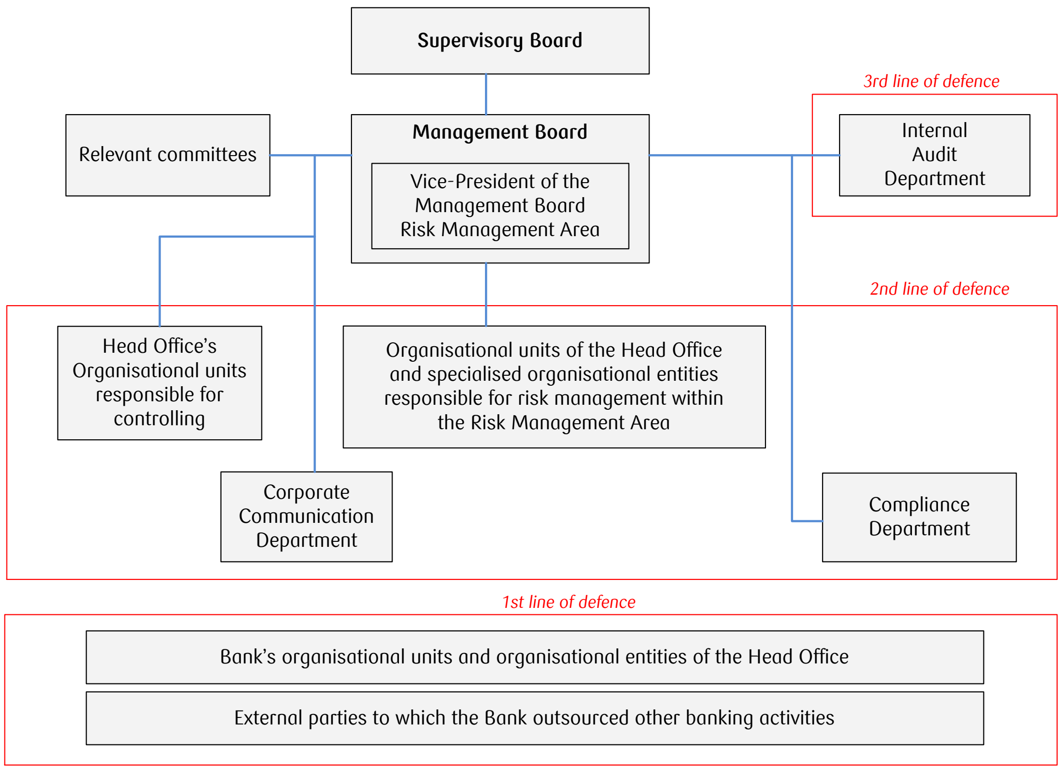
Risk management in PKO Bank Polski SA is based especially on the following principles:

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

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

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

The organisation of risk management chart



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

The Management Board is responsible for the risk management, including supervising and monitoring of activities taken by the Bank in the area of risk management. The Management Board takes the most important decisions affecting the risk level of the Bank and approves the principles of risk management.

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

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

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

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

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

The second line of defence is being performed, in particular, in the Risk Management Area, the specialist organisational units of the Bank responsible for credit analyses, debt collection and receivables' restructuring in the organisational units of the Head Office managing the compliance risk, reputation risk, model risk, as well as the organisational units of the Head Office responsible for controlling.

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

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

The Banking Risk Division is responsible for:

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

The Model Validation Office is responsible for:

- validation of risk measurement models,
- creating an effective system of the model risk management at the Bank, measurement and reporting of risk of the models,
- supporting risk management.

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

- effective recovering receivables from difficult corporate (institutional) clients and increasing the effectiveness of such activities,
- preparing proposals on matters of entrusting the investigation or sale of bad debts,
- acquisition of assets as a result of debt collection,
- determine the level of impairment allowance of bad debts.

The Restructuring and Debt Collection Centre is responsible for:

- effective collection of bad debts from difficult clients through restructuring and debt collection and increasing the effectiveness of such activities,
- effective intervention activities within the early monitoring of delays in the collection of receivables from retail market clients,
- effective outsourcing of the tasks carried out and effective management of assets taken over as a result of recovering the Bank's receivables,
- selling difficult receivables effectively.

The Analysis and Credit Risk Assessment Centre is responsible for the reduction of the credit risk of individual credit exposures of the Bank's retail and corporate market clients and ensuring effective credit analyses in respect to mortgage loans granted to individual clients through the Bank's retail network and loans granted to rated small and medium enterprises clients evaluated with rating methods, as well as taking credit decisions in this regard.

Risk management is supported by the following committees:

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

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

The ALCO makes decisions within the scope of limits and thresholds on particular kinds of risks, issues related to transfer pricing and risk models and their parameters, as well as gives recommendations to the Management Board i.a. with regard to determining the structure of the Bank's assets and liabilities, managing different types of risks, equity and price policy.

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

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

The purpose of the ORC is to effectively manage operational risk, including reducing exposure of the Bank and the Group to operational risk and to monitor areas where this minimization is not effective. The ORC takes decisions, issues recommendations and opinions regarding i.a. strategic tolerance limits and loss limit for operational risk, key risk indicators (KRI), assumptions of stress tests, results of validation of operational risk measurement models and changes in AMA approach.

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

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

For this purpose, in the first half of 2013 the Bank has taken i.a. the following activities:

- rolled forward short-term bonds in the amount from PLN 500 to 850 million, while extending the maturity date of the securities from three to six months,
- it transferred part of the Bank's profit for 2012 to own funds.

On 12 June 2013, the Bank signed an agreement for the acquisition of Nordea Bank Polska, Nordea Finance Polska, Nordea Polska Towarzystwo Ubezpieczeń na Życie, together with a portfolio of corporate loans serviced directly by the seller – Nordic financial group Nordea. The above-mentioned acquisition will not change the nature of the risks identified in the business of PKO Bank Polski SA and Nordea Bank Polska SA.

In the first half of 2013, in terms of operational risk, the Bank carried out works on complying with the requirements of the amended in January 2013, by the Polish Financial Supervision Authority, Recommendation M on the management of operational risk in banks. All recommendations have been met by the Bank to 30 June 2013, and the recommendation regarding the disclosure of operating losses will be fulfilled - in line with Recommendation M - until 31 December 2013.

Identification of significant types of risk

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

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

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

Credit risk management

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

The objective of credit risk management is to minimise losses on the credit portfolio as well as to minimise the risk of occurrence of loans threatened with impairment exposure, while keeping expected level of profitability and value of credit portfolio at the same time.

The Bank applies the following principles of credit risk management:

- each loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
- credit risk relating to potential and concluded loan transactions is measured on a cyclical basis, taking into consideration changes in external conditions and in the financial standing of the borrowers,
- credit risk assessment of exposures which are significant due to their risk levels or its value is subject to additional verification by credit risk assessment teams, which are independent of the business teams,
- terms of loan contracts that are offered to a client depend on the credit risk level generated by the contract,
- loan granting decisions are made only by authorised persons,
- credit risk is diversified particularly by geographical location, by industry, by product and by clients,
- expected credit risk level is mitigated by collaterals received by the Bank, margins on the risk collected from clients and allowances (provisions) for credit losses.

The above mentioned policies are executed by the Bank through the use of advanced credit risk management methods, both on the level of individual exposures and on the level of the whole credit portfolio of the Bank. These methods are verified in terms of changes in the default definition, increasing the level of homogeneity of each group of loans in the loan portfolio of the Bank and the methods of modelling the risk parameters and developing them to ensure compliance with the internal rating based method (IRB) requirements, i.e. advanced credit risk management method, which can be used while calculating capital requirements for credit risk after being approved by the Polish Financial Supervision Authority.

Measurement of credit risk

Credit risk measurement methods

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

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

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

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

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

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

In the first half of 2013 the Bank implemented new rating models for corporate clients, including entrepreneurs keeping books of account in accordance with the Accounting Act or in accordance with IFRS and keeping tax book of revenues and expenses.

They were prepared using internal data of the Bank which ensure that they are tailored to the risk profile of the Bank's clients. Models are based on a statistical dependence analysis between the default and a customer's risk scoring. Scoring includes an assessment of the financial indicators, qualitative factors and evaluation of behavioural factors. In addition, the client's risk assessment depends on the size of the enterprise for which risk analysis is made.

The above mentioned models were implemented in a new IT tool that supports the Bank's credit risk assessment related to financing corporate clients.

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

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

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

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

In June 2013, the Bank implemented a new methodology for the estimation of portfolio parameters used in the calculation of impairment allowances on credit exposure and provisions for off-balance sheet credit exposures. This methodology uses elements of the modelling portfolio parameters for determining capital requirements with the IRB method. Provides tracking the reaction of the loan portfolio in a more homogeneous groups, and more precise information on the ongoing recoveries.

(IN PLN THOUSAND)

Forecasting and monitoring of credit risk

The Bank's exposure to credit risk

Amounts due from banks	Exposure	
	30.06.2013	31.12.2012
Amounts due from banks impaired, of which:	31 816	33 569
assessed on an individual basis	31 438	33 569
Amounts due from banks not impaired, of which:	3 408 633	3 453 614
not past due	3 408 633	3 453 614
Gross total	**3 440 449**	**3 487 183**
Impairment allowances	**(32 516)**	**(30 792)**
Net total by carrying amount	**3 407 933**	**3 456 391**

Loans and advances to customers	Exposure	
	30.06.2013	31.12.2012
Loans and advances impaired, of which:	12 974 573	12 316 775
assessed on an individual basis	5 601 831	5 552 524
Loans and advances not impaired, of which:	140 840 748	135 996 712
not past due	137 445 650	131 732 488
past due	3 395 098	4 264 224
past due up to 4 days	881 374	1 725 423
past due over 4 days	2 513 724	2 538 801
Gross total	**153 815 321**	**148 313 487**
Impairment allowances	**(6 666 888)**	**(6 228 629)**
Net total by carrying amount	**147 148 433**	**142 084 858**

Investment securities available for sale – debt securities	Exposure	
	30.06.2013	31.12.2012
Debt securities impaired, of which:	-	5 536
assessed on an individual basis	-	5 536
Debt securities not impaired, of which:	13 455 378	11 916 973
not past due	13 455 378	11 916 973
with external rating	9 508 909	7 670 414
with internal rating	3 946 469	4 246 559
Gross total	**13 455 378**	**11 922 509**
Impairment allowances	**-**	**(5 536)**
Net total by carrying amount	**13 455 378**	**11 916 973**

(IN PLN THOUSAND)

Level of exposure to credit risk

The table below presents maximum exposure to credit risk of the Bank as at 30 June 2013 and as at 31 December 2012.

Items of the statement of financial position	30.06.2013	31.12.2012
Current account in the central bank	2 838 595	7 550 898
Amounts due from banks	3 407 933	3 456 391
Trading assets – debt securities	3 370 030	278 240
issued by banks	1 211	1 371
issued by other financial institutions	14 198	18 611
issued by non-financial institutions	29 980	15 064
issued by the State Treasury	3 281 200	216 521
issued by local government bodies	43 441	26 673
Derivative financial instruments	3 325 276	3 861 456
Financial instruments designated upon initial recognition at fair value through profit and loss - debt securities	12 633 327	12 614 917
issued by the State Treasury	1 983 888	2 363 089
issued by central banks	10 394 854	9 995 300
issued by local government bodies	254 585	256 528
Loans and advances to customers	147 148 433	142 084 858
financial sector (other than banks)	3 917 173	3 132 773
corporate loans	3 917 173	3 132 773
non-financial sector	135 630 057	131 369 075
housing loans	73 154 121	70 419 783
corporate loans	42 096 867	39 617 105
consumer loans	19 473 163	20 430 925
debt securities	905 906	901 262
public sector	7 601 203	7 583 010
housing loans	4 938	-
corporate loans	6 435 405	6 410 321
debt securities	1 160 860	1 172 689
Investment securities available for sale - debt securities	13 455 378	11 916 973
issued by the State Treasury	9 453 074	7 619 522
issued by banks	50 716	50 892
issued by other financial institutions	280 948	156 393
issued by non-financial institutions	1 031 194	1 309 954
issued by local government bodies	2 639 446	2 780 212
Other assets - other financial assets	481 703	716 136
Total	186 660 675	182 479 869

Off-balance sheet items	30.06.2013	31.12.2012
Irrevocable liabilities granted	8 342 733	8 397 676
Guarantees granted	7 008 434	7 501 328
Guarantees of issue	4 059 464	3 673 585
Letters of credit granted	352 041	377 643
Total	19 762 672	19 950 232

(IN PLN THOUSAND)

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

	30.06.2013	31.12.2012
Amounts due from banks	**31 438**	**33 569**
Loans and advances to customers	**5 601 831**	**5 552 524**
Non-financial sector	5 595 622	5 546 315
corporate loans	3 792 622	3 790 964
housing loans	1 683 562	1 658 076
consumer loans	119 438	97 275
Public sector, corporate loans	6 209	6 209
Investment debt securities available for sale issued by non-financial institutions	**-**	**5 536**
Total	**5 633 269**	**5 591 629**

Allowances for credit losses

PKO Bank Polski SA performs a monthly review of loan exposures in order to identify loan exposures threatened with impairment, measure the impairment of loan exposures and record impairment charges or provisions.

The process of determining the impairment charges and provisions consists of the following stages:

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

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

- a loan being overdue for at least 90 days,
- a significant deterioration in a customer's internal rating,
- entering into restructuring agreement or granting a discount concerning debt repayment (the indication of impairment will be recognised, if the convenience granted to the consumer are forced by economic or legal considerations arising from its financial situation).

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

PKO Bank Polski SA applies three methods of estimating impairment:

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

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

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

A provision for off-balance sheet loan exposures is recorded in an amount equal to the resulting expected (and possible to estimate) loss of economic benefits.

When determining a provision for off-balance sheet loan exposures, PKO Bank Polski SA:

- uses the individualised method in respect to the individually significant credit exposures with objective evidence of individual impairment or those relating to debtors whose other exposures show such evidence, and the individually significant exposures which do not show objective evidence of individual impairment, for which determining provisions using the portfolio parameters would not be reasonable,
- the portfolio method (if an exposure shows indications of individual impairment) or the group method (if an exposure only shows indications of group impairment) - in the case of the remaining off-balance sheet loan exposures.

The provision is determined as the difference between the expected amount of exposure in the statement of financial position, which will arise as a result of an off-balance sheet liabilities and the present value of the expected future cash flows obtained from the exposure in the statement of financial position arising out of the granted liability.

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

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

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

Concentration of credit risk within the Bank

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

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

Concentration by the largest business entities

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

As at 30 June 2013 and as at 31 December 2012, those concentration limits had not been exceeded. As at 30 June 2013, the level of concentration of the Bank risk with respect to individual exposures was low – the largest exposure to a single entity was equal to 11.1%; 9.9% and 9.2% of the Bank's own funds.

Concentration by the largest capital groups

The largest concentration of PKO Bank Polski SA into the capital group is 1.99% of the loan portfolio of the Bank.

As at 30 June 2013, the concentration risk level into the capital group was low - the greatest exposure of PKO Bank Polski SA towards a capital group amounted to 19.3%* and 15.3% of the Bank's own funds.

Concentration by industry

As compared with 31 December 2012 the exposure of PKO Bank Polski SA in industry sectors has increased by approx. PLN 2.9 billion. The total exposure in the four largest industry sectors: 'Industrial processing', 'Wholesale and retail trade (...)', 'Maintenance of real estate' and 'Construction' amounted to approx. 62% of the total loan portfolio covered by an analysis of the sector.

Concentration by geographical regions

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

As at 30 June 2013, the largest concentration of the Bank's loan portfolio was in the Warsaw region/central macro-region, which is consistent domination of this region/macro-region both in terms of population and economy of Poland.

Concentration of credit risk by currency

As at 30 June 2013, the share of currency exposures, other than PLN, in the total portfolio of PKO Bank Polski SA amounted to 21.1%. The greatest parts of currency exposures of PKO Bank Polski SA are those in CHF.

An increase in share of loans denominated in foreign currencies in the first half of 2013 is a result of an increase in foreign exchange rates and an increase in new sales of loans offered to corporate clients granted in foreign currencies.

Other types of concentration

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

As at 30 June 2013, these limits have not been exceeded.

* Concentration in respect of the entity partly exempted from concentration limits under the Article 71, clause 3 of the Banking Law.

Credit risk reporting

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

Management actions concerning credit risk

Basic credit risk management tools used by the Bank include:

- minimum transaction requirements (risk parameters) determined for a given type of transaction (e.g. minimum LTV, maximum loan amount, required collateral),
- the principles of defining credit availability, including cut-offs – the minimum number of points awarded in the process of creditworthiness assessment with the use of a scoring system (for retail clients) or the client's rating class or cumulative rating class (for corporate clients), which a client must obtain to receive a loan,
- concentration limits – the limits defined in the Article 71, clause 1 of the Banking Law,
- industry-related limits – limits which reduce the risk level related to financing institutional clients that conduct business activities in industries characterised by high level of credit risk,
- limits on credit exposures related to the Bank's customers – the limits defining the appetite for credit risk taking into account also the recommendations S and T,
- credit limits defining the Bank's maximum exposure to a given client or country in respect of wholesale operations and settlement limits and limits for the period of exposure,
- competence limits – they define the maximum level of credit decision-making powers with regard to the Bank's clients, the limits depend primarily on the amount of the Bank's exposure to a given client (or a group of related clients) and the loan transaction period; the competence limit depends on the credit decision-making level (in the Bank's organisational structure),
- minimum credit margins – credit risk margins relating to a given credit transaction concluded by the Bank with a given corporate client, but the interest rate offered to a client cannot be lower than the reference rate plus credit risk margin.

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

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

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

The policy regarding legal collateral is defined by the Bank's internal regulations.

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

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

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

Interest rate risk management

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

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

Measurement of interest rate risk

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

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

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

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

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

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

As at the end of 2012 and in the first half of 2013, PKO Bank Polski SA had a positive cumulative gap in PLN in all the time horizons.

Forecasting and monitoring of interest rate risk

Exposure of PKO Bank Polski SA to interest rate risk was as at 30 June 2013 within accepted limits. The Bank was mainly exposed to PLN interest rate risk, which represents about 78% of the Bank's Value at Risk (VaR) as at 30 June 2013. Interest rate risk was determined mainly by the risk of a mismatch between the repricing of interest rates of the Bank's assets and liabilities.

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

Name of sensitivity measure	30.06.2013	31.12.2012
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)	157 634	64 451
Parallel movement of interest rate curves by 200 b.p. (in PLN thousand) (stress-test)*	522 751	299 015

* The table presents the value of the most adverse stress-test of the scenarios: movement of interest rate curves in PLN by 200 b.p. up and by 200 b.p. down.

As at 30 June 2013, the Bank's interest rate VaR for the 10-day time horizon (10-day VaR) amounted to PLN 157 634 thousand, which accounted for approximately 0.75% of the Bank's own funds. As at 31 December 2012, VaR for the Bank amounted to PLN 64 451 thousand, which accounted for approximately 0.33% of the Bank's own funds calculated in accordance with regulations on calculation of the capital adequacy ratio.

Reporting of the interest rate risk

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

Management decisions concerning interest rate risk

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

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

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

Currency risk management

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

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

Measurement of the currency risk

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

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

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

1) hypothetical scenarios – which assume a hypothetical appreciation or depreciation of foreign exchange rates (by 20 percent and 50 percent),
2) historical scenarios – based on the behaviour of foreign exchange rates observed in the past.

Forecasting and monitoring of currency risk

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

Name of sensitivity measure	30.06.2013	31.12.2012
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)	642	628
Change in FX rates by 20% (in PLN thousand) (stress-test)*	14 685	3 869

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

The level of currency risk was low both as at 30 June 2013 and as at 31 December 2012.

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

Currency position	30.06.2013	31.12.2012
EUR	11 851	(11 933)
USD	(15)	(8 277)
CHF	(19 134)	(20 127)
GBP	(348)	4 611
Other (Global Net)	16 850	12 395

The volume of currency positions is a key factor determining the level of currency risk on which the Bank is exposed (except for volatility of foreign exchange rates). The level of currency positions is determined by all foreign currency transactions, which are concluded by the Bank, both in the statement of financial position (such as loans) and off-balance sheet (such as derivatives, CIRS transactions in particular). Exposure of the Bank to currency risk is low (with reference to own funds, VaR for a 10-day time horizon for the Bank's currency position as at the end of the first half of 2013 amounted to ca. 0.003%).

Reporting of currency risk

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

Management decisions concerning currency risk

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

- procedures for currency risk management,
- limits and thresholds for currency risk,
- defining allowable types of transactions in foreign currencies and the foreign exchange rates used in such transactions.

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

Liquidity risk management

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

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

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

Measurement of the liquidity risk

The Bank makes use of the following liquidity risk measures:

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

Forecasting and monitoring of liquidity risk

Liquidity gaps presented below include among others the Bank's adjusted items of the statement of financial position in terms of the following: core balances on deposits of non-financial sector and their maturity, core balances on loans in current accounts for non-financial entities and their maturity and liquid securities and their maturity.

	a'vista	0 - 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 24 months	24 – 60 months	over 60 months
30.06.2013								
Adjusted gap in real terms	4 782 745	14 521 351	(481 857)	9 222	(4 772 303)	8 907 499	15 664 627	(38 631 284)
Cumulative adjusted gap in real terms	4 782 745	19 304 096	18 822 239	18 831 461	14 059 158	22 966 657	38 631 284	-
31.12.2012								
Adjusted gap in real terms	10 223 289	6 747 680	402 358	3 132 724	2 174 389	9 249 234	11 556 246	(43 485 920)
Cumulative adjusted gap in real terms	10 223 289	16 970 969	17 373 327	20 506 051	22 680 440	31 929 674	43 485 920	-

In all time horizons, PKO Bank Polski SA's cumulative adjusted liquidity gap in real terms as at 30 June 2013 and as at 31 December 2012 was positive. This means a surplus of assets receivable over liabilities payable.

The table below presents liquidity reserve of the Bank as at 30 June 2013 and as at 31 December 2012:

Name of sensitivity measure	30.06.2013	31.12.2012
Liquidity reserve up to 1 month* (in PLN million)	15 425	13 568

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

As at 30 June 2013 the level of core balances on deposits constituted approx. 94.3% of all deposits in the Bank (excluding interbank market), which means a increase by approximately 1 pp. as compared to the end of 2012.

Reporting of liquidity risk

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

Management decisions concerning liquidity risk

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

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

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

Commodity price risk management

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

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

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

The effect of commodity price risk on the Bank's financial position is immaterial. In the first half of 2013, the Bank did not maintain open positions in goods.

Price risk of equity securities management

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

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

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

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

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

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

Other price risks

Taking into consideration other price risks, at 30 June 2013 and 31 December 2012, the Bank was exposed to price risk of investment fund participation units in collective investment funds.

The effect of this risk on the Bank's financial situation is immaterial – a capital requirement, pursuant to the Resolution No 76/2010 of the PFSA (with subsequent amendments)*, to cover the above mentioned risk was lower than PLN 1 million as at 30 June 2013.

Derivative instruments risk management

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

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

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

Measurement of the derivative instruments risk

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

Forecasting and monitoring of derivative instruments risk

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

Reporting of derivative instruments risk

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

Management decisions concerning risk of derivative instruments

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

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

Risk management is carried out by imposing limits on derivative instruments included in the trading and banking portfolios, monitoring limits and reporting risk level.

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

Operational risk management

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

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

* Amendments to the Resolution No. 76/2010 were introduced by the following PFSA resolutions: Resolution No. 369/2010 dated 12 October 2010, PFSA Resolution No. 153/2011 dated 7 June 2011, PFSA Resolution No. 206/2011 dated 22 August 2011, PFSA Resolution No. 324/2011 dated 20 December 2011, PFSA Resolution No.172/2012 dated 19 June 2012 and PFSA Resolution No. 307/2012 dated 20 November 2012.

Measurement of operational risk

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

- calculation of Key Risk Indicators (KRI),
- calculation of capital requirement using the AMA method,
- stress-tests,
- calculation of internal capital.

Identification and assessment of operational risk comprises operational risk appearing in the existing products, processes and IT applications of the Bank, the above is conducted with the use of:

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

Forecasting and monitoring of operational risk

The Bank regularly monitors:

- utilisation level of strategic tolerance and loss limits on operational risk,
- effectiveness and timeliness of actions taken to reduce or transfer the operational risk,
- setting threshold and critical values of Key Risk Indicators (KRI),
- operating events and their effects.

Reporting of operational risk

Reports concerning operational risk of the Bank are prepared on a quarterly basis. The reports contain among others information on:

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

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

Management decisions concerning operational risk

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

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

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

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

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

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

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

Compliance risk management

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

The objective of the compliance risk management is to prevent the occurrence of cases of non-compliance, as well as loss of reputation or credibility and establish among shareholders, customers, employees, business partners and other market participants, the Bank's image as an institution, acting in accordance with the law and accepted standards of conduct, reliable, fair and honest.

The Compliance Department is responsible for finding system solutions in the area of ensuring the Bank's compliance with the binding regulations and operating standards, and development of the methods for evaluating, monitoring and reporting the compliance risk in the Bank. The Compliance Department is a unit which was granted independence and which, in the area of compliance risk management, reports directly to the President of the Bank's Management Board.

Compliance risk management involves in particular the following:

- preventing involvement of the Bank in illegal activities,
- conflict of interest management,
- preventing situations where the Bank's employees could be perceived as pursuing their own interest in the professional context,
- development of ethical standards and monitoring of their application,
- fair, transparent and not misleading formulation of product offers, advertising and marketing messages,
- ensuring data protection,
- prompt, fair and professional consideration of complaints, requests and quality claims of clients.

In order to identify and assess compliance risk, information on following topics is used:

- cases of non-compliance and their origins, including information based on internal audits results, internal functional control and external controls,
- cases of conflict of interests,
- complaints.

Identification and assessment of compliance risk is mainly based on:

- identifying threats that may cause a compliance risk,
- determination of instruments mitigating compliance risk,
- estimating total, potential effects of materialisation of compliance risk per annum,
- assessing the existence of any additional factors of law regulations compliance risk.

While performing an assessment a character and potential losses are defined together with methods of reducing or eliminating compliance risk. Assessment is held through workshops.

Monitoring of compliance risk is carried out in the Bank and includes i.a.:

- the results of the identification and assessment of compliance risk,
- instances of non-compliance identified at the Bank and within the banking sector, their causes and effects,
- changes in the key legal regulations or standards affecting on the Bank's activity,
- actions undertaken as part of managing the compliance risk, execution of internal audit and external inspection recommendations and execution of the recommendations of the Compliance Department.

The Bank prepares reports concerning compliance risk on a quarterly basis. The reports are addressed to the Risk Commitee, the Bank's Management Board, the Supervisory Board's Audit Committee and the Bank's Supervisory Board. The reports contain among others information on:

- the results of the identification and assessment of compliance risk,
- instances of non-compliance identified at the Bank and within the banking sector in Poland,
- the most important changes in the regulatory environment and measures undertaken at the Bank to adapt to new regulations and standards,
- the results of external controls carried out in the Bank,
- the progress in executing the recommendations issued by the PFSA based on inspections carried out at the Bank,
- significant correspondence with external supervision and inspection authorities.

The Bank has adopted a zero tolerance policy against compliance risk, which means that the Bank focuses its actions to towards eliminating this risk.

Business risk management

Business risk is the risk of incurring losses due to adverse changes in the business environment, taking bad decisions, the incorrect implementation of decisions taken, or not taking appropriate actions in response to changes in the business environment; this includes in particular strategic risk.

Managing the business risk is aimed at maintaining, on an acceptable level, the potential negative financial consequences resulting from adverse changes in the business environment, making adverse decisions, improper implementation of adopted decisions or lack of appropriate actions, which would be a response to changes in the business environment.

Business risk measurement

Business risk identification is to recognise and determine factors both current and potential, resulting from current and planned activities of the Bank and which may significantly affect the financial position of the Bank, generating or change in the Bank's income and expense. Business risk identification is made through the analysis of selected items from the income statement related to the Bank's income and expense.

Measurement of business risk is aimed at defining the scale of threats related to the existence of business risk with the use of defined risk measures. The measurement of business risk is conducted quarterly and comprises:

- calculation of selected business risk indicators,
- conducting stress-tests,
- calculation of internal capital.

The internal capital for covering business risk of the Bank is determined on the basis of analysis of historical volatility of selected items of the income statement, related to the Bank's income and expense in accordance with the earnings at risk concept *(Earnings at Risk)*.

Forecasting and monitoring of business risk

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

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

Reporting of business risk

Business risk reporting is conducted quarterly in the Bank. Reports on business risk are prepared for the ALCO, the RC and the Management Board. Reports contain i.a. information on the internal capital level, stress-tests results, results of a survey conducted among senior management staff of the Bank, utilisation of strategic risk limits on business risk, business risk forecast and forecast backtesting.

Management decisions concerning business risk

The main tools used in business risk management in the Bank include:

- procedures for business risk management,
- limits and thresholds for business risk.

Reputation risk management

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

Reputation risk management in the Bank includes mainly:

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

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

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

Based on the Register of image-related events effects for the previous calendar year, the Corporate Communications Department carries out an annual assessment of particular categories of image-related events effects identified in this year and determines their influence on the development of reputation risk level. Assessments are made on a scale of 1 to 5, where '1' means the smallest and '5' the greatest expected impact of identified effects of a particular image-related events category on increasing the reputation risk level.

Information on the reputation risk level of the Bank for the next calendar year is transferred by CCD to the Capital Adequacy and Operational Risk Department (DAO) to execute tasks resulting from the Bank's internal rules on the identification and monitoring of significant risk types. However, a report containing, in particular: the results of measuring the reputation risk level, the results of the identification of image-related events and activities recommendations is submitted to the Management Board of the Bank by the end of the third month of the year and the Supervisory Board by the end of the fourth month of the year.

Model risk management

Model risk is a risk of negative financial or reputational effects resulting from making bad business decisions based on models functioning in the Bank.

The purpose of models and model risk management is to mitigate model risk level in the Bank.

Identification and assessment of model risk

Identification of model risk in the Bank mainly consists of:

- gathering information on all existing, built and planned to be build models,
- cyclical determining the relevance of models,
- determining potential threats that may occur during the life cycle of the model.

All models relevant to the Bank are covered by the regular independent validation process.

The model risk evaluation is aimed at determining the scale of threats associated with the occurrence of the model risk. Assessment of the risk level of particular elements important from the model's point of view, risk assessment on the level of a single model and aggregate assessment of the model risk level is carried out in the Bank.

Ratings may be aggregated mainly at the level of the Bank, particular risk types or classes of models, particular processes of model life-cycle. The model risk assessment is performed at least once a year and at the moment of appearing of new models, change the scale or business profile of the Bank.

Model risk monitoring

The purpose of model risk monitoring is to control model risk and diagnose areas for management actions. Model risk monitoring process contains, in particular: the level of model risk, the status of implementation of the proposed recommendations and the effectiveness of implementation of the recommendations on mitigation of model risk.

Model risk reporting

Model risk reporting is conducted in the Bank on a quarterly and annual basis. Reports contain, in particular:

- results of model risk monitoring,
- information on the level of model risk and model risk map,
- potential proposed management actions reducing the model risk,
- evaluation of effectiveness of the recommendations made to reduce the model risk level,
- conclusions, reports or summaries resulting from the model management process.

Management actions concerning model risk

The purpose of management actions is to form a model risk management process and a level of this risk in the Bank.
Management actions in particular consist of:

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

Macroeconomic changes risk management

Risk of macroeconomic changes is a risk of deterioration of the financial situation of the Bank as a result of the adverse impact of changes in macroeconomic conditions.

The purpose of risk of macroeconomic changes management is to identify macroeconomic factors having a significant impact on the Bank's activities and taking actions to reduce the adverse impact of potential changes in the macroeconomic situation on the financial situation of the Bank.

Identification and assessment of risk of macroeconomic changes

Identification of risk of macroeconomic changes is to determine scenarios of the potential macroeconomic changes and to determine risk factors having the greatest impact on the financial situation of the Bank. Risk of macroeconomic changes results from interaction of factors dependent and independent of the Bank's activities. The Bank identifies the factors affecting the level of risk of macroeconomic changes during carrying out comprehensive stress-tests.

The risk of macroeconomic changes materialises indirectly through other risks affecting the Bank's operations by:

- credit losses,
- losses arising from adverse changes in market situation (changes in exchange rates, changes in interest rates),
- a decrease in the liquidity of the Bank,
- losses arising from the operational risk realisation,
- other losses.

For the purpose of measuring the risk of macroeconomic changes the Bank uses risk measures based on the results of comprehensive stress-tests, in particular:

- financial result and its components,
- capital adequacy measures and their components,
- selected liquidity measures.

Macroeconomic changes risk monitoring

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

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

Macroeconomic changes risk reporting

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

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

Management actions concerning risk of macroeconomic changes

Management actions in particular consist of:

- issuing internal regulations of the Bank,
- determining acceptable levels of risk,
- proposals of actions aimed at reducing the level of risk in the event of elevated or high risk of macroeconomic changes occurrence.

Complex stress-tests

Complex stress-tests are an integral part of the Bank's risk management and are complementary for stress-test-specific to particular types of risks.

Complex stress-tests collectively include the following risks considered by the Bank to be relevant, including:

- credit risk,
- market risk,
- liquidity risk,
- operational risk,
- business risk.

Complex stress-tests include an analysis of the impact of changes in the environment and the functioning of the Bank on the financial position of the Bank, in particular on:

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

Complex stress-tests for the own use of the Bank are carried out at least once a year in the three-year horizon, taking into account changes in the value and structure of the statement of financial position and income statement items (dynamic tests). Supervisory tests are carried out at the request of the supervisory authorities in accordance with the assumptions provided by supervisory authorities.

39. Capital adequacy

Capital adequacy is the maintenance of a level of own funds by PKO Bank Polski SA which exceeds the sum of regulatory capital requirements (the so-called Pillar 1) and the sum of internal capital requirements (the so-called Pillar 2).

The objective of capital adequacy management is to maintain capital in a continuous manner on a level that is adequate to the risk scale and profile of the Bank's activities.

The process of managing the Bank's capital adequacy comprises:

- identifying and monitoring of all of significant risks,
- assessing internal capital to cover the particular risk types and total internal capital,
- monitoring, reporting, forecasting and limiting of capital adequacy,
- performing internal capital allocations to business segments, client segments and entities in the Group in connection with profitability analyses,
- using tools affecting the capital adequacy level (including: tools affecting the level of own funds, the scale of own funds item reductions and the level of the loan portfolio).

The main measures of capital adequacy are:

- the capital adequacy ratio whose minimum level in accordance with the Banking Law is 8%,
- the ratio of own funds to internal capital whose acceptable minimum level in accordance with the Banking Law is 1.0,
- the capital adequacy ratio of common equity (Common Equity Tier 1 Ratio).

As at 30 June 2013 the capital adequacy ratio of the Bank increased by 0.41 pp. to the level of 13.34% compared with 31 December 2012. It was mainly due to an increase in the Bank's own funds calculated for the purposes of capital adequacy compared with the increase the value of capital requirements.

The level of capital adequacy of the Bank in the first half of 2013 remained at a safe level, significantly above the statutory limits.

Own funds for the capital adequacy purposes

Own funds for the purposes of capital adequacy are calculated in accordance with the provisions of the Banking Law and the Resolution No. 325/2011 of the Polish Financial Supervision Authority of 20 December 2011 on decreasing own funds, (PFSA Journal of Laws No. 13 item 49 as of 30 December 2011).

Own funds comprise basic funds, supplementary funds and short-term capital.

(IN PLN THOUSAND)

Basic funds (so called Tier 1) are comprised of the following items:

1) principal funds comprising: share capital, reserve capital, other reserve capital,
2) general banking risk fund,
3) unappropriated profits from previous years,
4) net profit prior to approval and net profit for the current reporting period, calculated based on appropriate accounting standards, decreased by any expected charges and dividends, in amounts not exceeding amounts audited by certified public accountants, in accordance with the Banking Law, Article 127.2, Point 2 c.

Basic funds are reduced by deducting the following items:

1) intangible assets stated at carrying amount,
2) the Bank's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies – in the amount of 50% of the value of such exposures,
3) unrealised losses on debt and equity instruments and other receivables classified as available for sale,
4) negative amounts in respect of adjustments on revaluation of assets in the trading portfolio.

Supplementary funds (so called Tier 2) are comprised of the following items:

1) subordinated liabilities,
2) unrealised gains on debt and equity instruments classified as available for sale – in the amount of 80% of their pre-tax value.

Moreover, the supplementary funds are reduced by 50% of the value of the Bank's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies.

If the amount of reduction would result in supplementary funds falling below nil, the excess above the value of the supplementary funds is subtracted from the basic funds.

The own funds of the Bank include also short-term capital.

As at 30 June 2013, the Bank's own funds calculated for the purposes of capital adequacy increased by PLN 1 110 542 thousand, mainly due to the recognition of profits from previous years of the Bank and profit earned by the Bank in 2012 after dividend paid deduction (in the amount of PLN 1 431 150 thousand) to the Bank's own funds. At the same time, compared with the balance as at the end of 2012, the value of items decreasing own funds in respect of unrealised losses on debt and equity instruments in the DDS portfolio increased by PLN 142 777 thousand and the Bank's equity exposures by PLN 33 894 thousand, with a simultaneous decrease in the intangible assets by PLN 12 073 thousand.

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

BANK'S OWN FUNDS	30.06.2013	31.12.2012
Basic funds (Tier 1)	**19 853 013**	**18 657 980**
Share capital	1 250 000	1 250 000
Reserve capital	16 598 111	15 198 111
Other reserves	3 416 893	3 385 743
General banking risk fund for unidentified banking activities risk	1 070 000	1 070 000
Unappropriated profits from previous years, profit in the course of approval less any expected charges	-	88 533
Unrealised losses on debt and equity instruments and other receivables classified as available for sale	(215 080)	(72 303)
Assets valuation adjustments in trading portfolio	(437)	(504)
Intangible assets	(1 669 047)	(1 681 120)
Equity exposures	(597 427)	(580 480)
Supplementary funds (Tier 2)	**1 050 312**	**1 087 104**
Subordinated liabilities classified as supplementary funds	1 600 700	1 600 700
Unrealised profits on debt and equity instruments classified as available for sale (up to 80% of their values before tax)	47 039	66 884
Equity exposures	(597 427)	(580 480)
Short-term equity (Tier 3)	**81 942**	**129 641**
TOTAL OWN FUNDS	20 985 267	19 874 725

Capital requirements (Pillar 1)

PKO Bank Polski SA calculates capital requirements in accordance with the Resolution No. 76/2010 of the Polish Financial Supervision Authority dated 10 March 2010 on scope and detailed principles of setting capital requirements in connection with the individual risk types (PFSA's Journal of Laws No 2, item 11 dated 9 April 2010 with subsequent amendments):

- in respect of credit risk - using the standard method,
- in respect of operational risk - using the advanced method (AMA),
- in respect of market risk – using the basic methods.

(IN PLN THOUSAND)

The scale of the Bank's trading activities is significant, therefore the total capital requirements constitute sum of the capital requirements for:

1) credit risk – including credit risk of the banking book and counterparty credit risk,
2) market risk – including foreign exchange risk, commodities risk, equity securities risk, specific risk of debt instruments, general risk of interest rates,
3) operational risk,
4) other types of capital requirements in respect of:
   - settlement/delivery risk,
   - exceeding the exposure concentration limit and the large exposure limit,
   - exceeding the capital concentration threshold.

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

Capital requirements	30.06.2013	31.12.2012
Credit risk	**11 472 002**	**11 205 625**
credit risk (banking book)	11 312 539	11 040 973
counterparty risk (trading book)	159 463	164 652
Market risk	**559 616**	**526 814**
equity securities price risk	634	586
specific risk of debt instruments	441 463	441 346
general risk of interest rates	117 519	84 882
Operational risk	**553 794**	**566 904**
Total capital requirements	**12 585 412**	**12 299 343**
Capital adequacy ratio	**13.34%**	**12.93%**

An increase in the capital requirement in respect of credit risk by approx. PLN 266 million (an increase of approx. 2.4%) to the level of PLN 11 472 million, resulted mainly from an increase in the volume of loan portfolio (in statement of financial position and off-balance sheet exposure by approx. 3.5%) in the first half of 2013.

In the first half of 2013 there was a slight increase in the capital requirement in respect of market risk by approx. 6% to the level of PLN 560 million, mainly due to changes in the Bank's exposures arising from derivative instruments and the State Treasury instruments.

In the first half of 2013 there was insignificant decrease in the value of Bank's capital requirement in respect of operational risk, calculated under the advanced measurement approach (AMA), from PLN 567 million (as at 31 December 2012) to PLN 554 million (as at 30 June 2013).

The Bank calculates capital requirements on account of credit risk according to the following formulas:

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

Internal capital (Pillar 2)

PKO Bank Polski SA calculates internal capital in accordance with the Resolution No 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 on detailed principles for functioning of risk management system and internal control system and detailed terms of estimating internal capital by banks and reviewing the process of estimating and maintaining internal capital (PFSA's Journal of Laws as at 23 November 2011, No. 11, item 42). Internal capital is the amount of capital estimated by the Bank that is necessary to cover all of the identified significant risks characteristic of the Bank's activities and the effect of changes in the business environment, taking account of the anticipated risk level.

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

- credit risk (including default and concentration risks),
- currency risk,
- interest rate risk,
- liquidity risk,
- operational risk,
- business risk (including strategy risk).

The Bank monitors the significance of the individual risk types relating to the Bank's activities on a regular basis.

The internal capital for covering the particular risk types is determined using the methods specified in the internal regulations. In the event of performing internal capital estimates based on statistical models, the annual forecast horizon is adopted and a 99.9% confidence level. The total internal capital of the Bank is the sum of internal capital amount necessary to cover all of the significant risks for the Bank.

The Bank adopts a prudent approach to the aggregation of risks and does not rely on the diversification effect. In the first half of 2013, the relation of the Bank's own funds to its internal capital remained on a level exceeding both the threshold set by the law and the Bank's internal limits.

Disclosures (Pillar 3)

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

The report 'Capital adequacy and other information that are subject to disclosure (Pillar III) of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group as at 31 December 2012' was published on the Bank's website on 17 July 2013.

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

EVENTS AFTER THE REPORTING PERIOD

40. Events after the reporting period

1. Due to performance of the contract for the share purchase of the entities of the Nordea Group in Poland:

   a. PKO Bank Polski SA submitted applications to the Competition and Consumer Protection Office (11 July 2013), the Polish Financial Supervision Authority (11 July 2013) and the Ukrainian Antimonopoly Committee (12 July 2013),

   b. on 8 August 2013, the Extraordinary General Shareholders' Meeting of Nordea Bank Polska SA passed resolution i.a.:

      - on the single issue of 20 million registered subscription warrants of A series entitling its holder to take up, on terms specified in the resolution, a total of not more than 20 million registered ordinary shares of N series of this Bank at total nominal value of PLN 100 million and a conditional increase of share capital of Nordea Bank Polska SA by an amount not higher than PLN 100 million through the issue of N series shares to grant rights to take up shares of this series for holders of subscription warrants that will be issued pursuant to this Resolution; entitled to take up subscription warrants of A series will be only entity on whose demand to subscribe for sale of Nordea Bank Polska SA shares, shareholders of this Bank, holding not less than 99% of votes at the General Shareholders' Meeting (Resolution No. 3) will answer,
      - on the conditional appointment to the Supervisory Board of Nordea Bank Polska SA of representatives of PKO Bank Polski SA Misters: Zbigniew Jagiełło, Jakub Papierski, Bartosz Drabikowski, Piotr Alicki, Paweł Borys and Jarosław Orlikowski, with effect at 12.00 AM on the last day call for subscribe for sale of shares of the above mentioned Bank, announced by PKO Bank Polski SA (Resolution No. 2).

2. On 19 July 2013, there was a transfer of assets of OFE Polsat to PKO BP Bankowy OFE and thus the merger process of above mentioned Open Pension Funds was completed. Savings collected by Members of OFE Polsat were converted and fully transferred to accounts of these Members of PKO BP Bankowy OFE.
3. On 31 July 2013, the Extraordinary General Shareholders' Meeting of PKO Leasing SA (a subsidiary of the Bank) passed a resolution on the acquisition of 100% shares in a capital company established with registered office in Sweden. Main activity of the Company will be leasing business. There are ongoing works related to the establishment of the above mentioned Company.
4. On 21 August 2013, the Extraordinary General Shareholders' Meeting of Qualia Development Sp. z o.o. (a subsidiary of the Bank) passed a resolution on share capital increase of PLN 20 348 thousands and return of capital contributions of PKO Bank Polski SA in the amount of PLN 215 460 thousands. All shares in the increased share capital of the Company will be taken up by PKO Bank Polski SA.

(IN PLN THOUSAND)

5. On 20 August 2013 the Management Board of PKO Bank Polski SA passed a resolution approving the acquisition by PKO Bank Polski SA of shares in increased share capital of Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o. (an indirect subsidiary of the Bank) up to the amount of USD 60 825 thousands. The procedures related to the share capital increase of the Company are in progress. As a result of the acquisition the Company will become a direct subsidiary of the Bank

Signatures of all Members of the Bank's Management Board

26.08.2013	Zbigniew Jagiełło	President of the Management Board	.... (signature)
26.08.2013	Piotr Alicki	Vice-President of the Management Board	.... (signature)
26.08.2013	Bartosz Drabikowski	Vice-President of the Management Board	.... (signature)
26.08.2013	Piotr Mazur	Vice-President of the Management Board	.... (signature)
26.08.2013	Jarosław Myjak	Vice-President of the Management Board	.... (signature)
26.08.2013	Jacek Obłękowski	Vice-President of the Management Board	.... (signature)
26.08.2013	Jakub Papierski	Vice-President of the Management Board	.... (signature)

Signature of person responsible for maintaining the books of account

26.08. 2013

Danuta Szymańska
Director of the Accounting Division

....
(signature)